THE SCHORK REPORT
A VIEW OF THE ENERGY & SHIPPING MARKETS

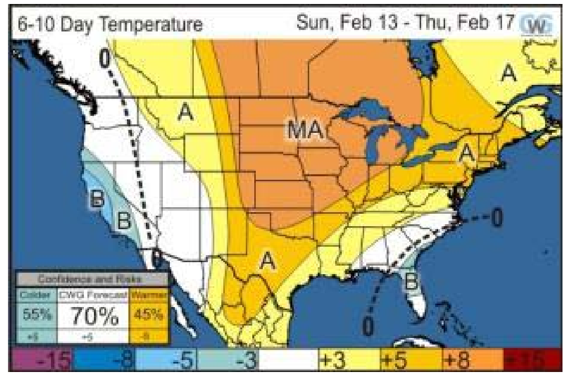
The DOEs

	Last Week	Survey[1] for Today	Season Trend		APIs[2]
Crude Oil	2,594	2,000	2,067	± 1336	(558)
Cushing	667	na	(71)	± 272	(927)
Gasoline	6,154	2,500	1,761	± 1036	3,212
Distillate	(1,579)	(1,000)	(1,364)	± 640	(538)
Jet Fuel	1,021	na	442	± 328	261
note: (Mbbls)					
Cap. Util.	2.7%	-0.20%	-0.63%	± .51%	0.1%

1 Source: Newedge, Reuters, & Bloomberg

2 Per last night's report

Weather forecast courtesy of
Commodity Weather Group



CRUDE AWAKENINGS

TRADING BIAS DAILY

- ☹ WTI: NEUTRAL a/o Feb 07 ...S- 85.32 R- 88.56
- BRN: NEUTRAL a/o Feb 07 ...S- 99.54 R- 101.5
- NG: BULLISH a/o Feb 08 ...S- 3.944 R- 4.136
- RB: NEUTRAL a/o Feb 07 ...S- 244.63 R- 254.21
- HO: NEUTRAL a/o Feb 07 ...S- 269.74 R- 276.62

TRADING BIAS WEEKLY

- WTI: BULLISH a/o Nov 08 ...S- 86.18 R- 91.88
- 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- 262.92 R- 280.42

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 MIXED YESTERDAY…. natural gas sold off for the fourth consecutive session as the EIA increased production forecasts for 2011, but the bears could not break 4.000. Meanwhile the NYMEX liquids were mixed – crude oil fell while the products rallied on the back of refinery disruptions across the country. Last night the API reported a 0.56 MMbbl draw in crude oil inventories.

NYMEX WTI… falling out of bed?

(See omnium-gatherum p.5)

Chart of the Day: Front Month RBOB crack

Trading the RBOB Crack
Short and Long term Ceilings

Yesterday the RBOB crack saw its second consecutive >$2.00 gain and broke above the $18.00 mark for the first time since May 2010. But as shown by today's CotD, this was a local top last year, and prices sold off to lows around $10.00 by the end of May and stayed at or below that level for the rest of the year.

To understand yesterday's rally, consider that Egyptian news sources reported a sit-in strike by over 6000 Suez Canal Workers in the cities of Suez, Port Said, and Ismailia. Yet this was not reflected by a rally in WTI, in fact WTI settled the day 0.62% lower. Crude oil imports to the Gulf Coast (PADD 3) currently stand at 5.27 MMbbls, 14.54% above the same point last year. Yet total storage in the area stands 0.25% above last year, and total crude storage stands 4.31% higher YoY. In turn, either traders believe that crude imports and supplies are healthy, or the possibility of a strike had already been priced in to WTI last week. Either way, the picture is not good for WTI.

On the other hand, we have been hearing reports of refinery disruptions across the country for the past several days. Valero shut down its 0.24 MMbbl/d Aruba refinery on Friday after a collapsed water tank, while Exxon Mobil's 0.50 MMbbl/d Baton Rouge Refinery (the second largest in the country) began planned maintenance on Saturday which is expected to take weeks.

