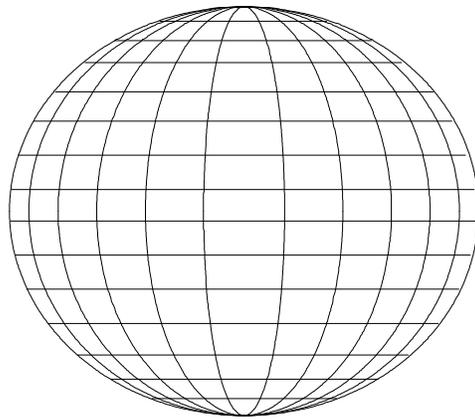


Energy

Seasonal Outlook

May 16, 2007

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Energy Executive Summary

Energy markets are expected to reverse the lower oil/higher gasoline price trend that developed this spring. Refineries are expected to come back online in force this summer, after so many of them have recovered from scheduled and unscheduled maintenance issues. Increasing refinery utilization should lead to higher demand for crude oil, thus keeping oil prices supported. Support will also come from OPEC adherence to production quotas, troubles in Nigeria and Iraq, and expectations for a moderately active hurricane season. The Brent-WTI spread is expected to fall, but Brent should not reach the discount that was typical prior to this spring anytime soon. MGR looks for crude oil to move up toward \$68.00/bbl by mid-summer, with Brent crude advancing toward \$70.00. Heating oil also should enjoy favorable conditions starting around mid-summer and could rally toward \$1.91 by summer's end.

Precious Metals Trade Recommendations

Buy: CLN7 at \$63.75	Target: \$68.00	Risk: \$62.75
Buy: QON7 at \$67.00	Target: \$71.00	Risk: \$65.50
Buy: HON7 at \$1.81	Target: \$1.91	Risk: \$1.79

Crude oil is expected to trade firmly through the early months of summer and approach continuation chart resistance at \$68.09/bbl. We see a small chance that crude can make it up to \$70.00, but that would depend on wildcard issues such as Nigerian & Iraqi output diminishing further. Brent crude is expected to see \$70.00-\$72.50. A bullish bias is suggested by a ramp-up in U.S. refinery utilization, expectations for a moderately active hurricane season, and OPEC adherence to output cuts. Technical support will be offered through bullish chart patterns and a seasonal tendency to rally through late-Sep. The Brent-WTI spread is expected to fall based on increased refinery utilization, but violence in Nigeria will prevent the spread from moving back toward its historical discount to WTI this year. Gasoline is expected to underperform crude oil and heating oil, as the ramp-up in refinery use increases supplies. MGR expects refiners to extend the gasoline production season, as distillate inventories are running at the high end of the five-year average, thus leading to strength in heating oil by late-summer. Best trade is to buy CLN7 at \$63.75 and target \$68.00 while risking \$62.75. Would also buy July Brent at \$67.00 and target \$71.00 while risking \$65.50. Finally, HON7 would be favorable near \$1.81 targeting \$1.91 and risking \$1.79.

Crude Oil

Crude oil is expected to gain this summer and advance toward the upper end of the 2007 trading range around \$68.00/bbl. In Brent, the top of that range is just below \$70.00, although technical factors suggest that \$72.50 is possible. Supply/demand factors lean toward tight supply conditions due to reductions in North Sea cargoes in Jun, geopolitical factors, and strong demand for crude oil. Supply & demand factors are discussed below.

Supply Outlook

The IEA in its May report expected 2007 non-OPEC production to grow 1.0 mb/d to 50.4 mb/d, which improved on 2006's growth rate of only 0.4 mb/d. The numbers compare to the EIA's 50.0 mb/d and OPEC's 50.7 mb/d estimates. The biggest gains in non-OPEC production will come from Russia, which is expected to see growth of 265 kb/d to 9.65 mb/d. Around 175 kb/d of Russia's growth will come from the new Sakhalin project in Russia's Far East. The Sakhalin 1 project will reach peak production of 250 kb/d by the end of this year and the Sakhalin 2 project will begin pumping year-round later in 2007. Azerbaijan will come close to the Russian growth, with 225 kb/d additional produced in 2007 to total 880 kb/d. Supply growth will come from additional offshore Caspian drilling and from capacity improvements through a pipeline expansion which will better feed the Mediterranean. Sudan is expected to increase production by 120 kb/d this year, as its slow start to exports of its Dar blend ramp up. Finally, Canada will boost non-OPEC growth by 120 kb/d to 3.31 mb/d through gains in conventional and synthetic oils. Those gains, however, will mostly come in the second half, as scheduled maintenance to heavy crude upgrading units in Q2 will dampen supply growth. Supplies are expected to fall slightly in the North Sea, Mexico, non-OPEC Middle East, and parts of Russia due to maturing fields. Australian production will temporarily decline due to the recent cyclones. Indeed, seasonal maintenance on oil production centers in Canada and the North Sea will create tightness in the oil market in Q2. Canada will ship 150-200 kb/d less in Q2 and the North Sea will ship 422,000 b/d less in Jun than in May. Hurricanes in the Gulf of Mexico traditionally account for 160 kb/d of lost production in Q3 and 200 kb/d in Q4.

