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OIL MARKET AIN'T BALANCING

TOP HEADLINES:

- Fed looks unlikely to hike next week after Brainard warning
- Global oil surplus to persist into first half of 2017: IEA
- China August factory output , retail sales beat expectations

Market*Update*	Month	Last Close	Change	S/T Bias	Viewpoint
WTI Crude Oil	**October**	**45.24**	**-1.05**	**Negative**	**Glut reality finally getting top billing.**
Brent Crude Oil	**November**	**47.40**	**-0.92**	**Negative**	**Libya oil nearing return to market.**
RBOB Gasoline	**October**	**1.3646**	**-.0201**	**Negative**	**Losses mount as supply glut increases.**
ULSD Heating Oil	**October**	**1.4276**	**-.0139**	**Negative**	**Exports of diesel to Europe helping U.S. market.**
Natural Gas	**October**	**2.905**	**-.010**	**Neutral**	**Heavy demand supporting prices.**

Global MacroEconomics

One of the more dovish of Fed governors had her say, yesterday, and pointedly pushed back against an interest rate hike seemingly, directly countering Janet Yellen's recent speech saying "the case to tighten policy is less compelling." The markets cheered the speech, and expectations for a rate hike next week are down to 25%. We still think Janet Yellen has the votes, if she wants them. It has been a very up-and-down couple of sessions, as the volatility monster awakes from its summer slumber. A renewed slide in oil prices is taking down the market this morning. We remain bearish on equities.

Petroleum Complex Fundamentals

It looks like we had our math correct, after all. We have warned for some time that we did not see the oil market coming into balance, before 2017 at the earliest. We saw "Asian demand" driven by China's SPR fill-up and the rise of their tea pot refining industry. The former is temporary and only adds to stocks, and the former merely turns the imported oil around for export in the form of refined fuels. OPEC, yesterday, and the IEA, this morning, have come around to this reality. The IEA has pushed back its balancing point to next year. Play for more losses, as this reality sets in.

Technical Analysis: WTI Crude Oil

Despite yesterday's rally, the technical picture looks muddled at best and weak, at worst. Yesterday's rally installed a lower high but a higher low. There is a fairly obvious wedge pattern on the chart, formed by competing uptrend and downtrend channels. Overhead resistance is seen at $46.50, while support is seen at $44.50. Those are the key levels to watch, as a breakout is awaited. We would play for a downside breakout and a test of key support between $43.10-$43.00.

Natural Gas Fundamentals

Natural gas prices leapt higher, yesterday, building on gains that were spurred by last week's storage report, which showed another smallish net injection of gas into storage. Demand was strong all summer, and early September continues to provide some cooling demand. The rally off of last week's lows in reminiscent of the rally earlier this year, when prices jumped continually. Demand will wane over the next several weeks, allowing for some substantial net injections. The inability of prices to get above $3.00 is telling, though. We are defensive for now, fearing a broader run higher that we are not positioned for.

Technical Analysis: Natural Gas

Yesterday's high at $2.924 trues up with the high from last month at $2.943 to form a topping pattern. It represents a lower high for the overall move lower off of the high from July at $3.00. The current rally is built on stilts, making the gains vulnerable to retracement. A failure to power through $3.00, in short-order, will allow for substantial losses to ensue.

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US ECONOMIC EVENTS TO WATCH THIS WEEK

Monday 9/12
- PPI (JPN)

Tuesday 9/13
- Industrial Production (CHN)
- Retail Sales (CHN)
- CPI (GER, UK)

Wednesday 9/14
- Industrial Production (EUR)
- Petroleum Status (USA)

Thursday 9/15
- Bank of England Meeting (UK)
- Jobless Claims (USA)
- Empire State Manufacturing (USA)
- EIA Nat. Gas (USA)

Friday 9/16
- CPI (USA)
- B-H Rig Count (USA)

