

DAILY ENERGY COMPLEX COMMENTARY

02/26/10

Early currency connected strength could fade if economic news weak

OVERNIGHT CHANGES THROUGH 6:05 AM (CT):

CRUDE +24, HEATING OIL +70, UNLEADED GAS +104

CRUDE OIL MARKET FUNDAMENTALS: Crude oil has seen a choppy two sided trade overnight with lingering doubts about the macro economic recovery being offset a bit by favorable outside market influences. Currency connected support from a weaker Dollar and firmer global equity market trade has helped crude oil edge higher at times. Month end positioning may add to market volatility this session. But trading is likely to remain cautious ahead of a heavy news flow out today which includes a revision of 4th quarter GDP, a regional manufacturing reading, another consumer sentiment measure and existing home sales that will provide additional economic insight and likely be the key driver in oil market direction today. The economic news this week has clearly been disappointing, not only raising doubts about the potential for a recovery in oil demand this year but it is also starting to stir up some concern over a possible double dip recession. In fact, even the head of the IEA said that there is likely more downside risk to demand than upside implying that oil demand in developed countries has peaked. We also suspect that European sovereign debt problems will continue to be a stumbling block for oil market bulls since Greece's problems are far from resolved and the economic news this week clearly shows conditions in the Euro-zone remain soft. A report showing OPEC compliance to quotas has fallen to 53% this month also shows a lack of supply side tightness. April crude oil has been caught in a range with the market clearly showing signs of struggling on moves back above the \$80 price level. Overall, the crude oil doesn't seem to have the economic or fundamental backing right now to stage a rally back towards the January high. Fuel supplies remain ample and US fuel demand remains sluggish. The rally off the February low in April crude oil has also lifted daily technical indicators to overbought levels and there seems to be stiff resistance in the \$80.34 to \$80.80 price range. Market direction today will hinge on the economic news and we certainly can't rule out a rally attempt back towards \$80 if the reports come in better than expected. But oil market trading has also been more closely tied to the movements in equities, even more so than the dollar and the stock market's reaction to today's economic news is likely to have the most influence on the oil trade. The demand outlook for oil has been damaged by this week's economic news, particularly a slump in consumer sentiment and the jump in jobless claims and we suspect some big bullish surprises will need to be seen in today's reports to revive macro economic optimism and support a move back over \$80. Otherwise, we see April crude oil both fundamentally and technically vulnerable to a break back towards the first retracement of the Feb low/high range at \$75.67.



PRODUCT MARKET FUNDAMENTALS: GASOLINE: Gasoline has been able to edge higher in the early overnight trade with outside markets providing some support, but so far the buying conviction in gasoline hasn't been too convincing. While there is a strong tendency for gasoline prices to move higher into the end of April, we suspect the market will need a return of strong macro economic optimism in order to improve demand sentiment enough to lift April gasoline above the February and January highs considering fuel supplies are still ample. The drop in gasoline stocks reported by the EIA was surprising but didn't significantly change the fundamental setup and we are not convinced that the weekly jump in demand can be sustained given the macro economic environment. While April gasoline appears to have found chart based support near the 100 day moving average yesterday which comes in at \$2.1291 today, the market has also struggled to hold rally attempts over the \$2.20 price level and daily technical indicators suggest the market has reached an overbought condition. If today's news is positive, we can't rule out a rally in April gasoline back to the \$2.20 to \$2.21 price range. But a more optimistic macro economic view will need to take hold to support the next leg higher. On the other hand, bearish economic news could pressure April gasoline back towards \$2.10 as that may inspire more traders to book month end profits.

HEATING OIL: Heating oil has also seen a choppy two sided trade and technically the market already looks as if it set a near-term top earlier this week at the \$2.10 price level. While a snowstorm is headed for the Northeast, the heating demand season is winding down and with industrial fuel demand weak, there is the risk that distillate supplies will start to build again once winter fuel use fades. Daily technical indicators have also crossed lower therefore, good readings from today's economic reports or strength in equities will be needed to counter the technical weakness in this market and support a move back towards yesterday's highs. Otherwise, weak economic data is likely to inspire end of the month profit taking in April heating oil. Unless April heating oil can close over the \$2.0650 level today, the chart setup will leave the market vulnerable to a break to \$1.9362.

