THE SCHORK REPORT

A VIEW OF THE ENERGY & SHIPPING MARKETS

Monday, July 12, 2010

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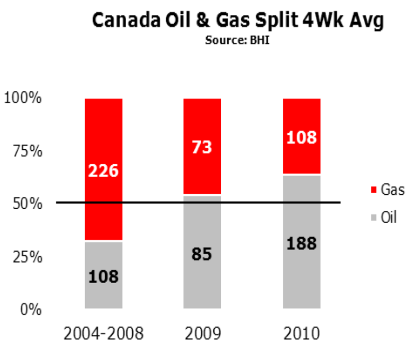


Nota Bene: Per Friday's Baker Hughes report, North American rig totals increased for a fifth straight week. Another solid seasonal rise in Canada compounded a small gain in the U.S. For the week ended July 09th, the U.S. reported a 10 rig increase, mainly onshore Pennsylvania and Colorado, split between oil and gas. As a result, the ratio of gas to oil rigs, 1.628, narrowed to another – i.e. 3 straight reports and counting – twelve-year low. North of the 48 conterminous states we saw a solid 25 rig gain to 348. Once again, the bulk of the gain occurred on the oil side of the ledger. Consequently, the bias in the ratio of oil-to-gas rigs inched up to 63/37%.

National Weather Service 6-10 Day Forecast

Northeast	**Normal**
Mid Atlantic	**Above Normal**
South Atlantic	**Normal**
Mid West	**Above Normal**
South	**Normal**
Southwest	**Above Normal**
Mountain	**Above Normal**
Pacific	**Normal**

CRUDE AWAKENINGS

TRADING BIAS DAILY

WTI: NEUTRAL a/o July 11 …S- 74.69 R- 77.49
BRN: BULLISH a/o July 11 …S- 74.42 R- 76.42
NG: NEUTRAL a/o July 11 …S- 4.276 R- 4.528
RB: BULLISH a/o July 11 …S- 203.25 R- 210.75
HO: BULLISH a/o July 11 …S- 198.55 R- 206.59

TRADING BIAS WEEKLY

WTI: NEUTRAL a/o Jun 11 …S- 71.69 R- 80.49
BRN: BULLISH a/o July 11 …S- 71.78 R- 79.06
NG: BEARISH a/o July 11 …S- 4.15 R- 4.654
RB: BULLISH a/o July 11 …S- 196.29 R- 217.71
HO: BULLISH a/o July 11 …S- 192.08 R- 213.06

TRADING BIAS MONTHLY

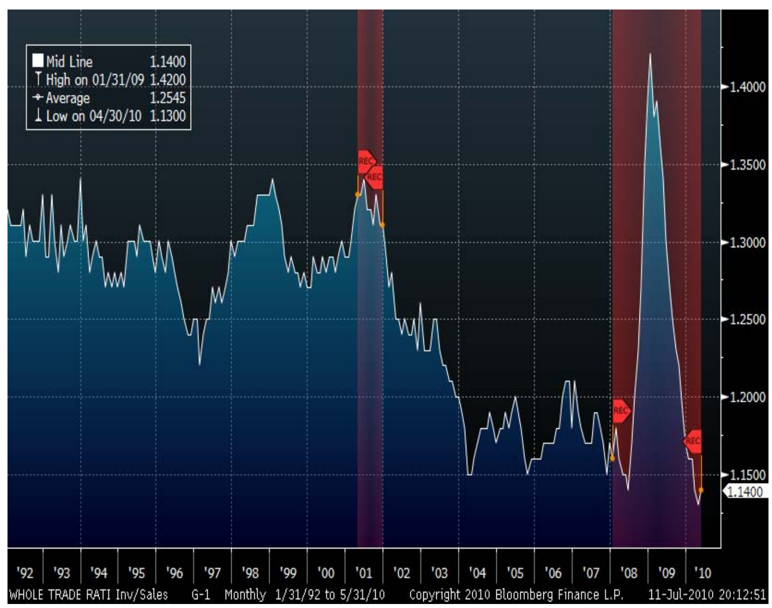
WTI: NEUTRAL a/o Dec 2009…S-71.64 R-84.70
BRN: NEUTRAL a/o Oct 2009…S-71.15 R-84.03
NG: NEUTRAL a/o Feb 2010…S-3.947 R-5.723
RB: NEUTRAL a/o June 2010…S-186.22.70 R-229.54
HO: NEUTRAL a/o Dec 2009…S-185.99 R-218.99

