THE SCHORK REPORT
A VIEW OF THE ENERGY & SHIPPING MARKETS

Tuesday, January 25, 2011

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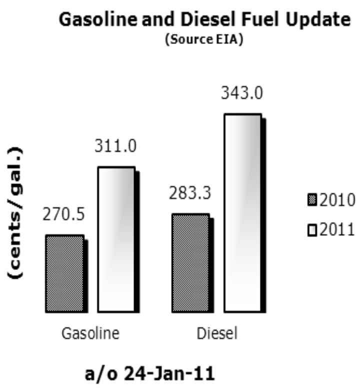
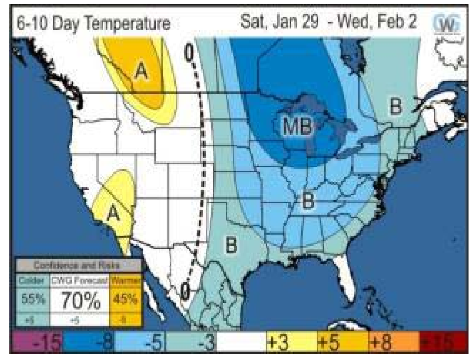


Nota Bene: Retail gasoline prices in the U.S. moved higher for an eighth straight week and hit a third straight 118-week high in the process. Per the EIA, as of Monday, January 24th, prices rose by 0.6 cents a gallon (+0.2%) to $3.110. The year-on-year surplus increased by 165 bps to 15% or 40½ cents. Meanwhile, on-highway diesel fuel prices rose by 2.3 cents (+0.7%) to $3.430. The year-on-year surplus gained 236 bps to 21% or 59.7 cents a gallon.

Weather forecast courtesy of
Commodity Weather Group



CRUDE AWAKENINGS

TRADING BIAS DAILY

- ☺ **WTI: BULLISH a/o Jan 21 ...S- 86.68 R- 89.06**
- ☺ **BRN: BULLISH a/o Jan 21 ...S- 95.65 R- 97.57**
- ☹ **NG: BEARISH a/o Jan 21 ...S- 4.494 R- 4.702**
- ☺ **RB: BULLISH a/o Jan 21 ...S- 238.05 R- 244.59**
- ☺ **HO: BULLISH a/o Jan 21 ...S- 258.37 R- 265.49**

TRADING BIAS WEEKLY

- ☺ **WTI: BULLISH a/o Nov 08 ...S- 85.87 R- 92.35**
- ☺ **BRN: BULLISH a/o Sep 12 ...S- 94.65 R- 100.55**
- 😐 **NG: NEUTRAL a/o Nov 08 ...S- 4.403 R- 5.069**
- ☺ **RB: BULLISH a/o Dec 06 ...S- 239.49 R- 252.29**
- ☺ **HO: BULLISH a/o Jan 10 ...S- 256.18 R- 273.98**

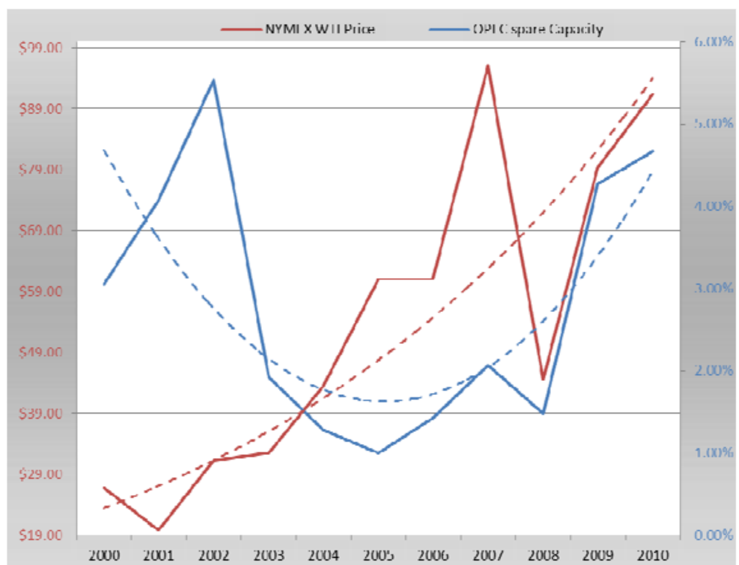
TRADING BIAS MONTHLY

- ☺ **WTI: BULLISH a/o Oct 2010 ...S- 72.84 R- 95.65**
- ☺ **BRN: BULLISH a/o Oct 2010 ...S- 82.63 R- 96.24**
- ☹ **NG: BEARISH a/o Oct 2010 ...S- 2.041 R- 4.549**
- ☺ **RB: BULLISH a/o Oct 2010 ...S- 212.68 R- 256.76**
- ☺ **HO: BULLISH a/o Oct 2010 ...S- 216.79 R- 248.12**