The IEA forecast the 2007 call on OPEC at 30.5-31.7 mb/d in its May report. At the same time, it said that OPEC output stabilized in April around the 30.3 mb/d level, leaving it short of the call. The EIA projects full-year OPEC output at 30.9 mb/d while OPEC projects output of 30.3. The IEA has been a vocal proponent of OPEC raising production due to the shortfall that has existed in the spring stock-building period. Those calls may be forced to be answered by OPEC at its Sep 11th meeting later in the year. In the meantime, OPEC has been steadfastly opposed to such a move, which could leave prices supported as a result. MGR also finds it interesting that of the three forecasts for oil output, OPEC has the highest non-OPEC production numbers and the lowest call for its output. That could prompt a reality check for OPEC later in the year.

OPEC-10 (excluding Angola & Iraq) production quotas are set around 25.8 mb/d as of Feb 1st '07. Both the IEA and the EIA said OPEC-10 produced 26.55 mb/d in Mar, leaving them around 750,000 b/d above their quotas. MGR expects OPEC to tolerate the overproduction, as long as the OPEC basket remains above the \$58/bbl level. It was when prices were last at that level early in the year that any significant mention of better enforcement of the production cuts was made by OPEC officials.

Supply Risks: Oil supplies do not come without hazard, though. Nigeria produced 2.250 mb/d in Mar, which was around 192,000 b/d above its 2.058 mb/d quota. A euphoria came over the country, however, after its Apr 14th & 21st presidential elections. On Apr 16th, Shell announced that it would reopen its Forcados oil field and ship four cargoes of 950,000 bbls each for Jun delivery (later, Shell said that the shipments would not be newly produced oil, but oil produced before the Feb '06 closure of the field). On Apr 26th, a Nigerian oil official hinted that Nigeria wanted a hike in its quota to match its full capacity of 3.00 mb/d. In the weeks since, militants have carried out six attacks on oil infrastructure and have taken 28 hostages. The IEA estimates that 815,000 b/d is shut in due to militant attacks. The presidential swearing-in ceremony will be held on May 29th and violence should escalate around that date. MGR expects the violence to get worse in coming months, thereby threatening production.

In Iraq, the country's production has advanced to 2.0 mb/d in Mar, which was only a tad below its pre-invasion average of 2.1-2.3 mb/d. However, the smoldering civil war between Sunnis, Shias, and Kurds poses a risk of all-out chaos and severe cuts in production if the U.S. were to pull out its troops before calm is restored. Passage of the oil bill by the Iraqi Congress is expected to help bring stability as oil revenues will be distributed among Iraq's 18 provinces in proportion to populations. Democrats in the U.S. Congress so far seem unwilling to go to the brink with President Bush on funding, but a firm deadline for troop withdrawal will create doubt over Iraqi production.

Surplus capacity in OPEC is around 3.0 mb/d and is two-thirds held by Saudi Arabia. The Saudis are reluctant to invest in new infrastructure and production capacity due to demand uncertainty. The Saudis are worried that high prices would limit demand, as would energy efficiency measures taken by consumers.

Hurricane worries have added a small premium to oil prices, based on expectations for a more active season. The latest Apr NOAA report on subsurface temps in the equatorial Pacific show forecasts that indicate a possible transition to La Nina conditions within the next 1-3 months. Fewer hurricanes in 2006 were the result of El Nino conditions causing a shearing phenomena in the upper atmosphere. La Nina, on the other hand, has been associated with more active storm seasons.

In support of supplies, the U.S. Dept of Interior on Apr 30th proposed new oil and natural gas drilling in federal waters off Florida, Alaska, and Virginia. The areas were estimated to have 10 bln bbls of oil and 45 tcf of natural gas.

On May 3rd, PetroChina announced a 3 bln bbl find in Bohai Bay. Only a quarter of that may be recovered due to China's standards of inflating proven reserve figures. Of course, the Chinese and Interior Dept developments would take several years to materialize, which once again, suggests that the risks are balanced toward undersupply rather than oversupply.

Demand Outlook

The IEA in its May report expected 2007 global oil product demand to grow to 85.7 mb/d from 2006's 84.2 mb/d. Strong growth in North America and China in Jan/Feb was offset by weak demand in Europe. Cold weather and the Chinese New Year were major supportive factors for North American and Chinese demand. The 85.7 mb/d figure compares to total supplies above of 81.0 mb/d. The difference will be made up by natural gas liquids, as well as higher production and price rationing.