ENERGY PRICES WERE MIXED LAST WEEK… natural gas closed the week lower after a huge injection in to storage. On the other hand, a huge drawdown in domestic crude supplies and the lack of major news releases helped WTI close 5.48% higher. This week promises to be volatile, tomorrow's retail sales and Wednesday's Industrial Production numbers will be pivotal for gauging the domestic economic recovery.

Are gas bulls in for another tough history lesson?

(See omnium-gatherum on page 6)

Chart of the Day: Total Merchant Wholesalers Inventories/Sales Ratio



WHOLESALE INVENTORIES/SALES REVIEW
Feeling Bearish? Not so fast…

On Friday the U.S. Census bureau released the wholesale inventory data for May, and on the surface the numbers were bearish. Sales declined for the first time since March 2009, or the first drop after thirteen consecutive months of gains (meanwhile the Spanish soccer team won the World Cup in their thirteenth final, in a game that saw thirteen yellow cards. Coincidence? Conspiracy theorists think not!).

Meanwhile inventories rose by 0.5%, beating analyst expectations of a 0.4% increase. This also led to an increase in the inventories/sales (I/S) ratio i.e. manufacturers produced more than consumers bought for the first time since March '09.

However, as the chart of the day demonstrates, we are still near historical lows in the I/S ratio. At 1.137 in May, the ratio is well off the 1.415 seen in January '09, the heart of the recession. Furthermore, the aftermath of the 2001-02 recession saw a similar pattern – the ratio peaked at 1.34 in June 2001 as sales decreased. Once merchants cut inventories and sales picked up, the ratio dropped to 1.24 one year later in June 2002. At this point however, the ratio began to rise and drop as wholesalers tweaked inventories to demand, and in June 2003 it was effectively the same at 1.23.

In fact, the sharp pruning of inventories has been considered a contributor to the high employment rate. As wholesalers begin allowing for slack, we expect the ratio to increase back towards the 2004-07 average of 1.178.

On the breakdown, sales of machinery, equipment and supplies (i.e. infrastructure spending) rose by 2.21% and now stand 6.85% above last year and just 0.38% below the 2004-08 average. The sale of petroleum and petroleum products fell by 0.28% but this is actually a robust figure when you consider that the average retail price of gasoline dropped 4.03% in May. Thus the petroleum I/S ratio dropped to 0.46, implying that the drop in prices encouraged consumers to return to the pump. Total sales of petroleum and petroleum products remain 45.78% above last year and 22.41% above the 2004-08 timestep.

Of course, there were bearish points – sales of lumber and other construction material dropped 8.71% as the home buyer's tax credit approached expiry and spending on total domestic construction dropped by 0.17%.

The bottom line is that the economic recovery is slowing down sooner than many analysts expected. But we will take a slow recovery over no recovery any day of the week.

NYMEX Henry Hub Natural Gas… BEARISH

Last week saw sideways trading until Thursday's big, bearish 78 Bcf injection in to domestic storage, which pushed the market lower to close Friday at 4.402, down 6.08% but well within our (4.154, 5.289) 65% Confidence interval (CI). Technical traders should keep in mind that Friday's settle was exactly at the 4.402 100 day moving average for the front month contract. Fundamentally, it seems like mixed weather and low electricity output reduced demand for natural gas, but given last week's heat wave on the East Coast, this Thursday's injection should be well below seasonal norms.

Regardless, the mathematics dictate that this week's CI be revised lower to (4.005, 4.839). We will look for serious support to step in around the lower bound, while a a cross above 4.839 could be an indicator of upward trend trend towards our 4.907 intra-week high and the psychologically important 5.000 barrier.