ENERGY PRICES WERE WEAK YESTERDAY… natural gas sold off hard as warmer temps are forecast to work their way through the Midwest, while the snowstorms in the East may be more bark than bite. The liquids sold off after OPEC signaled that it is amenable to a production increase… but is this actually a bullish signal? Goldman Sachs seems to think so. As for today, consumer confidence is expected to rise to 54.0.

$100 crude oil… that's so 2008
(See omnium-gatherum p.5)

Chart of the Day: OPEC Spare Capacity vs. NYMEX WTI (with trendlines)



"Oil may be entering a "structural bull market" as inventory data suggest OPEC has started to use up spare production capacity, Goldman Sachs Group Inc. said."
- Bloomberg, 01/24/2011

"Canada's dollar weakened against most of its major counterparts as crude oil prices fell after Saudi Arabian Oil Minister Ali al-Naimi signaled OPEC may bolster production."
- Bloomberg, 01/24/2011

Well, which is it? Goldman Sachs' commodities team, based out of London, is likely focusing on the historical relationship between low capacity and high WTI prices. Consider today's chart of the day, which plots OPEC surplus capacity and NYMEX WTI prices.

On the other hand, the markets seem concerned that increased OPEC production (not taking into account the quota garnishing which already takes place) will flood the market at a time when domestic demand remains shaky. Thus the WTI contract for March delivery fell 1.39% to 87.87, its lowest settle since December 1st 2010.

In yesterday's report we discussed the EIA's Short Term Energy Outlook (STEO), which forecast a 1.45 MMbbl/d increase in world consumption. This was in line with the 1.4 MMbbl/d increase forecast by the International Energy Agency (IEA). Fresh on the heels of these releases, OPEC came out yesterday with a forecast that worldwide oil demand could increase at up to 1.8 MMbbls/d.

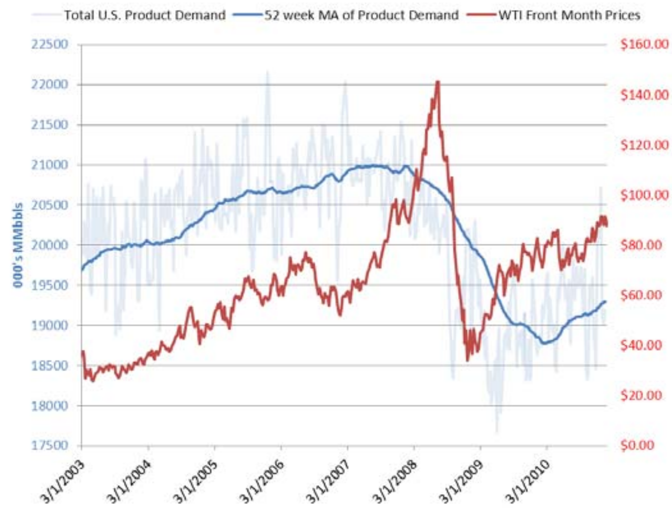
In turn, Saudi Arabia's oil minister Ali al-Naimi stated that "OPEC's policy, as is well known, is to meet any increase in oil demand to maintain the supply-demand balance… Some OPEC countries will increase their production capacities, thus maintaining OPEC's spare capacity at approximately 6 million barrels per day."

Goldman Sachs in London appears to believe this has begun happening already, with global stockpiles falling less than usual in November and December, which could be a signal that OPEC is tapping in to its idle production capacity earlier than anticipated.

This is the point at which Goldman and yesterday's markets seem to disagree. OPEC is using up spare capacity to produce more oil *because demand is rising*, which is bullish. On the other hand, *OPEC is using up spare capacity to produce more oil* because demand is rising, which is bearish.

We hate to take a cop-out, but we are somewhere between both camps. Consider the chart below which shows NYMEX WTI prices versus total product supplied.

Total product supplied has a firm correlation of 0.481 with WTI prices, as economics 101 would suggest. However, there comes a point at which products become 'too expensive' for demand inelasticity.



