

What Does it Mean?

No, this isn't about Kellyanne Conway's shoes on the WH sofa.

We are a curious people. We all want to know why about everything that happens because Enquiring minds want to know. Do such things matter to our lives that it's imperative that we understand why Honey Boo Boo's mother has lost so much weight? I think not. Yet, we yearn to understand things that have no real impact on our daily routine because somehow we think it's necessary to understand how Nicole Kidman could clap without really moving her hands. So my teeming millions, let's take some time today to scratch that itch. Let's delve into the reasons behind why so many people took deferred positions in the Brent contract.

As most know by now, the GSCI rule has taken effect here in the Brent futures contract. Investors, big and small, will have to reduce their exposure in the deferred contract because the spread between deferred months (2nd and 3rd) is less than 0.5%. The most difficult thing to understand is that a market in backwardation (front over deferred) happens a lot. The problem that we're seeing here is that moving down the curve, deferred contracts are in backwardation and that's not all that logical. Considering that there's always more oil if need be, deferred contracts that are based on physical delivery, are still able to be produced. OPEC may have cut back on production, but we're in no economic situation right now where we will see a lack of oil supply because demand is so high. I could go on about all of this and detail, but the easy explanation is that America is still holding record levels of crude and in a worst case scenario we would be able to export enough crude to save the day and really piss off OPEC.

No, this is more about something we discussed last week. This is about the natural decline of the North Sea and everything that is being done to ignore that fact. Let's imagine that we heard that Taco Bell was going to completely stop making the original Maximelt. There was shortage of one of the cheeses that they had put into this off the menu treat and they we're going to have to add another to keep it going. Well knowing that they were already off menu and now there was a shortage of supply to the original recipe, people may start hoarding them now in anticipation of the change. Welcome to North Sea Brent crude. Over the past week we were told that the mix of crudes that made up the Brent Contract were soon to include another production stream (Troll field). Not only does this signal to me that they needed to add Troll (~200K b/d) to maintain quality and volume, but it's also likely that investment into the North Sea has also taken a big hit the past few years. It's one thing to see production on a steep rate of decline, but with a lack of money being put into the North Sea fields, the Brent stream is going contain more letters than the alphabet. So to bring this back to where we started, if you're thinking this is true, you're likely betting on buying on the BFOE contract now because that's what you expect to be delivered. The Futures contract is BFOE right now and it's going to be worth more than the BFOET or anything else they want to add. Everybody wants some, but there's only so much that it can give out.

That's Hot

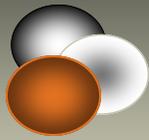
- Making America Great Again (we can start with refiners taking a lot lighter crude blends)
- WTI (when in doubt, nobody delivers like America can)
- Brie Larson (the only part of the Oscars that was worth watching)



It's like déjà vu all over again

That's Not

- North Sea decline (everyone wants oil, just not over there)
- OPEC (don't look at US oil exports, look at Nicole Kidman clapping)
- Judge Wapner (it's always time for Wapner)



Oil Outlooks and Opinions

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Crude:

And another month bites the dust. It's hard to believe that we're already moving along to the **CLJ7** contract. We now pivot past the last month of the year and that should be worth something to everyone trying to play the cash and financial markets. We kick off with resistance here at 5466, 5572 and 5660. We'll look back lower to support at 5340, 5255 and 5177. We'll also change the lead spread and the front spread moves up to **CLJ7/CLK7** and start with resistance at -22, -16 and -05. Support comes back to -34, -45 and -58. Let's get this week done right and the new contract back in play. Back to reality. Follow the Dollar, maybe follow the dream.

Gasoline:

OK laziness has been set aside and I'm moving ahead the **RBJ17** contract. We can start with resistance here at 17515, 17780 and 17940. Support looks below to 17326, 17185 and 16980. The front spread moves to **RBJ7/RBK7**. Resistance at -180, -105 and -66. Support to -260, -312 and -385. The **RBJ7/CLJ7** gets resistance at 1933, 2035. Support falls to 1850, 1775.

Distillate:

The calendar keeps us moving and we are focused on the **HOJ17** contract. We'll get resistance here at 16644, 16870 and 17035. Support looks back to 16420, 16250, and 16080. The front spread bumps up to **HOJ7/HOK7**. Resistance here looks at -72, -55. Support holds down to -94, -115. The crack moves up to **HOJ7/CLJ7** Resistance at 1570, 1660. Support back to 1488, 1410.

Trends are only for the affected:

Alas, these things never work out as we ever expect them too. I think if I had a dollar for every failed Head and Shoulders on the CL chart, I'd have my own fund right now. So let's move on from that dream on the 60min chart and continue on with the scintillating sideways action. We're playing here between 5250 and 5500 and it's more of the same we've seen all this week and most of last. Making a move outside these parameters might be worth noting, but good luck with that.

Fundy you should mention:

Funds love oil and that's all there is to that. Back in the 2000's, funds stayed heavy on the long side of the market and absolutely killed it. They weighted heavy back in 2003 and never looked back until 2008. The issue here is it's a lot longer road just to get from \$55 to \$60. I can't even think about \$80 and to note, funds don't have that patience either. Busy stats day: GDP (2.1) and International Trade (-\$66B) at 8:30am ET, Case Schiller HPI (0.7) at 9:00am, Chicago PMI (53.0) at 9:45am and Consumer Confidence (111.3) and KC Fed Mfg Index (12.0) at 10:00am.

Sorry, I am just physically attracted:

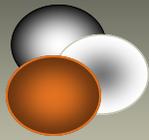
We are heading out of February and into March and that can only mean: AFPM. I still find myself calling it NPRA, but I'm old. Basically a gathering of everyone in the downstream business and then about triple that number in brokers. It's not a bad thing, someone has to buy all the drinks between cocktail events. Seriously though, we should have a good turnout in a few weeks as the physical markets are in better shape than they have been in years. We're also seeing a lot of positive feel about the industry going forward. If anything, I'd expect not only are deals going to get done around supply contracts, I'd also expect a lot of deals to see people moving shops happening too.

Techies, some Trekkies

- 200 Day MA 5112
- 100 Day MA 5254
- 13 Day MA 5388
- 8 Day MA 5399
- 14 Day RSI 50.92

Spread now; Roll later

- Getting there
- Key support: -44, -60, -75
- Key Rests: -18, 00, +16



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Carpe Diem (trade for today):

For those that are losing their faith in the North Sea, we welcome all.

Come with it. I go LONG CLJ7 above 5470. I'm always a little skeptical about a move in CL here above 5500, but with this Brent thing going on, I may be inclined to think about this twice. I've always been a follower of "flight to quality" theory and this looks right on that path. Funds are already heavy longs, but if they are moving money and reallocating to the safer option, I'm willing to see a run up to the 5520 area.

Back to reality. I go SHOR CLJ7 under 5370. I know we're talking about a different contract month here. Yes, April CL usually gets a bit more demand, but we have so much in storage and probably a lot more domestic production by the time this delivers, I can't see a run up here. I do think that we're in a good position to clean up some rally here with profit taking and ahead of the EIA stats. Watching for a swift move down to the 5310 area.

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