In that vein, this week's technicals suggest that weakness below the week ending June 4th's 4.217 low print alerts to to our 4.150 inflection low. Below here we will look for offers to our 3.897 intra-week. On the other hand, a rebound above last week's 4.547 pivot point opens the door to our 4.654 inflection high. Once crossed, the bulls should run towards our 4.907 intra-week high.

NYMEX WTI… NEUTRAL

Prices in WTI were firm last week but we are not convinced that the bulls are in charge. Prices failed to break above the upper bound of last week's (66.71, 78.01) CI, and ran out of steam almost exactly at our 76.10 weekly inflection high, settling Friday at 76.09, up 5.48% week-on-week.

This week's CI has been revised to (72.32, 80.06), a significant increase in the lower bound but the upper bound remains stuck around the psychologically critical 80.00 barrier. If we are to see serious gains from the bulls this week, we will need to see strength in the equities, strong retail sales figures (analysts are looking for a 0.3% drop) and a weaker dollar would not hurt.

Volatility saw a sharp drop from 38.4% last week to 32.6% as of writing, while further out the average CI for 2010 now comes to (67.50, 88.34). As for this week's technicals, strength above the week ending June 18th's

78.51 high print could send the bulls towards our 80.49 inflection high. Above here they will likely hit resistance at our 84.90 intra-week high. On the other hand, a correction below last week's 73.79 pivot low leads to our 71.69 inflection low. Below here we look for offers to our 67.28 intra-week.

ICE Brent… BULLISH

Prices in London were firm last week, settling 5.26% higher at 75.42, close to but not yet above last week's (66.98, 76.64) CI. With just four trading days until the contract for August delivery goes off the board, this week's CI comes to a tight (72.58, 78.37). Whether these points act as support/resistance or trend indicators will depend on the macroeconomic fundamentals and NYMEX WTI.

Further out, our CI for the contract for September delivery is a wider (68.45, 83.61) though we expect a serious correction to take place if either of these bounds is broken. Volatility for the front month stands at 32.8% as of writing but we expect it to increase as expiry approaches.

As for this week's technicals, strength above the week ending 18th June's 77.30 pivot point opens the door to our 79.06 inflection high. Above here the bulls will run to (and in to resistance at) our 82.69 intra-week high. On the other hand, a drop below last week's 73.32 pivot low alerts to our 71.78 inflection low. Below here the floor falls through to our 68.15 intra-week low.

NYMEX RBOB… BULLISH

RBOB prices were firm last week but lagged behind the rest of the NYMEX liquids after the DOE reported an unexpectedly large 1.32 MMbbl build in domestic mogas stocks. Thus prices settled Friday at 207.00, up 4.67% week-on-week but well below our (181.69, 215.27) confidence interval.

As for this week, the CI has been revised to (192.87, 222.17) and these bands are far enough apart that we expect them to act as indicators of trend. Volatility remains high at 31.2% and the ball is up in the air for the bears or the bulls to swipe depending on how this week's advance retail sales figure and Wednesday's DOE report (especially important due to the July 4th holiday) play out.

Further out, the average CI for 2010 stands at (174.67, 228.24). As for this week's technicals, strength above the the week ending June 25th's 213.95 pivot point clears the path to our 217.71 inflection high. If the bulls break through here they will hit resistance around our 228.41 intra-week high. On the other hand, a correction below last week's 201.40 pivot low alerts to our 196.29 inflection low. Below here we look for offers to our 185.59 intra-week low.

NYMEX Heating Oil… BULLISH

Heating oil prices led the NYMEX liquids higher last week, settling 5.95% higher at 202.95, though this was safely below the upper bound of our (174.62, 210.12) CI. The heating oil crack has been recovering from a low of 8.31 on July 2nd to 9.09 as of writing, which is well below the 25.95 seen in 2008, the 15.82 seen in 2007 and the 13.03 five year average, though it remains above 2009's 4.15.

Thus this week we will look for strength towards the upper upper bound of our (189.48, 217.37) CI, while volatility has dropped from 35.40% last week to 30.29% as of writing.