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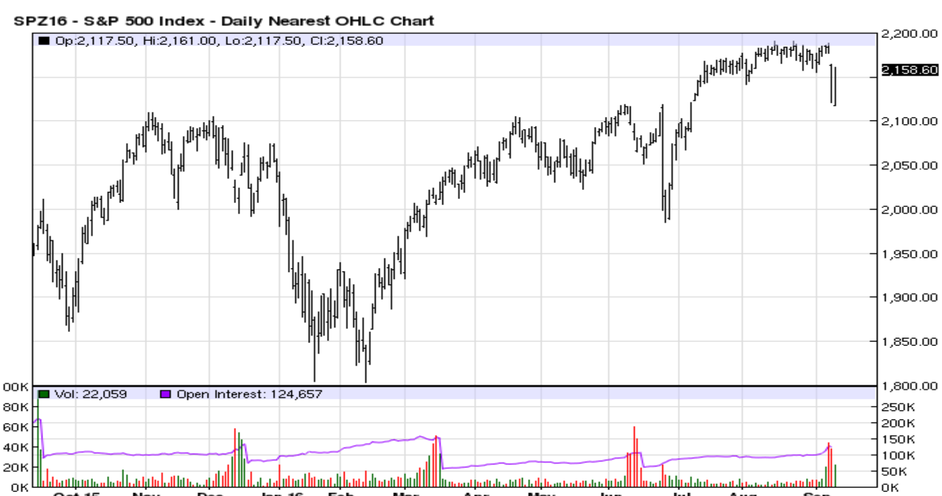
Full Weekly Economic Calendar Overview (Bloomberg)

Today's Key Point: We heard the last from the Fed speakers, yesterday, and Ms. Brainard made the case for keeping us on easy money street. She resonated with the market, which clawed back much of Friday's losses. The losses are back this morning, thanks to a renewed plunge in oil prices. The Fed goes quiet, now, until its meeting. We still expect an interest rate hike next week. And the markets are not going to like it.

Economic Data	MONTH	ACTUAL	PREV	EFFECT	ANALYSIS
CPI (GER)	AUG (YoY)	0.4%	0.4%	NEU	The German inflation rate remains below the objective of the Bundesbank and ECB, but the in-line reading will not cause any upset.
CPI (UK)	AUG (YoY)	0.6%	0.6%	NEG	UK inflation is flagging, coming down from previously higher levels, as the Brexit fears continue to undermine consumer activity.

Expanded*View*: Global MacroEconomics

Global equity markets are back on the decline, after posting a sizeable rally, yesterday. Friday's speeches from various Fed speakers, which were seen as hawkish, pointing to an imminent interest rate hike, gave way to the dovish wing of the Fed. Fed Governor Lael Brainard mounted a defense of the current easy money policies, saying that the so-called new normal "…counsels prudence in the removal of policy accommodation." She also said the case to tighten was "less compelling." The equity market rejoiced at that counsel. Now, it falls to Janet Yellen. She has the votes to pull the FOMC in either direction. The voices are strong on both sides. We do not quibble with the measures employed by the Fed; there have been much needed and effective. The data on employment and inflation would seem to support a rate hike, and we do not want to see the Fed come under attack for lacking credibility. The fear among the FOMC members is that they feel they know how to and are confident in their ability to inflation, but the jury is out on their ability to fight deflation. So, better to err on the side of too much, no too little. Look for volatility to continue to rise, and losses mount.



Quick*View*: Global MacroEconomic/Technical Analysis – S&P 500 Index Futures (Dec)

