DAILY ENERGY COMPLEX COMMENTARY
08/16/19

Short covering and demand relief rally expected today

OVERNIGHT CHANGES THROUGH 6:06 AM (CT):
CRUDE +96, HEATING OIL +162, UNLEADED GAS +257

CRUDE OIL MARKET FUNDAMENTALS: Negative price action from the high earlier this week is likely to result in higher action today off a combination of short covering and improvement in overall market sentiment. The market might also draft support from US threats of sanctions over the release of the Iranian tanker by officials in Gibraltar as that will probably prompt a harsh response from Iran. One might also suggest oil prices are benefited by a story overnight indicating Russia has seen a significant windfall from additional oil sales resulting from sanction orientated restrictions on Iranian and Venezuelan oil flow. In other words Russia is seeing its market share increase which in turn could leave them in a better position to extend production restraint. Unfortunately the latest read on Russian oil output showed production in the first 15 days of August exceeded the level provided for in the restraint agreement. While we think fears of demand destruction will remain in place in the background, today’s demand track looks provide some lift. On the other hand the flow of internal crude oil market fundamental data from earlier in the week generally favored the bear camp. Negative fundamental developments for crude oil this week were seen in the form of a decline in the US refinery operating rate, a surprise build in the weekly crude oil stocks, and perhaps most importantly the Russians removing an export duty on crude oil, which could result in more Russian crude flowing onto the world market. However internal fundamentals might be less important or even completely unimportant today if a risk-on vibe from early equity market gains extends.

PRODUCT MARKET FUNDAMENTALS: While the product markets shifted down with some fresh chart failures yesterday and remain under a liquidation watch from the threat for demand losses ahead, they are saved today by trade headlines over the last 24 hours. In fact gasoline did not benefit earlier in the week from a record US implied demand reading or from the surprise decline in the US refinery operating rate from the EIA and that might provide some catch-up buying today. However the potential for tightening in the US gasoline market ahead from seasonal demand and the decline in the US refinery activity rate was countervailed by yet another rise in Amsterdam, Rotterdam and Antwerp gasoline stocks. Stocks increased to 1.304 million tons from 1.265 million tons because of recent firmness in the refining margins. Furthermore, the European refinery margin declined yesterday, and that seems to suggest a further build in European gasoline stocks is ahead. While gasoline retail prices in the July retail sales report jumped nearly 2% over June, futures prices have fallen back toward their June lows, and that could be beneficial to demand once retail prices catch up to those declines. Like crude oil, product prices are going to be heavily tied to the action in equities, and internal energy market fundamentals will be mostly discounted in favor of the ebb and flow of global demand expectations.

NATURAL GAS: The natural gas market clearly diverged with the petroleum complex for most of this week but we remain skeptical of the rally. Gains from yesterday morning were fueled by a slightly smaller injection than was anticipated and also from headlines noting the most active portion of the Gulf of Mexico hurricane season only begins next week (August 20th). The natural gas market might be limited by stories overnight that ultra-low LNG prices so far have not prompted China to step up imports. While there appears to be above normal and hot
temperatures out to August 29th in the Western third of the US, we would label the latest overall US forecast as minimally supportive of natural gas prices. The October natural gas contract will encounter a five month old downtrend channel resistance line with a further rally up to $2.31 but closer-in resistance held down prices overnight at $2.23. In the end natural gas has certainly managed to discount the demand destruction fears dominating other commodity markets. Thursday's EIA natural gas storage report showed an injection of 49 bcf for the week ending August 8th. Total storage stands at 2738 bcf or 3.9% below the 5-year average. Unfortunately for the bull camp, the deficit of stocks to the five year average has continued to narrow despite relatively modest injection levels. Over the last four weeks natural gas storage has increased 205 bcf.

### EIA Natural Gas Storage Report Summary

<table>
<thead>
<tr>
<th>Week Of 8/7/2019</th>
<th>Week Change</th>
<th>Total Storage</th>
<th>Change From Last Year</th>
<th>4 Week Combined Weekly Change</th>
<th>Percent Change vs 5 Year Average</th>
<th>Percent Change vs 10 Year Average</th>
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</thead>
<tbody>
<tr>
<td>8/7/2019</td>
<td>49</td>
<td>2738</td>
<td>357</td>
<td>205</td>
<td>-3.9%</td>
<td>-6.9%</td>
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</tbody>
</table>

**TODAY'S MARKET IDEAS:**

Internal bearish market fundamentals should take a backseat to positive spillover from broad macroeconomic issues and the early impact from outside influences obviously benefits the bull camp. Furthermore the petroleum markets earlier this week failed to benefit from the realization that the most active period of the hurricane season begins next week and that could be a factor that tempers bearish confidence in the weeks ahead. For today we see the potential for a bounce to $55.67 in October crude oil especially if initial equity market gains extend.

**NEW RECOMMENDATIONS:**

None.

**PREVIOUS RECOMMENDATIONS:**

None.