OECD demand in 2007 is expected to be around 49.5 mb/d according to the IEA and compares to 2006 demand of 49.2 mb/d. North American usage was high in Jan/Feb due to colder-than-normal weather. That usage was offset, however, by weak demand in Europe and Japan, which both experienced mild conditions in those months. Demand from the U.S. is expected to remain strong. GDP went from +2.5% in Q4 to +1.3% in Q1, but is expected to rebound toward 2.0% through year-end. The Apr unemployment rate was a relatively low 4.5% and was trending lower. Weekly gasoline demand data from the EIA show consumers have only slightly slowed consumption of gasoline due to record retail prices. Japanese fuel oil demand for power generation may rise due to the shutting of nuclear plants after a scandal which revealed improper handling of fuel rods.

Non-OECD demand is expected to increase to 36.3 mb/d in 2007, which compares to 35.1 mb/d in 2006. Strong demand surrounding China's Lunar New Year caused the IEA to make an upward revision to Chinese 2007 demand growth to +6.8% or 7.6 mb/d. China's demand should not be affected by a potential slowdown in the U.S., as the economy relies more on investment than consumption. India's demand growth is forecast at +3.4% to 2.7 mb/d. LPG and residual fuel will lead gains.

Risks to Demand: China has stated a goal of energy efficiency which poses a downside risk. Another downside risk is posed by its strongly performing stock market, which was up 130% in 2006 and is up 50% year-to-date. While a correction may not affect many citizens directly (as witnessed during the late-Feb '07 correction), it may have an impact on economic growth and investment. Chinese filling of SPR poses an upside demand risk. China intends to possess a 101.9 MB SPR by end-'08 and has already filled one tank that holds 33 MB. The SPR fill will add around 125,000 b/d to Chinese demand. The U.S. is also filling its SPR, which currently holds 689 MB. The Energy Dept's plan is to fill the SPR to capacity of 727 MB by the end of 2008. MGR believes that China's SPR fill is an under-looked dynamic.

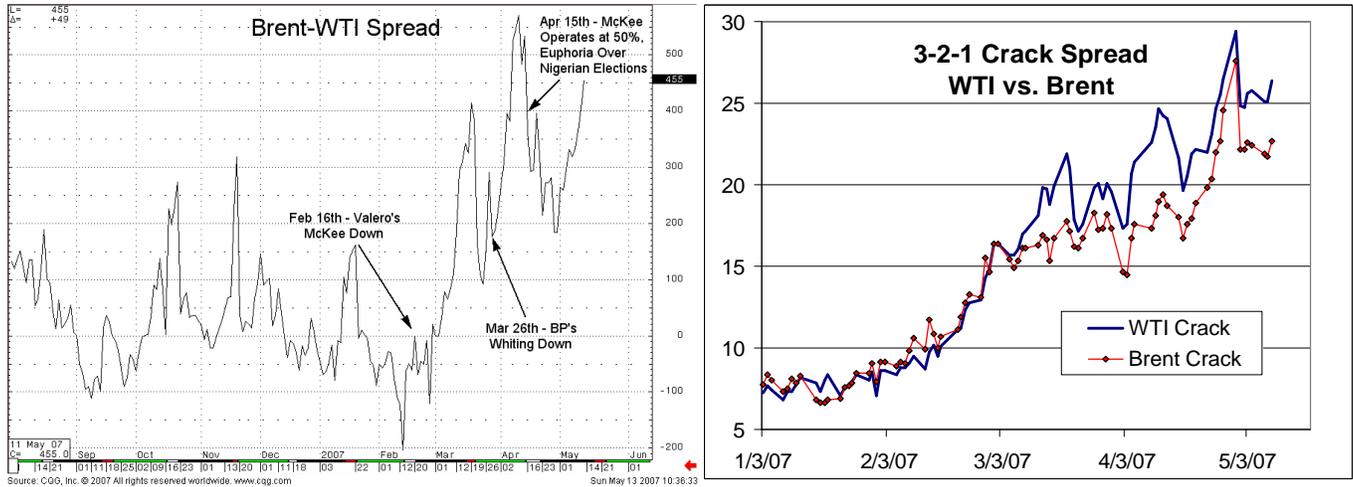
Brent vs. WTI

Much has been made by market analysts about the soaring differentials between Brent crude traded on the ICE and WTI crude traded on the NYMEX. Calls for the NYMEX to change its benchmark have been made frequently. However, MGR believes that such a change will not be made and that the events that have widened the spread in the past 2 1/2 months will diminish over the next year. Arguments for both cases are made below:

There are three cases in favor of retaining the WTI benchmark and pressuring the spread. First, volumes are still stronger on the NYMEX contract at 380,000 contracts/day on average. Open interest has grown to over 1,400,000 contracts in mid-May. ICE Brent on the other hand, has seen volumes of only 230,000 contracts/day and open interest of around 660,000.

