THE SCHORK REPORT
A VIEW OF THE ENERGY & SHIPPING MARKETS

Thursday, February 10, 2011
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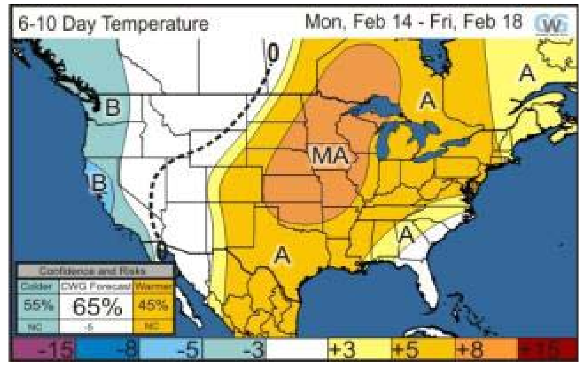
The "Street" vs. The DOE/API

	Season Trend		Street	DOE	API
Crude Oil	2,067	± 1336	2,000	1,898	(558)
Cushing	(71)	± 272	na	(927)	(927)
Gasoline	1,761	± 1036	2,500	4,663	3,212
Distillate	(1,364)	± 640	(1,000)	288	(538)
Jet Fuel	442	± 328	na	(831)	261
note: (Mbbls)					
Cap. Util.	-0.6%	± .51%	-0.2%	0.2%	0.1%

Weather forecast courtesy of
Commodity Weather Group



CRUDE AWAKENINGS

TRADING BIAS DAILY

- **WTI: NEUTRAL a/o Feb 07 …S- 85.1 R- 88.32**
- **BRN: NEUTRAL a/o Feb 07 …S- 101.28 R- 103.36**
- **NG: BULLISH a/o Feb 08 …S- 3.948 R- 4.14**
- **RB: NEUTRAL a/o Feb 07 …S- 247.7 R- 257.5**
- **HO: NEUTRAL a/o Feb 07 …S- 273.31 R- 280.47**

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**

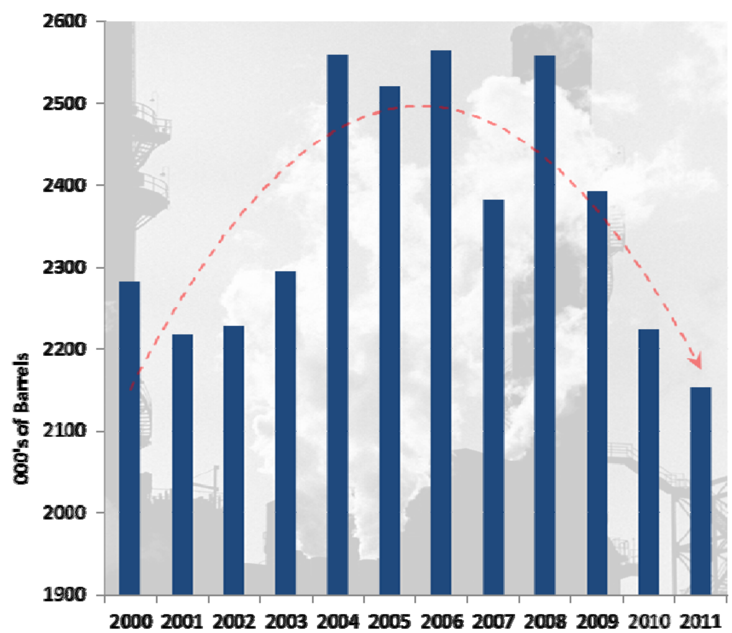
TRADING BIAS MONTHLY

- **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 settled close to the open despite a dip below the 4.000 barrier, and analysts are looking for a 196 Bcf delivery today. Meanwhile the NYMEX products soared despite a disappointing DOE report and weakness in front month WTI. Analysts are looking for a drop to 410K initial jobless claims today, a bigger number could cut mogas demand forecasts.