**OTHER ENERGY CHARTS:**

**ENERGY COMPLEX TECHNICAL OUTLOOK:**

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**CRUDE OIL (OCT) 08/16/2019:** Momentum studies are trending higher from mid-range, which should support a move higher if resistance levels are penetrated. The market's short-term trend is positive on the close above the 9-day moving average. It is a slightly negative indicator that the close was under the swing pivot. The near-term upside target is at 56.08. The next area of resistance is around 55.29 and 56.08, while 1st support hits today at 53.75 and below there at 52.99.

**HEATING OIL (OCT) 08/16/2019:** Positive momentum studies in the neutral zone will tend to reinforce higher price action. A negative signal for trend short-term was given on a close under the 9-bar moving average. The close below the 1st swing support could weigh on the market. The near-term upside target is at 186.45. The next area of resistance is around 183.79 and 186.45, while 1st support hits today at 179.79 and below there at 178.44.

**RBOB GAS (OCT) 08/16/2019:** The stochastics indicators are rising from oversold levels, which is bullish and
should support higher prices. The market’s close below the 9-day moving average is an indication the short-term trend remains negative. The market tilt is slightly negative with the close under the pivot. The near-term upside target is at 155.39. The next area of resistance is around 152.89 and 155.39, while 1st support hits today at 148.82 and below there at 147.24.

NATURAL GAS (OCT) 08/16/2019: Momentum studies are trending higher from mid-range, which should support a move higher if resistance levels are penetrated. The cross over and close above the 18-day moving average indicates the intermediate-term trend has turned up. With the close over the 1st swing resistance number, the market is in a moderately positive position. The near-term upside target is at 2.343. The next area of resistance is around 2.289 and 2.343, while 1st support hits today at 2.165 and below there at 2.094.

DAILY TECHNICAL STATISTICS

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<tr>
<th>ENERGY COMPLEX</th>
<th>CLOSE</th>
<th>9 DAY RSI</th>
<th>14 DAY RSI</th>
<th>14 DAY SLOW STOCH D</th>
<th>14 DAY SLOW STOCH K</th>
<th>4 DAY M AVG</th>
<th>9 DAY M AVG</th>
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Calculations based on previous session. Data collected 08/15/2019
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DAILY SWING STATISTICS

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<th>Contract</th>
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DAILY COCOA COMMENTARY

08/16/19

Probing for low with technical indicators at oversold extremes

While oversold technically, the cocoa market continues to find selling pressures. Cocoa is a demand-sensitive market, and the global demand tone remains weak. The December contract has now closed lower in 17 of the past 18 trading sessions, and on Thursday it experienced its lowest close since March 21st. September cocoa has closed lower for eighteen sessions in a row. The market is down 2.55% for the week so far, and it is down 12% for the quarter. Traders continue to be concerned about the slowing EU economy and the overall world economic health. Olam International forecast cocoa prices to trade in a range of $2,100-$2,700 during the upcoming, 2019/20 season. Cameroon’s 2018/19 cocoa grindings were seen at 58,552 tonnes, up 9.6% from last year’s 53,403, according to the National Cocoa and Coffee Board. Production through July 15th reached 264,254
tonnes, up 4.2% from last year's pace. London cocoa also slid lower yesterday and is down again today to its lowest level since May 16th.

**TODAY'S MARKET IDEAS:**
The market is sensitive to consumer demand trends, and fears of little or no global growth and recession in Europe have helped keep the market in a downtrend. Technical indicators are at historic extremes, and shorts might consider moving to the sidelines. December cocoa has some support at 2183, with 2235 and 2245 as resistance. Consider selling October 2150 puts near 30 points.

**NEW RECOMMENDATIONS:**
None.

**PREVIOUS RECOMMENDATIONS:**
None.

**COCOA TECHNICAL OUTLOOK:**
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COCOA (DEC) 08/16/2019: Daily stochastics declining into oversold territory suggest the selling may be drying up soon. The market's short-term trend is negative as the close remains below the 9-day moving average. The daily closing price reversal down puts the market on the defensive. It is a slightly negative indicator that the close was lower than the pivot swing number. The next downside objective is now at 2168. More downside action may be limited by the RSI under 20 putting the market in extremely oversold territory. The next area of resistance is around 2216 and 2240, while 1st support hits today at 2180 and below there at 2168.

**DAILY COFFEE COMMENTARY
08/16/19**

**More positive action in London and less bearish outside markets**

December coffee has consolidated mostly inside of Monday's range, which is somewhat positive given the bearishness of outside market forces. A more positive tilt this morning may support. The coffee market has trended lower over the past month as the Brazil harvest has wound down, and it is down 2.75% for the week so far. The Brazilian real has firmed by nearly 1%, which has been supportive to prices. Olam International estimated that last month's frost event cut 2020/21 Brazilian production by as much as 2 million bags. It also pointed to lower Central American output, as low prices have led to farmers not harvesting their crops. Vietnam exports are down almost 10% so far this year, and traders believe the new harvest may not begin until November because heavy rains and flooding have slowed maturity. US green coffee stocks for the month of July rose 279,052 bags to 7.1 million bags. ICE exchange coffee stocks fell 1,531 bags on Wednesday, but they remain more than 8,000 bags higher for the month of August.