The widening spread has generally been caused by the outage of Valero's McKee refinery on Feb 16th, which is fed with oil from the Cushing, Oklahoma oil hub. The Cushing hub is also the delivery point for NYMEX crude oil. The McKee outage has made the contango in crude oil worse through the supply glut at Cushing. The loss of the 175,000 b/d refinery has led to a

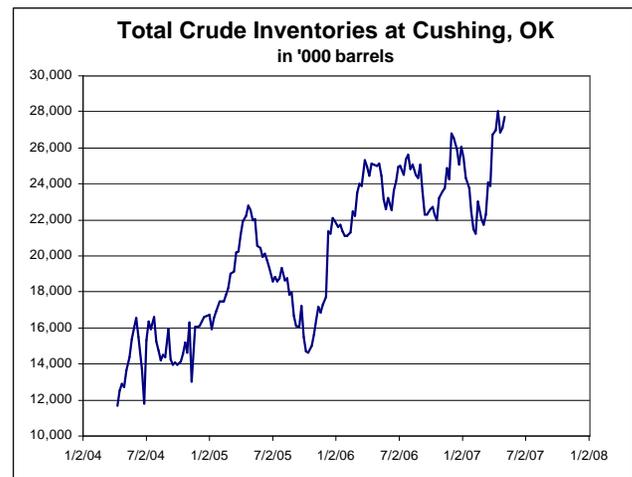
gain in Cushing inventories of 6.78 MB. They currently sit just below 28 MB and are expected to gradually move lower as more refineries come online. Outages at other Midwest refineries haven't helped either. BP's refinery in Whiting, IN went out of service on Mar 26th and refineries owned by Sinclair and Sunoco in Tulsa, OK went out in Apr as well. As the chart shows below, the timing of the Valero and BP outages coincided with base points for strengthening in the Brent-WTI spread. All indications point toward the refinery problems being reconciled sometime in Jun/Jul. Barring any other outages at Cushing-fed refineries, the spread should then weaken.



Third, market forces should eventually work. As the chart on the above-right shows, the 3-2-1 crack spread for WTI oil is around \$26.30, while it is \$22.70 using Brent. The outages at refineries that are fed with WTI oil from Cushing has caused the spread to balloon since mid-Feb, but should eventually make both spreads fall and converge at the same time.

Two cases against the WTI benchmark and supporting the spread lie in Nigeria and WTI storage expansion. Threats to Nigerian production seemed to begin gradually in 2003, but accelerated in early 2006, when the Movement for the Emancipation of the Niger Delta attacked Shell's massive 477,000 b/d Forcados oilfield. The attacks were part of an effort to force the central government to share the oil wealth with the poor in the Delta region. With rampant corruption in the central government, almost none of the oil revenues flowed back to the people. On Apr 14th & 21st, elections were held for the local government, and then for the president. There was some reduction in violence between the elections and shortly thereafter. However, the elections were considered fraudulent by outside advisors, and violence re-erupted. There was a small reduction in the Brent-WTI spread in 2H-Apr as a result. Around 815,000 b/d of Nigeria's 3.0 mb/d capacity has been shut in due to violence and sabotage. MGR expects those tensions to continue and support the Brent-WTI spread. The swearing-in ceremony for the president will be held on May 29th and violence should escalate around that date.

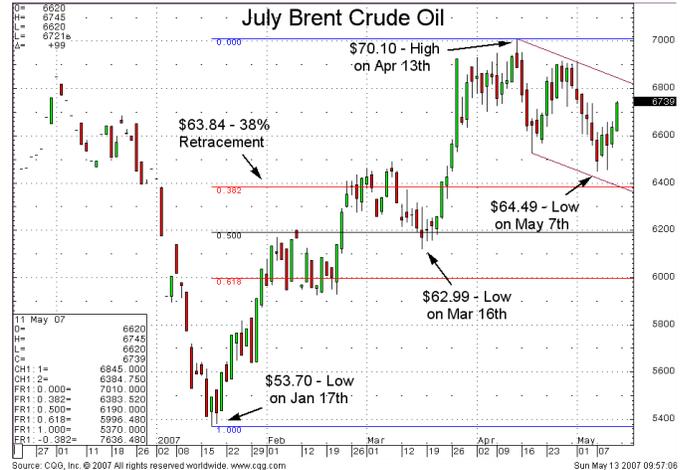
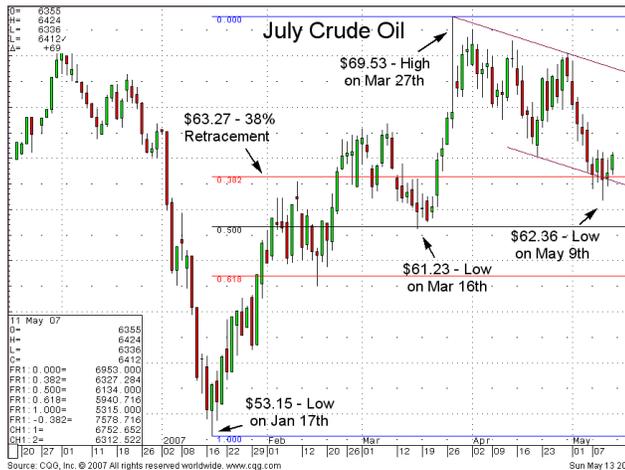
Another case against WTI and a supporting a higher spread lies in expansion plans for oil storage at Cushing. Currently, around 28 MB are held in Cushing, with capacity of 35.33 MB from above-ground tanks. Most of that storage is owned by Enbridge, the Canadian pipeline operator. Enbridge plans to add an additional 9.0 MB this year to bring total storage to 44 MB. Eventually, plans are for 50 MB to be stored there by 2009. Oil for the extra storage will come from Canada, which has seen higher production from the oil sands in Alberta. BP is supporting such an effort with its Viridian pipeline project, which will convert the existing Cushing-to-Chicago pipeline to carry Canadian crude oil from Chicago-to-Cushing. The bottom line is that Canadian supplies are adding to the WTI glut, while Nigerian tensions are adding to Brent tightness.



