THE SCHORK REPORT
A VIEW OF THE ENERGY & SHIPPING MARKETS

Friday, February 11, 2011

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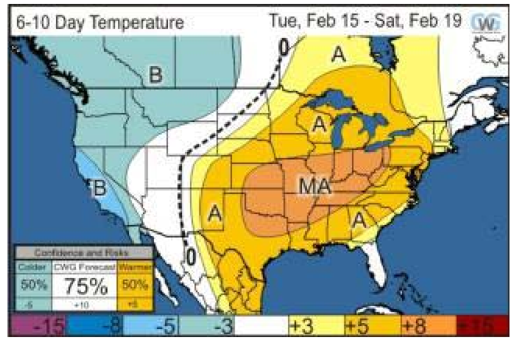
EIA Estimated Underground Storage (Bcf)
w/e 04-Feb-11

Region	Stock	Prev. Week	Δ	%	Prev. Year	Δ	%
East	1,055	1,165	(110)	(9.4)	1,152	(97)	(8.4)
West	300	332	(32)	(9.6)	346	(46)	(13.3)
GoM	789	856	(67)	(7.8)	745	44	5.9
Total U.S.	**2,144**	**2,353**	**(209)**	**(8.9)**	**2,243**	**(99)**	**(4.4)**
Region	Capacity				5Yr Avg	Δ	%
East	2,196	48.0%			1,170	(115)	(9.8)
West	556	54.0%			303	(3)	(1.0)
GoM	1,297	60.8%			716	73	10.2
Total U.S.	**4,049**	**53.0%**			**2,189**	**(45)**	**(2.1)**

Weather forecast courtesy of
Commodity Weather Group



CRUDE AWAKENINGS

TRADING BIAS DAILY

- ☺ WTI: NEUTRAL a/o Feb 07 ...S- 85.11 R- 88.35
- ☺ BRN: NEUTRAL a/o Feb 07 ...S- 100.39 R- 102.49
- ☺ NG: BULLISH a/o Feb 08 ...S- 3.898 R- 4.074
- ☺ RB: NEUTRAL a/o Feb 07 ...S- 241.97 R- 251.99
- ☺ HO: NEUTRAL a/o Feb 07 ...S- 267.21 R- 274.93

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 WEAK YESTERDAY…. Natural gas settled below the 4.000 barrier after a disappointing draw on the East and weather-related disruptions casting doubt on the West region. Meanwhile the NYMEX products sold off hard despite a drop in initial jobless claims to 383K, did traders finally get around to looking at the petroleum inventories report? Tensions remain high, if not higher, in Egypt.

Oil… with or without Mubarak, the trend is still bullish!
(See omnium-gatherum p.5)

Chart of the Day: Release Day Change in NYMEX Henry Hub Front Month Price vs Injection Forecast Discrepancy

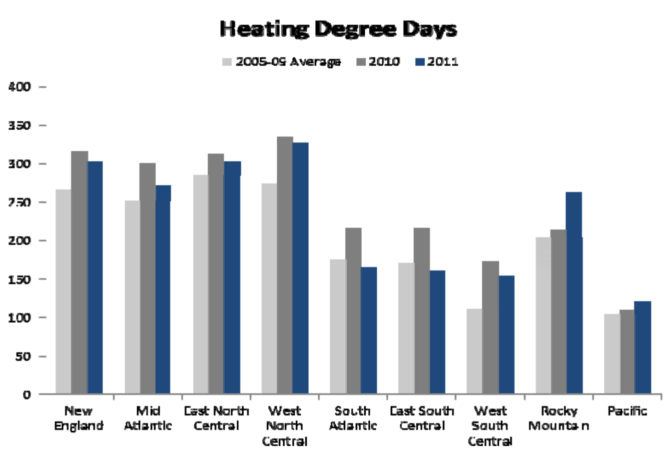
EIA Review
Finer Points

Another week, another better-than-expected EIA report, and… another sell-off in natty? Yesterday's 209 Bcf delivery was outside the 197 Bcf expected by analysts yet prices sold off by 1.43%. We are becoming wary of connecting forecasts with market reactions. Consider that since the start of December, the delivery has exceeded analyst expectations for seven out of the ten reports. Yet on the day of the release, prices have fallen for eight out of the last ten weeks.

