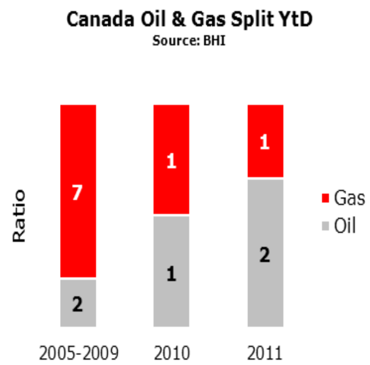
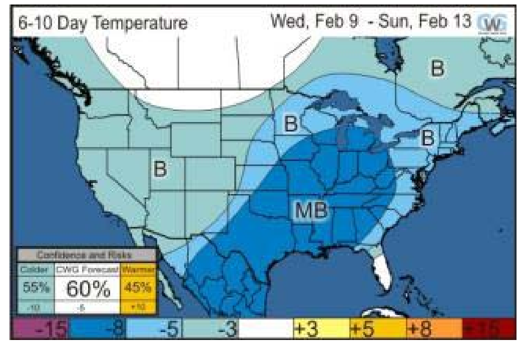


Nota Bene: Per Friday's Baker Hughes report, North American rigs fell for the first time in five weeks. For the week ended February 04th, the U.S. count increased by 7 to 1,739 with 8 oil rigs employed for every 9 gas. North of the 48 conterminous states the count fell by a seasonal 11 to 626, i.e. 75th percentile of the seasonal norm. The bias in the ratio of oil-to-gas rigs was unchanged at 2/1.

Weather forecast courtesy of
Commodity Weather Group



CRUDE AWAKENINGS

TRADING BIAS DAILY

- WTI: NEUTRAL a/o Feb 07 ...S- 87.4 R- 90.66
- BRN: NEUTRAL a/o Feb 07 ...S- 98.73 R- 100.93
- NG: BEARISH a/o Jan 21 ...S- 4.216 R- 4.404
- RB: NEUTRAL a/o Feb 07 ...S- 238.86 R- 248.2
- HO: NEUTRAL a/o Feb 07 ...S- 268.2 R- 275.14

TRADING BIAS WEEKLY

- WTI: BULLISH a/o Nov 08 ...S- 86.1 R- 91.8
- BRN: BULLISH a/o Sep 12 ...S- 97.06 R- 102.6
- NG: NEUTRAL a/o Nov 08 ...S- 4.078 R- 4.542
- RB: BULLISH a/o Dec 06 ...S- 237.24 R- 249.82
- HO: BULLISH a/o Jan 10 ...S- 262.84 R- 280.34

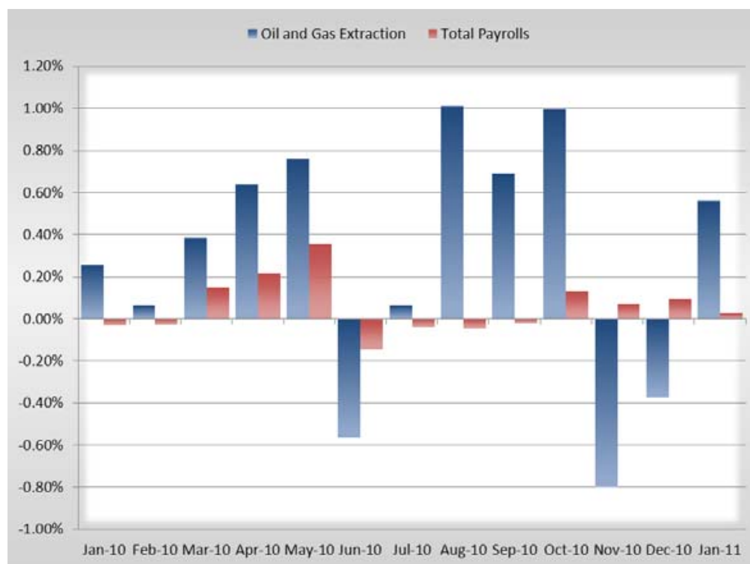
TRADING BIAS MONTHLY

- 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 QUIET LAST WEEK…. global liquids rallied after protests in Egypt, but a disappointing domestic jobs number and a liquidation of emerging markets funds pushed the complex lower on Friday. Natural gas ended the week unchanged, have we put 2011's high print behind us? This week is quiet on the economic release front so we will be watching the dollar and front month spreads.