We have drawn the 52 week moving average (MA) above to smooth out seasonal demand and it comes as little surprise that the MA hit a local peak of 20.99 MMbbls/d in January 2008 and then began decreasing sharply, while WTI crossed the $100 barrier for the first time in February 2008.

Recently, WTI has returned close to its January 2008 levels, while the total product supplied MA remains 8.07% below the same month. If demand began falling the last time this situation took place, what makes Goldman Sachs think demand will be sustained this time around? We will take three guesses: China, China, and China.

According to the latest STEO, Chinese consumption of liquid fuels is expected to rise 22.30% between 2008 and 2011. If China had been consuming 9.577 MMbbls/d in 2008 (as it is forecast to do in 2011), would it have averted the pop of the commodities bubble? Total global demand in 2011 is forecast at 2.64% above 2008 levels, will that be high enough to soak up supply increases and still push prices higher?

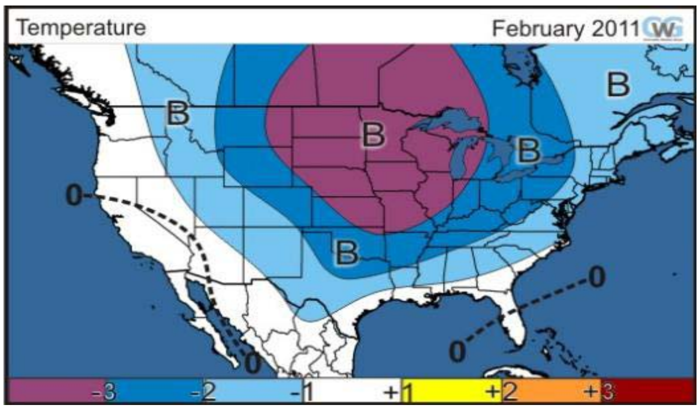
Or, if yesterday's bears are correct, are these gains inconsequential? Would higher demand simply mean prices can stray 2.64% above 2008's peak of 145.29 to 149.13, but stall therafter? Would the bubble just have popped 2.64% years later? 2.64% months?

If Wall Street has its way, we may soon find out.

NATURAL GAS

NAT-GAS H Open 4.796 High 4.823 Low 4.576 Close 4.598 Chng -0.145

Natural gas sold off hard yesterday, with the contract for February delivery breaking past our 4.626 inflection low and the 4.600 barrier. However, due to the approach of expiration we have switched our focus to the March contract, which fell 3.06% to 4.598 yesterday. Traders were likely spooked by warmer weather in the Midwest in the latest 1 to 5 day outlooks. However, relief might be on the way as February, which was expected to be warmer than seasonal norms, has now been revised lower according to Commodity Weather Group, whose latest seasonal outlook stated “Colder February Favored”.



