



Commodities · Global Payments · Foreign Exchange · Securities

FCM Division of INTL FCStone Financial Inc.

Energy Market Technical Update:

Crude Oil Has Reached Key Support

August 7th, 2015



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CRUDE OIL AND 16-YEAR TREND LINE SUPPORT

This week's report will take a technical look at the energy markets as crude oil has again reached a key long term support level.

For a third time during 2015, crude oil has reached a 16-year trend line on the weekly chart. If support holds again, a long term low could be set in the crude oil market.

The last two times this support was reached earlier this year, a huge influx of speculative buying entered into the market moving price back higher. The rally higher from the March 2015 low to the early-May high led to a gain of just under 50% before the market sold back off to the current price level.

If a long term low does form in the crude oil market, a low should also be forming in the heating oil market.

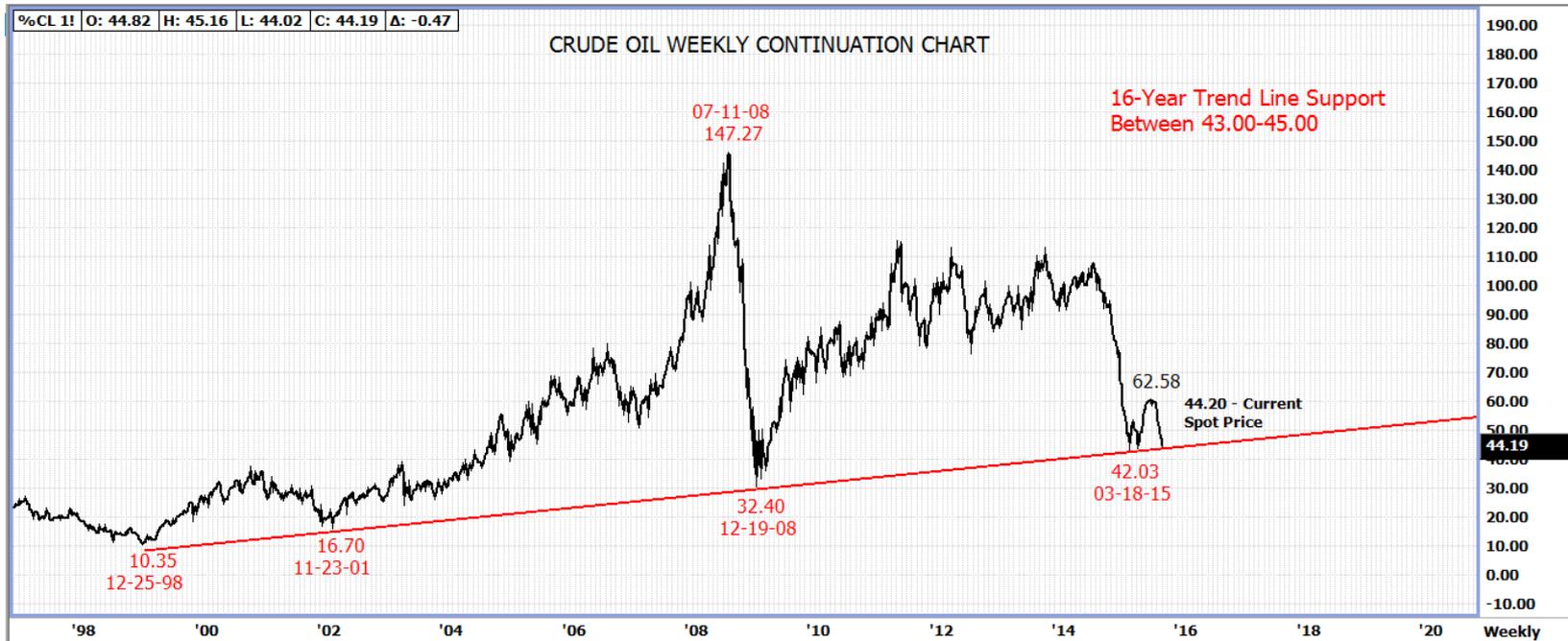
Once a low is confirmed in crude oil, longer dated coverage for the heating oil/diesel markets can then be initiated.

Hedging strategies that can be used to add forward coverage in the heating oil market in addition to fixed price coverage will be shown in future weekly reports.

ECONOMIC CHARTS AND INDICATORS

Also included in this report are various economic charts and indicators, some directly related to the energy markets, and others indirectly tied to the markets, but that could be of interest.

