

FS Energy Market Update May 16, 2012

NYMEX Prices

	Close	Wk Change
Jun Crude Oil	\$ 92.81	-4.00
Jun Gasoline	\$ 2.9209	-.1032
Jun Heating Oil	\$ 2.8976	-.1015
Jun Natural Gas	\$ 2.618	+.153

The Energy Markets started out lower overnight, recovered to positive numbers after the DOE report, but then failed to hold and finished in the red numbers. Prices fell after the government reported that U.S. oil supplies grew last week by 2.1 million barrels. That's more than analysts expected. Storage levels are now the highest in nearly 22 years.

	Crude				Gasoline				Heating Oil			
	Change	Total	3Yr Avg.	5 Yr. Avg.	Change	Total	3Yr Avg.	5 Yr. Avg.	Change	Total	3Yr Avg.	5 Yr. Avg.
DOE	+2.1	381.6	368	354	-2.8	204.3	214	209	-1.0	119.8	148	134
EST.	-1.5 / +3.3				-2.1 / +3.0				-2.5 / +2.0			
Propane	Total U.S. 52.7 +1.7				Midwest 20.5 +0.4				Gulf 26.5 +0.9			

The United Nation's Atomic Energy Agency is in the midst of meetings with Iran. They are requesting open access to the Parchin military base near Tehran- long suspected to be a nuclear facility. These delicate negotiations will help determine the tone of next week's larger meeting between Iran and major world powers (May 23).

Enbridge Inc. and Enterprise Products Partners LP are going to reverse shipments on the Seaway Pipeline this Thursday May 17th. It will start with 150,000 barrels per day and ramp up from there. This should remove the glut of oil in Cushing and change the landscape of oil inventories in mid-continent.

Oil under \$94 for the first time since December 20th as several issues are pushing it lower:

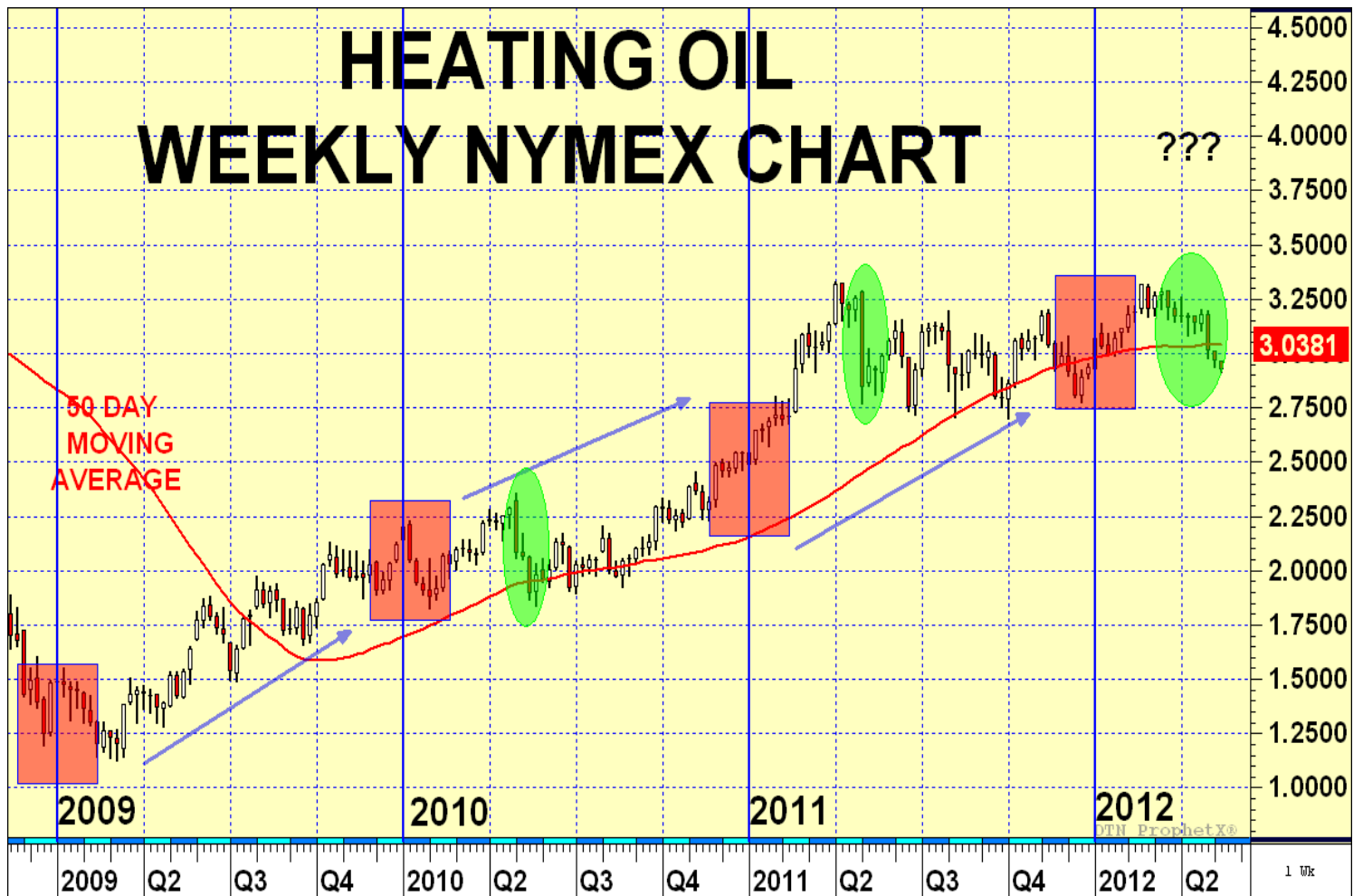
- European Debt Crisis takes another turn lower – Greece failed to agree on a unity government and Euro-zone officials contemplating the nation's exit from the euro.
- Saudi still trying to talk the market lower. Brent trading around \$110 and could drop another \$10 as supply outweighs demand.
- JPMorgan Chase trading blunders till pushing stock market lower.
- Speculators and hedge funds bailing out in droves last week. They made the largest ever reduction of longs in oil. Traders cut their net longs by 81,674 lots last week to the lowest since 2010 per the CFTC.
- In London, speculators cut longs on Brent by 23,308 according to ICE.

This Chart show the Nymex weekly heating oil seasonal buying timeframe (Thanksgiving to Valentine's Day) in the red squares for the last 4 years. It is interesting to note that each May

(in the green circles), for the last 3 years, that the market has been sold off due to bad economic developments from the PIIGS, namely Portugal, Italy, Ireland, Greece, and Spain.

This year the winter rally occurred because of unrest in Arab countries, mostly Iran and their Nuclear aspirations and the UN sanctions that were announced. We will know shortly if Iran will allow the UN inspectors into the suspected nuclear test sites or if they have just been “buying time” and are on a collision course with Israel.

If Iran relents to some of the UN pressures and if we get continued poor news out of Europe, the Nymex Crude Oil contract may test \$90.



Top crude exporter Saudi Arabia wants an oil price of around \$100 a barrel and would like to see global inventories rise before demand picks up in the second half of the year, Oil Minister Ali al-Naimi said. Saudi Arabia is working at bringing Brent crude prices to that level, he added. The kingdom, OPEC's biggest producer, said it pumped 10.1 million bpd in April, its highest for more than 30 years, as it bid to meet growing demand and curb oil prices.

China's economic growth is still of great concern to investors. Saturday, China announced it plans to cut its bank reserve requirement by 0.5 percent points. The move is the third reserve ratio cut since November. The biggest concern is that the country is slowing faster than previously expected and the economy is faltering which has some traders on edge.