TODAY'S ENERGY MARKET GUIDANCE: The bull camp has an edge this morning, but market sentiment remains damaged by this week's economic news. For oil markets to gain upside traction today today's news flow will need to revive macro economic optimism that also provides a solid lift to equities. Otherwise, with oil market's technically overbought, disappointing economic news will leave downside price risk in place.

NATURAL GAS: Natural gas has been able to bounce a bit in the early overnight action and it won't be surprising to see the market trade a bit higher on end of the month short covering. While we eventually see April natural gas falling below the December low, the market has become short-term oversold following a nearly 40 cent break this week and a nearly 90 cent break from the February high and it won't be surprising to see some traders book month end profits. A slightly larger than expected decline from storage of 172 bcf may also provide some temporary support since it was more than the 90 bcf draw seen last year and larger than the 5 year average decline of 132 bcf. Total storage stands at 1,853 bcf, which is 2.9% below year ago, the first time an annual deficit has been seen in over a year. The Northeast is bracing for another snowstorm and that may also provide a short covering incentive. But while there may be some technical capacity for natural gas to trade a bit higher, we still see the upside limited by the supply/demand outlook which favors the bear case into the spring. The economic news this week has been disappointing and there are concerns that a slow recovery pace could result in natural gas supplies building back towards record levels since industrial fuel demand remains weak while natural gas producers have kicked up output. Natural gas is seeing some early outside market support from a firmer oil and equity trade along with a weaker Dollar. But today's reports on GDP, regional manufacturing, consumer sentiment and home sales will provide additional economic insight that's likely to impact market direction. April natural gas appears to have found some temporary price support near the \$4.75 level, but even on a recovery bounce the market may struggle to get back to the \$5.00 price level. On the other hand, a move under \$4.75 will then target the December low at \$4.595.

EIA Natural Gas Storage Report Summary

In Billion Cubic Feet

Week Of	Week Change	Total Storage	Change From Last Year	4 Week Combined Weekly Change	Percent Change vs 5 Year Average	Percent Change vs 10 Year Average
2/19/2010	-172	1853	-56	-668	0.7%	19.4%

TODAY'S MARKET IDEAS:

Technical indicators show crude oil has become technically overbought. Early currency connected strength could be cut short unless today's economic news provides enough bullish news to revive economic optimism and a better outlook for oil demand. Still skeptical April crude oil can sustain a move over \$80 given the current economic environment.

NEW RECOMMENDATIONS:

None.

PREVIOUS RECOMMENDATIONS:

None

OTHER ENERGY CHARTS:



ENERGY COMPLEX TECHNICAL OUTLOOK:

Note: Technical commentary is based solely on statistical indicators and does not necessarily correspond to any fundamental analysis that may appear elsewhere in this report.

CRUDE OIL (APR) 02/26/2010: Studies are showing positive momentum but are now in overbought territory, so some caution is warranted. The close below the 9-day moving average is a negative short-term indicator for trend. The market's close below the 1st swing support number suggests a moderately negative setup for today. The next upside target is 81.77. The next area of resistance is around 79.95 and 81.77, while 1st support hits today at 76.69 and below there at 75.24.

HEATING OIL (APR) 02/26/2010: The close under the 60-day moving average indicates the longer-term trend could be turning down. A crossover down in the daily stochastics is a bearish signal. Momentum studies trending lower from overbought levels is a bearish indicator and would tend to reinforce lower price action. A negative signal for trend short-term was given on a close under the 9-bar moving average. The defensive setup, with the close under the 2nd swing support, could cause some early weakness. The next downside objective is now at 192.55. The next area of resistance is around 204.85 and 209.94, while 1st support hits today at 196.15 and below there at 192.55.

