

6 February 2012

While markets should be celebrating the better than expected non-farm payroll data released on Friday, it looks like there is a bit of a hangover in the market. Uncertainty over Greece is probably to blame.

The Past Week

WTI crude oil declined by 2% over the past week. A very bearish inventory report on Wednesday sent the WTI price plummeting below the "head & Shoulders" neckline where it stabilized. After testing key support at \$95.50 WTI bounced after the good jobs data out of the USA. Despite the good jobs data we are concerned over the weakening demand for crude and refined products from the world's largest oil consumer.

As mentioned above, the neckline of the head & shoulders formation was breached, but the market bounced back above. Technically there is no clear trend for the near term although a bearish undertone persists where new lows are made along with lower highs. A bounce is possible back up to \$100 but at that level we prefer to sell, looking for a break of \$95 and possibly \$93 to the downside.

We expect a range of \$93-100 for the rest of the week.

When the Rand broke the R7.68/\$ level last week it rapidly fell to the R7.5 level as predicted. Better than expected economic data from many countries, including the USA increased the appetite for risky assets and currencies.

R7.68 will now become resistance, while support is at R7.5. We do not expect this range to hold for long as we believe the Rand will either strengthen more to the R7.3 level or fall back to the R8 level where it has been trading since November last year. The path of least resistance will be a fall back to R8/\$, but a favourable outcome in Europe can send the local currency much stronger.

We expect a range of R7.68-7.95/US\$ for the rest of the week.

Indicator	30-Jan-12	6-Feb-12
WTI	98.9	96.8
ZAR	7.8	7.62

What happened to crude oil demand?

Although Greece is very relevant today, everyone in the financial markets is sick to death over the continuing, never-ending European debt crisis. Consequently we will not write about Greece, but rather focus on the extremely bearish inventory data released last week Wednesday.

The data was as follows:

- Crude oil inventories increased 61% more than expected
- Gasoline inventories increased 6 times more than expected
- Refinery utilization decreased by 0.4%
- Implied demand reduced significantly for crude oil, distillates (diesel) and gasoline.

No-one, including ourselves, is exactly sure why demand is so sluggish from the world's largest oil consumer. The US has not been hit by the same extreme cold that hit Europe, but still they are driving less and less. This creates questions around the positive economic data released in the last month out of the USA. Or perhaps they are having a low energy demand recovery?

Economic Indicators and Outlook for the Week

The Dow gained 1.6% for the week. Most of the gains came on Friday after the release of much better than expected jobs data. **We expect a range of 12400 - 12900.**

The Euro slid 1% over the past week. Stronger than expected US jobs data made the US\$ strengthen and concerns over Greece are placing the Euro under pressure. **We maintain a range of Eur1.29-1.325/US\$.**

Gold retreated by 1% over the past week. We expect risk aversion to support the price in the coming week. **We expect a range of \$1700-1760/oz.**

The Top40 gained 0.7% for the week in lacklustre trading. After a fantastic January it looks like the bulls are getting just a little bit tired. **We expect a range of 30100-30800.**

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Local Diesel Price

On Friday the average over recovery on 0.05% (500 ppm) diesel was 15.137 c/L.

Indicator	30-Jan-12	6-Feb-12
Dow Jones	12660	12862
Euro/\$	1.3171	1.3038
Gold	1731	1715
Top40	30324	30560

Conclusion

The Rand price of WTI has declined by more than R100/bbl in a month. Although there may be a little downside left, our fingers are itching next to the buy button.

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