Natural gas… waiting for the rally
(See omnium-gatherum p.6)

Chart of the Day: MoM % Change in Payrolls



Nonfarm Payrolls Review

On Friday the Bureau of Labor Statistics released a mixed slate of numbers for January's nonfarm payrolls report. Total job growth, pegged at 146K on the month by analysts came to just 36K. On the other hand, the unemployment rate was expected to rise from 9.4% to 9.5%, but actually fell 9.0%.

We are not jumping in to the quicksand of whether the rate drop is due simply to a shrinking workforce (i.e. discouraged workers) or whether the economy in general is recovering at a faster or slower rate. Instead, how do Friday's numbers affect the energy sector?

Oil and gas extraction payrolls rose 0.56% to 161.5K and currently stand 3.46% above the same month last year, though they remain below 2010's high of 162.5K in October. We consider this number encouraging as it stands 13.27% above the 2005-09 average and the second highest value for this month in the last decade (beaten only by January 2009's 164.8K jobs). As shown by today's CotD, oil and gas extraction job growth on a percentage basis has outpaced total payrolls for ten of the thirteen reports since the start of 2010.

Yet as we saw in the aftermath of the Gulf of Mexico Spill, oil extraction jobs support a number of surrounding industries. Thus payrolls for support activities for oil and gas extraction rose 0.27% to 225K in December (the latest data available), 21.75% higher YoY and the highest value since September 2008. We may be seeing higher growth rates in support activities due to the infrastructure building (waste disposal and transportation routes etc.) required for shale plays.

Moving on from the production of fuel to its end use, we saw mixed data from the transportation sector. Air transportation jobs fell 0.02% in January while rail transportation jobs fell 0.05%. Truck transportation was the positive outlier, rising 0.01% on the month. From a long term perspective, however, we remain confident in growth from the transportation sector as Air, Rail and Truck transportation payrolls stand 0.99%, 4.42% and 1.74% higher YoY respectively. The market seems to agree given that the heating oil crack is currently trading at >$25.00 levels.

The bottom line is that the jobs report may be mixed for the economy in general, but we are seeing strong results in the energy sectors. This is likely good news for some of our clients, but we cannot yet tell whether growth in producing sectors will outpace growth in demand sectors or vice versa. Given Western Europe's strong growth rates, and demand from Asia, we will go with vice versa on a global level, i.e. a long term bullish bent, thus our monthly biases remain bullish.

NATURAL GAS… NEUTRAL

Last week saw sideways trading in natural gas with front month prices trading strictly within our (3.930, 4.755) Confidence Interval (CI) and settling just 0.30% lower WoW at 4.310. We are seeing heavy attraction to the rolling front months' 50 day MA of 4.373 as prices have crossed it for six of the last seven sessions. However, the bulls failed to hit it on Friday (a high print of 4.369 doesn't cut it) which could lead to a technical sell-off this week.

We will be looking towards the 200 day MA of 4.231 to provide support and below here the 100 day MA of 4.092. We will be very surprised to see prices settle this week below the lower bound of our (3.989, 4.657) CI considering that the East Coast is expected to see temperatures well below normal.

As for our technicals, weakness below the week ending 01/28's 4.252 low print alerts to our 4.078 inflection low. Below here we will look for offers to our 3.845 intra-week. On the other hand, a rebound above last week's 4.496 high print opens the door to our 4.542 inflection high. Once crossed, the bulls should run towards our 4.775 intra-week high.

NYMEX WTI… BULLISH

For the first time in weeks, we are watching crude oil trade against the dollar and the March contract's moving averages. The Euro weakened 0.20% against the dollar over the week while WTI fell 0.35%. These changes may seem too small to be relevant, but the majority of the changes came between Wednesday and Friday, when the dollar rallied 1.67% and WTI fell 2.01%. Needless to say, prices remained well within our (83.74, 95.31) CI.

The March contract also crossed below its 50 day MA of 89.84 on Friday despite trading above it all week. The last time we saw similar action was the week ending January 21st, and we will be wary of a similar sell-off towards the current 100 day MA of 86.85. Thus we have changed our daily biases in the liquids from bullish to neutral, though we do not expect the bears to settle the week below our (84.14, 94.21) CI.