RBOB GAS (APR) 02/26/2010: Momentum studies are trending higher but have entered overbought levels. The market's close below the 9-day moving average is an indication the short-term trend remains negative. The swing indicator gave a moderately negative reading with the close below the 1st support number. The next upside objective is 224.51. The next area of resistance is around 219.74 and 224.51, while 1st support hits today at 211.46 and below there at 207.94.

NATURAL GAS (APR) 02/26/2010: The market broke to a new contract low. Momentum studies are declining, but have fallen to oversold levels. The market's short-term trend is negative as the close remains below the 9-day moving average. The market's close below the pivot swing number is a mildly negative setup. The next downside objective is 4.656. Some caution in pressing the downside is warranted with the RSI under 30. The next area of resistance is around 4.869 and 4.957, while 1st support hits today at 4.719 and below there at 4.656.

DAILY TECHNICAL STATISTICS

	CLOSE	9 DAY RSI	14 DAY RSI	14 DAY SLOW STOCH D	14 DAY SLOW STOCH K	4 DAY M AVG	9 DAY M AVG	18 DAY M AVG	45 DAY M AVG	60 DAY M AVG
ENERGY COMPLEX										
CLAJ0	78.32	53.36	52.65	84.41	85.34	79.37	78.51	76.60	78.08	77.91
CLAK0	78.69	52.90	52.25	84.38	85.34	79.77	78.95	77.09	78.62	78.51
HOAJ0	200.50	47.95	48.60	78.57	77.01	2.05	2.03	1.99	2.04	2.04
HOAK0	201.45	47.98	48.67	80.27	78.38	2.06	2.04	2.00	2.05	2.05
RBAJ0	215.60	53.71	53.42	81.07	81.69	2.19	2.16	2.11	2.13	2.12
RBAK0	216.02	53.04	52.92	82.62	83.13	2.19	2.17	2.12	2.14	2.13
NGAJ0	4.794	27.97	34.05	16.59	8.81	4.84	5.08	5.23	5.44	5.38
NGAK0	4.854	27.68	33.83	16.95	8.78	4.91	5.14	5.28	5.49	5.43

Calculations based on previous session. Data collected 02/25/2010

Data sources can & do produce bad ticks. Verify before use.

DAILY SWING STATISTICS

Contract		Support 2	Support 1	Pivot	Resist 1	Resist 2
ENERGY COMPLEX						
CLAJ0	Crude Oil	75.23	76.68	78.50	79.95	81.77
CLAK0	Crude Oil	75.65	77.08	78.86	80.29	82.07
HOAJ0	Heating Oil	192.54	196.15	201.24	204.85	209.94
HOAK0	Heating Oil	194.39	197.49	202.29	205.39	210.19
RBAJ0	RBOB Gas	207.93	211.45	216.22	219.74	224.51
RBAK0	RBOB Gas	208.85	212.15	216.59	219.89	224.33
NGAJ0	Natural Gas	4.655	4.718	4.806	4.869	4.957
NGAK0	Natural Gas	4.724	4.783	4.866	4.925	5.008

Calculations based on previous session. Data collected 02/25/2010

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DAILY COCOA COMMENTARY

02/26/10

Oversold and bounce off \$2,900 may portend end of the month short covering

May cocoa looks to be in the midst of making its next leg lower which could eventually pull prices back towards the lows set last August. But while yesterday's weak close certainly keeps the downtrend intact, traders also have to be mindful that the market is showing some signs of becoming oversold which will leave May cocoa vulnerable to end of the month short covering. Given the variety of bearish outside market influences yesterday, it was a bit surprising to see May cocoa hold another test of the \$2,900 price level and this also hints that the market maybe set to bounce, with some short traders looking to book profits in a market that has fallen by \$343 per tonne this month. However, cocoa still lacks a good supply/demand story right now which suggests technical short covering bounces should be short lived selling opportunities. The supply outlook has improved this year with Ivory Coast main crop production still ahead of last year's harvest pace while good growing conditions have improved the production outlook for the mid-crop. The political situation in the Ivory Coast may become less volatile since the President created a new government this week that includes members of the opposition party which may help quell the civil unrest seen since the election commission was dissolved earlier in the month. At the same time, the macro economic outlook has been dampened this week by bearish economic news out of the UK, a jump in US jobless claims and warnings of sovereign debt downgrades for Greece, undermining the demand outlook in key chocolate consuming markets. ICE cocoa warehouse stocks stand at 4.240 million bags, up 19,545 bags.