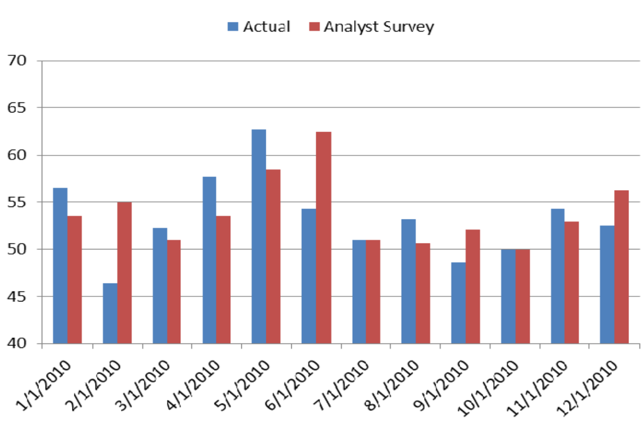
Daily Bias: BEARISH

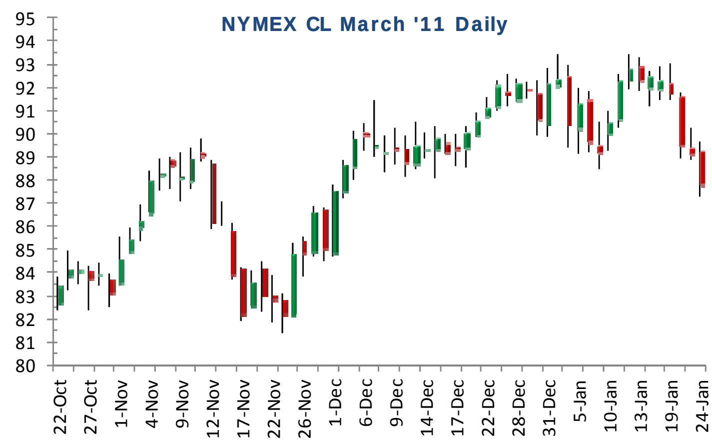
As for today, strength above yesterday's 4.666 pivot point opens the door to our 4.702 inflection high. Above here the bulls will potentially run towards our 4.806 intra-day. Then again, weakness below 01/20's 4.534 low print leads to our 4.494 inflection low. Below here we look for offers to hit support at our 4.390 intra-day.

OIL

WTI H Open 89.26 High 89.63 Low 87.27 Close 87.87 Chng -1.24

WTI was weak yesterday, giving up 1.39% on the day. Prices broke past our 87.91 inflection low but found support at 87.27, well above our 86.71 intra-day. As for today, we are placing heavy emphasis on the CaseShiller Home Price Index and consumer confidence. Analysts expected that home prices fell 0.80% in November after a 0.99% drop in October. Consumer confidence is expected to remain anemic at 54.0, keep in mind it has failed to beat analyst expectations for three of the last four months.





Daily Bias: BULLISH

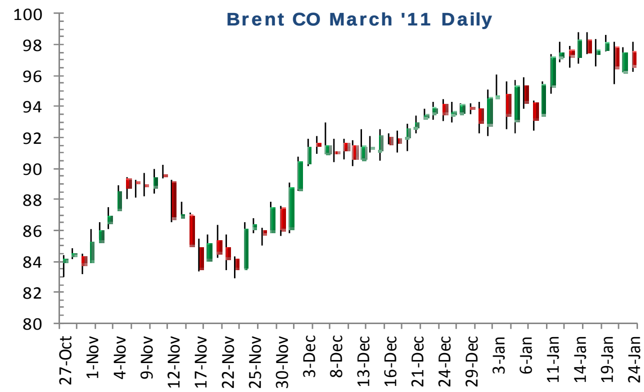
As far as today goes, weakness below yesterday's 87.27 low print alerts to our 86.68 inflection low. Below here we will look towards our 85.49 intra-day. On the other hand, gains above yesterday's 88.45 pivot high clear a path to our 89.06 inflection high. Through here the bulls could run to (and in to resistance at) our 90.25 intra-day high.

ICE Brent

Brent H Open 97.59 High 98.17 Low 96.23 Close 96.61 Chng -0.99

Brent prices fell yesterday but the 1.01% drop was better than the 1.39% drop seen in WTI. In turn, the inter-market spread widened to -$9.76, the second widest point since the ICE took over the Brent contract from the IPE. Seasonally speaking, we are more likely to see such downward spikes in winter, yet this year's is especially extreme.

As far as today goes, strength above yesterday's 38.2% retrace of 96.97 opens the door to our 97.57 inflection point. If crossed we will look for bids to our 98.53 intra-day. On the other hand, a drop below yesterday's 96.23 low print alerts momentum to our 95.65 inflection low. Below here we will look for offers towards our 94.69 intra-day.



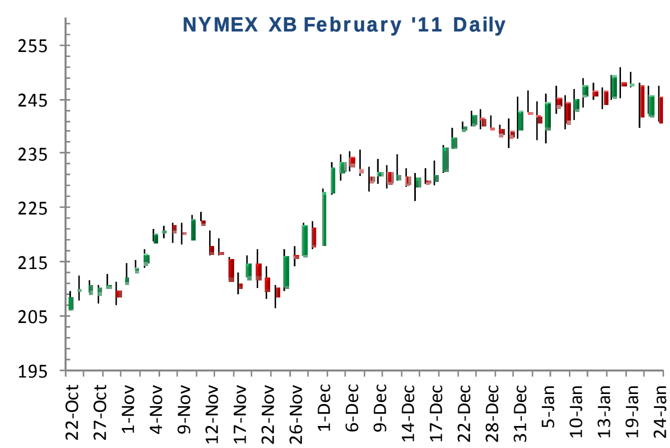
Daily Bias: BULLISH

LIGHT ENDS

RBOB G Open 245.85 High 247.51 Low 240.83 Close 241.32 Chng -4.57

As suggested by the latest CFTC data, RBOB led the complex lower yesterday, dropping 1.86% to 241.32. The bears managed to break our 242.81 inflection low but found support at 240.83, a cent above our 239.73 intra-day. Traders may be speculating on weaker-than-expected numbers out of today's consumer confidence number. On the other hand, news of a disruption at the Lyondell refinery in Houston could give the bulls some much needed respite.

