



DAILY ENERGY COMPLEX COMMENTARY

Tuesday May 16, 2017

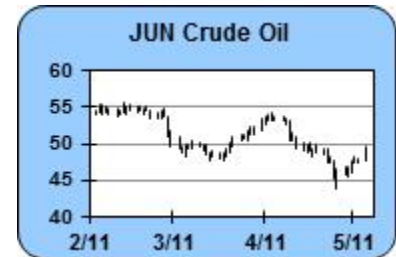
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05/16/17

Tighter supply and better demand prospects favors the bull camp

OVERNIGHT CHANGES THROUGH 6:05 AM (CT):
CRUDE +23, HEATING OIL +126, UNLEADED GAS +105

CRUDE OIL MARKET FUNDAMENTALS: As indicated in our commentary on Monday, we are surprised at the ongoing strength in energy prices especially considering the energy market's lack of interest in production cut extension prospects earlier this month. In other words, the trade appeared to be discounting a May 23rd extension of the production cuts into the May lows. However, news from Saudi Arabia and Russia that they not only expected an extension of the cut agreement but they also favored a longer-term production cut agreement than was expected originally and that clearly provides fresh buying interest. In fact with reports of stronger cash bidding for North Sea oil, favorable economic sentiment being thrown off by US equities and hopes for another modest decline in US crude oil inventories this week one could jump to the conclusion of improving energy demand and more importantly further balancing of world supply. IEA data overnight confirms the potential balancing of the world oil supply situation as they suggested the world oil situation could see a net draw of 700,000 barrels per day if April output and demand holds steady. It also goes without saying that ongoing weakness in the dollar and very favorable economic readings from Europe provides ongoing buying interest in crude oil and other physical commodity markets. An issue that might lend some support to crude oil to start this morning is news from the IEA that OPEC crude oil output in April posted the biggest yearly decline since 2014 but tempering that news was a prediction from the IEA that US oil output in April increased by 100,000 barrels per day. In the end if the recent pattern of declining US crude oil stocks later today from a private source is accompanied by more new all-time highs in the Nasdaq and S&P 500 it is possible that the trade today will push June crude oil prices closer to the \$50.00 level. While we understand the bull case, we doubt prices are justified in rising sharply through the \$50.00 even mark without some other physical supply-side issue.



PRODUCT MARKET FUNDAMENTALS: Like crude oil, the gasoline market continues to surprise with the aggressive nature of the gains off the May lows. In addition to positive spillover benefits from rising crude oil prices, the gasoline market is also seeing firm cash prices in the wake of stories of ongoing strong export demand for European energy products. While a possible further extension than expected in the producer cut agreement is only indirectly supportive to gasoline prices, that issue contributes to increased speculative interest from the funds throughout the energy complex. Some traders might suggest the return to \$1.60 on the charts will begin to lessen the rate of climb in gas prices and we can't argue against that premise. However we also see the potential for a top of the trading range up at \$1.6474 if a weaker Dollar, favorable economic psychology and production cut compliance continues ahead. In the short-term, we also can't argue against a further upside extension of recent gains but in our opinion, the heating oil market is closer to a top than the gasoline market.

NATURAL GAS: Natural gas fell from a five month high yesterday as milder temperatures are forecast for the Midwest and East Coast into the end of May. Early predictions of late spring heat wave have yet to pan out, which leaves the market with the prospect of another sizeable weekly injection. The managed money trader category increased their net long by 12,600 contracts to a record large 217,864 contracts as of May 9th. Profit taking today was noted after last week's 4.6% increase in prices. July natural gas saw back and fill action yesterday in below average volume. Recovery zone retracement levels of \$3.278 to \$3.248 are downside targets as well as the 100 day moving average at \$3.240. The market should hold these levels if it is going to retest last week's high of

\$3.431. Failure to hold these levels will continue the sideways trend since the beginning of April.

TODAY'S MARKET IDEAS:

Under an argument of ongoing narrowing of the world oil surplus (in the wake of an even longer-term extension of the oil producers cut agreement) and in the face of a recent pattern of declining US weekly oil inventories, we can't deny more near term price gains on the charts. However, June crude oil is nearing its 50 day moving average of \$50 and the speculative long has probably returned to within 100,000 contracts of its record spec and fund long. On the other hand, shorter-term technical indicators are not fully overbought yet because of periodic corrective action over the last two weeks and that combined with a generally optimistic economic view this week could usher in even more higher highs ahead. Close-in support in June crude oil prices is seen at \$48.22 with more significant support seen down at \$47.75.