TODAY'S GUIDANCE: With May cocoa showing some capacity to bounce off the \$2,900 price level, it won't be surprising to see the market trade higher off end of the month profit taking. The market may get some currency connected support if today's economic news can weaken the dollar and rally the Pound. In fact, cocoa appears to be finding some currency connected support in the early overnight trade.

TODAY'S MARKET IDEAS:

Short position holders may want to consider some type of profit protection strategy since cocoa is oversold and end of the month short covering could be seen. However, if \$2,900 fails to hold, there may be a lack of support for May cocoa until about \$2,855.

NEW RECOMMENDATIONS:

None.

PREVIOUS RECOMMENDATIONS:

None.

COCOA TECHNICAL OUTLOOK:

Note: Technical commentary is based solely on statistical indicators and does not necessarily correspond to any fundamental analysis that may appear elsewhere in this report.

COCOA (MAY) 02/26/2010: Momentum studies are still bearish but are now at oversold levels and will tend to support reversal action if it occurs. The market's short-term trend is negative as the close remains below the 9-day moving average. The swing indicator gave a moderately negative reading with the close below the 1st support number. The next downside objective is 2863. The 9-day RSI under 30 indicates the market is approaching oversold levels. The next area of resistance is around 2955 and 2996, while 1st support hits today at 2889 and below there at 2863.

DAILY COFFEE COMMENTARY

02/26/10

Downtrend intact with break below February low

May coffee breaking below its February low yesterday suggests that the market will continue to work lower, despite supportive near term fundamentals.

Commodity markets in general were under severe pressure yesterday as more concerns about Greece and now Spain sent global stock markets down and the dollar higher. In addition, a surprising increase in US weekly jobless claims brought in more talk of a "double-dip" recession. This was enough to send May coffee to its lowest level since early September. May coffee closed well off of its lows but still down sharply on the day.

The market did not appear to gain much support from an ICO forecast calling for global coffee consumption to reach 134 million bags in 2010, despite it being up from a previous estimate of 130-132 million. Their forecast for Brazilian production at 46-47 million bags also did not provide support, even though it was lower than some private estimates of 50-52 million that were released earlier this week. Traders will be monitoring the production outlook in Colombia, which needs rain. The World Coffee Conference, sponsored by the ICO is convening in Guatemala today. Expectations for a bumper crop out of Brazil this year are bearish longer term, but consistent declines in exchange coffee stocks could eventually offer some support. Daily ICE certified deliverable coffee stocks were down 6,270 bags yesterday to a 7-year low of 2.773 million with 35,560 bags pending review. This is the 9th session in a row in which stocks have fallen, which may provide support in time.



TODAY'S GUIDANCE: After yesterday's steep break, May coffee chart support moves down to the 127.70 and 125.00 with resistance at 134.91.

TODAY'S MARKET IDEAS:

The market has succumbed to bearish outside forces. After yesterday's break it appears that the long liquidation trend has resumed. A move over 133.65 might be enough to turn the minor trend.

NEW RECOMMENDATIONS:

None.

PREVIOUS RECOMMENDATIONS:

None.

COFFEE TECHNICAL OUTLOOK:

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COFFEE (MAY) 02/26/2010: Momentum studies trending lower at mid-range should accelerate a move lower if support levels are taken out. The market's close below the 9-day moving average is an indication the short-term trend remains negative. There could be some early pressure today given the market's negative setup with the close below the 2nd swing support. The next downside target is now at 125.99. The next area of resistance is around 131.82 and 134.08, while 1st support hits today at 127.78 and below there at 125.99.