Crude Oil Market Reaches Key Support Level



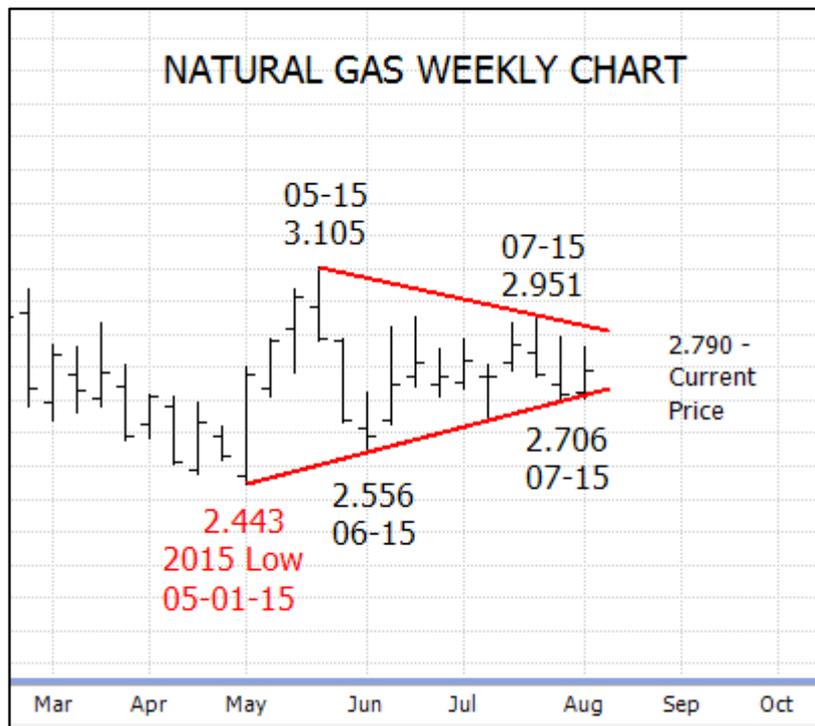
For a third time this year, the crude oil market is testing a 16-year trend line support on the weekly chart.

This support was first tested in January as the market bottomed out at a 43.58 low. It was tested again for a second time in March as the market set a new 6-year spot price low at 42.03.

Now for a third time, support between 43.00-45.00 basis the spot September 15 futures contract is being tested. If support holds again, a long term low could be set in both crude oil and heating oil.

If support fails to hold, the December 2008 low at 32.40 will become the next longer term support.

Natural Gas Technical Update- Triangle Pattern Forming



The natural gas weekly charts shows the sideways trading range the market has been in since bottoming at a 2015 spot contract low of 2.443 in early-May.

The consolidation in the market over the past 3-months appears to be forming a triangle pattern.

Triangles have a 75% chance of being a continuation pattern rather than a reversal pattern. In this case, the triangle would be a continuation down toward lower prices.

A breakout under lower trend line support near 2.700 will trigger the pattern which could lead to an eventual break back toward the lower-2.000 level.

There is a 25% chance the breakout from the triangle will instead come to the upside above trend line resistance at the lower-2.900 level.

If the breakout from the triangle does come to the upside above lower-2.900 resistance, a seasonal low will likely be set in the natural gas market.

U.S. Crude Oil Production Increases



Chart - Zero Hedge

U.S. crude oil production rose .6% for week ended 07/31, the biggest increase since late-May.

Prior to the most recent data, U.S. production had fallen 3 weeks in a row declining by 2% or 197,000 barrels per day.

U.S. production reached a new all-time high of 9.610 million barrels per day in early-June.

Even with the recent uptick, U.S. production has been in a general decline.

CRUDE OIL PRODUCTION (million barrels per day)

	Year ago	Four-week averages			Year ago	Week ending		
	08/01/14	07/31/15	07/24/15	07/17/15	08/01/14	07/31/15	07/24/15	07/17/15
U.S. production	8.513	9.500	9.534	9.580	8.453	9.465	9.413	9.558

EIA

Unprecedented Divergence Between U.S. Stocks And Commodities

Chart – Zero Hedge



There is currently an unprecedented divergence between commodity prices and U.S. stock prices.

Many commodities have been falling due to oversupply and weak demand.