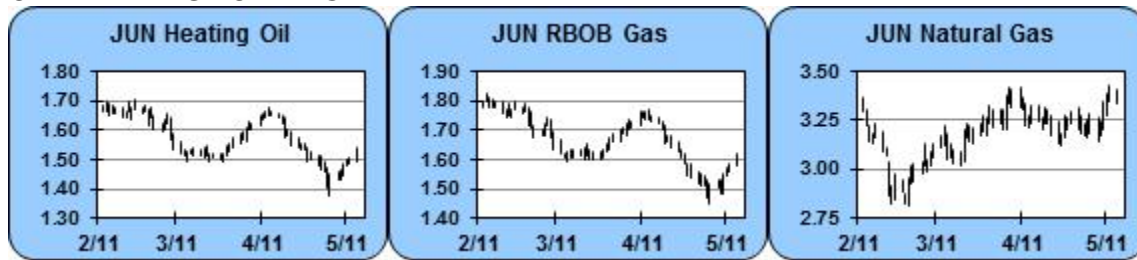
NEW RECOMMENDATIONS:

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 (JUN) 05/16/2017: Momentum studies are trending higher from mid-range, which should support a move higher if resistance levels are penetrated. The market now above the 18-day moving average suggests the intermediate-term trend has turned up. The market's close above the 2nd swing resistance number is a bullish indication. The near-term upside objective is at 50.66. The next area of resistance is around 49.75 and 50.66, while 1st support hits today at 47.85 and below there at 46.85.

HEATING OIL (JUN) 05/16/2017: Stochastics are at mid-range but trending higher, which should reinforce a move higher if resistance levels are taken out. The market now above the 18-day moving average suggests the intermediate-term trend has turned up. The market setup is supportive for early gains with the close over the 1st swing resistance. The near-term upside objective is at 156.34. The next area of resistance is around 153.54 and 156.34, while 1st support hits today at 148.47 and below there at 146.18.

RBOB GAS (JUN) 05/16/2017: Positive momentum studies in the neutral zone will tend to reinforce higher price action. A positive signal for trend short-term was given on a close over the 9-bar moving average. With the close over the 1st swing resistance number, the market is in a moderately positive position. The near-term upside target is at 163.59. The next area of resistance is around 161.24 and 163.59, while 1st support hits today at 157.16 and below there at 155.42.

NATURAL GAS (JUN) 05/16/2017: Studies are showing positive momentum but are now in overbought territory, so some caution is warranted. The close above the 9-day moving average is a positive short-term indicator for trend. The market setup is somewhat negative with the close under the 1st swing support. The next upside target is 3.437. The next area of resistance is around 3.392 and 3.437, while 1st support hits today at 3.318 and below there at 3.289.

DAILY TECHNICAL STATISTICS

	CLOSE	9 DAY RSI	14 DAY RSI	14 DAY SLOW STOCH D	14 DAY SLOW STOCH K	4 DAY M AVG	9 DAY M AVG	18 DAY M AVG	45 DAY M AVG	60 DAY M AVG
ENERGY COMPLEX										
CLAM7	48.80	55.02	49.31	42.06	57.04	47.95	47.07	48.18	49.71	50.68
CLAN7	49.11	54.65	49.08	42.14	56.98	48.30	47.44	48.53	50.06	51.00
HOAM7	151.01	53.74	48.22	40.29	55.01	1.49	1.47	1.50	1.54	1.56
HOAN7	151.66	53.60	48.01	39.15	53.82	1.50	1.47	1.50	1.55	1.57
RBAM7	159.20	56.36	50.02	37.11	54.01	1.57	1.53	1.56	1.63	1.65
RBAN7	159.04	55.93	49.75	36.86	53.37	1.57	1.53	1.56	1.63	1.65
NGAM7	3.355	58.38	56.65	69.55	79.18	3.36	3.28	3.25	3.24	3.18
NGAN7	3.436	58.03	56.62	71.34	79.60	3.44	3.36	3.33	3.31	3.25

Calculations based on previous session. Data collected 05/15/2017

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

DAILY SWING STATISTICS

Contract		Support 2	Support 1	Pivot	Resist 1	Resist 2
ENERGY COMPLEX						
CLAM7	Crude Oil	46.84	47.84	48.75	49.75	50.66
CLAN7	Crude Oil	47.17	48.16	49.06	50.05	50.95
HOAM7	Heating Oil	146.18	148.47	151.26	153.54	156.34
HOAN7	Heating Oil	146.64	149.06	151.83	154.25	157.02
RBAM7	RBOB Gas	155.41	157.15	159.50	161.24	163.59
RBAN7	RBOB Gas	155.24	157.00	159.31	161.07	163.38
NGAM7	Natural Gas	3.289	3.318	3.363	3.392	3.437
NGAN7	Natural Gas	3.372	3.401	3.440	3.469	3.508

Calculations based on previous session. Data collected 05/15/2017

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