

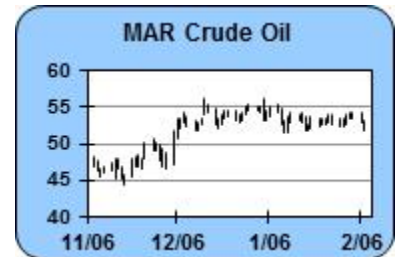


**DAILY ENERGY COMPLEX COMMENTARY**  
 Wednesday February 08, 2017

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 02/08/17

**The bears retain control from inside and outside market forces**

**OVERNIGHT CHANGES THROUGH 6:05 AM (CT):**  
**CRUDE -31, HEATING OIL +0, UNLEADED GAS -18**



**CRUDE OIL MARKET FUNDAMENTALS:** It wasn't surprising to see the March crude oil contract come under aggressive selling yesterday for the second straight session and it also wasn't surprising to see the washout extend again overnight as the last commitments of traders report showed a record spec and fund long positioning. With March crude failing to find support just under \$52, the charts have become worse overnight and the news from the fundamental front has also deteriorated. In fact news from the API that US crude stocks on the week rose by more than 14 million barrels has to knock back would-be buyers ahead of the EIA figures later today. Other issues that favor the bear camp are strength in the Dollar, talk of an end to the Trump Reflation play, news that the Trump Administration allowed final permits for the North Dakota pipeline, news of an expansion in Russian Urals crude oil loadings, news of weaker North Sea pricing and perhaps most significantly, further damage on the crude oil and gasoline charts. While we think consolidation low support at \$51.59 stands a good chance of supporting March crude oil, seeing a build in US crude stocks in excess of 2-3 million barrels from the EIA today should provide another lower low for the move. Unfortunately for the bull camp, it appears the oil producer's production cut dialogue has dried up and with that buying interest appears to have deteriorated. With a consolidation low support zone at \$51.59 violated overnight that could open up the selling gates and potentially produce a slide to \$50.

**PRODUCT MARKET FUNDAMENTALS:** As mentioned in crude oil coverage, significant damage on the gasoline charts this week has clearly added to the negative sentiment facing the entire energy complex. While expectations for this week's build in US gasoline inventories is an overly bearish on its face, the trend of building stocks and slack demand appears to have become even more dominant in the marketplace this week. With a build in API gasoline stocks overnight of 2.9 million barrels a minimal build of EIA gasoline inventories later today might be discounted while a larger than expected build could send prices right back down to and perhaps below the initial overnight low of \$1.4650. In short it could be difficult to arrest the slide in prices until the March gasoline contract reaches down to the \$1.45 level. In fact, the price declines in the prior trading session took place in the face of a US refinery fire and in the face of an initial risk-on vibe in US equities. In conclusion, recent bull issues are being tossed aside and bearish arguments are being embraced. The best hope for the bull camp is an extreme oversold short term technical condition.

| Weekly EIA Petroleum Estimates - Week Ending 2/10/2017 - In Million Barrels |               |              |                  |                         |
|---|---------------|--------------|------------------|-------------------------|
|   | High Estimate | Low Estimate | Stocks Last Week | Stocks Change Last Week |
| Crude Oil   | 2.7           | 2.3          | 494.8            | 6.5                     |
| Distillates   | 0.5           | 0.1          | 170.7            | 1.6                     |
| Gasoline  | 1.3           | 0.9          | 257.1            | 3.9                     |

**NATURAL GAS:** The EIA has lowered its 2017 US natural gas price outlook to \$3.43 from last month's estimate of \$3.55 according to the agency's monthly Short-Term Energy Outlook. Their production forecast was cut to 79.07 bcf per day from 79.08 bcf last month while their output estimate for 2018 was seen at 83.68 bcf per day. With key support holding at the \$3.000 level, short covering was noted on Tuesday. However, with warm weather to continue through the end of February, demand could continue to erode compared to normal demand for this time of year and prices might resume their decline now that some technical balancing has been seen. Early estimates for Thursday's inventory report are looking for a draw of 156 bcf compared to the five year average of 138 bcf for the period. March natural gas bounced yesterday after Monday's trade held key support at the \$3.000 level. The trade might want to see confirmation of recent forecasts of above normal temperatures through the end of February before becoming fully involved in the next leg down. Momentum studies are still oversold with slow stochastics looking as if they could cross over to the upside.