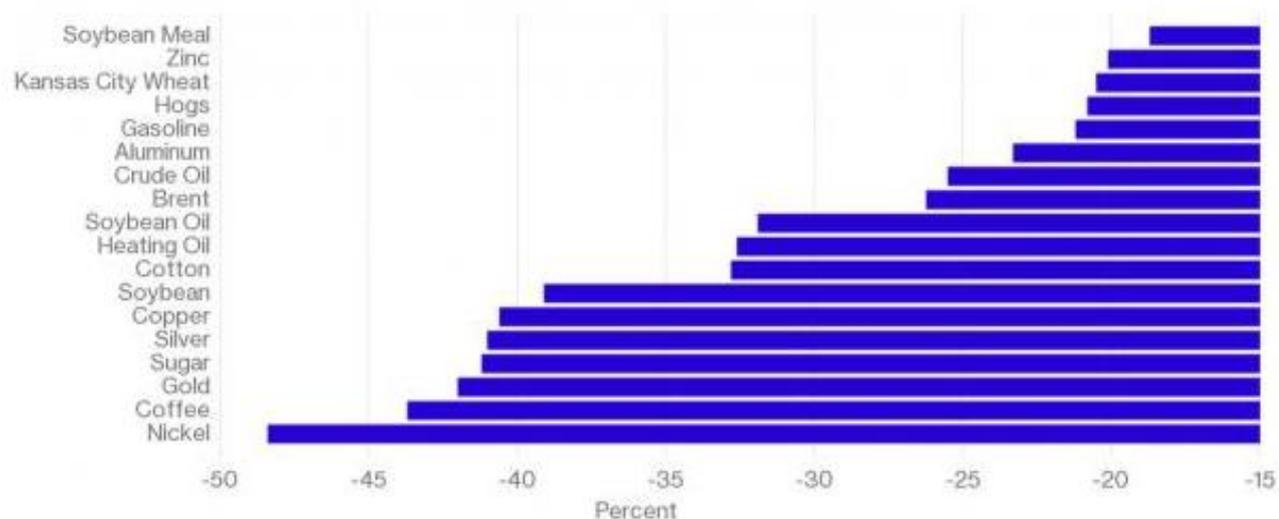
Equities have been rising on 6-years of near zero interest rates in the U.S.

Carnage In Commodities

18 of the 22 components in the Bloomberg Commodity Index have dropped at least 20% from recent closing highs, meeting the common definition of a bear market.

Carnage in Commodities

Percentage drop from bull peak through Tuesday

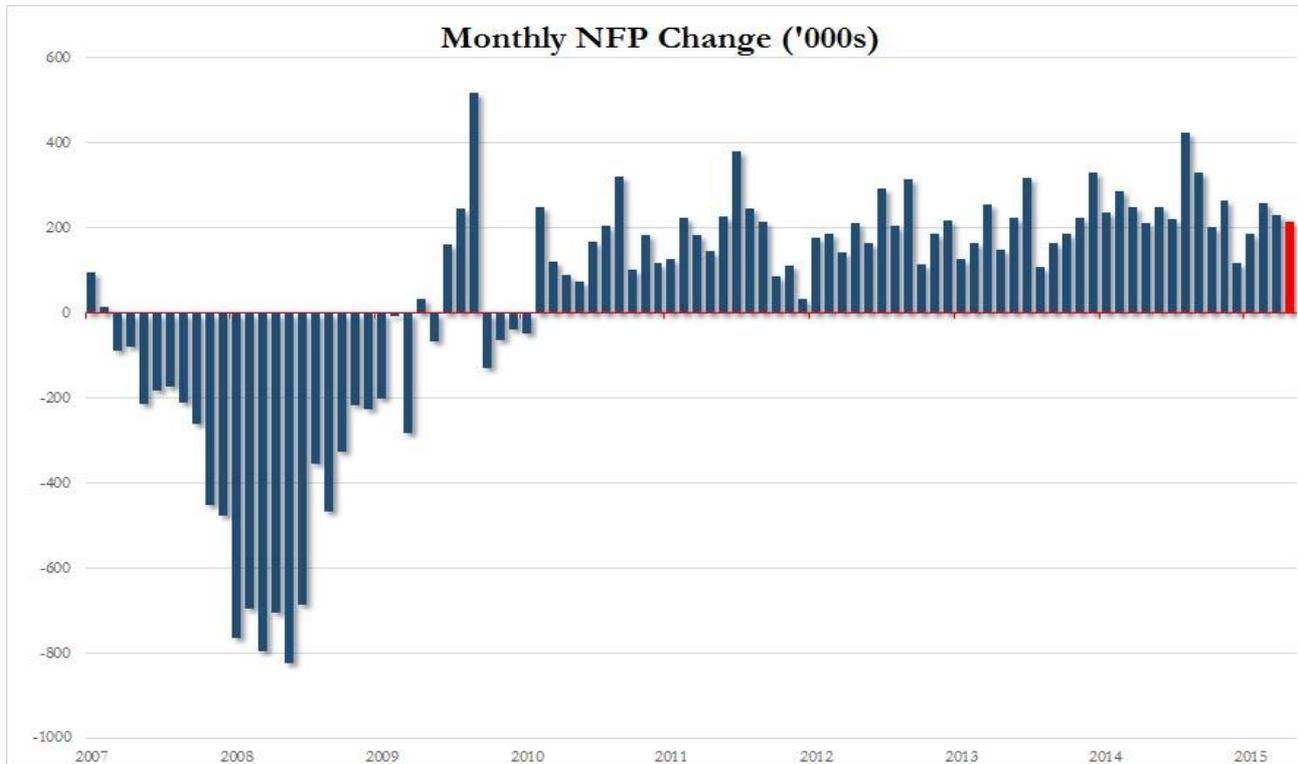


Source: Bloomberg Commodity Index of 22 raw materials

A bear market occurs when prices drop at least 20% from the previous bull peak



The drop in commodity prices from recent highs is unlike anything seen in the markets since 2008 at the beginning of the “Great Financial Collapse”.