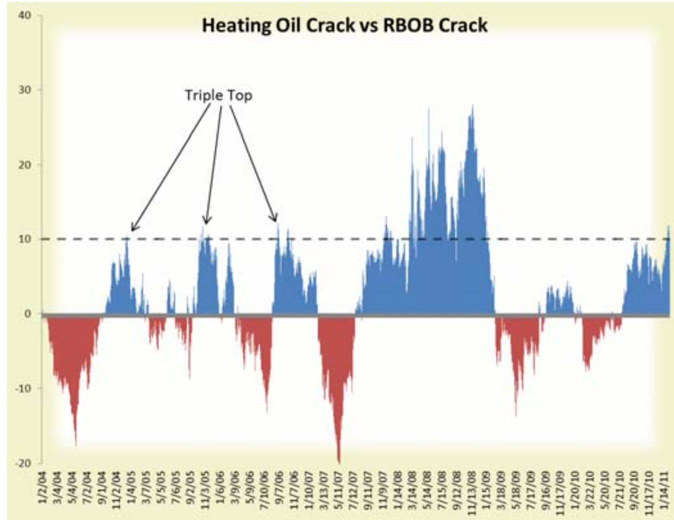
In the weeks ahead, we expect to see further shut downs as refineries enter the maintenance season, with Sunoco shutting down part of its 0.33 MMbbl/d Philadelphia refinery later this month.

In turn, the front month RBOB contract rallied 1.78% yesterday for a cumulative 2.42% gain over the last two sessions. Should traders look to buy an upward trend, or fade the spike?

In absolute terms, RBOB stocks are healthy across the country. The East Coast (PADD 1) sees storage 2.10% above last year while PADD 3 and the West Coast (PADD 5) see YoY surpluses of 8.68% and 6.41% respectively. While supplies are flush, total demand is 4.46% lower than last year.

From a fundamental perspective, we see little reason to buy the RBOB crack. And for the technicals, we are entering a point of significant resistance. The chart below, draws the heating oil crack minus the RBOB crack.

We have not seen the crack differential cross above the $10.00 mark since the end of 2008. It was crossed during the run up to the commodity bubble, but before then it caused a sell-off at least three times. In December 2004 the spread spent three days above



$10.00 (from the 16th to the 20th) yet this was followed by a sharp sell-off, and by January 5th 2005 the spread narrowed to $1.99.

In October of 2005 a similar scenario took place, with prices hitting a high of $11.52 on October 27th but falling to $7.90 by November 4th. The spread spiked above $10.00 on odd days, but by the end of December was down to $1.93. Finally a similar situation took place in September 2006, when the spread crossed $10.00 for three days between the 5th and the 7th… and spent the rest of the month trading below $10.00.

The exception to this trend was the commodity bubble, when the spread maintained strength starting March 2008. Yet WTI at that point was north of the $100.00 barrier and the unemployment rate a far more palatable 5.1%.

Thus even if we do not see a sell-off, we still expect heavy resistance and magnetism around current price levels. Unless we see excessively bullish fundamental data, we will not be buying in to the RBOB crack rally. And, last night's 3.21 MMbbl build in mogas inventories was anything but fundamentally bullish.

Speaking of which, last night the API reported a seasonally small 0.56 MMbbl draw in crude oil inventories, while analysts are looking for a 2.00 MMbbl build from the DOE. Distillate inventories fell 0.54 MMbbls, in line with forecasts of a 1.00 MMbbl draw today. Refinery utilization inched 0.1% higher to 83.3% while the Cushing, OK hub reported a bullish 0.93 MMbbl draw.

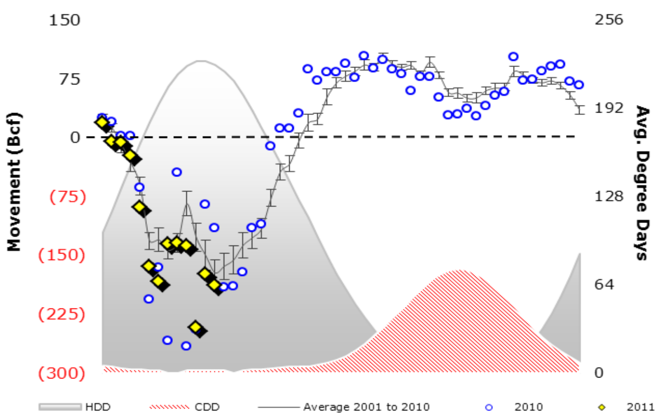
NATURAL GAS

NAT-GAS H Open 4.111 High 4.127 Low 4.028 Close 4.040 Chng -0.064

As far as tomorrow's storage report goes, furnace demand was strong in the West, but eased elsewhere. Of note, average New York City basis (Z6) fell by two-fifths. This report tends to yield one of the largest deliveries of the season. On average we have seen a 162 ±33 Bcf delivery over the last five winters and an average 156 ±15 Bcf since 1994 for this report. The early whisper number is a firm 192 Bcf.