As for this week's technicals, strength above the 100 day moving average (as of Friday) of 209.07 opens the door to our 213.06 inflection high. Above here we look for bids bids to our 223.55 intra-week. Then again, a correction past last week's 197.04 pivot low alerts to our 192.08 inflection point. Below here the bears will claw to our 181.59 intra-week low.

ICE Gasoil… BULLISH

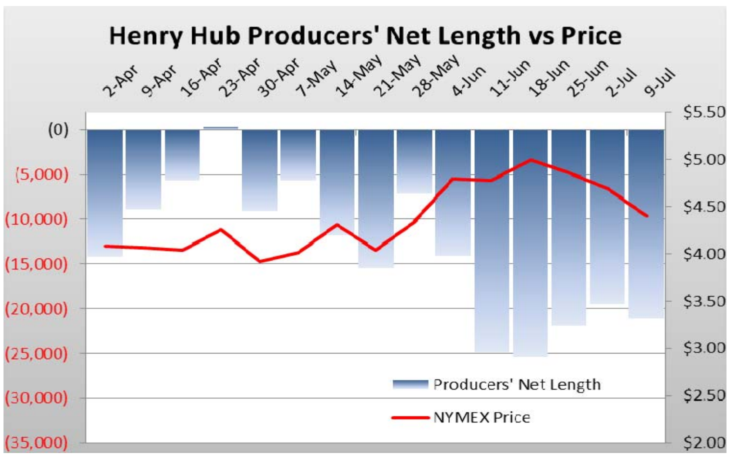
Last week the gasoil contract moved in line with NYMEX heating oil to close Friday 5.58% higher at 648.00, slightly higher than the upper bound of last week's (586.46, 642.32) CI. With the contract for July delivery expiring today, our CI is a tight (634.41, 661.88).

Traders are now looking at the August contract, which has has a wider CI of (584.64, 720.45). Given the mixed demand/supply picture, we will look for this to CI to act as as a band of serious support/resistance this week.

NATURAL GAS

NAT-GAS N Open 4.413 High 4.455 Low 4.339 Close 4.402 Chng +0.003

As of July 6th, open interest in the combined Henry Hub and ICE futures and swaps rose by 0.53%, while the Henry Hub basis swap saw a 13.37% decline in interest. In aggregate, traders seem inconclusive about the market – producers increased their short position (i.e. willingness to produce) by 8.81% - a bearish signal. On the other hand, managers decreased their short position by an equivalent 8.25% - a bullish signal. Until we see some fundamental action, we expect prices to stay sticky around the 50 day moving average of 4.485.