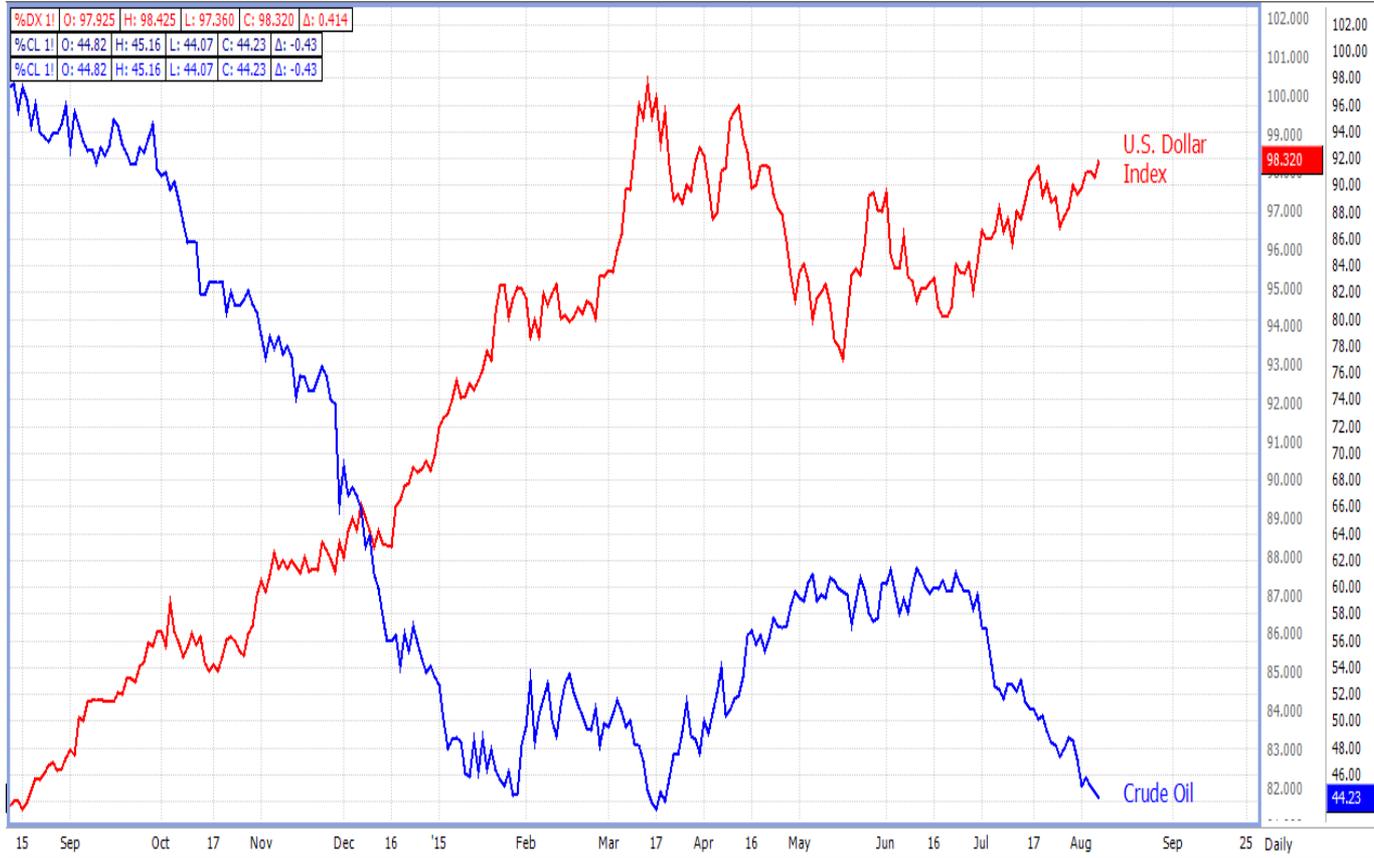


The July non-farm payrolls released August 7th came in at a lower than expected 215,000 new jobs versus pre-report expectations of +225,000.

Weakening U.S. economic data may cause the Federal Reserve to delay the rate hike expected later this year. This has been supportive for the U.S. dollar.