DAILY COTTON COMMENTARY

02/26/10

Apparently, no correction was necessary. Look for greater volatility.

Cotton resumed its bull market tear to the upside yesterday indicating that a market with tight stocks can easily buck the trend toward erosion and risk aversion that has been seen in many commodity and equity markets in recent weeks. In rallying yesterday, cotton ignored more disappointing news on the economic front with Initial Jobless Claims running well above trade expectations and Durable Goods orders falling flat with the exception of aircraft. News out today will include Existing Home Sales and 4th Quarter US GDP. Yesterday's rally was propelled by investor buying and it appeared to kill an idea that the cotton market needs to pause and regroup. However, higher prices appear to have finally succeeded in slowing the recent hot pace of export sales. Net weekly export sales for cotton came in at just 113,300 running bales for the current marketing year and 48,900 for the next marketing year for a total of 162,200. While this is down substantially from recent weekly totals, it is still a bit higher than the average pace needed to reach the USDA's 2009/10 export projection. As of February 18, cumulative cotton sales stand at 76.6% of the USDA forecast for 2009/2010 versus a 5 year average of 71.4%. Sales need to average 111,000 running bales each week to reach the USDA forecast. Open interest has been climbing this week and that may be indicating that funds are starting to rebuild net long positions. Deliveries against the March contract on February 25th were 109 contracts, bringing the total for the delivery period so far to 3,146 contracts. Stocks registered for delivery against the ICE No. 2 cotton contract rose again yesterday to 542,702 running bales from the previous day's total of 530,449 running bales.



TODAY'S GUIDANCE: Cotton is moving on with the next phase of its rally which could take the May contract to near 90 cents. This may come with broader swings on a day-to-day basis than we have seen in recent weeks. First support is at 80.10 and then at 78.98 to 79.16 in the May contract. Next resistance is at 82.09 and then at 86.62.

TODAY'S MARKET IDEAS:

Traders need to wait for 2-3 cent breaks to establish fresh long positions in futures. Other traders can look to buy out-of-the-money calls in the July contract.

NEW RECOMMENDATIONS:

None.

PREVIOUS RECOMMENDATIONS:

None.

COTTON TECHNICAL OUTLOOK:

Note: Technical commentary is based solely on statistical indicators and does not necessarily correspond to any fundamental analysis that may appear elsewhere in this report.

COTTON (MAY) 02/26/2010: Momentum studies are trending higher but have entered overbought levels. The close above the 9-day moving average is a positive short-term indicator for trend. A positive signal was given by the outside day up. The market has a bullish tilt coming into today's trade with the close above the 2nd swing resistance. The near-term upside target is at 83.95. The 9-day RSI over 70 indicates the market is approaching overbought levels. The next area of resistance is around 82.82 and 83.95, while 1st support hits today at 79.52 and below there at 77.34.

DAILY SUGAR COMMENTARY

02/26/10

Very oversold, vulnerable to end of the month short covering

The downtrend in sugar remains in tact and the weaker trade yesterday pushed May sugar to the lowest price level since mid-December. The combination of escalating macro economic doubts, an improving supply side situation and bearish outside market influences have kept the sugar market under pressure