As far as today goes, weakness below 01/20's 239.75 low print alerts to our 238.05 inflection low. Below here we look to our 234.79 intra-day. On the other hand, a rebound above yesterday's 38.2% retrace of 243.38 opens the door to our 244.59 upper inflection point. Above here the bulls should bid towards our 247.85 intra-day high.



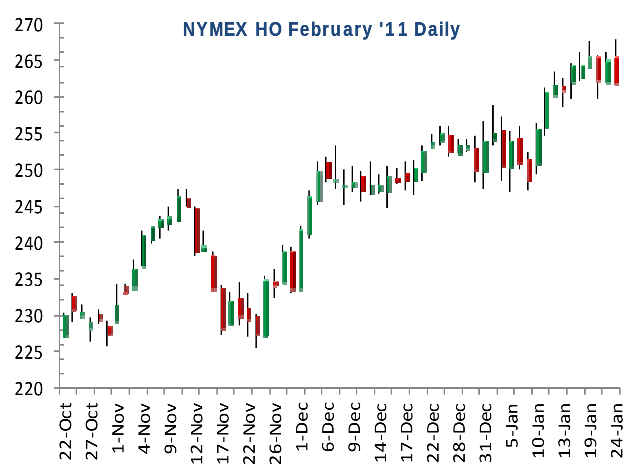
Daily Bias: BULLISH

MIDDLE DISTILLATES

HEATING OIL G Open 265.60 High 267.88 Low 261.47 Close 261.93 Chng -3.15

Heating oil followed RBOB lower yesterday, dropping 1.19% to 261.93. Unlike RBOB, prices remained above our 261.44 inflection low – but not by much, prices bottomed at 261.47. As for today, weather forecasts on the East Coast seem to vary wildly from day to day, it is generally agreed that it will be cold, but *how cold* will decide whether heating oil decouples from RBOB to rise.

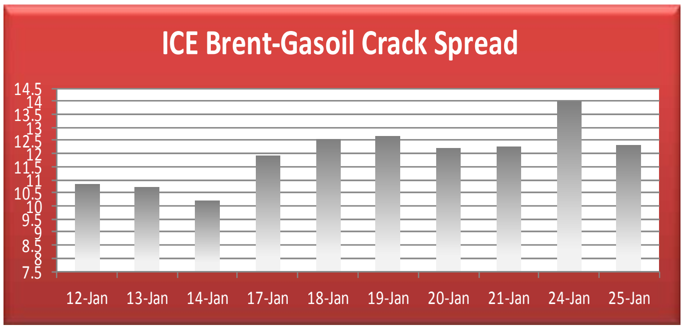
As far as today goes, strength above yesterday's 38.2% retrace of 263.92 builds a bridge to our 265.49 upper inflection point. Once crossed, the bulls should run towards our 269.05 intra-day high. Then again, weakness below 01/20's 259.63 low print signals momentum to our 258.37 inflection low. Below here we will look for offers down to our 254.81 intra-day low.



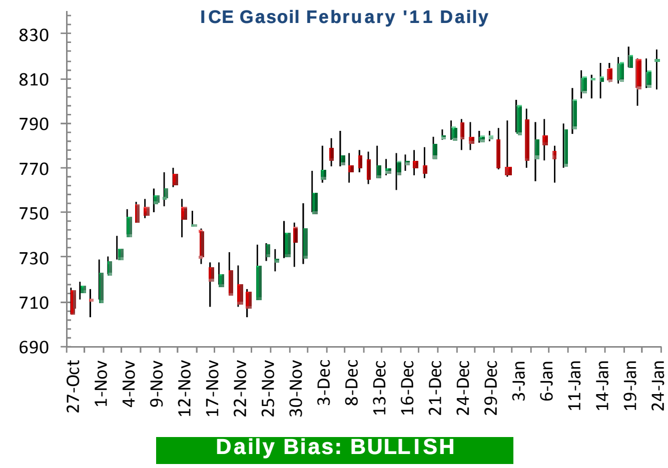
Daily Bias: BULLISH

ICE GASOIL

Gasoil decoupled from Brent yesterday to rise 0.64% to 819.25. Prices were not immune to weakness, however, failing to break our 826.75 upper inflection point. Traders are likely bidding prices higher in commiseration with ARA FOB barge jet fuel prices, which stand at two year highs at 896.00.