Further, as shown by today's CotD, one out of the two times that prices rose, the delivery was smaller than analyst expectations! Thus it should come as no surprise that the correlation between the increase/decrease in price and whether the EIA beat expectations comes to an essentially meaningless 0.0723. It seems traders simply do not care about analyst expectations right now. Or, to be less hostile, traders are becoming increasingly concerned with the breakdown regardless of an ostensibly bullish total delivery.

For instance, the 209 Bcf delivery comes well above last year's 191 Bcf drop and the 2005-09 average of 144 Bcf. In size it ranks as the 2nd largest drop seen for this timestep (beaten only by a 224 Bcf drop in 2007 and 2004). The large draw comes despite heating degree days coming in 5.33% below last year, though they were 5.96% cooler than seasonal norms.

In aggregate the picture is similarly mixed. The cumulative change in heating degrees for 2011 comes to 0.67% cooler than last year and 0.77% cooler than seasonal norms. 2011's cumulative delivery over the same period comes to 953 Bcf, 31.34% above the norm of 726 Bcf but 10.18% below the 1061 Bcf seen last year.



This may be a function of cold weather in the wrong places, and explain why prices sold off yesterday. As shown above, the weather was 22.90% and 10.00% cooler than the reference week last year in the Mountain and Pacific regions, but warmer in key natural gas consuming areas such as the East and West North Central, which came in 3.21% and 2.09% warmer year-on-year. According to NOAA's interpolated YoY comparisons, Illinois was 5.35% warmer and Indiana was 7.21% warmer.

Traders may have been hoping that heavy region-specific demand would make up for the general warmth. The spot markets bore this out – the PJM regional spot price (comprised of Columbia Gas Transmission's TCO Pool, Transco Z6 non New York, Tetco M3 (NYC) and Dominion Transmission's North Point Pool) shot to a $3.07 premium to Henry Hub a few days prior, its highest premium since late January.

Unfortunately for the bulls, the delivery in the East region came to just 110 Bcf, 5.17% below last year's 116 Bcf delivery, and the PJM premium has declined to $1.494 as of writing. News is not all bad – the draw was safely above the 2005-09 average of 92 Bcf while the hangover from heavy summer demand has left total storage in the region at 1.06 Tcf, 7.05% below last year and 7.97% below the 2005-09 timestep.

Moving on, the Gulf of Mexico producing region reported a 67 Bcf delivery, almost double the 2005-09 average of 35 Bcf and well off last year's 60 Bcf despite temperatures in the South Atlantic and the East South Central region coming in 21.33% and 24.88% warmer than last year – what gives? According to the EIA, extremely cold weather led to freeze-offs at production facilities, "operational difficulties" on pipelines and shutdowns at processing plants. Thus total production was down 5% week-on-week and, according to EIA, production in the midcontinent has fallen more than 40% from late January levels.

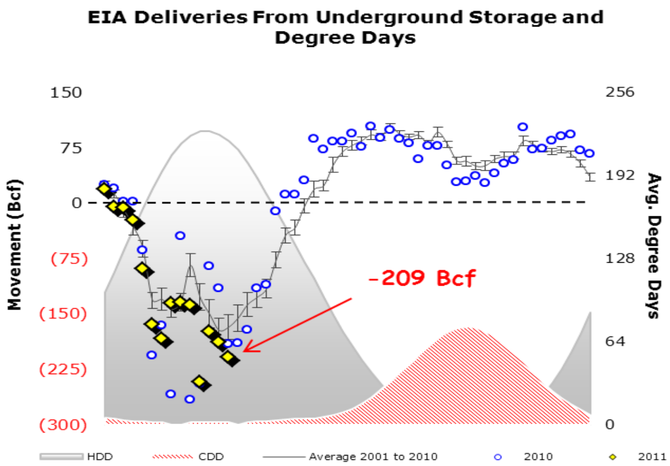
This combination of weakened supply and increased demand helped the West coast report a 32 Bcf delivery, tied with a 32 Bcf drop in 1996 as the largest decline for the reference week on record. But keep in mind that last week saw a disappointing 18 Bcf delivery (below the previous year and the seasonal average) thus we may be seeing a true-up taking place.