As for our technicals, strength above last week's 90.62 pivot high should send the bulls towards our 91.80 inflection high. Above here they will likely hit resistance at our 94.64 intra-week high. On the other hand, a correction below last week's 88.40 low print leads to our 86.10 inflection low. Below here we look for offers to our 83.26 intra-week.

ICE BRENT… BULLISH

Brent prices were remarkably strong last week, with a two year high of 103.37 testing the upper bound of our (94.57, 104.51) CI. The bulls seemed to trip up on Friday however and the contract settled 0.41% higher. Thus the inter-market ICE Brent/NYMEX WTI spread stands at -$10.80, effectively the same point it was at on January 27th's open of -$10.56. For instance, over the past seven sessions it has changed just 8.09%, whereas the previous seven sessions saw a widening of 85.04%.

As for this week our CI for the March contract has been revised to (96.24, 103.55) but with expiration approaching on February 11th, many traders have switched their focus to the April contract which rose 0.68% to 100.25 last week and sees a CI of (91.60, 109.72).

As for our technicals, strength above the week ending 01/31's 101.73 high print opens the door to our 102.60 inflection high. Above here the bulls will run to (and in to resistance at) our 105.37 intra-week high. On the other hand, a drop below the week ending 01/31's 98.50 low print alerts to our 97.06 inflection low. Below here the floor falls through to our 94.29 intra-week low.

NYMEX RBOB… BULLISH

Last week the RBOB contract for February delivery expired at 249.06, close to but inside the upper bound of our (240.59, 250.88) CI. The contract for March could not keep up the momentum and settled 2.04% lower at 243.53. Almost the entirety of the drop came on Friday after a middling jobs report.

As for this week, our CI for March comes to (228.40, 259.66) while volatility in the front month has decreased expectedly from 35.8% to 27.4%. If a sell-off starts we do not expect our 228.40 lower bound to hold. Instead, traders will aim for March's 100 day MA of 226.00 and below here the 200 day MA of 215.31.

As for our technicals, strength above last week's 246.62 pivot point clears the path to our 249.82 inflection high. If the bulls break through here they could hit resistance around our 256.10 intra-week high. On the other hand, a correction below the week ending 01/21's 239.75 low print alerts to our 237.24 inflection low. Below here we look for offers to our 230.96 intra-week low.

NYMEX HEATING OIL… BULLISH

As with RBOB, the heating oil contract for Feb delivery expired at a strong 274.68. Unlike RBOB, this settle was just above our (263.98, 274.16) CI, and technical momentum followed through in the March contract which settled 0.84% higher – not much, but better than the rest of the NYMEX liquids.

As for this week, the CI for March comes to (255.96, 288.35). We expect the bears to hit heavy resistance around the 255.96 lower bound as it hews close to March's 50 day MA of 255.51. Meanwhile the heating oil crack seems to have peaked on Thursday with the worst of the winter weather expected to be behind us.

As for our technicals, strength above our 150.0% March extension of 277.79 opens the door to our 280.34 inflection high. Above here we look for bids to our 289.10 intra-week. Then again, a correction past last week's 266.90 low print alerts to our 262.84 inflection point. Below here the bears should claw to our 254.08 intra-week low.

ICE GASOIL… NEUTRAL

Gasoil prices decoupled from the rest of the complex (on the ICE and Brent) to settle last week 2.31% higher at 843.25. At one point traders broke through the upper bound of last week's (790.59, 859.34) CI with a high print of 865.75, but a sell-off on Friday brought prices back within our CI.

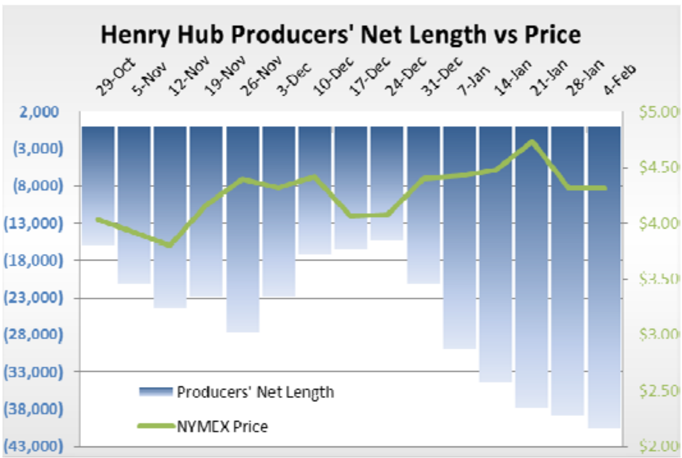
With the contract for February delivery expiring this week, our CI comes to a tight (817.83, 869.46). Meanwhile the contract for March delivery rose 2.35% last week to 849.00 and sees a CI of (788.85, 913.73).