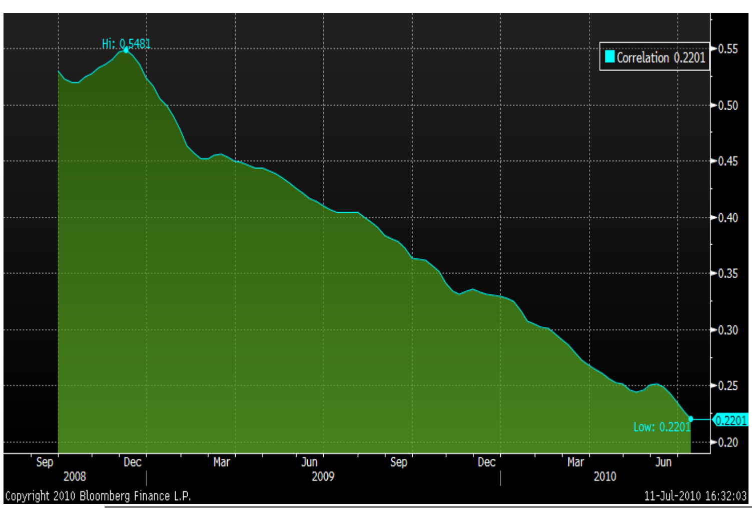
Daily Bias: NEUTRAL

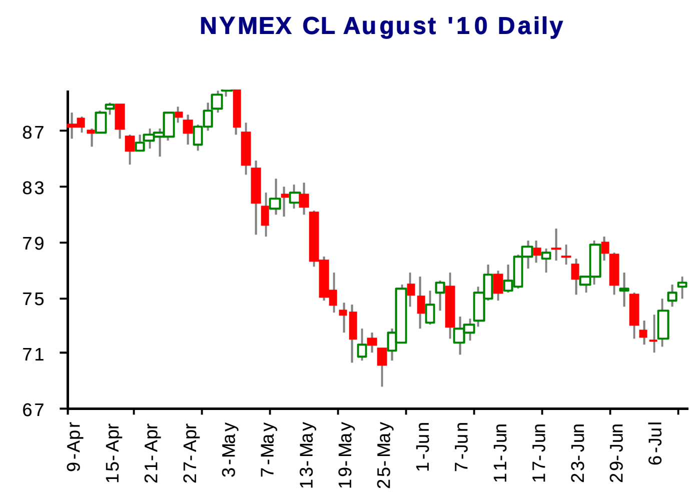
As for today, strength above Friday's 4.455 high print opens the door to our 4.528 inflection high. Above here the bulls will potentially run towards our 4.654 intra-day. Then again, weakness below Friday's 4.339 low print leads to our 4.276 inflection low. Below here we look for offers to hit support at our 4.150 intra-day.

OIL

WTI Q Open 75.85 High 76.48 Low 75 Close 76.09 Chng +0.65

Last week money managers (hedge funds and their "smart money" friends) reduced their long position in WTI futures and options to the lowest level since May '09. And yet we changed our bias from bearish to neutral – what gives? Firstly, keep in mind that all those contracts sold will have to be bought back. More importantly, the correlation between MM's net length and the price of WTI has dropped to just 0.220, as demonstrated by the chart below. It seems that smart money hasn't been acting very smartly.





Daily Bias: NEUTRAL

As far as today goes, weakness below Friday's 75.00 low print alerts to our 74.69 inflection low. Below here we will look towards our 73.30 intra-day. On the other hand, gains above June 30th's 76.83 high print clear a path to our 77.49 inflection high. Through here the bulls could run to (and in to resistance at) our 78.88 intra-day high.

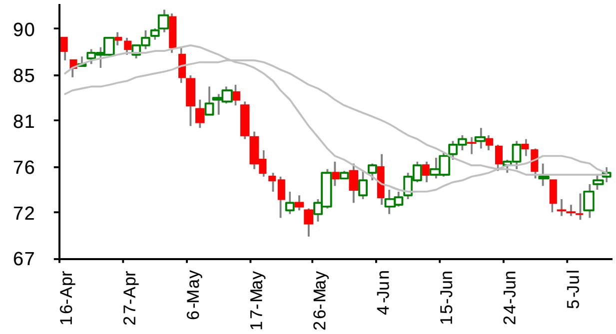
ICE Brent

Brent Q Open 75.08 High 75.86 Low 74.41 Close 75.42 Chng +0.71

Prices in London were firm last week despite concerns that Britain's overly severe budget could strangle the recovery in its natal stages. The ICE Brent/NYMEX WTI inter-market front month spread has remained relatively flat at 67 cents since around the 25th of June, well off the $1+ range seen for the first quarter of 2010.

As far as today goes in the August, strength above Friday's 75.86 high print opens the door to our 76.42 inflection point. If crossed we will look for bids to our 77.43 intra-day. On the other hand, a drop below Friday's 75.08 open alerts momentum to our 74.42 inflection low. Below here we will look for offers towards our 73.41 intra-day.