Is there something to "peak oil" after all?
(See omnium-gatherum p.5)

Chart of the Day: Long Term Decline in PADD 5 Refinery Runs for the Reference Week ended Feb 4th



DOE Review

Strange Happenings in gasoline and PADD 5

Yesterday morning NYMEX WTI was up slightly while RBOB was down, in line with the API's report of a 0.56 MMbbl draw in crude oil inventories and a 3.21 MMbbl build in motor gasoline inventories. At 10:30AM EST the DOE seemed to confirm the API numbers, with a huge 4.66 MMbbl build in mogas inventories, well above the median expectation of 2.60 MMbbls and the survey high of 3.60 MMbbls.

Crude oil inventories, according to the DOE, rose by 1.90 MMbbls, not as bullish as the API but still within analyst expectations of a 2.00 MMbbl build. In the minutes after the report, the RBOB crack sold off to an intra-day low of $17.25, as could be expected. Yet by the end of the day, RBOB settled higher, WTI settled lower and the RBOB crack had hit a two year high of $19.54.

At this point, there has to be more going on than the fundamentals, which pointed to the opposite direction of market action. For instance, the 1.90 MMbbl build in crude oil was well below last year's 2.42 MMbbl build and due almost entirely to a 3.41 MMbbl build on the West Coast (PADD 5). We have seen recent strengthening in the inverse correlation between WTI prices and stocks at PADD 5, currently standing at -0.374 i.e. as stocks build at PADD 5, WTI prices fall. But is this causational or co-incidence?

Consider that 3.41 MMbbls marks the second largest build ever seen for this timestep in PADD 5, beaten only by a 4.29 MMbbl build in 1992. This is likely a function of refinery outages, Big West Oil shut down its 68 Mbbl/d refinery at the end of January due to bankruptcy filings, while Shell's 104 Mbbl/d Tesoro Wilmington refinery shut its reformer since last year due to weak demand. Meanwhile Exxon Mobil's 156 Mbbl/d Torrance refinery is going through planned maintenance on its hydrocracker between February and March. Even the future does not look bright, with Chevron cancelling plans to build a new hydrogen plant and steam and power units to accept a wider range of crude feedstocks.

Thus refiner net input of crude oil in PADD 5 stands at just 2.15 MMbbls, the lowest level for the reference week s*ince 1993*, while refinery capacity % utilization of 72.7% is well below the national average of 84.70%. But this appears to be a long term shift away from regional refineries, in much the same way that refineries in Delaware and Pennsylvania have shut down over the past decade. Yet consumers are not in a long-term consumption or travel drop, thus we do not believe the correlation leads to causation in this scenario.

Moving on, the Cushing, OK hub reported a bullish 0.93 MMbbl draw, but in this case the bears win out. Stocks at Cushing remain perilously high at 37.41 MMbbls, and may see a glut of supply as TransCanada's Keystone pipeline began delivering up to 0.15 MMbbls/d of crude to Cushing. It only began this week, so this report would not reflect the additional imports, but the front month spread widened to -$3.39, a sign that traders are concerned about oversupply relative to demand.

Speaking of over-supply, motor gasoline inventories in PADD 1 rose by a huge 4.41 MMbbls, the largest build ever seen for this week (the previous record holder was a 2.67 MMbbl build in 1997). This is likely a function of heavy production in the region – refiner net production of mogas rose 32.85% WoW while refinery utilization rose for the fourth consecutive week to 79.6%. At the same time, demand for mogas on a national level fell by 25 Mbbls while production rose by 249 Mbbls – all bearish.

So what caused the rally in RBOB? Well… at the start of the week we would have said refinery maintenance season, but that seemed to be priced in on Monday and Tuesday, and we would have expected profit-taking after the strong production in yesterday's report. And we cannot point to shortages either - total mogas inventories stand 4.53% above last year and 8.11% above the 2005-09 timestep. The only region in the country to register a YoY deficit is the Midwest (PADD 2) but yesterday's report saw a strong 0.77 MMbbl build, and the strong RBOB crack suggests refiners have an incentive to delay/minimize maintenance to take advantage of all that cheap crude starting to come in via Keystone.