As for this week's technicals, a drop below last week's 23.6% retrace of 833.09 alerts to weakness towards our 819.25 inflection low. Below here we look to our 796 intra-week low. Then again, strength above last week's 76.4% retrace of 855.66 opens the door to our 865.75 inflection high. Through here the bulls look to our 889.00 intra-week high.

NATURAL GAS

NAT-GAS H Open 4.359 High 4.369 Low 4.287 Close 4.310 Chng -0.027

Open interest (OI) was relatively unchanged in NYMEX Henry Hub futures with a 0.60% week-on-week drop as of Tuesday. This was reflected in front month prices which fell 0.30% WoW. On the breakdown money managers increased their net short position by 15.92% while commercials increased their net short position by 4.08%, a bearish report on both counts. On the swaps side, money managers decreased their total position from 384.93K contracts to 360.77K contracts.



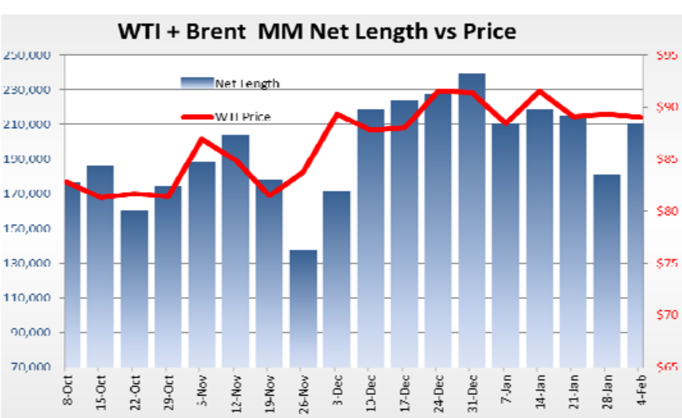
Daily Bias: BEARISH

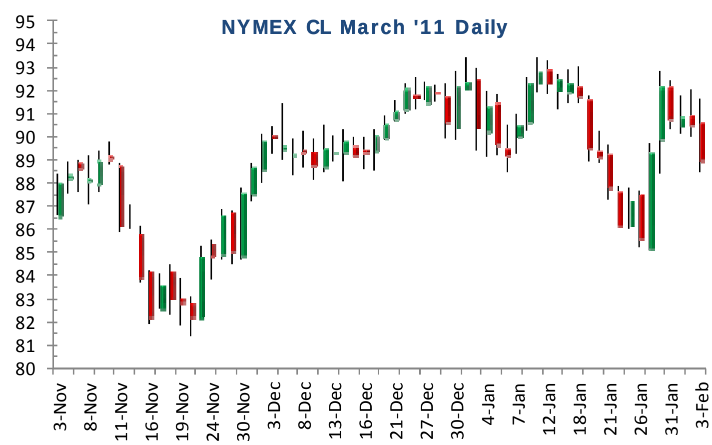
As for today, strength above Friday's 4.369 high print opens the door to our 4.404 inflection high. Above here the bulls will potentially run towards our 4.499 intra-day. Then again, weakness below Friday's 4.287 low print leads to our 4.216 inflection low. Below here we look for offers to hit support at our 4.121 intra-day.

OIL

WTI H Open 90.63 High 91.67 Low 88.45 Close 89.03 Chng -1.51

Last week saw a 4.84% increase in crude oil OI on the ICE while the NYMEX saw a 2.16% increase in OI. In total, money managers increased their net length by 16.81% to 204.79K contracts. Yet a sell-off on Friday meant prices settled the week 0.35% lower – were traders expecting a larger impact from Egypt than what we actually saw (the Suez Canal and Sumed pipeline remain unaffected). Meanwhile commercials increased their net short position by 14.70% to lock in future production at last week's prices.