ICE Brent August '10 Daily



Daily Bias: BULLISH

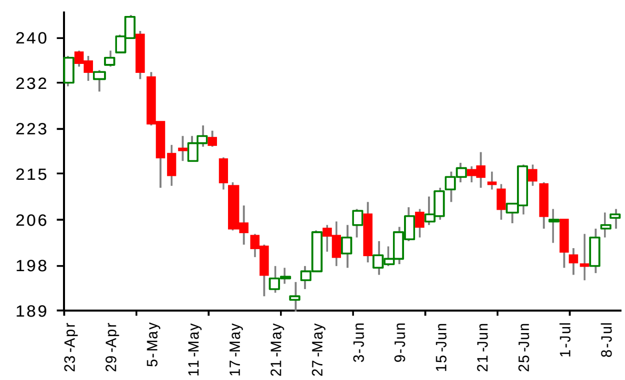
LIGHT ENDS

RBOB Q Open 206.41 High 208.00 Low 204.30 Close 207.00 Chng +0.96

As with the bearish action seen in NYMEX WTI, the RBOB gasoline contract saw a 25.81% decline in net length held by money managers. However, this was counter-balanced by a 7.53% decline in the short position held by producers. An unwillingness to produce could lead to lower supplies relative to demand. Meanwhile the RBOB crack narrowed to 10.60, its lowest point since the end of May.

As far as today goes, weakness below Friday's 204.30 low print alerts to our 203.25 inflection low. Below here we look to our 199.49 intra-day. On the other hand, a rebound above Friday's 208.00 high print opens the door to our 210.75 upper inflection point. Above here the bulls should bid towards our 214.51 intra-day high.

NYMEX RBOB August '10 Daily



Daily Bias: BULLISH

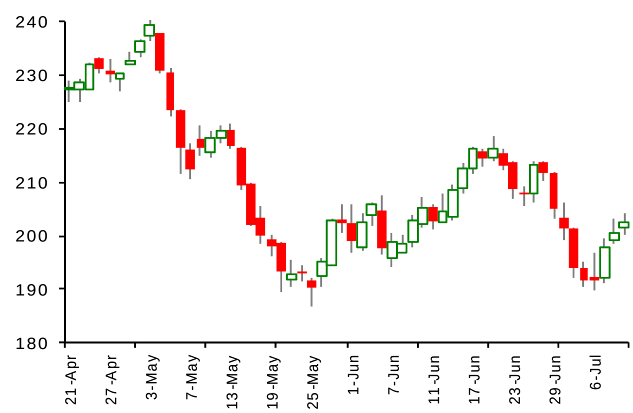
MIDDLE DISTILLATES

HEATING OIL Q Open 201.50 High 204.39 Low 200.11 Close 202.57 Chng +2.04

As of July 6th, open interest in the heating oil contract fell by 0.50%, a contrast to the increasing interest seen by RBOB, crude and natty. We believe this led to higher volatility as money managers decreased their net length by a huge 69.93% to just 6,951 contracts. The drop is almost three times the 27.38% and 25.81% drops seen in crude and RBOB respectively. Commercials also reduced their net short position by 18.09%.

As goes today, strength above Friday's 204.39 high print builds a bridge to our 206.59 upper inflection point. Once crossed, the bulls will run towards our 210.60 intra-day high. Then again, weakness below Friday's 200.11 low print signals momentum to our 198.55 inflection low. Below here we will look for offers down to our 194.54 intra-day low.