The only suitable answer, and one that is hard to quantify, is that much of the gasoline builds are of winter grade product, which can only be used for a few more weeks due to environmental regulation. This would result in a much tighter market than the DOE data suggests, and we saw summer grade RBOB contracts outpace the spring contracts in futures trading yesterday. The DOE does not delineate gasoline grades, but we will be keeping our ear to the ground for updates.

But even that answer does not explain why the NYMEX heating oil contract rose. Analysts were expecting a 1.00 MMbbl draw in distillate inventories but saw a 0.29 MMbbl build instead. Total distillate demand fell 0.21 MMbbls/d as winter weather eased (heating oil in PADD 1 fell by just 0.70 MMbbls as compared to the previous week's 2.81 MMbbl drop) and production increased by 80 Mbbls. Imports are low at 0.30 MMbbls/d, but does that really justify a 1.36% gain in the HO contract?

NATURAL GAS

NAT-GAS H Open 4.074 High 4.087 Low 3.992 Close 4.044 Chng +0.004

As far as this morning's EIA storage report goes, implied gas-furnace demand was heaviest in the Central and Western time zones for the corresponding EIA reference week, as witnessed by the pre-Super Bowl rolling blackouts in ERCOT. For instance, according to its website, ERCOT's electricity demand peaked at an all-time high last Wednesday night at 56,334 MW between 7-8pm for winter peak demand. Peak demand the next morning (for 9-10am) then challenged that record with a surge to 55,450 MW.

To this effect, as the operator found itself short by more than 5,000 MW of generation capacity last Thursday, wholesale hourly prices in ERCOT jumped from below $150 a megawatt hour to over $3,700 at 8 am. Consequently, Houston Ship Channel gas deliveries surged 29% to a one-year high of $5.811 a dekatherm.

Today's EIA 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. A year ago the EIA reported 191 Bcf. The whisper number for today is a firm 195 Bcf.