**TODAY'S MARKET IDEAS:**

As mentioned already, there might be little in the way of chart support in March crude oil until the \$51.00 level. In fact, with the slide below the 50 day moving average and additional bearishness being thrown off by gasoline, the bear camp has to feel confident in their positioning. Similar critical support in March unleaded comes in at \$1.465 and perhaps not until \$1.40. Without a surprise producer supply threat and or a dramatic increase in Middle East tensions, the path of least resistance is down.

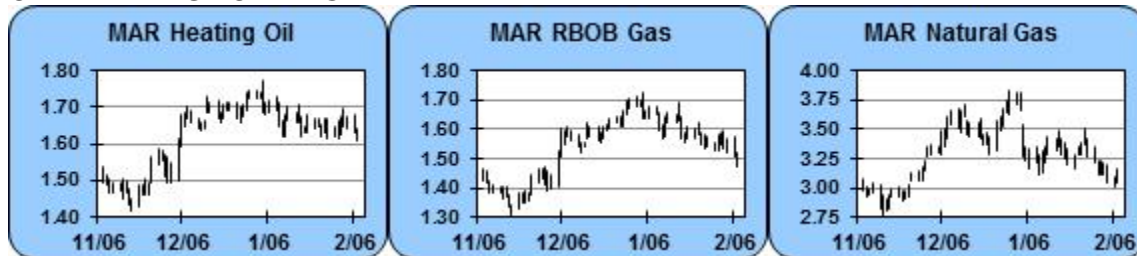
**NEW RECOMMENDATIONS:**

None.

**PREVIOUS RECOMMENDATIONS:**

None.

**OTHER ENERGY CHARTS:**



**ENERGY COMPLEX TECHNICAL OUTLOOK:**

Note: Technical commentary is based solely on statistical indicators and does not necessarily correspond to any fundamental analysis that may appear elsewhere in this report.

**CRUDE OIL (MAR) 02/08/2017:** The daily stochastics gave a bearish indicator with a crossover down. Declining momentum studies in the neutral zone will tend to reinforce lower price action. A negative signal for trend short-term was given on a close under the 9-bar moving average. The market setup is somewhat negative with the close under the 1st swing support. The next downside target is now at 50.98. The next area of resistance is around 52.98 and 53.82, while 1st support hits today at 51.56 and below there at 50.98.

**HEATING OIL (MAR) 02/08/2017:** The major trend has turned down with the cross over back below the 60-day moving average. A crossover down in the daily stochastics is a bearish signal. Stochastics trending lower at midrange will tend to reinforce a move lower especially if support levels are taken out. The market's short-term trend is negative as the close remains below the 9-day moving average. The market tilt is slightly negative with the close under the pivot. The next downside target is now at 159.23. The next area of resistance is around 164.34 and 165.91, while 1st support hits today at 161.00 and below there at 159.23.

**RBOB GAS (MAR) 02/08/2017:** Momentum studies are still bearish but are now at oversold levels and will tend to support reversal action if it occurs. The market's close below the 9-day moving average is an indication the short-term trend remains negative. The market's close below the pivot swing number is a mildly negative setup. The next downside objective is 144.84. The next area of resistance is around 150.65 and 153.23, while 1st support

hits today at 146.45 and below there at 144.84.