The bottom line is that yesterday's report was more bearish than first impressions would suggest due to disruptions and true-ups. With a warm 6-10 day outlook for much of the country, we will look to see production and processing resume, leading to smaller-than-expected deliveries as we exit the winter. We expect this to tighten basis spreads and put downward pressure on NYMEX futures.

NATURAL GAS

NAT-GAS H Open 4.066 High 4.149 Low 3.965 Close 3.986 Chng -0.058

As far as next week's storage report goes, cold temperatures are hanging around this week in the Central time zone, but have eased in the West and East. Nevertheless, basis in New York (Z6) is currently averaging more than one-third above a week ago. On the other hand, on-peak day ahead ERCOT power is averaging less than half. On average we have seen a 139 ±40 Bcf delivery over the last five winters and an average 134 ±15 Bcf since 1994 for this report.



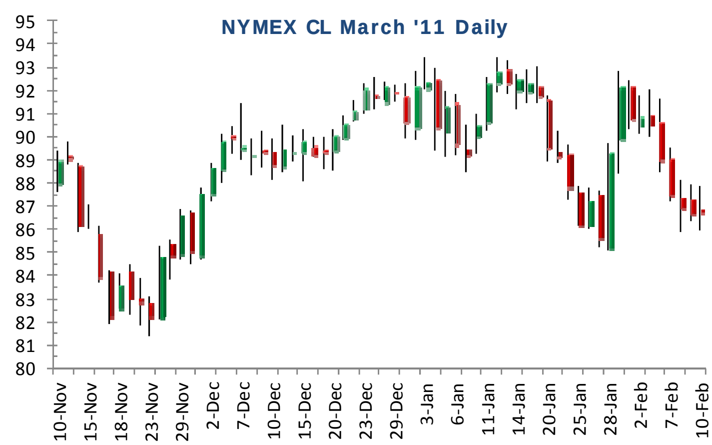
Daily Bias: BULLISH

As for today, strength above yesterday's 4.033 pivot point opens the door to our 4.074 inflection high. Above here the bulls will potentially run towards our 4.161 intra-day. Then again, weakness below yesterday's 3.965 low print leads to our 3.898 inflection low. Below here we look for offers to hit support at our 3.811 intra-day.

OIL

WTI H Open 86.93 High 87.9 Low 85.96 Close 86.73 Chng +0.02

WTI prices were mixed yesterday – the dollar rose but turmoil in Egypt continued and the initial jobless claims number dropped to a two and a half year low. This lack of discernible trend meant traders could not hit either our 85.10 inflection low or our 88.32 inflection high – though the bulls came closest with an 87.90 high print. The 321 crack narrowed for the first time in four sessions but remains at a firm $20.203, $13.45 (!) above the same point last year.



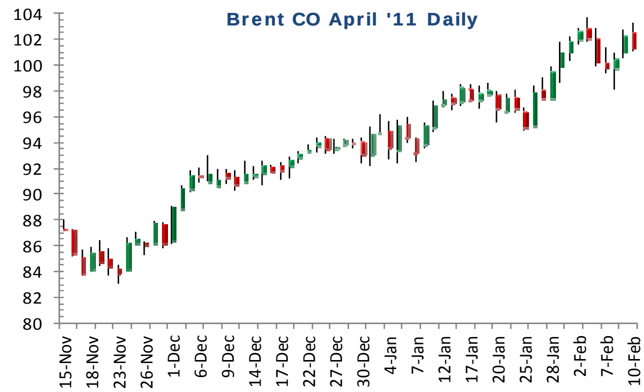
Daily Bias: NEUTRAL

As far as today goes, weakness below yesterday's 85.96 low print alerts to our 85.11 inflection low. Below here we will look towards our 83.50 intra-day. On the other hand, gains above yesterday's 76.4% retrace of 87.44 clear a path to our 88.35 inflection high. Through here the bulls could run to (and in to resistance at) our 89.96 intra-day high.