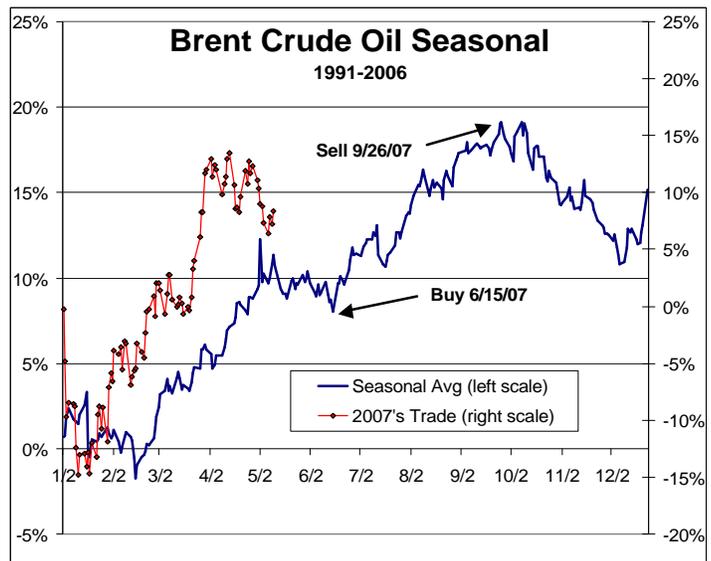
Technicals & Seasonal Patterns

The technical situation in crude oil is generally positive. The NYMEX WTI based contract has certainly under-performed the ICE's Brent contract, but technical patterns are relatively similar and are both bullish at the moment. As the two charts show below, both markets have formed bullish flag continuation patterns on their daily charts in the past six weeks. While the NYMEX oil is languishing near the pattern's lower boundary, Brent is nearing a breakout. Upside breakouts would project

further rallies in NYMEX to \$71.00 and in Brent to \$72.50. Both markets have also respected bullish Fibonacci patterns drawn off the mid-Jan lows to the late-Mar/early-Apr peaks. Such patterns suggest that those peaks will be taken out as resistance, but we are less confident that rallies toward each pattern's Fibonacci extension at \$75.79 and \$76.36 respectively can be made.



The seasonal is also supportive, and is best seen by looking at Brent futures. The seasonal shows that the market typically trades in a sideways pattern from early-May to mid-Jun. Around Jun 15th, Brent typically forms a bottom and rallies through Sep 26th. Trading that date range hasn't been completely straightforward, but the direction of trade supports our positive bias nonetheless. The trade has been a winner in 12 of 17 years (71%) with an average gain of 9.5% and a standard deviation of 15.3%. We believe that the sideways-to-lower period in May & June is caused by seasonal refinery maintenance and that the gaining period is caused by refineries taking in more crude during the summer driving season.



Overall, MGR sees the technical situation as supportive of further gains. That should backstop the support given by the tight supply/demand fundamentals and likelihood for continued violence in Nigeria and Iraq.

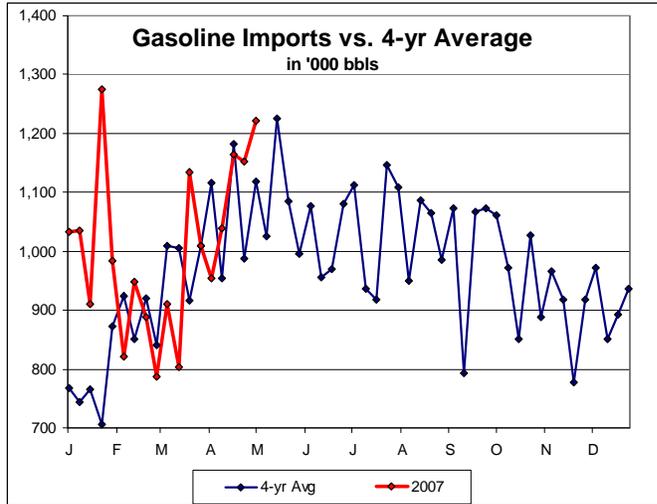
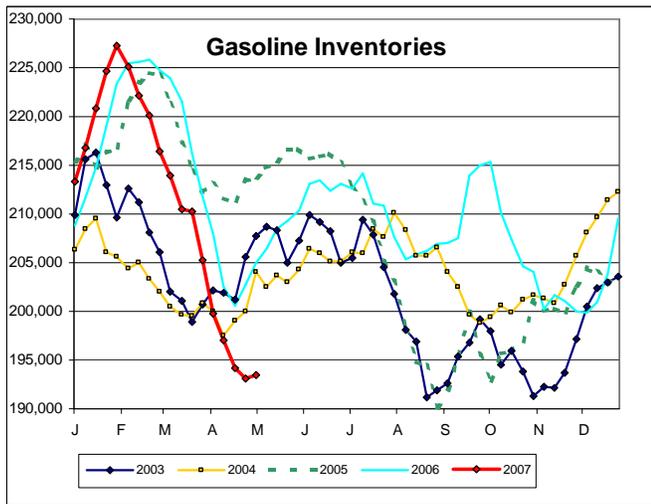
Gasoline