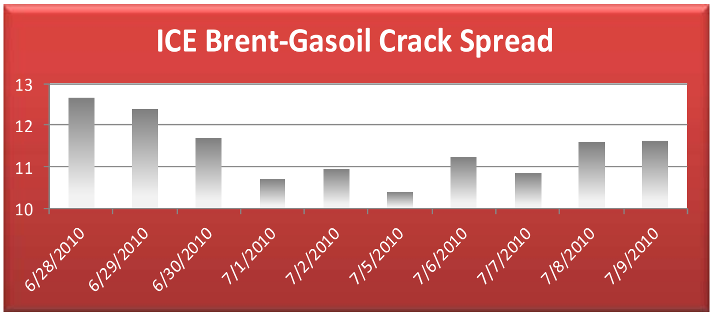
NYMEX HO August '10 Daily



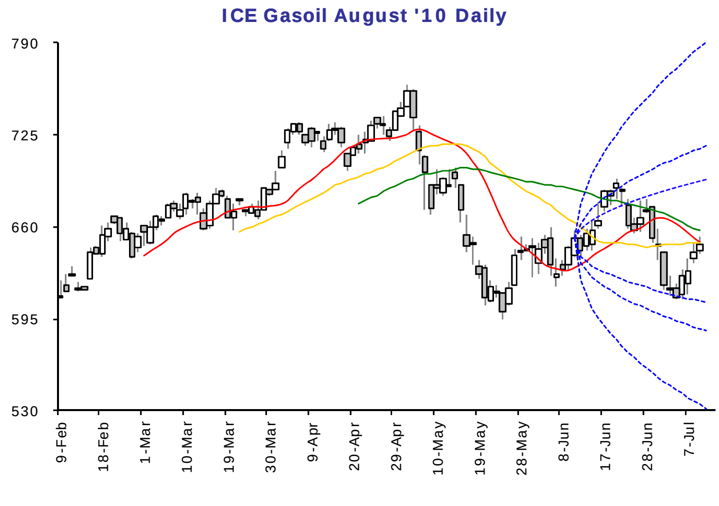
Daily Bias: BULLISH

ICE GASOIL

Concerns about falling refinery throughputs for middle distillates were balanced out by a reduction in shipping bottlenecks, leading to sideways trading the ICE Brent/Gasoil crack last week. Gasoil prices rose 4.97% last week while the spread settled Friday at 11.624, up 5.99% from the previous week but well below the 13.36 highs seen in June.



As for today, offers through support at 617.15 alert to follow through momentum towards our 602.56 inflection. We will look for weakness below here towards our 562.19 intra-day.



Daily Bias: BULLISH

On the other hand, continued strength through our upper alert of 678.82 clears a path towards our 695.25 upper inflection-point. Above here we will look for bids towards our 745.18 intra-day.

OMNIUM-GATHERUM

If ever there were a time for natural gas to rally, you would think it would be now. Gas-fired cooling demand in key market areas has been surging since May; a circumstance that looks to remain through at least the end of July. We have already had one tropical disturbance in the offshore GoM producing region in what is forecast to be an active hurricane season. What's more, injections are set to ebb into the second (of three) and lowest phase of the season, i.e. over the next nine EIA reports we will see the lowest injection rate of the season as cooling load to the Grid peaks.

For example, for the five years in between 2004 and 2008, injections in between the Memorial Day holiday in late May and the 04th of July Independence holiday averaged 85.9 ±4.08 Bcf per week. The 2004-2008 average then dropped to 60.1 ±7.8 Bcf per week in between the 04th of July holiday and the Labor Day holiday in early September. That represents a drop of 30% over the hottest part of the summer. Last year the drop in between the first and second phase was 28%, from 91.8 to 66.2 Bcf per week.

Now consider that spot NYMEX gas for August delivery rallied from a low on May 06th of 4.070 to a high of 5.249 on June 16th. The contract rallied 29% through the heaviest phase of the injection season. In the meantime, 30-day implied volatility jumped by a third in between the Memorial Day holiday and the June 16th peak. Since then volatility has dropped by around 15% as the contract has fallen by 17% from a 5.249 high print to last Friday's 4.339 low print.

On Friday the contract broke through psychological support at 4.500 and volatility is still around 12% above the lows we saw back in late May. In other words there is still froth in this market. Think back to this winter. It was one of the snowiest and coldest in recent memory that generated a huge drawdown in supply. Nevertheless, spot NYMEX peaked at just over 6.00 in early January and moved lower through a very cold winter.

Now look at this refill season, this has been a very hot summer, but spot gas has thus far peaked at just over 5.00 and has been moving lower. Therefore, to the chagrin of the bulls, is recent history about to repeat?

RESIDUAL FUEL OIL

According to the DOE for the week ended July 02nd, production of residual fuel oil rose by 1.4% to 516 Mbbl/d. Two reports ago production was at back-to-back 46-week lows, 464 Mbbl/d. Imports increased by 14% to 323 Mbbl/d while demand surged by 57%, from 362 to 568 Mbbl/d. Supplies decreased by 1.6% as a result, to 42.7 MMbbls. The year-on-year surplus increased by 30 bps to 16.6%.