U.S. Dollar Index / WTI Crude Oil Comparison Chart

Chart – Future Source

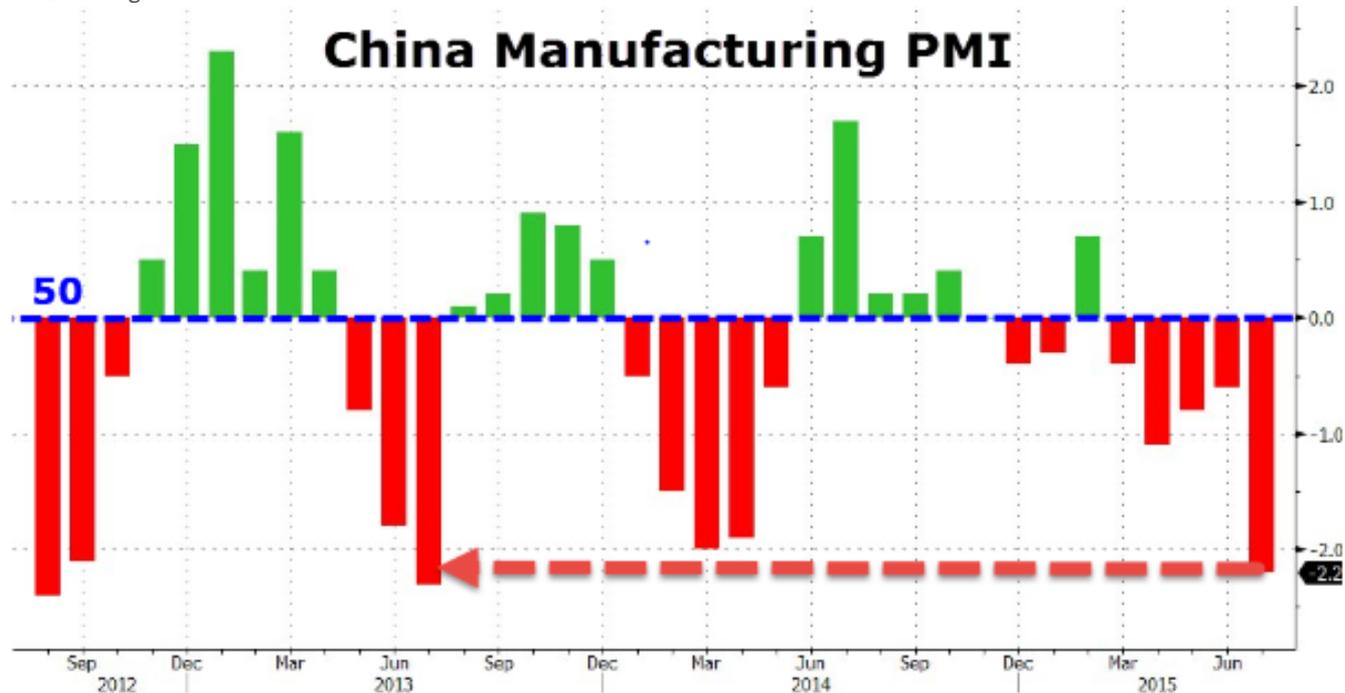


Market discussion that an impending Federal Reserve rate hike may be delayed has been generally supportive for the U.S. dollar index.

A strengthening dollar has been a negative factor for commodities priced in the dollar such as West Texas Intermediate (WTI) crude oil.

Chinese Manufacturing Activity Contracting

Chart – Zero Hedge

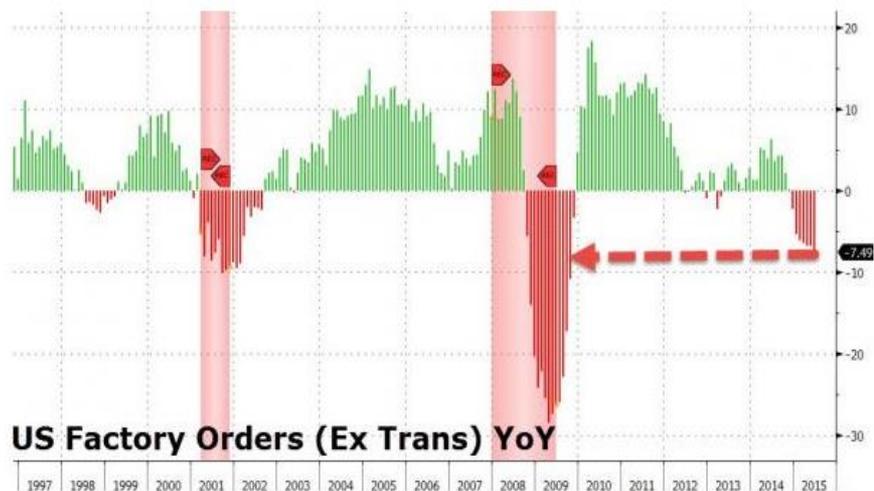


Chinese manufacturing activity as measured by the Purchasing Managers Index has been under the 50 level for 5 consecutive months and 7 out of the past 8 months.