So much of the energy story in 2007 has been the result of the gasoline market. Gasoline inventories reported by the EIA have gone from an eight-year high in late-Jan to a six year low (nearly a 51-year low) in late-Apr due to unplanned outages at major refineries. At the same time, the relatively strong global economy and the soft-landing in the U.S. has kept demand for gasoline strong despite prices rising rapidly to new record highs in mid-May. Amidst the confluence of refinery mishaps, pipeline outages, and strong demand, MGR believes that the gasoline market is near a peak. While the high volatility would preclude us from trading it at this point, we still look for gasoline to move no higher than the 2006 high at \$2.5050, and actually feel that the peak made in late-Apr at \$2.4550 on the continuation chart may stand for the remainder of the year. We expect the market to make a gradual move down toward sub-\$2.00/gal by the end of summer. The record high prices of AAA surveyed gasoline will provide a small rationing effect that should slightly decrease demand.

Supply Issues

Gasoline has traded as strong as it has this spring based on a tremendously high number of unscheduled refinery outages. Those outages have been compounded by other refineries which had maintenance already scheduled and had to proceed regardless. The maintenance issues took gasoline inventories from an eight-year high in late-Jan to a six-year low in late-Apr. The adjustments to retail prices were necessary to ration demand, and so far, have been successful. U.S. demand for gasoline went from a low of 9,074 kb/d in early-Feb to 9,363 kb/d in early-Apr. It fell to 9,254 kb/d by early-May as AAA surveyed prices hit new record highs at \$3.10/gal. Gasoline inventories should begin to build in coming weeks. As the first chart below shows, inventories appear ready to turn higher, having hit their seasonal low in the week/ending Apr 27th. Increased refinery

utilization will help the build. The second chart shows another contributor to building inventories. Worries over sharp draw-downs in gasoline supplies has caused many companies to import larger amounts of refined gasoline. The second chart shows current gasoline imports rising above the four-year average.



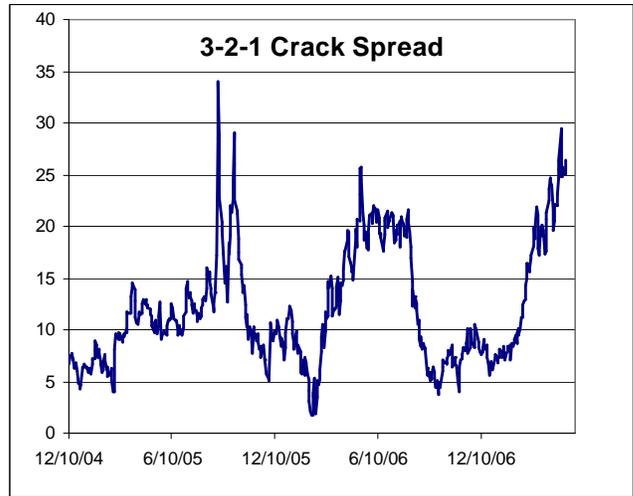
Besides the advancing age of U.S. refineries, evidence is becoming available that suggests that the seeds for the refinery issues were sewn over a year ago with the Ultra Low Sulfur Diesel requirement. The goal of the ULSD mandate by the EPA was to reduce nitrous oxide emissions and particulate matter. The effort was combined with fitment of catalytic exhaust after-treatment devices in all 2007 model year highway diesel vehicles. Refineries had to begin producing ULSD (less than 15 ppm of sulfur) by Jun 1st '06 and retail stations had to offer it for all highway diesel vehicles by Oct 15th '06. The changeover to ULSD production has caused refineries to push equipment much harder and get less useful life from components. The IEA said in its Apr report that refinery reliability has deteriorated due to sulfur removal requirements. It said that inferior quality gasoils that are high in sulfur used to be cracked and sold as mid-quality distillate but now have to be processed further. The additional processing requires severe hydro-treating or sometimes hydro-cracking. Both processes require significant amounts of hydrogen and energy, neither of which is inexpensive. Essentially, removing the last 50 ppm of sulfur is much more expensive than removing the first 50 ppm. Hydro-treating units with life cycles of two years are being taken out of service after only 18 months, as they are no longer capable of making on-spec product. Running the units harder has therefore led to more incidence of failure. The problems with sulfur have also distorted the crude oil balance, as light sweet crudes are much more in demand now than sour grades.