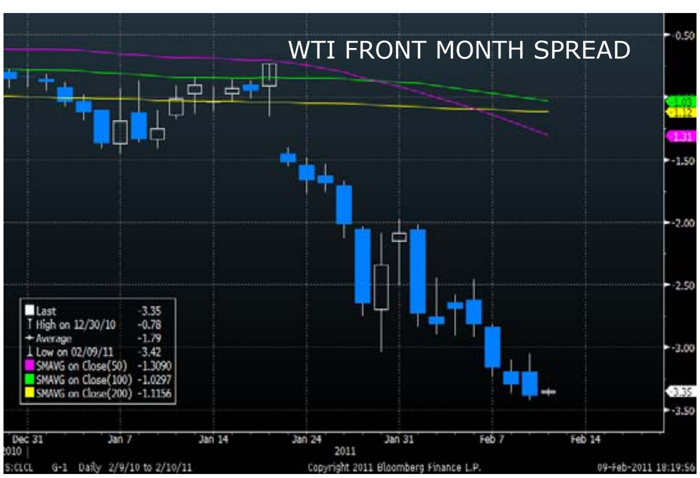
Daily Bias: BULLISH

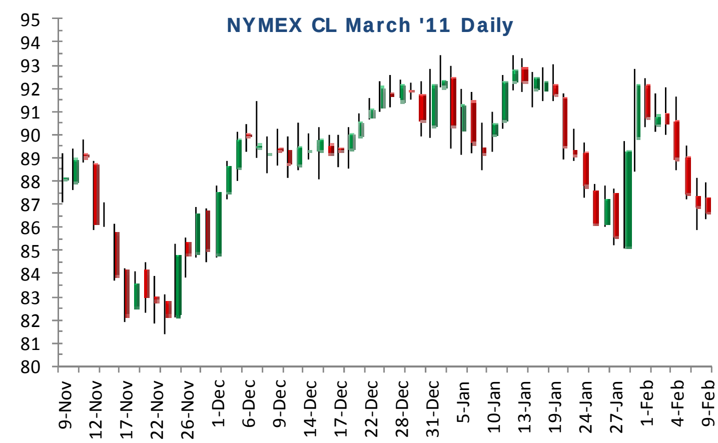
As for today, strength above yesterday's 4.087 high print opens the door to our 4.140 inflection high. Above here the bulls will potentially run towards our 4.237 intra-day. Then again, weakness below yesterday's 3.992 low print leads to our 3.948 inflection low. Below here we look for offers to hit support at our 3.851 intra-day.

OIL

WTI H Open 87.35 High 87.95 Low 86.36 Close 86.71 Chng -0.23

Yesterday Uncle Sam reported a 1.90 MMbbl build in crude oil inventories, in line with analyst expectations of a 2.00 MMbbl build. Total storage stands at 345.06 MMbbls, 4.12% above last year and 8.42% above the 2005-09 timestep. Prices were quiet yesterday, failing to break either our 85.32 inflection low or our 88.56 inflection high. We are concerned with the WTI front month spread which widened for the seventh consecutive session.





Daily Bias: NEUTRAL

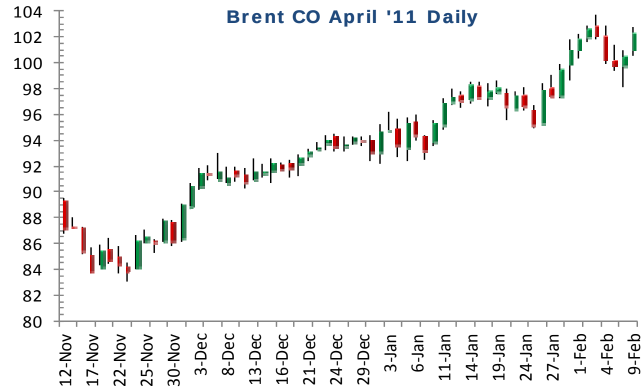
As far as today goes, weakness below yesterday's 86.36 low print alerts to our 85.10 inflection low. Below here we will look towards our 83.48 intra-day. On the other hand, gains above March's 100 day MA of 87.12 clear a path to our 88.32 inflection high. Through here the bulls could run to (and in to resistance at) our 89.94 intra-day high.

ICE Brent

Brent J Open 100.93 High 102.72 Low 100.58 Close 102.32 Chng +1.8

Prices in London rallied yesterday, breaking above our 101.50 inflection high and our 102.48 intra-day to peak at 102.72. The bulls may have been boosted by a spike in Germany's current account from €12.0bn in November to €17.6bn in December – analysts were looking for €14.0bn.

As far as today goes, strength above yesterday's 102.72 high print opens the door to our 103.36 inflection point. If crossed we will look for bids to our 104.40 intra-day. On the other hand, a drop below yesterday's 101.87 pivot point alerts momentum to our 101.28 inflection low. Below here we will look for offers towards our 100.24 intra-day.



Daily Bias: NEUTRAL

LIGHT ENDS

RBOB H Open 249.93 High 253.31 Low 248.11 Close 252.60 Chng +3.18

Yesterday the DOE reported a 4.66 MMbbl build in mogas inventories, almost exactly double the 2.32 MMbbl build seen last year and well off the 2.00 MMbbl expected by analysts. Total storage now stands 4.53% above last year and 8.11% above the 2005-09 timestep. Yet RBOB prices lead the complex higher yesterday to settle 1.27% higher. The RBOB crack widened to an intra-day high of $19.54, its widest in two years.