Daily Bias: NEUTRAL

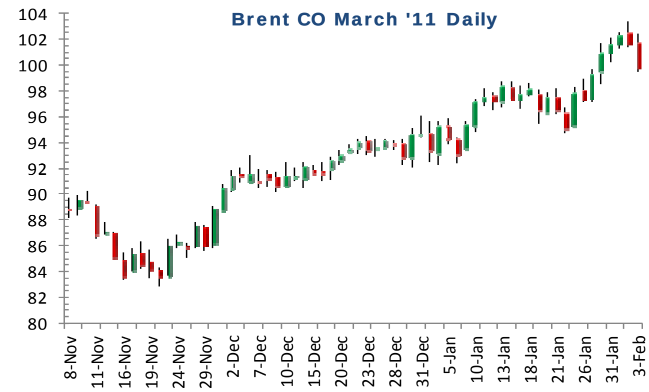
As far as today goes, weakness below Friday's 88.45 low print alerts to our 87.40 inflection low. Below here we will look towards our 85.77 intra-day. On the other hand, gains above Friday's 90.06 pivot high clear a path to our 90.66 inflection high. Through here the bulls could run to (and in to resistance at) our 92.29 intra-day high.

ICE Brent

Brent H Open 101.86 High 102.48 Low 99.48 Close 99.83 Chng -1.93

We are hearing across the board that the WTI/Brent relationship has 'broken down'. In fact, analysts are questioning whether it was very good to begin with, with the landlocked Cushing, OK hub making WTI a weak indicator of global demand and the dwindling production levels in the North Sea leaving the Brent market small enough to be pushed around.

As far as today goes, strength above Friday's 102.48 high print opens the door to our 100.93 inflection point. If crossed we will look for bids to our 102.02 intra-day. On the other hand, a drop below 01/31's 99.61 open alerts momentum to our 98.73 inflection low. Below here we will look for offers towards our 97.64 intra-day.



Daily Bias: NEUTRAL

LIGHT ENDS

RBOB H Open 250.33 High 251.88 Low 242.90 Close 243.53 Chng -6.81

Last week saw a 1.13% decrease in open interest in the NYMEX RBOB contract, though the year-on-year surplus in OI stands at a firm 7.76%. On the breakdown, money managers increased their net length by 5.87%, possibly due to strong personal spending and total vehicle sales numbers. At the same time, commercials increased their short position by 4.93% to take advantage of a strong crack.

As far as today goes, weakness below 01/27's low print of 241.02 alerts to our 238.86 inflection low. Below here we look to our 234.18 intra-day. On the other hand, a rebound above Friday's 246.10 pivot point opens the door to our 248.20 upper inflection point. Above here the bulls should bid towards our 252.88 intra-day high.

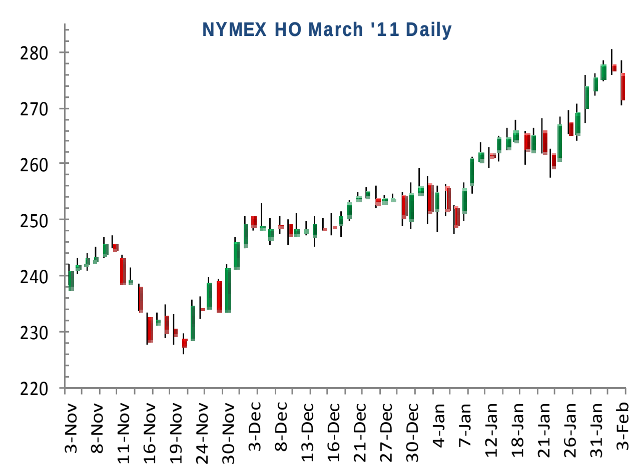
Daily Bias: NEUTRAL

MIDDLE DISTILLATES

HEATING OIL H Open 276.30 High 278.43 Low 270.48 Close 271.67 Chng -5.07

As with RBOB, commercials increased their net short position by 2.60% last week as the heating oil crack hit its highest point since March 2009. Fears of over-supply seem to be ignored by money managers, who increased their net long position by 3.61% to 44.08K contracts, the first increase in the past three reports.