As for today, offers through yesterday's 813.88 pivot low alert to follow through momentum towards our 806.50 inflection. We will look for weakness below here towards



our 793.50 intra-day. On the other hand, continued strength through yesterday's 123.6% retrace of 826.94 clears a path towards our 832.00 upper inflection-point. Above here we will look for bids towards our 845.00 intra-day.

OMNIUM-GATHERUM

Bearishly construed rhetoric out of the Saudis overshadowed a plunge in the greenback. Consequently, the energy liquids complex took a header to start the new trading week. Lyondell's shut-in of a cat cracker and Enbridge's February allocations only fueled the Street's agita, who, as we noted yesterday owned more than 4× the physical capacity of the NYMEX hub as of last week.

For starters, the euro hit a two-month high, 1.3686, yesterday which upon first blush might seem consequential. However, first looks are often misleading. Over the last two months the daily correlation between NYMEX WTI values and the euro/dollar cross has plunged from .784 (strong) to .336 (not strong) and the coefficient of determination (R^2) has dropped by 240 bps to 49.9%. In other words, the intuitive assumption is less than half of yesterday's movement in oil can be explained by the movement in the dollar.

Meanwhile, the bears got all excited by some comments from Saudi Arabia's oil minister, Ali Al-Naimi, who in a speech in Riyadh noted that… "Some OPEC countries will increase their production capacities, thus maintaining OPEC's spare capacity at approximately 6 MMbbl/d". The obvious assumption is that by "some OPEC countries" Al-Naimi was saying Saudi Arabia.

As Captain Renault might say, we are shocked, shocked to find the Saudi's protecting their market share by talking $100 crude oil off of the ledge.

On the other hand, why are Al-Naimi's comments so bearish now? After all, +$90 crude oil is hardly conducive to stringent compliance to OPEC's production ceiling amongst its also-rans. The producer group's compliance with its current quota was estimated at only around 53% in December; and that was when the daily OPEC basket averaged *only* $88.46. Through the first three weeks of January OPEC's oil is averaging $92.58.

In other words, Al-Naimi was simply stating the obvious, at $92.58 producing nations (OPEC and non-OPEC alike) are going to produce oil regardless of what the *official* ceiling is.

BIOFUELS

Monday, January 24th, 2011 - According to the DOE report for the week ended January 14th, discretionary gasoline blending (conventional + ethanol) was virtually unchanged at a 36-week low. Output inched up by 0.04% to 4.51 MMbbl/d. Over the last four weeks discretionary blending averaged ≈4.7 MMbbl/d. Reformulated gasoline production with ethanol jumped by 5% per last week's report to 2.95 MMbbl/d. Consequently, discretionary blends' share of the entire gasoline pool fell by 72 bps to 51.3%, but over the last four week averaged ≈52.3% or 674 bps greater than the corresponding timestep from a year ago.

Ethanol production rose by 2.8% to 0.91 MMbbl/d. Over the last four weeks output averaged ≈0.902 MMbbl/d or 0.6% below the prior four-week timestep. Nevertheless, poor weather-related demand for gasoline, along with likely sticker-shock at the pump, allowed ethanol stockpiles to jump by 4% to 17.8 MMbbls.

Meanwhile, ethanol values rallied last week thanks in large part to the recent surge in corn values. Ethanol futures for March delivery in Chicago (CBOT) averaged around 2.34, an increase of 1½% from the previous trading week. Regardless, the CBOT futures crush for March plunged by 70½% to $0.04 per bushel! Furthermore, the average weekly crush between prompt f.o.b. ethanol in Chicago and the bid for №2 yellow corn in Chicago dropped by 45% to $0.37 per bushel of corn.

As far as the Ag markets go, bullish momentum for Chicago corn futures accelerated last week on residual enthusiasm from the latest USDA. Bulls blew through our 658.50 alert and finished the week 5 ticks below there. As far as this week goes, bids through 666.75 alert to follow through momentum towards our 682.25 weekly inflection-point. We will look for strength above here towards our 723.00 weekly top. On the other hand, offers through 647.75 clear a path towards our 633.25 lower inflection-point. Below here we will look for offers towards our 597.50 weekly bottom.