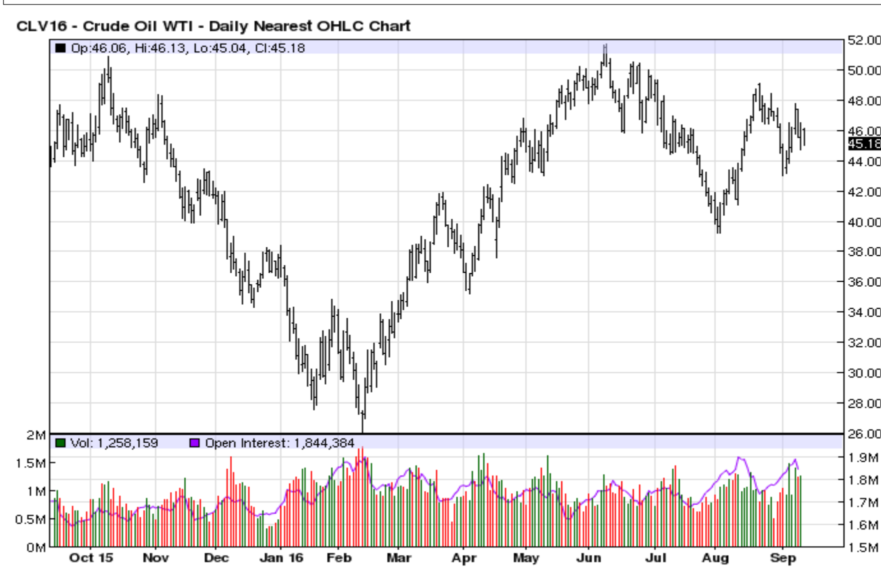
We should have highlighted this chart, yesterday. It clearly shows the break lower from Friday, as prices finally mounted a breakout from the consolidation phase that persisted most of the summer. Note the volume spike that accompanied the sell-off. Yesterday produced another large daily price bar, raising the volatility. Prices look to easily move down to 2000, retracing most of the post-Brexit sell-off gains. The Fed continues to spook the market, as well.

CAT-5	MACRO ECONOMIC	FUNDAMENTAL	TECHNICAL	SENTIMENT	GLOBAL SITUATIONAL
READINGS	NEG	NEG	NEG	NEU	POS

***CAT-5* Focus**	READING	ASSESSMENT
FUNDAMENTAL	NEG	The IEA report just solidified the negative reading of this category. Views that the market was balancing have been debunked. More and more production is coming on-line, not less. Demand in Asia is faltering, and the shale players are mounting a comeback.

Expanded*View*

The IEA has come around to our view that global oil market will remain in surplus or over-supplied well into 2017. We could never get our head around the math others were using to declare that the market is or will balance this year. As we have continually pointed out, output from Iran, Iraq, Saudi Arabia, and Russia have done nothing but gone up. Russia will 200k bpd of production, before year-end. The IEA sees a trifecta of bearish elements for the market, with production continuing to rise, demand to slow, especially in Asia, and global inventories rise, prolonging the clearing of the supply overhang. Chinese tea pot refiners will continue to add the global surplus of refined fuels, and the U.S. shale players are making a comeback, driving down costs more and more, to the point where plays are profitable in the upper-$30s. This was one of the most bearish IEA reports that we can recall, and it represents a sea change for their outlook. It will send many traditional Wall Street analysts scrambling, as many of them rely on the IEA for their primary source research. Look for sentiment to turn quite negative now, as the crowd joins us.



PIVOT TABLE	
RESISTANCE-3	49.01
RESISTANCE-2	47.11
RESISTANCE-1	45.90
PIVOT	46.21
SUPPORT-1	44.00
SUPPORT-2	43.31
SUPPORT-3	41.41

Expanded*View*: WTI Crude Oil Technical Analysis

A wedge pattern has emerged on the chart, defined by the uptrend channel off of the lows from February and August, joined by the downtrend off of the high from June. The most recent price action would seem to favor the bears for now. Prices failed, recently to take out support at $48, and $46 has now emerged as resistance. Initial support is seen at $44.50, before key support from last week at $43. A break of those levels will usher in losses back down to the August low at $39.19. Overhead resistance is seen at $46 and $48. Prices need to rally past $48 for the downtrend channel to be violated, which would enable an upside breakout. Play for more losses.

