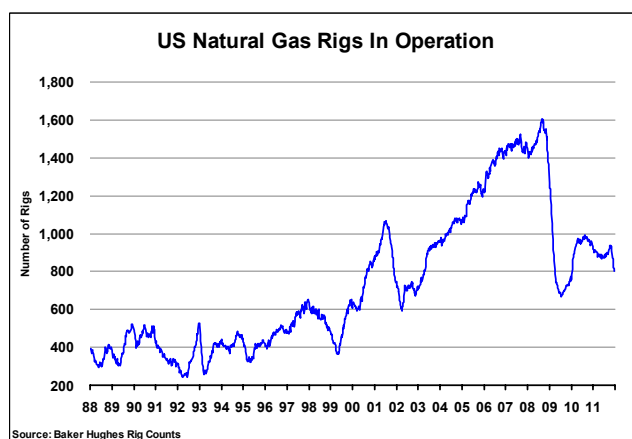
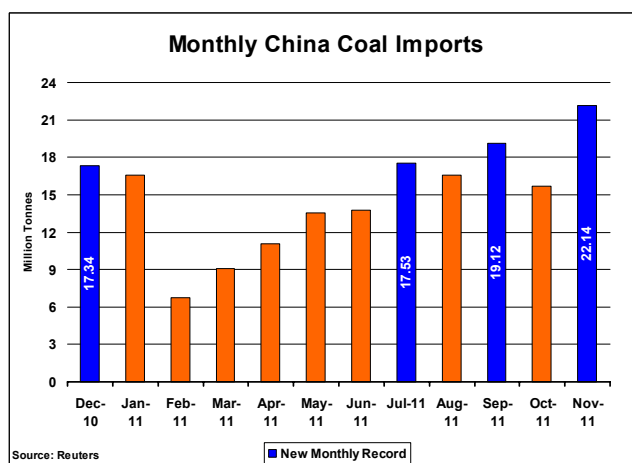
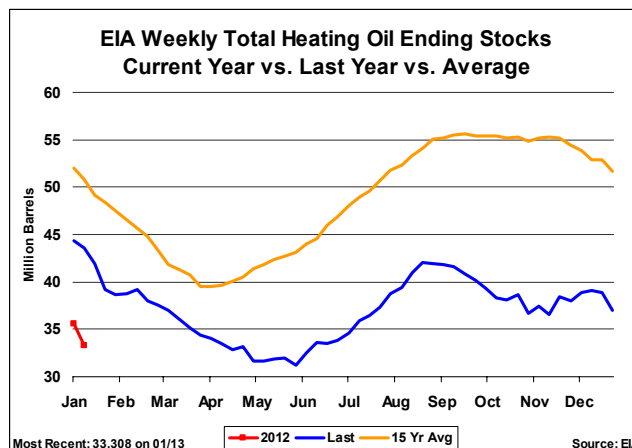


## Energy Complex January, 2012

A combination of growing anxiety over the European debt situation and a rally in the US dollar pressured crude oil prices during the first half of December. That weakness helped March crude oil complete a 3-wave corrective decline off the mid-November high. The \$93.00 trough in March crude oil seemed to correspond with strong economic readings in Germany, the US and China. The December OPEC meeting resulted in a boost in output of 30 million barrels per day. However, it seemed that the growing threat of supply disruptions, most notably from Iran, was the primary catalyst driving crude oil prices toward \$104.00. Reports that Iranian Navy was conducting exercises in the Straits of Hormuz grabbed the market's attention and sparked concerns that the critical export route out of the Middle East could become compromised. Supply disruption fears kept the crude oil market supported and at times offset European debt concerns. Ideas that the Chinese economy might avoid a hard economic landing in early January also bolstered the case for an increase in global oil demand. Meanwhile, overbought technical conditions and delays in an EU agreement for an Iranian oil embargo in mid-January deflated some of the fear premium out of crude oil. Iran and the potential closure to the Straits of Hormuz remains a supply threat for the crude oil market. The market is also keeping a close watch on economic readings and the European debt situation for any potential adjustments to global oil demand.

The natural gas market reached a new 10-year low in January on its quest for a seasonal low. The supply situation for natural gas remains more than ample. The latest EIA forecasts project 2012 US natural gas production to set another record in 2012, up 2.18% from 2011. US natural gas storage ended the month of December at 12.0% above year ago levels. The demand side of the equation has been held back by an unseasonably warm winter that has greatly reduced storage draws. Heat-related demand for natural gas has done little to draw down record storage levels, and that has kept downside pressure on prices. The market is in search for a demand catalyst. A sudden shift to below normal seasonal temperatures in the US could offer a boost in demand, but it will probably take a more definitive shift to turn the trend in favor of the bulls.



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