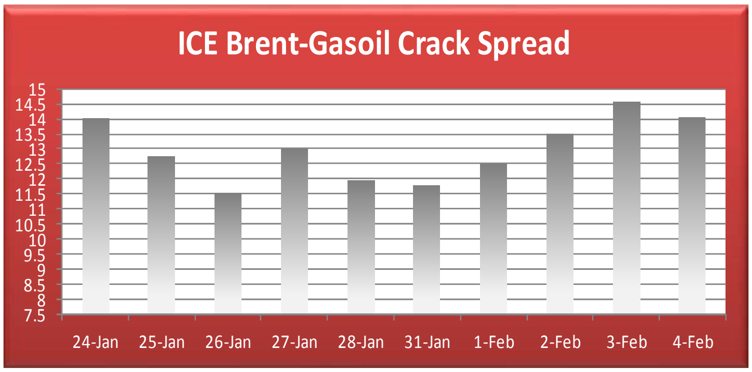
As far as today goes, strength above Friday's 273.53 pivot point builds a bridge to our 275.14 upper inflection point. Once crossed, the bulls should run towards our 278.62 intra-day high. Then again, weakness below Friday's 270.48 low print signals momentum to our 268.20 inflection low. Below here we will look for offers down to our 264.72 intra-day low.



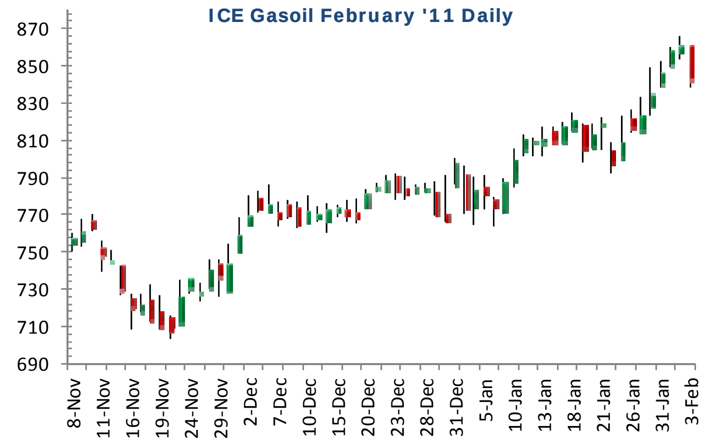
Daily Bias: NEUTRAL

ICE GASOIL

Last week saw a 5.05% decrease in open interest in the ICE Gasoil crack spread swap. Thus we are disinclined to pay too much attention to the unseasonal 9.63% decrease in swap dealer net length. Friday saw the crack hit fresh two year highs due in part to cold weather in Europe.



As for today, offers through Friday's 838.25 low print alert to follow through momentum towards our 832.50 inflection. We will look for weakness below here towards our 821.75



Daily Bias: NEUTRAL

intra-day. On the other hand, continued strength through Friday's 849.63 pivot high clears a path towards our 854.00 upper inflection-point. Above here we will look for bids towards our 864.75 intra-day.

OMNIUM-GATHERUM

Since the start of the winter the spread between the NYMEX Henry Hub natural gas futures contract for March 2011 delivery and the April contract has morphed from a premium (backwardation) of 0.9%, to a discount (contango) of -0.7% as of last Friday. The spread has been yo-yoing around unchanged all winter long.

Over the previous ten winters this key cross-seasonal spread began the winter in December at an average 6.8% premium, but then finished in February at a discount of around -0.2%. In this vein, despite this winter's very strong drawdown in underground stocks, 19.3 Bcf/d, the end-of-season curve is showing no sign of concern regarding the availability of supply.

That is not exactly earth-shattering news with 2.35 Tcf of product still in the ground at the start of February.

Be that as it may, the longer dated end of the curve is hinting of some concern with this summer's potential refills. Since the start of the winter the discount between the end of summer (Oct'11) and start of winter (Nov'11) has narrowed by 200 bps to 3.1%. Over the last ten winters the carry on this end-of-season spread has increased by 42 bps on average to a 5% discount.

Therefore, recent tightening in the Oct/Nov spread could be indicative of pending supply woes. Per the latest update from EIA, total production of natural gas is forecast to fall by 0.3% this year.

The government makes note of the extant decline in rig counts. It's a fair point, but then again, the ratio of vertical rigs to horizontal ones has blown out from 6:7 in June 2009 to 7:13 as of last Friday. In the process gas output in the Lower 48 has risen 7.8%. A 21% decline in offshore GoM production was more than offset by a 65% increase in Louisiana (Haynesville) and a 23% jump in "Other" (Marcellus).