A short list of the major refinery outages is provided below. It shows that despite the numerous refineries that reported unplanned outages this year, many of them will be back up and operating by the middle of June. Also, given the above-normal amount of distillate inventories, MGR believes that refineries may extend the gasoline producing season later into the summer, thus creating a bullish situation for heating oil at that time.

Refinery Name, City	Cause	Outage Date	Restart Rate and Date	Capacity
BP, Texas City Texas	Hurricane	Aug '05	55% until end '07	460,000 b/d
Valero McKee, Sunray Texas	Fire	2/16/07	50% on 4/15/07	158,000 b/d
BP, Carson California	Fire	3/15/07	Unknown	260,000 b/d
BP, Whiting Indiana	Fire	3/26/07	50% until mid-Jun/mid-Jul	410,000 b/d
Lyondell Chemical, Houston Texas		4/16/07	4/26/07	100,000 b/d
Valero, Lima Ohio	Isocracker	4/19/07	Unknown	160,000 b/d
ConocoPhillips, Sweeny Texas	SRU failure	4/20/07	Reduced capacity starting mid-May	223,000 b/d
BP, Toledo Ohio	Power outage	4/20/07	5/14/07	60,000 b/d
ConocoPhillips, Wilmington CA	FCC failure	4/24/07	Unknown	55,000 b/d
Valero, St. Charles Louisiana	Failed restart	4/24/07	Reduced capacity starting 5/7/07	250,000 b/d
Chevron, El Segundo California	Furnace mal.	4/26/07	Unknown	260,000 b/d
Marathon, Garyville Louisiana	Fire	4/26/07	4/27/07	245,000 b/d
GaryWilliams, Wynnewood OK	Fire	4/28/07	4/29/07	50,000 b/d
Sunoco, Tulsa Oklahoma	Power outage	5/4/07	5/8/07	95,000 b/d
Sinclair, Tulsa Oklahoma	Power outage	5/7/07	5/17/07	66,000 b/d
Valero, Delaware City Delaware	FCC failure	5/10/07	67% until 5/17/07, then 100%	82,000 b/d

Other aspects of the refinery problems may be resolved before the sulfur issue. One of them is a lack of skilled labor. There have been shortages ranging from geologists to refinery maintainers to offshore platform workers. During the period of excess oil capacity in the 1980's & 1990's, refineries cut staff during a wave of consolidation. Shortages in equipment have occurred as well. Valero said in its Q1 earnings report that logistics problems were an issue.

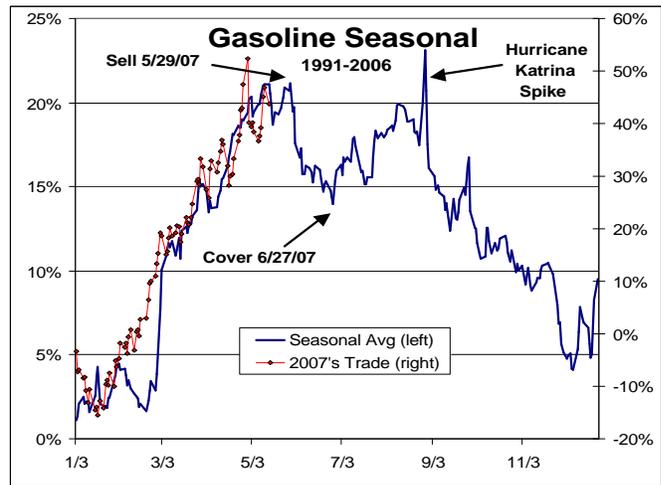
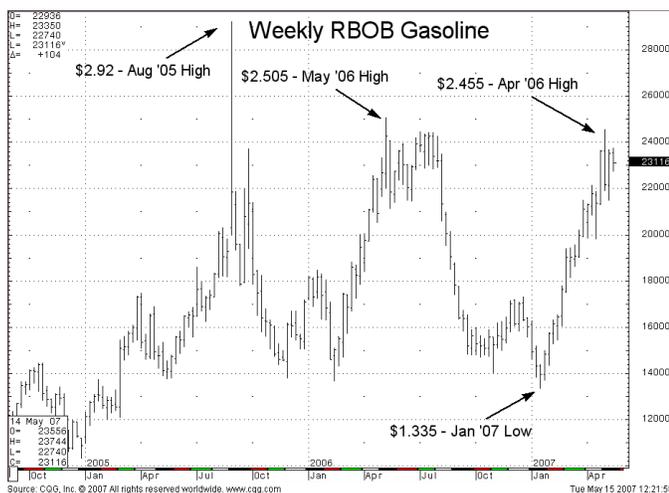
High levels in the crack spread are fundamentally meant to encourage more refining. That fundamental aspect has been slow to work in this case, due to the large number of refineries that are just not able to take advantage of that due to their shutdown. It's also not worked as well in this case, because the spread uses the lower priced WTI oil. Using Brent in the crack spread yields a \$4/bbl lower profit for refiners. The 3-2-1 crack spread peaked at \$29.40 in late-Apr due to the price spike that was witnessed in the expiring May gasoline contract. MGR expects the spread to move sideways-to-lower over the next month before embarking on a steadily lower move through the end of the summer.