ICE Brent

Brent J Open 102.55 High 103.34 Low 101.06 Close 101.44 Chng -0.88

Prices in London rallied yesterday to within two cents of our 103.36 inflection high, but a failure to hit it lead prices to settle 0.86% lower at 101.44. Such wide fluctuation may be due to traders pulling out of the March contract, which goes off the board tomorrow. On the other hand, traders were likely expecting Egypt's President Mubarak to step down and end the riots. This most assuredly did not happen…



Daily Bias: NEUTRAL

As far as today goes, strength above yesterday's 101.95 pivot point opens the door to our 102.49 inflection point. If crossed we will look for bids to our 103.54 intra-day. On the other hand, a drop below yesterday's 101.06 low print alerts momentum to our 100.39 inflection low. Below here we will look for offers towards our 99.34 intra-day.

LIGHT ENDS

RBOB H Open 253.19 High 254.80 Low 246.04 Close 246.98 Chng -5.62

We were shocked to see RBOB rally on Wednesday after a disappointing DOE report, but what goes up must come down, and prices fell by a sharp 2.22% yesterday. The bears broke our 247.70 inflection low despite initial jobless claims beating analyst expectations of a 5K drop to 410K, instead dropping 32K to 383K. Yet RBOB demand fell 25 Mbbls/d last week while production rose by almost ten times as much at 249 Mbbls/d.

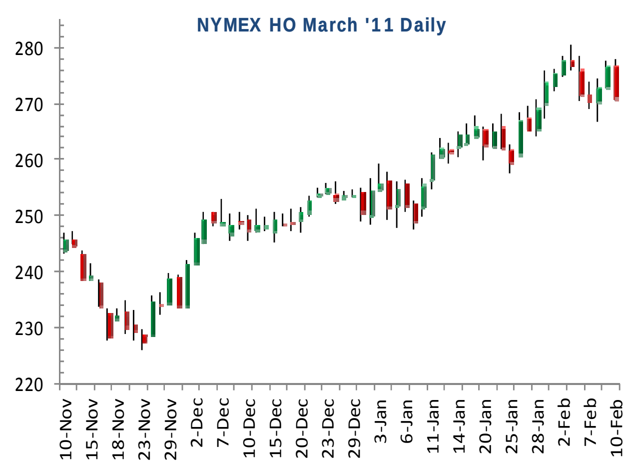
Daily Bias: NEUTRAL

As far as today goes, weakness below 02/07's 243.53 low print alerts to our 241.97 inflection low. Below here we look to our 236.97 intra-day. On the other hand, a rebound above yesterday's 249.27 pivot point opens the door to our 251.99 upper inflection point. Above here the bulls should bid towards our 256.99 intra-day high.

MIDDLE DISTILLATES

HEATING OIL H Open 276.90 High 278.01 Low 270.36 Close 271.07 Chng -5.82

Heating oil prices fell 2.10% yesterday, dovetailing with RBOB's 2.22% loss. The bears broke our 273.31 inflection low but ran out of steam towards our 269.74 intra-day low to crater half a cent away at 270.36. Jobless claims failed to boost RBOB, and a larger than expected MoM increase (1.0% instead of 0.7%) could not help HO. In turn, the heating oil crack fell to $26.82.