Bottom line, unlike the liquids, the gas market in the U.S. has failed to recover from the implosion of 2008 bubble. Nevertheless, production continues to rise despite the prolonged bear market.

On this note, as of last Tuesday gas producers were holding their largest net short position, 40,538 contracts, since 2008. As such, bear market or no, that gas is going to get produced.

BIOFUELS

According to the DOE report for the week ended January 28th, discretionary gasoline blending (conventional + ethanol) increased for a third straight week. Output rose 0.8% to 4.68 MMbbl/d. Over the last four weeks discretionary blending averaged ≈4.57 MMbbl/d or 17% above the corresponding timestep from a year ago. Reformulated gasoline production with ethanol fell by 0.8% to 2.93 MMbbl/d. Consequently, discretionary blends' share of the entire gasoline pool jumped by 150 bps to 53.4% and averaged around 51.9% over the last four weeks.

Ethanol production fell by 1½% to 0.908 MMbbl/d. Over the last four weeks output averaged ≈0.907 MMbbl/d or 1% below the prior four-week timestep. Meanwhile, apparent demand for gasoline dropped by a relatively heavy 1% on poor weather-related road conditions, but nationwide stockpiles of ethanol fell by 0.8% from a five-month high to 18.9 MMbbls.

Meanwhile, ethanol values were generally stronger last week, but gross distillation margins are fading fast. Ethanol futures for March delivery in Chicago (CBOT) averaged around 2.37, a gain of 2% from the previous trading week and finished the week up 4.3% from the previous Friday. The rise however failed to keep pace with corn. As a result, the CBOT futures crush for March fell to negative $0.038 per bushel! Furthermore, the average weekly crush between prompt f.o.b. ethanol in Chicago and the bid for №2 yellow corn in Chicago plunged by three-eighths to $0.203 per bushel of corn.

As far as the Ag markets go, corn futures in Chicago moved once again to the psyche-critical $7 threshold. As far as this week goes, offers through 687.50 clear a path towards $7 and our 702.00 weekly inflection-point. We will look for strength above here towards our 740.00 weekly top. On the other hand, offers through 669.50 alert to further corrective weakness towards our 655.75 lower inflection-point. Below here we will look for offers towards our 622.25 weekly bottom.

Finally, bullish momentum spot (March) sugar futures in New York stalled 6 ticks ($62.2 per contract) from our 36.14 weekly inflection-point. As far as this week goes, offers through 33.12 alert to follow through weakness towards our 31.87 weekly inflection-point. We will look for weakness below here towards our 28.85 weekly bottom. Otherwise, a rebound through 34.78 clears a path towards our 36.14 upper inflection-point. Above here we will look for bids towards our 39.93 weekly top.

WEEKLY OUTLOOK (February 07th to 11th)

Henry Hub… weakness below the week ending 01/28's 4.252 low print alerts to our 4.078 inflection low. Below here we will look for offers to our 3.845 intra-week. On the other hand, a rebound above last week's 4.496 high print opens the door to our 4.542 inflection high. Once crossed, the bulls should run towards our 4.775 intra-week high. **WTI…** strength above last week's 90.62 pivot high should send the bulls towards our 91.80 inflection high. Above here they will likely hit resistance at our 94.64 intra-week high. On the other hand, a correction below last week's 88.40 low print leads to our 86.10 inflection low. Below here we look for offers to our 83.26 intra-week. **Brent…** strength above the week ending 01/31's 101.73 high print opens the door to our 102.60 inflection high. Above here the bulls will run to (and in to resistance at) our 105.37 intra-week high. On the other hand, a drop below the week ending 01/31's 98.50 low print alerts to our 97.06 inflection low. Below here the floor falls through to our 94.29 intra-week low. **RBOB…** strength above last week's 246.62 pivot point clears the path to our 249.82 inflection high. If the bulls break through here they could hit resistance around our 256.10 intra-week high. On the other hand, a correction below the week ending 01/21's 239.75 low print alerts to our 237.24 inflection low. Below here we look for offers to our 230.96 intra-week low. **Heating Oil…** strength above our 150.0% March extension of 277.79 opens the door to our 280.34 inflection high. Above here we look for bids to our 289.10 intra-week. Then again, a correction past last week's 266.90 low print alerts to our 262.84 inflection point. Below here the bears should claw to our 254.08 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.

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.

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 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.