this week extending a downtrend in prices from the February 1st peak. Given the chart setup, May sugar looks to be on course to eventually test the late 2009 consolidation highs between 22.87 and 22.50. But traders also have to be mindful that the market has become oversold on the 5.6 cent drop from the high set earlier in the month. Daily technical indicators have fallen to low extremes and with today being the last trading day for the month, it won't be surprising if some degree of short covering is seen this session. However, gains in sugar may be short lived since it was apparent this week that funds are starting to liquidate their huge net long position in this market. With the global supply/demand outlook for sugar likely being undermined this week by a variety of negative economic news from the US and Europe and reports of a higher sugar production from Brazil, we suspect technical short covering in sugar could be met with more fund liquidation selling. The global demand outlook for commodities in general which is also impacting sentiment in sugar has certainly been damaged by escalating concerns that Europe's sovereign debt problems will hinder growth in the region while reports from the US showing slumps in consumer confidence, a drop in new home sales and a jump in jobless claims further raises doubts about the pace of the economic recovery. The supply side sentiment may have also been dampened with part of the selling yesterday likely tied to news that Brazil sugar production in the first half of the month was about two and a half times higher than year ago. Keep in mind, this is still a small amount as mills typically are closed at this time of the year. Total sugar production for the 2009/10 season through mid-February was said to be up about 6.7%. India also reported slightly higher sugar production in the October through January period compared to the year ago period.

TODAY'S GUIDANCE: The market has fallen to an oversold extreme and is vulnerable to an end of the month short covering bounce, especially if outside market influences can provide some price support.

TODAY'S MARKET IDEAS:

Short position holders may want to consider some type of profit protection strategy since sugar is oversold and end of the month short covering could be seen. Look for bounce to 25.45 basis May sugar.

NEW RECOMMENDATIONS:

None.

PREVIOUS RECOMMENDATIONS:

None.

SUGAR TECHNICAL OUTLOOK:

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SUGAR (MAY) 02/26/2010: Momentum studies are declining, but have fallen to oversold levels. A negative signal for trend short-term was given on a close under the 9-bar moving average. The market's close below the 1st swing support number suggests a moderately negative setup for today. The next downside objective is now at 22.87. The next area of resistance is around 24.15 and 24.68, while 1st support hits today at 23.25 and below there at 22.87.

OJ TECHNICAL OUTLOOK:

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ORANGE JUICE (MAY) 02/26/2010: The cross over and close above the 40-day moving average is an indication the longer-term trend has turned positive. Momentum studies are rising from mid-range, which could accelerate a move higher if resistance levels are penetrated. The close above the 9-day moving average is a positive short-term indicator for trend. With the close higher than the pivot swing number, the market is in a slightly bullish posture. The next upside objective is 143.10. The next area of resistance is around 142.30 and 143.10, while 1st support hits today at 141.00 and below there at 140.45.

DAILY TECHNICAL STATISTICS

	9 DAY	14 DAY	14 DAY	14 DAY	4 DAY	9 DAY	18 DAY	45 DAY	60 DAY
CLOSE	RSI	RSI	SLOW	SLOW	M AVG	M AVG	M AVG	M AVG	M AVG

	STOCH D			STOCH K						
SOFTS MARKETS COMPLEX										
SBAK0	23.70	33.07	37.27	17.98	13.41	23.98	25.15	25.97	26.27	25.41
CTAK0	81.17	79.63	72.94	94.33	95.50	79.95	78.24	74.78	74.25	74.61
CCAK0	2922	27.03	30.27	24.96	19.42	2979.25	3053.00	3077.94	3237.93	3276.77
OJAK0	141.65	53.15	52.22	38.40	44.07	141.08	140.94	140.55	141.03	139.08
KCAK0	129.80	32.49	35.64	38.84	31.27	131.70	133.81	133.71	138.54	140.40
MAJ0	12.89	33.27	33.93	11.18	6.73	12.99	13.09	13.22	13.97	14.32

Calculations based on previous session. Data collected 02/25/2010

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DAILY SWING STATISTICS

Contract		Support 2	Support 1	Pivot	Resist 1	Resist 2
SOFTS MARKETS COMPLEX						
SBAK0	Sugar	22.86	23.24	23.77	24.15	24.68
CTAK0	Cotton	77.33	79.51	80.64	82.82	83.95
CCAK0	Cocoa	2862	2888	2929	2955	2996
OJAK0	Orange Juice	140.40	140.95	141.75	142.30	143.10
KCAK0	Coffee	125.98	127.77	130.03	131.82	134.08
MAJ0	Milk	12.89	12.89	12.89	12.89	12.89

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