Daily Bias: BULLISH

EIA Deliveries From Underground Storage and Degree Days



As for today, strength above yesterday's 61.8% retrace of 4.089 opens the door to our 4.136 inflection high. Above here the bulls will potentially run towards our 4.232 intra-day. Then again, weakness below the 4.00 psychological barrier leads to our 3.944 inflection low. Below here we look for offers to hit support at our 3.848 intra-day.

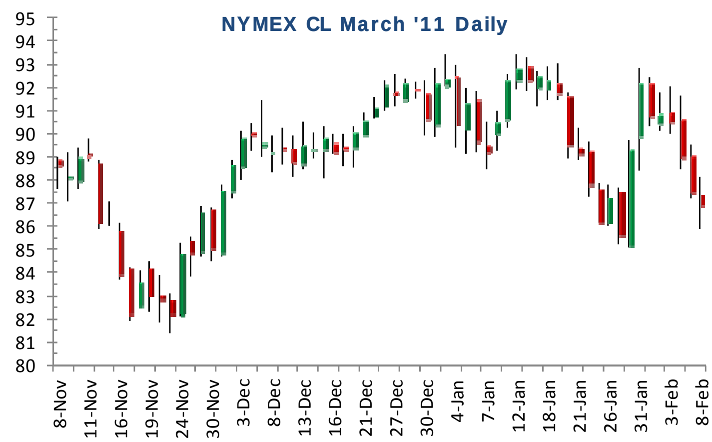
OIL

WTI H Open 87.41 High 88.11 Low 85.88 Close 86.94 Chng -0.54

Last week Uncle Sam reported a 2.59 MMbbl build in crude oil inventories, in line with the 2.50 MMbbl build expected by analysts. Total storage now stands at 343.16 MMbbls, 4.31% above last year and 8.09% above the 2005-09 average of 317.47 MMbbls. WTI prices were weak yesterday but the bulls ran out of steam three cents above our 85.85 inflection low and prices settled just 0.62% lower on the day. Last night the API report was encouraging, with a 0.56 MMbbl draw in total inventories and a 0.93 MMbbl draw at the Cushing, OK hub.

In fact, the only significant build in crude inventories was on the West Coast (PADD 5) which, due to its geographical disparity, is often overlooked by the markets. Meanwhile crude runs rose 0.11 MMbbls/d while imports fell by a large 1.06 MMbbls/d and production was flat on the week.

All told this was the most bullish report the API has released in weeks, but will the DOE corroborate?



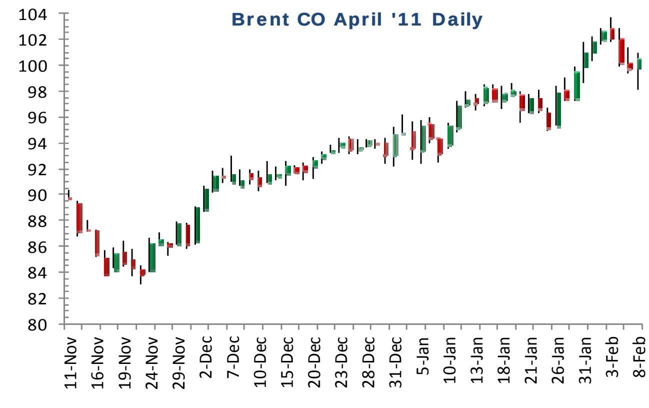
Daily Bias: NEUTRAL

As far as today goes, post-DOE weakness below yesterday's 85.88 low print alerts to our 85.32 inflection low. Below here we will look towards our 83.70 intra-day. On the other hand, gains above yesterday's 88.11 high print clear a path to our 88.56 inflection high. Through here the bulls could run to (and in to resistance at) our 90.18 intra-day high.

ICE Brent Brent J Open 99.78 High 100.94 Low 98.12 Close 100.52 Chng +0.65

Prices in London were firm yesterday, rising 0.65% while WTI fell 0.62%. Traders were likely concerned about news of a sit-in strike by Suez Canal workers. Closer to home, Germany reported a disappointing 1.5% drop in MoM industrial production – analysts were looking for a 0.2% gain. If the DOE reports a draw at Cushing, we will look for a contraction in the inter-market spread.