As far as today goes, weakness below yesterday's 250.71 pivot low alerts to our 247.70 inflection low. Below here we look to our 242.79 intra-day. On the other hand, a rebound above yesterday's 123.6% retrace of 254.54 opens the door to our 257.50 upper inflection point. Above here the bulls should bid towards our 262.41 intra-day high.

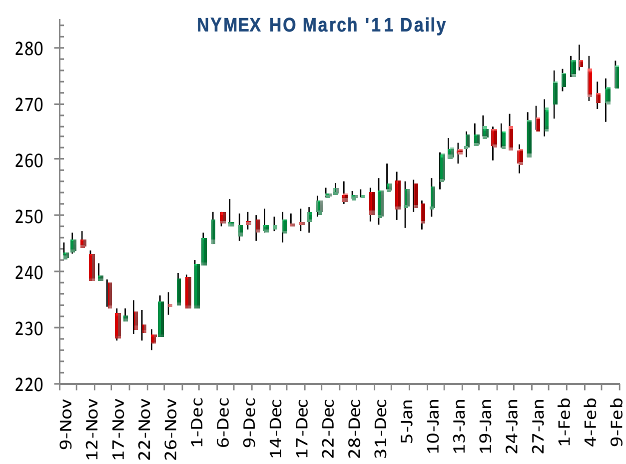
Daily Bias: NEUTRAL

MIDDLE DISTILLATES

HEATING OIL H Open 273.25 High 277.62 Low 272.73 Close 276.89 Chng +3.71

Yesterday Uncle Sam reported a 0.29 MMbbl build in distillate inventories, outside the 0.36 MMbbl draw seen last year and the 1.00 MMbbl draw expected by analysts. Total distillate storage now stands at 164.37 MMbbls, the highest level ever seen for the reference week, 5.23% above last year and 25.19% above the 2005-09 timestep. Yet heating oil prices managed ride the coat tails of RBOB higher yesterday.

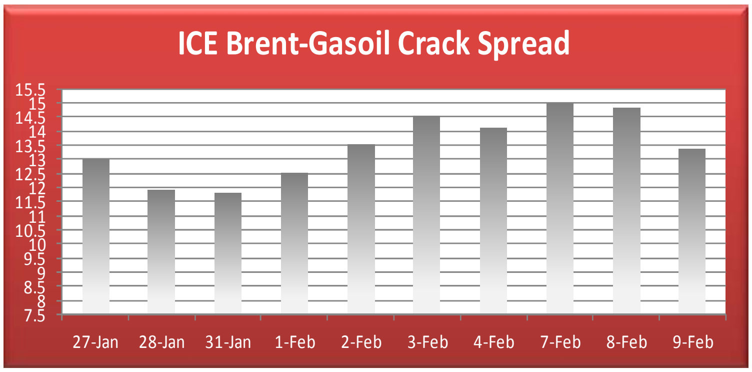
As far as today goes, strength above 02/04's 278.43 high print builds a bridge to our 280.47 upper inflection point. Once crossed, the bulls should run towards our 284.04 intra-day high. Then again, weakness below yesterday's 275.16 pivot low signals momentum to our 273.31 inflection low. Below here we will look for offers down to our 269.74 intra-day low.