BIOFUELS

According to the DOE report for the week ended July 02nd, discretionary gasoline blending (conventional + ethanol) topped the 5.0 MMbbl/d threshold for the first time ever. At the same time weekly ethanol production increased by 2.8% to 855 Mbbl/d. As such, supplies of fuel ethanol increased 2.2% in the lead up to 04th of July holiday. As such, stocks at the start of the peak holiday season were 19.9 MMbbls (p) or 239 Mbbls (+1.2%) higher than at the end of April (the latest report for which monthly data is available). In Chicago ethanol futures for August delivery moved higher through most of last week, though the market was weaker at the close in sympathy with the pullback in corn feedstocks.

As far as the Ag feedstocks go, Chicago corn has gone parabolic over the last two weeks, from a low of 333.00 to a high of 386.25, plus 16%. The contract did however end last week on a bit of whimper after the USDA forecast for corn reserves ending August 2011, 1.373 billion bushels, came in above market expectations. Furthermore, the market appears technically overbought thereby creating a template for nearby weakness.

As far as this week goes for the September contract, offers through 377.75 alerts to corrective weakness towards our 370.00 weekly inflection-point. We will look for weakness below here towards our 363.41 intra-week bottom. Otherwise, bids through 390.00 clear a path towards our 397.49 upper inflection-point. Above here we will look for bids towards our 404.71 intra-week top.

Sugar futures in New York continued a strong upward trek last week, though momentum in the October contract stalled 7 ticks ($78.4 a contract) from our 17.48 initial weekly resistance. **Nevertheless, the market appears ripe for a nearby corrective selloff, but longer out it looks to be tracing into a long-term bullish trend**.

As far as this week goes, bids through 17.30 alert to follow through momentum towards our 17.65 upper weekly inflection-point. We will look for strength above here towards our 18.73 intra-week top. On the other hand, offers through 15.95 clear a path towards our 15.63 lower inflection-point. Below here we will look for offers towards our 14.73 intra-week bottom.

WEEKLY OUTLOOK (July 12th to 16th)

Henry Hub… weakness below the week ending June 4th's 4.217 low print alerts to our 4.150 inflection low. Below here we will look for offers to our 3.897 intra-week. On the other hand, a rebound above last week's 4.547 pivot point opens the door to our 4.654 inflection high. Once crossed, the bulls should run towards our 4.907 intra-week high. **WTI…** strength above the week ending June 18th's 78.51 high print will send the bulls towards our 80.49 inflection high. Above here they will likely hit resistance at our 84.90 intra-week high. On the other hand, a correction below last week's 73.79 pivot low leads to our 71.69 inflection low. Below here we look for offers to our 67.28 intra-week. **Brent…** strength above the week ending18th June's 77.30 pivot point opens the door to our 79.06 inflection high. Above here the bulls will run to (and in to resistance at) our 82.69 intra-week high. On the other hand, a drop below last week's 73.32 pivot low alerts to our 71.78 inflection low. Below here the floor falls through to our 68.15 intra-week low. **RBOB…** strength above the week ending June 25th's 213.95 pivot point clears the path to our 217.71 inflection high. If the bulls break through here they will hit resistance around our 228.41 intra-week high. On the other hand, a correction below last week's 201.40 pivot low alerts to our 196.29 inflection low. Below here we look for offers to our 185.59 intra-week low. **Heating Oil…** strength above the 100 day moving average (as of Friday) of 209.07 opens the door to our 213.06 inflection high. Above here we look for bids to our 223.55 intra-week. Then again, a correction past last week's 197.04 pivot low alerts to our 192.08 inflection point. Below here the bears will claw to our 181.59 intra-week low.

SCORECARD

BUY NATURAL GAS

- EIA forecasts an especially heavy hurricane season for the Gulf Coast.
- Summer may be warmer than expected.
- 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).
- Mild weather expected for July – i.e. lower demand for air conditioning electricity.
- Residential natural gas use locked in to a downward trend since 2006.
- Shale plays will fundamentally alter the amount of domestic supply available.

BUY OIL

- Bulls have shown their ability to push prices above 80.00 in the short term.
- U.S. dollar may have peaked in June.
- European recession over, U.S. recession likely over too.

SELL OIL

- Traders are looking for less volatile, safer assets such as bonds.
- Bulls have proven again and again that they are unable to break above mid-80 levels.

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.