As far as today goes, strength above yesterday's 100.94 high print opens the door to our 101.50 inflection point. If crossed we will look for bids to our 102.48 intra-day. On the other hand, a drop below the 100.00 psychological barrier alerts momentum to our 99.54 inflection low. Below here we will look for offers towards our 98.56 intra-day.



Daily Bias: NEUTRAL

LIGHT ENDS RBOB H Open 245.11 High 251.25 Low 242.38 Close 249.42 Chng +4.37

Last week the DOE reported a 6.15 MMbbl build in mogas inventories, well off the 1.31 MMbbl draw seen for the same week last year. Total storage now stands 3.55% above last year and 6.63% above the 2005-09 timestep. Last night the API reported a 3.21 MMbbl build in inventories due in part to a 50 Mbbl/d drop in demand and a 0.10 MMbbl/d increase in production. Analysts are looking for a 2.60 MMbbl build from the DOE today.

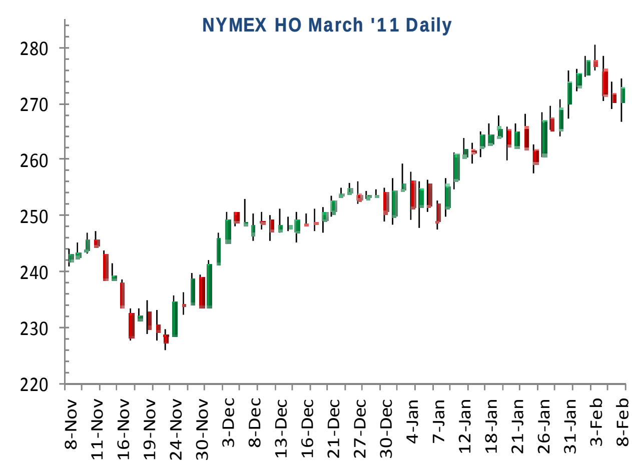
As far as today goes, post-DOE weakness below yesterday's 50.0% retrace of 246.82 alerts to our 244.63 inflection low. Below here we look to our 239.84 intra-day. On the other hand, a rebound above yesterday's 251.25 high print opens the door to our 254.21 upper inflection point. Above here the bulls should bid towards our 259.00 intra-day high.

Daily Bias: NEUTRAL

MIDDLE DISTILLATES HEATING OIL H Open 270.60 High 274.42 Low 266.80 Close 273.18 Chng +2.57

Last week Uncle Sam reported a 1.58 MMbbl draw in distillate stocks, beating analyst expectations of a 1.00 MMbbl draw. Total distillate inventories stand 4.81% above last year and 23.45% above the 2005-09 timestep. The heating oil contract was firm yesterday, rising 0.95% and breaking above our 274.07 upper inflection point. Last night the API reported a 1.07 MMbbl draw in heating oil inventories.

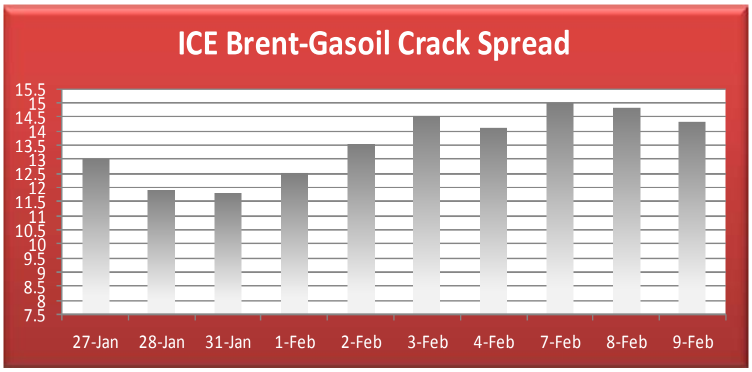
As far as today goes, post-DOE strength above yesterday's 274.42 high print builds a bridge to our 276.62 upper inflection point. Once crossed, the bulls should run towards our 280.07 intra-day high. Then again, weakness below yesterday's 61.8% retrace of 271.51 signals momentum to our 269.74 inflection low. Below here we will look for offers down to our 266.29 intra-day low.