A number under 50 indicates shrinking growth in the sector.

With China being the second largest consumer of energy in the world behind the U.S., demand for energy could decrease.

U.S. Factory Orders Plunge



Another reason the Federal Reserve may “pause” in raising U.S. interest rates any time soon is June U.S. factory orders (ex-transportation) which came in at a negative 7.5%.

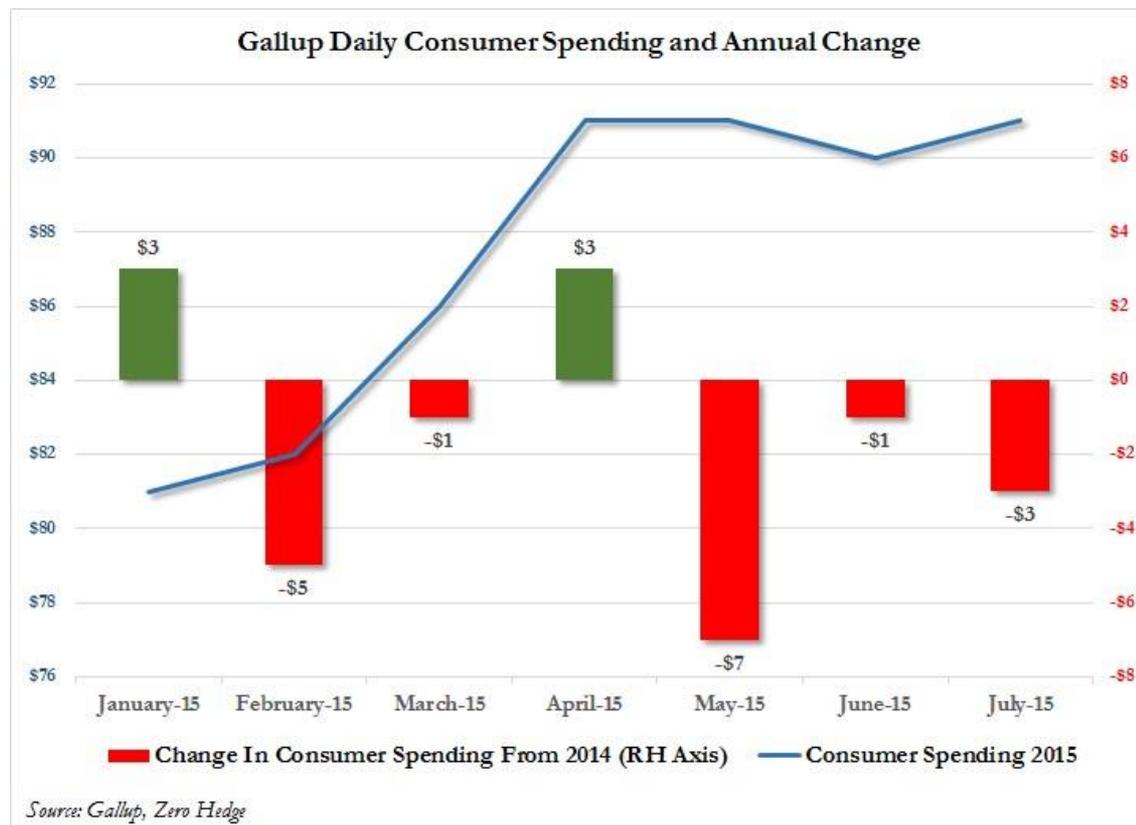
This was the lowest reading since 2009 during the depth of the “Great Recession”.



June U.S. factory orders fell for an 8th month in a row (year over year), down 6.2% in June.

This is the longest streak of declining factory orders outside of a recession in U.S. history.