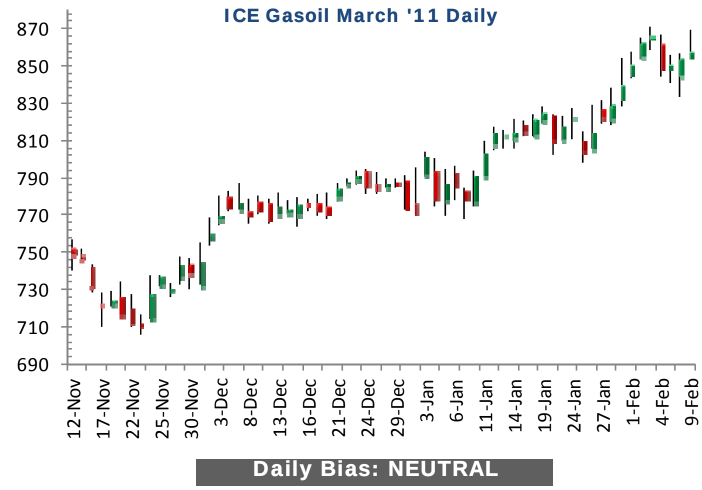


Daily Bias: NEUTRAL

ICE GASOIL

In yesterday's report we asked "is it all downhill from here?" for the gasoil crack? Maybe, maybe not, but the crack narrowed for the third consecutive session yesterday after a 1.79% rally in Brent overshadowed a 0.38% gain in gasoil. Expect high volatility as the Feb contract expires today.





As for today, offers through yesterday's 853.75 low print alert to follow through momentum towards our 847.50 inflection. We will look for weakness below here towards our 836.75 intra-day. On the other hand, continued strength through yesterday's 61.8% retrace of 863.64 clears a path towards our 868.50 upper inflection-point. Above here we will look for bids towards our 879.25 intra-day.

OMNIUM-GATHERUM

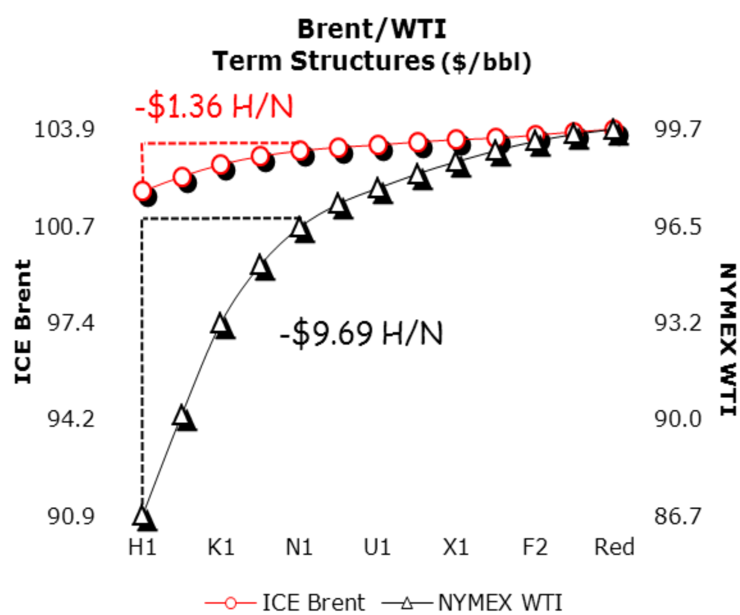
As we all know by now, per the latest WikiLeaks dump, Sadad al-Husseini, a former geologist for the Saudi state-owned oil company, Aramco, stated in diplomatic cables dated between 2007 and 2009, that the oil kingdom may have overstated its oil reserves by as much as 40 percent. In an article in the London Guardian, al-Husseini is reported to have stated "…the crux of the issue is twofold. First, it is possible that Saudi reserves are not as bountiful as sometimes described, and the timeline for their production not as unrestrained as Aramco and energy optimists would like to portray."

This revelation provided evangelical peak oilers with fresh new ammo.

So how did the oil markets react to this potentially explosive rumor? It depends on how you spell rumour.

The oil market in New York finished the day down 23 cents, while the market in London jumped by $1.90.

Thus, either New Yorkers are skeptical (go figure!) or Londoners are excitable (when is the last time you saw an Englishman excited?). Either way, WTI is now trading at 85 cents on the dollar to Brent. Furthermore, spot WTI for March delivery settled last night at 96 cents to the April dollar.



The weakness in the New York market has been exacerbated by the start of the Keystone Pipeline flow in to Cushing. Fair enough. More importantly, re the latest revelation of peak oil, last night the discount on spot oil relative to a year from now in London (the alleged proper global marker) narrowed 24% from $2.74 to $2.09. That is a significant tell!

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.