**TODAY'S MARKET IDEAS:**
Some emerging market demand concerns have reinforced a bearish demand tone for coffee but the more positive tone to financial markets this morning may support. London futures are still operating under the positive technical influence of the August 13th key reversal. Near-term support for December coffee is at 97.30, with 100.80 and 103.20 as resistance.

**NEW RECOMMENDATIONS:**
None.
PREVIOUS RECOMMENDATIONS:
None.

COFFEE TECHNICAL OUTLOOK:
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COFFEE (DEC) 08/16/2019: A bearish signal was triggered on a crossover down in the daily stochastics. Daily stochastics declining into oversold territory suggest the selling may be drying up soon. The market's close below the 9-day moving average is an indication the short-term trend remains negative. It is a slightly negative indicator that the close was lower than the pivot swing number. The next downside target is 96.65. The next area of resistance is around 98.75 and 99.65, while 1st support hits today at 97.25 and below there at 96.65.

DAILY COTTON COMMENTARY
08/16/19
Solid export sales and still Hot/dry Texas outlook; more up

The technical action in cotton has been positive this week despite plenty of bearish demand news. With high open interest and fund traders already holding a record net short position, it will not take much in the way of positive news to spark some short-covering. Net export sales for the week ending August 8th came in at 329,100 running bales for the current (2019/20) marketing year and 151,200 for the next marketing year for a total of 480,300. Cumulative sales have reached 48.5% of the USDA forecast for 2019/20 marketing year versus a 5 year average of 41.1%. Sales need to average 161,000 bales per week to reach the USDA forecast. The 5-day forecast for West Texas is dry and very hot. The 6-10 day and 8-14 day weather models are also showing hotter and drier than normal conditions for West Texas. This threatens to cause significant damage to the already stressed non-irrigated acres. Exchange deliverable warehouse stocks came in at 23,820 bales, down from 23,908 bales the previous session.

TODAY’S MARKET IDEAS:
December cotton hit its highest level since August 2nd yesterday, and the market is in position to attract new buying interest if resistance is violated. The weather looks threatening, and speculators and funds hold a record large net short position. Consider buying December cotton near 58.73 with next resistance at 60.96 and 61.84. Don’t rule out a recovery to 63.55.

NEW RECOMMENDATIONS:
None.

PREVIOUS RECOMMENDATIONS:
None.

COTTON TECHNICAL OUTLOOK:
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COTTON (DEC) 08/16/2019: The stochastics indicators are rising from oversold levels, which is bullish and should support higher prices. The close above the 9-bar moving average is a positive short-term indicator for trend. The close over the pivot swing is a somewhat positive setup. The next upside target is 60.59. The next area of resistance is around 60.08 and 60.59, while 1st support hits today at 59.16 and below there at 58.74.

COTTON (MAR) 08/16/2019: The daily stochastics gave a bullish indicator with a crossover up. The stochastics indicators are rising from oversold levels, which is bullish and should support higher prices. A positive signal for trend short-term was given on a close over the 9-bar moving average. The close over the pivot swing is a
somewhat positive setup. The next upside target is 61.10. The next area of resistance is around 60.65 and 61.10, while 1st support hits today at 59.83 and below there at 59.45.

**DAILY SUGAR COMMENTARY**  
*08/16/19*

**Firm tone to financial and energy market should help support**

A more supportive tone from outside markets this morning may help support. March sugar continues to consolidate, and it seems to be in position to turn up as soon as outside market forces turn less bearish. Open interest continues to build, which suggests that fund traders continue to build their net short positions. In a report from Citigroup, the world sugar balance sheet is seen swinging to a 7.2 million-tonne deficit for the season starting October 1st versus a 2.5 million-tonne surplus this season. They anticipate raw sugar prices to average 12.10 cents per pound in the third quarter and 12.60 cents in the fourth quarter. The bank remains firmly bullish, with a fourth quarter 2020 prices estimate of 14.50 cents.

India’s monsoon rainfall over the past week was 45% above average, the third week in a row with above average rainfall. Although there are many cane-growing regions in Maharashtra that are flooded, other regions are finding some relief from several months of dry conditions. If India sugar production is smaller than expected, the deficit could be even larger. Traders will also be monitoring a hotter and drier trend in China’s growing areas.

**TODAY’S MARKET IDEAS:**
The higher close for March sugar in the face of continued weakness in equity and energy markets could be seen as a supportive development. Near-term support is at 12.58, with 12.94 and 13.10 as initial resistance.

**NEW RECOMMENDATIONS:**
None.

**PREVIOUS RECOMMENDATIONS:**
Long March sugar from 12.70 with an objective of 13.67. Risk to a close under 12.40.

**SUGAR TECHNICAL OUTLOOK:**
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Sugar (OCT) 08/16/2019: Declining momentum studies in the neutral zone will tend to reinforce lower price action. The close below the 9-day moving average is a negative short-term indicator for trend. The daily closing price reversal up is a positive indicator that could support higher prices. The market tilt is slightly negative with the close under the pivot. The next downside objective is now at 11.40. The next area of resistance is around 11.74 and 11.85, while 1st support hits today at 11.52 and below there at 11.40.

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