U.S. Consumer Spending Declines For 3rd Month In A Row



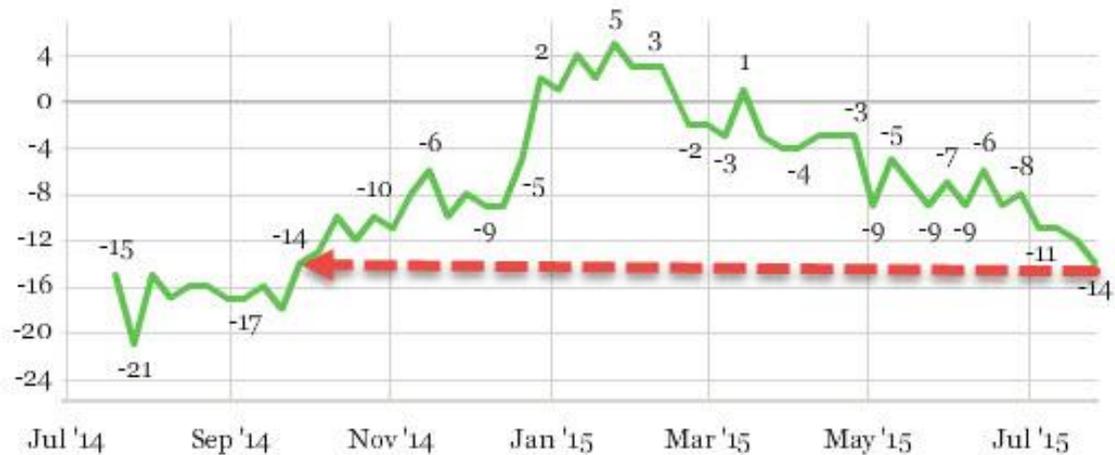
U.S. consumer spending declined for a third month in a row in July in comparison to the same month in 2014, and is down 5 out of the past 6 months.

70% of U.S. GDP is personal consumption.

U.S. Economic Confidence Falling

Gallup's U.S. Economic Confidence Index -- Weekly Averages Since July 2014

Latest results for week ending July 26, 2015

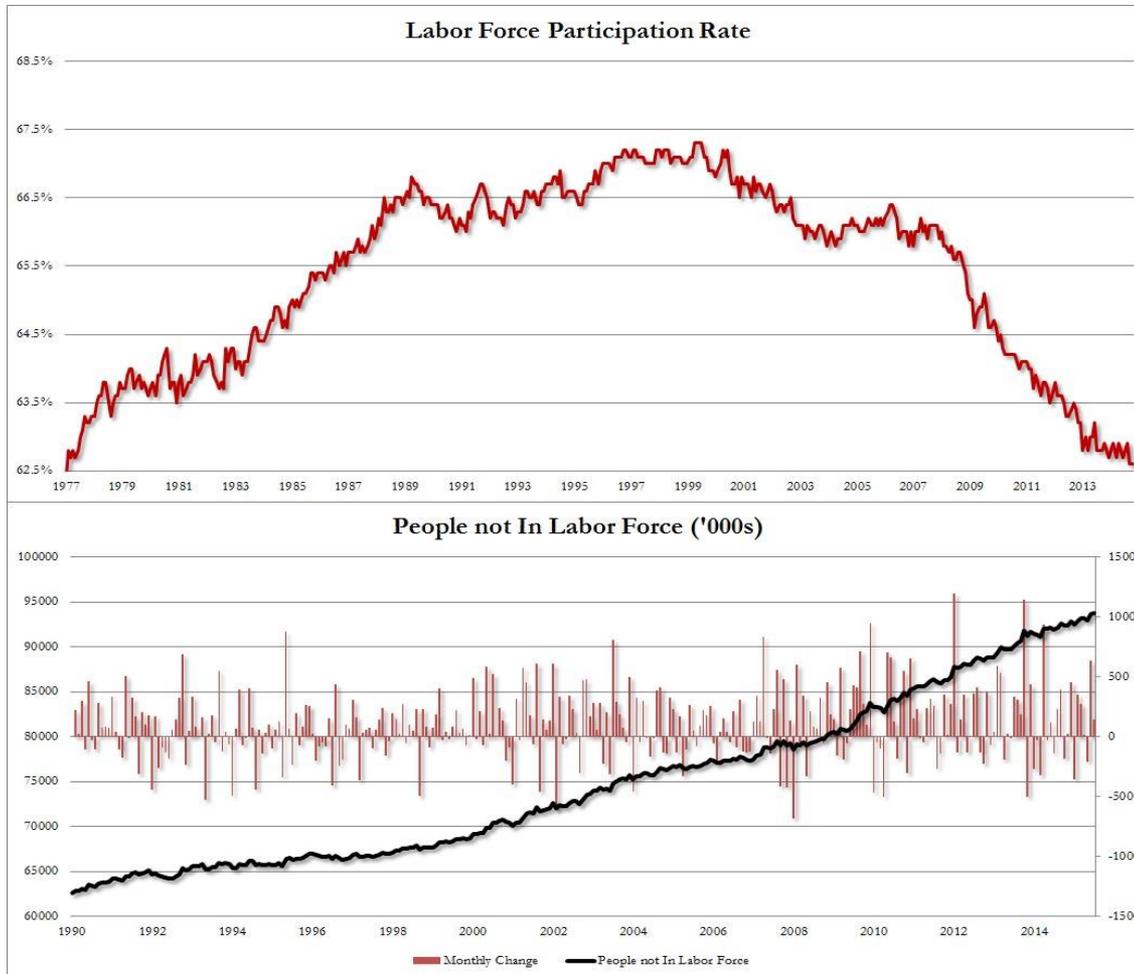


Gallup Daily tracking

Gallup's Economic Confidence Index fell to -14 for the week ending July 26, a 10-month low for the index.