The EPA hasn't helped. On May 5th, it said that it hadn't received any requests for waivers from states to be exempted from federal clean gasoline requirements. The lack of requests may not have been the fault of the states. Last year, six requests were made and no waivers were granted. The EPA's statement was another indication that no federal action would be taken to alleviate the tightness in gasoline supplies. Also in May, the EPA proposed new guidelines for refinery upgrades. The new standards were the result of a lawsuit that was settled with environmental groups. The new standards are aimed to reduce nitrogen oxides and sulfur dioxides produced by refineries and would cost \$54M annually.

Technicals & Seasonal Patterns

Technicals are difficult to interpret, as the gasoline market has made almost a straight run upward since its Jan 18th bottom was formed. We would prefer to analyze gasoline only in terms of old highs providing resistance. In that regard, the Apr '06 high was made at \$2.455/gal in the last volatile days of the expiring May futures contract. Above that is additional resistance from the May '06 high at \$2.505. MGR believes that the market is near a long-term peak, if it hasn't been formed already.

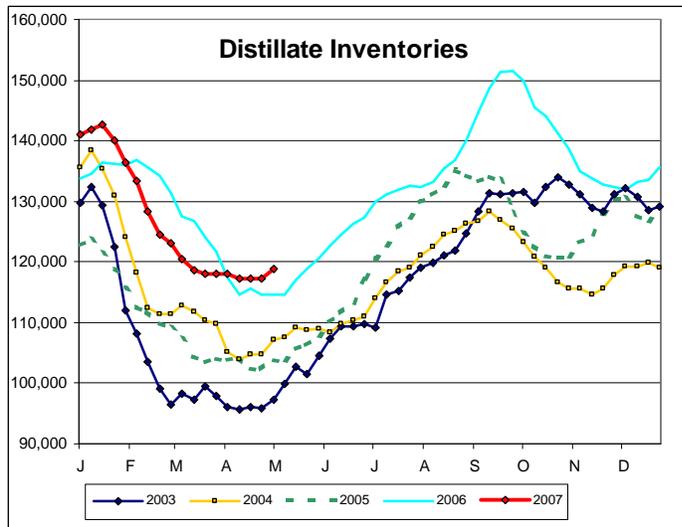


Better technical indications may come from the seasonal pattern, which suggests that the market trades lower starting on May 29th. Selling on May 29th and covering on Jun 27th has been a winning trade in 11 of the last 15 years. The average decline is 5.5% while the standard deviation is a high 11.0%. Reversing the trade and buying on Jun 27th and liquidating on Aug 28th (where the Hurricane Katrina spike occurred) was a winning trade in only 9 of the last 16 years and saw average gains of 7.3%. The standard deviation was a very large 18.1%. Nonetheless, the seasonal pattern fits with our directional bias over the next few months.

Heating Oil

While gasoline will take center stage with consumers during the busy summer driving season, the lesser noticed heating oil market may provide the better opportunity for trading. The seasonal pattern turns bullish around Jul 19th in heating oil, and we see the seasonal as fitting in our directional bias over coming months. Best trade is to buy HON7 at \$1.81 and target \$1.91 while risking \$1.79.

Essentially, prices have been driven higher in the past few months by association with the gasoline market. As the inventory chart at right shows, distillate inventories are at the highest levels seen in the past five years. While gasoline demand is 1-2% above year-ago levels, distillate demand is 1-2% below. Much of the decline has been due to lower heating oil demand in Europe due to warm weather at the tail end of winter. Diesel has held relatively firm, with diesel automobiles continuing to gain market share in Europe. Lower distillate demand and higher inventories should keep prices under pressure through mid-summer, when the market begins to shift its focus from the summer driving season to the winter heating season. At the same time, MGR believes that gasoline inventories will still be below average and refiners may choose to extend gasoline production schedules. That could lead to a sharp decline in distillate inventories as winter heating season approaches.



Technicals & Seasonal Patterns

The technical situation in heating oil appears a bit more favorable than in gasoline, mainly because of the reduced risk of a major correction. The Jul contract chart below shows the market in the process of forming a bullish flag continuation pattern. An upside breakout from the flag would project a further move up toward \$2.04/gal. We don't expect an upside breakout immediately, even though the chart appears bullish. If our expectation for builds in product inventories takes place, heating oil should be out of favor at this time of the year. The second chart below shows that seasonal pattern over the last 16 years. Buying on Jul 19th and selling on Oct 10th has been a winning trade in 13 of the 16 years. The average gain has been 13.6% while the standard deviation is 14.7%.