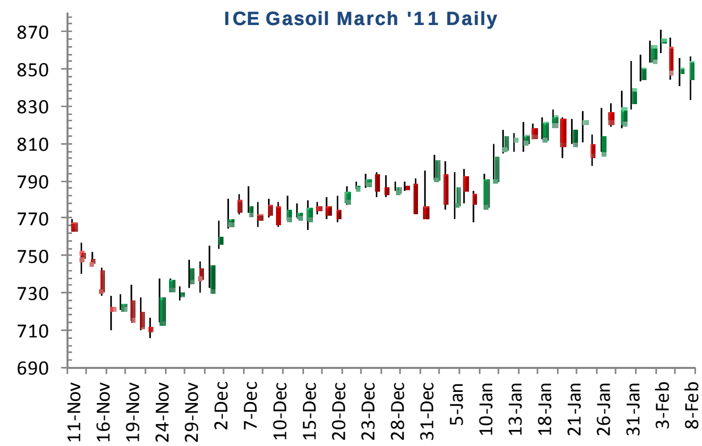


Daily Bias: NEUTRAL

ICE GASOIL

Gasoil for March rose 0.44% yesterday but a 0.65% gain in Brent lead to weakness in the crack for the second consecutive day. Traders have likely priced in the upcoming refinery maintenance season which forces us to ask – is it all downhill from here?





Daily Bias: NEUTRAL

As for today, offers through yesterday's 76.4% retrace of 851.01 alert to follow through momentum towards our 844.00 inflection. We will look for weakness below here towards our 833.50 intra-day. On the other hand, continued strength through 02/04's 861.75 open clears a path towards our 865.50 upper inflection-point. Above here we will look for bids towards our 876.00 intra-day.

OMNIUM-GATHERUM

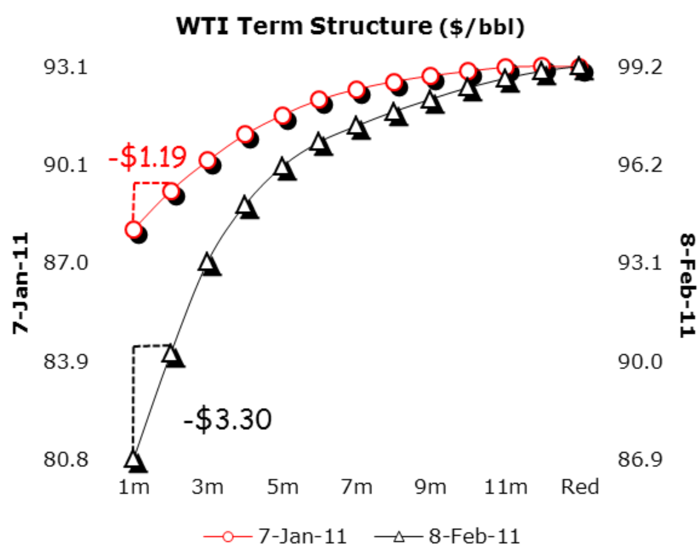
Yesterday the Chinese government announced its third interest rate hike since October. The rate on the 1-year lending rate from the Bank of China will increase 25 bps to 6.06%. Next Monday China reports on wholesale and retail inflation. Expectations are a 50 bps increase in the former, to 6½% and a 70 bps increase in the latter to 5.3%.

As with the prior two rate increases, the intent is to deflate an overheated real estate market. More importantly, as far as we are concerned, short odds suggest the latest move by the Bank of China will also deflate the oil market.

Since the start of the last decade there has been a strong relationship between oil and the pace of inflation in China with both paths shifting almost in tandem. As China continues to grow, we suspect so shall this correlation.

Bottom line, attempts made by the Chinese government to cool demand, should give pause to the bull's cause.

In this vein, the collapse of the front end of the NYMEX WTI forward curve should also be generating some agita for bulls. Over the last month the 1st/2nd month spread jumped by 244 bps to 3.8% or -$3.30 a barrel as of last night. What's more, the contango between the spot March contract and December settled at -$11.25 or 13.4%. Assuming cost of $1.25 a month, the current spread is enough to carry inventory through the end of 2011.



So you have to ask yourself… if the fundamentals were really that bullish, would the market (even the NYMEX) allow you to do that?

BIOFUELS

Monday, February 07th - 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 91.88 inflection high. Above here they will likely hit resistance at our 94.73 intra-week high. On the other hand, a correction below last week's 88.40 low print leads to our 86.18 inflection low. Below here we look for offers to our 83.33 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 280.42 inflection high. Above here we look for bids to our 289.18 intra-week. Then again, a correction past last week's 266.90 low print alerts to our 262.92 inflection point. Below here the bears should claw to our 254.16 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.