NATURAL GAS (MAR) 02/08/2017: Daily stochastics are trending lower but have declined into oversold territory. The close below the 9-day moving average is a negative short-term indicator for trend. Since the close was above the 2nd swing resistance number, the market's posture is bullish and could see more upside follow-through early in the session. The next downside target is now at 3.020. The next area of resistance is around 3.198 and 3.229, while 1st support hits today at 3.094 and below there at 3.020.

## DAILY TECHNICAL STATISTICS

|                       | CLOSE  | 9 DAY<br>RSI | 14 DAY<br>RSI | 14 DAY<br>SLOW<br>STOCH D | 14 DAY<br>SLOW<br>STOCH K | 4 DAY<br>M AVG | 9 DAY<br>M AVG | 18 DAY<br>M AVG | 45 DAY<br>M AVG | 60 DAY<br>M AVG |
|-----------------------|--------|--------------|---------------|---------------------------|---------------------------|----------------|----------------|-----------------|-----------------|-----------------|
| <b>ENERGY COMPLEX</b> |        |              |               |                           |                           |                |                |                 |                 |                 |
| CLAH7                 | 52.27  | 41.57        | 45.32         | 53.49                     | 47.04                     | 53.16          | 53.21          | 53.06           | 53.46           | 52.19           |
| CLAJ7                 | 52.88  | 40.33        | 44.40         | 47.83                     | 41.76                     | 53.76          | 53.81          | 53.73           | 54.17           | 52.89           |
| HOAH7                 | 162.67 | 43.13        | 45.36         | 33.45                     | 32.01                     | 1.64           | 1.64           | 1.65            | 1.67            | 1.63            |
| HOAJ7                 | 163.56 | 42.14        | 44.82         | 33.50                     | 30.93                     | 1.65           | 1.65           | 1.66            | 1.68            | 1.64            |
| RBAH7                 | 148.55 | 32.40        | 36.83         | 14.64                     | 11.64                     | 1.52           | 1.54           | 1.57            | 1.60            | 1.55            |
| RBAJ7                 | 172.27 | 35.67        | 40.13         | 21.03                     | 16.61                     | 1.75           | 1.77           | 1.78            | 1.80            | 1.75            |
| NGAH7                 | 3.146  | 43.29        | 43.91         | 21.68                     | 19.26                     | 3.11           | 3.19           | 3.26            | 3.39            | 3.32            |
| NGAJ7                 | 3.209  | 44.51        | 45.56         | 26.44                     | 22.62                     | 3.17           | 3.23           | 3.28            | 3.34            | 3.26            |

Calculations based on previous session. Data collected 02/07/2017

Data sources can & do produce bad ticks. Verify before use.

## DAILY SWING STATISTICS

| Contract              |             | Support 2 | Support 1 | Pivot  | Resist 1 | Resist 2 |
|-----------------------|-------------|-----------|-----------|--------|----------|----------|
| <b>ENERGY COMPLEX</b> |             |           |           |        |          |          |
| CLAH7                 | Crude Oil   | 50.98     | 51.56     | 52.40  | 52.98    | 53.82    |
| CLAJ7                 | Crude Oil   | 51.61     | 52.18     | 53.01  | 53.58    | 54.41    |
| HOAH7                 | Heating Oil | 159.23    | 161.00    | 162.57 | 164.34   | 165.91   |
| HOAJ7                 | Heating Oil | 160.28    | 161.95    | 163.49 | 165.16   | 166.70   |
| RBAH7                 | RBOB Gas    | 144.83    | 146.45    | 149.03 | 150.65   | 153.23   |
| RBAJ7                 | RBOB Gas    | 169.03    | 170.43    | 172.71 | 174.11   | 176.39   |
| NGAH7                 | Natural Gas | 3.019     | 3.093     | 3.124  | 3.198    | 3.229    |
| NGAJ7                 | Natural Gas | 3.083     | 3.157     | 3.187  | 3.261    | 3.291    |

Calculations based on previous session. Data collected 02/07/2017

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