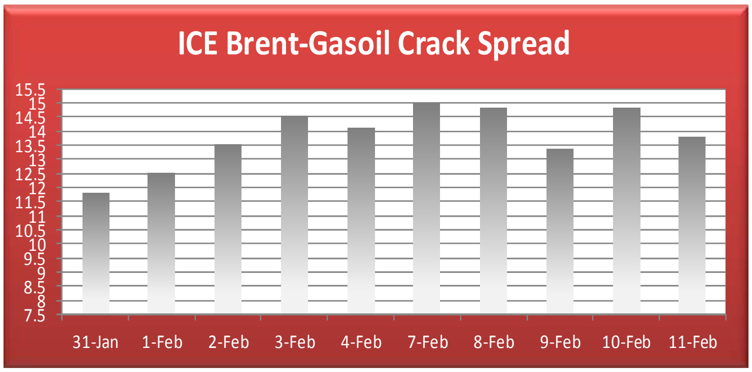


Daily Bias: NEUTRAL

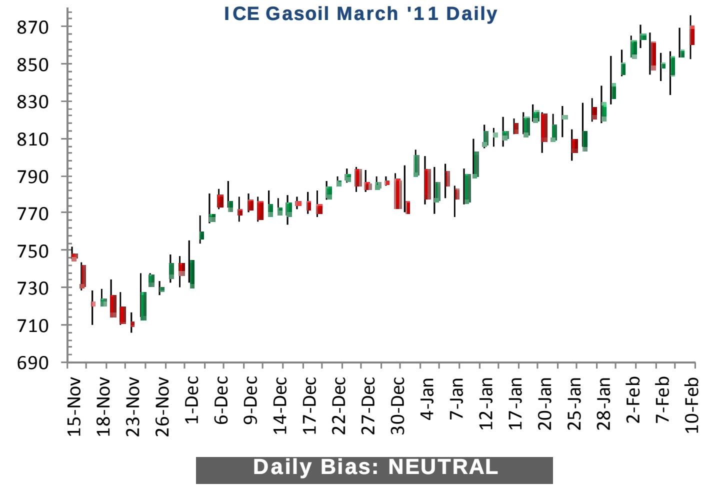
As far as today goes, strength above yesterday's 273.15 pivot point builds a bridge to our 274.93 upper inflection point. Once crossed, the bulls should run towards our 278.79 intra-day high. Then again, weakness below 02/07's 259.10 low print signals momentum to our 267.21 inflection low. Below here we will look for offers down to our 263.35 intra-day low.

ICE GASOIL

The ICE Gasoil contract for February delivery expired yesterday at 853.25. Meanwhile the March contract broke above our 868.50 upper inflection point but settled much lower at 861.75. As with Brent, we question whether renewed unrest in Egypt will push prices higher today.



As for today, offers through 02/02's 856.00 open alert to follow through momentum towards our 851.25 inflection. We will look for weakness below here towards our 840.50



intra-day. On the other hand, continued strength through yesterday's 61.8% retrace of 866.77 clears a path towards our 872.25 upper inflection-point. Above here we will look for bids towards our 883.00 intra-day.

OMNIUM-GATHERUM

Are you starting to get the feeling that Hosni Mubarak is like Jason, from the 1980s horror film series, Friday the 13th?

This guy apparently will not go down without a fight. Shortly after oil markets closed yesterday in London and New York, Egyptian President Hosni Mubarak defied the consensus of the chattering classes and announced he had no intention of stepping down until September.

Apparently the only guys, other than oil traders, more surprised by Mubarak's decision were over at the CIA. According to a story by *AFP*, CIA Director Leon Panetta said in a response to a question from the press…

"I got the same information you did, that there's a strong likelihood that Mubarak may step down this evening." But a US official later told AFP that "the director was referring to press reports."

This is where the CIA gets its intelligence? We'll sleep well tonight.

Anyway, yesterday oil in New York closed around unchanged, 86.73 and ICE Brent closed down 0.9% at 101.87. However, three hours later NYMEX WTI reopened at an 87.71 bid.

That knee-jerk bid was obviously a reaction to the headlines out of Egypt. However, as you see below, this market has found consistent support along a bullish trendline. To this effect, we will not even attempt to sell this market until we see this trendline violated.

Source: Bloomberg

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.

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.