Economic confidence has been in decline for much of 2015 after reaching a 7-year high in late-2014.

Labor Force Participation Rate



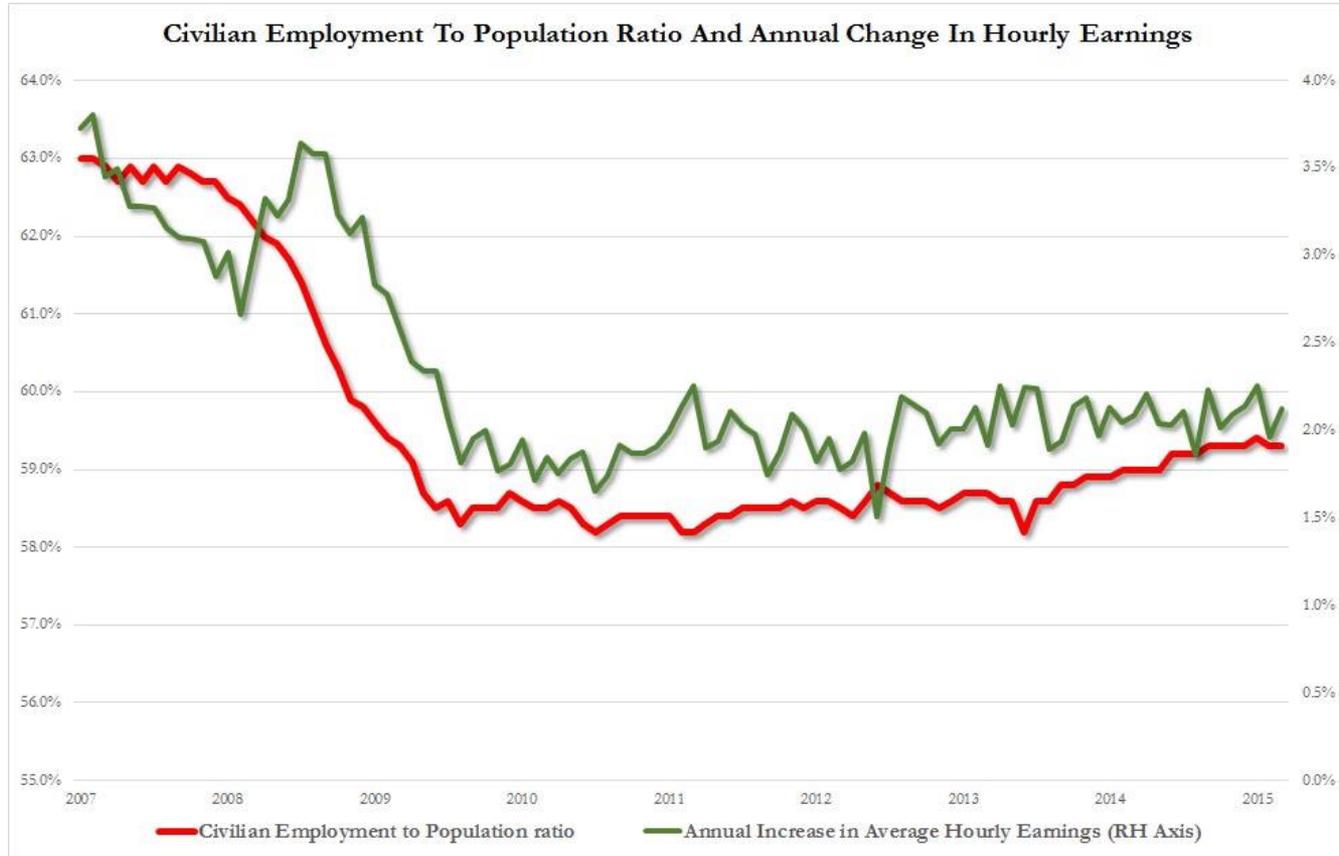
The number of Americans not in the labor force in July rose to a record high 93.8 million people according to the July payroll report.

The participation rate of 62.6% is the lowest level since September 1977.

Chart – Zero Hedge

Annual Change In Hourly Earnings

Chart – Zero Hedge



Annual earnings growth over the past six years has been flat as the civilian employment ratio has declined.

Unprofitable IPO Companies At All-Time High



The percentage of companies recently going public that are unprofitable has now reached an all-time high.

This time is different, right?