Energy Overview: Natural Gas

Monday, September 12, 2016
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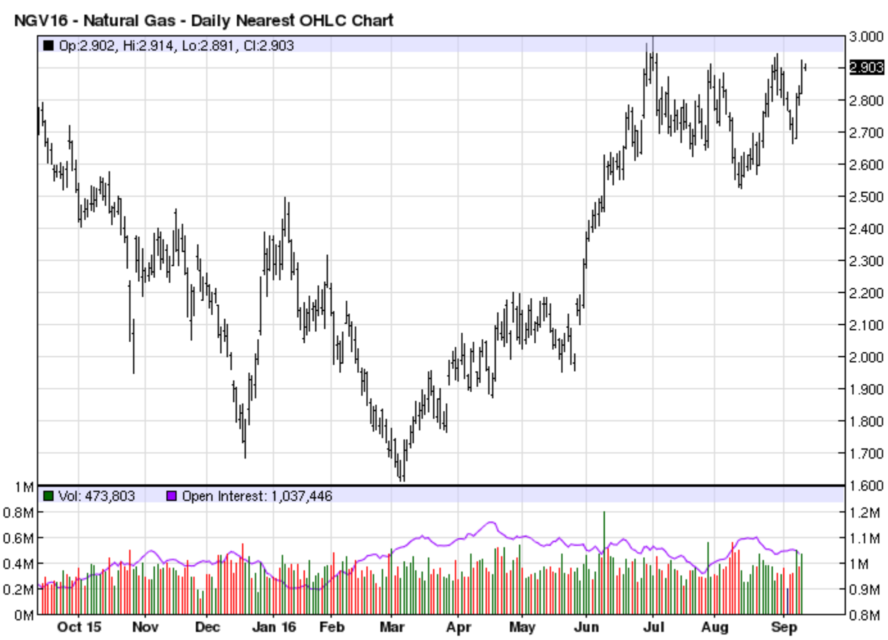
CAT-5	MACRO ECONOMIC	FUNDAMENTAL	TECHNICAL	SENTIMENT	GLOBAL SITUATIONAL
READINGS	POS	POS	NEG	POS	NEU

***CAT-5* Focus**	READING	ASSESSMENT
FUNDAMENTAL	POS	The summer heat has been impressive, driving cooling demand throughout, with some particularly warm days, just as recently as last Saturday in the Northeast. The cooling demand worked to reduce the surplus to last year and the five-year average markedly, almost to deficit, making for a supportive fundamental set-up.

Expanded*View*

Natural gas prices are building on yesterday's gains, in overnight trading. The latest smallish net injection, reported by the EIA in its weekly storage report, last Thursday, has sparked quite a rally. The rapid rise is similar to how prices took off during the early summer. There were successive days where prices leapt ever higher, on an almost daily basis. The fall in the surplus to singe-digits over last year and the five-year average is finally underpinning the market. All summer, the heat was on, pushing cooling degree days to fifteen percent above normal. The heat is finally moderating, but the damage appears to have been done. There has finally been some storm activity that helped remind the market about the seasonal vulnerability. To be sure, the market remains well-supplied, but inventories need to grow more robustly over the next few weeks. Otherwise, a sizeable rally will ensue, and we are still considering whether to play for that,



PIVOT TABLE	
RESISTANCE-3	3.049
RESISTANCE-2	2.957
RESISTANCE-1	2.922
PIVOT	2.865
SUPPORT-1	2.830
SUPPORT-2	2.773
SUPPORT-3	2.681

Expanded*View*: Natural Gas Technical Analysis

Prices spiked higher, yesterday, closing at $2.915, near their high for the day at $2.924. Prices need to take out resistance at $2.943, the high from late last month, in order to then mount a challenge of the high from July at $3.00. The current rally, off of the low from last week at $2.652, has a steep upward slope, with large daily bars built on top of each other, leaving the gains vulnerable to retracement. The rally is at a critical juncture, and failure to power through $2.943 risks sparking a big sell-off. The chart is daring you to play for more gains and an upside breakout. It may be worth taking the dare.