Finally, spot sugar futures in New York have traded inside a congestive range for the last three weeks in between 30.00 and 32.85. Last week bears ran out of steam 25 ticks below our 30.29 weekly alert, but bulls failed 29 ticks below our 32.58 upper inflection-point. As far as this week goes, bids through 33.12 caution for knock-on momentum towards our 34.39 weekly inflection-point. Above here we will look for bids towards our 37.93 intra-week top. Otherwise, offers through 31.56 clear a path towards our 30.39 lower inflection-point. We will look for weakness below here towards our 27.55 intra-week bottom.

WEEKLY OUTLOOK (January 24th to 28th)

Henry Hub... weakness below last week's 4.582 pivot low alerts to our 4.403 inflection low. Below here we will look for offers to our 4.071 intra-week. On the other hand, a rebound above the February contract's 200 day MA of 4.841 opens the door to our 5.069 inflection high. Once crossed, the bulls should run towards our 5.401 intra-week high. **WTI...** strength above last week's 90.22 high print should send the bulls towards our 92.35 inflection high. Above here they will likely hit resistance at our 95.60 intra-week high. On the other hand, a correction below the 50 day MA of 87.96 leads to our 85.87 inflection low. Below here we look for offers to our 82.62 intra-week. **Brent...** strength above the week ending 01/14's 99.20 high print opens the door to our 100.55 inflection high. Above here the bulls will run to (and in to resistance at) our 103.50 intra-week high. On the other hand, a drop below last week's 95.43 low print alerts to our 94.65 inflection low. Below here the floor falls through to our 91.70 intra-week low. **RBOB...** strength above last week's 250.78 high print clears the path to our 252.29 inflection high. If the bulls break through here they could hit resistance around our 258.69 intra-week high. On the other hand, a correction below the week ending 01/14's 241.26 low print alerts to our 239.49 inflection low. Below here we look for offers to our 233.09 intra-week low. **Heating Oil...** strength above last week's 267.59 high print opens the door to our 273.98 inflection high. Above here we look for bids to our 282.89 intra-week. Then again, a correction past last week's 259.63 low print alerts to our 256.18 inflection point. Below here the bears should claw to our 247.27 intra-week low.

SCORECARD

BUY NATURAL GAS

- Producers concerned about supplying at current price levels
- U.S. manufacturing improving, pushing up demand for electricity.
- Policy in Washington (if T. Boones gets his way) will steer demand growth disproportionally towards gas.

BUY OIL

- Bulls have shown their ability to maintain prices above 80.00 in the short term.
- Strong distillate demand from freight and manufacturing sectors.
- U.S. recession officially over in June 2009.

SELL NATURAL GAS

- Production rebound (per EIA-14 Survey).
- Spare capacity (nonconventional deferred production).
- Winter snowstorms milder than expectations.
- Residential natural gas use locked in to a downward trend since 2006.
- Shale plays have fundamentally altered the amount of domestic supply available – leading to large weekly injections.

SELL OIL

- Traders are looking for less volatile, safer assets such as bonds.
- Bulls have a tendency to disappear as prices approach the 90.00 psychological barrier.

CRUDE OIL	BULL	BEAR	NA	NAT-GAS	BULL	BEAR	NA
API		☒		EIA	☒		
DOE		☒		Weather	☒		
PAD 1 & 2		☒		Fuel Switching	☒		
Imports			☒	Rig Count	☒		
Production		☒		Imports - LNG		☒	
NYMEX Cracks		☒		Imports - Canada		☒	
OPEC		☒		Exports - Mexico			☒
ARB into USAC		☒		Nuclear Capacity		☒	
ARB into USGC		☒		Hydro Capacity		☒	
Transportation			☒	Transportation		☒	
Momentum			☒	Momentum			☒
Economy			☒	Economy			☒
Interest Rates	☒			Interest Rates	☒		
Outages	☒			Outages		☒	
Season	☒			Season	☒		
Market Sentiment			☒	Market Sentiment		☒	
COT			☒	COT			☒
Total	**3**	**8**	**6**		**6**	**7**	**4**

A note about the Ibis: The Ibis folklore has it that other birds look to the Ibis for leadership. The Ibis uses its instinct to detect danger. It is the last sign of wildlife to take shelter before a hurricane hits, giving warning that danger is imminent. As the storm passes the Ibis is the first to reappear, a sign the clear skies are approaching.