CRM Customized Strategy Report

Our name reflects our mission to capture/seal profits of producers and end-users by utilizing futures and options to form a barrier around profound market volatility in the energy space.

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Energy Markets

Bullish Forces Have Aligned for Energy

Expecting further upside over the near-term

- Oil: Headlines, fundamentals, technicals, and sentiment have all turned bullish, setting the stage for crude oil's run to over $90 as of the close today.
- The bullish back drop in equity markets underpins the Energy complex. We are growing more confident in our $100 yearend price target for WTI given the bullish forces that have aligned.
- Fundamentally, stocks for both crude oil and gasoline have quickly tracked back down to their respective 5-year average. The reduction in stocks has improved fundamentals over the near-term, which should bolster the bull's argument for higher prices.
- In summary, we believe there is further upside ahead for the energy complex as all the bullish forces aforementioned are in place to carry this momentum higher, likely near the $100 level for WTI.
- Near-term, we expect the $88 level to be near-term support where we expect dip buyers to enter and $100 to be the next major area of overhead resistance.
- Natural Gas: Last week's EIA natural gas data (week 41), Caprock forecasted an injection of 106 BCF while the Reuter's survey of analysts forecasted an injection of +110 BCF.
- The actual number was +106 BCF, slightly below analysts' estimates as well as breaking an 18-year record (first time injections were north of 100 BCF for this time period).
- Through week 41, natural gas storage levels are currently at 3,624 BCF, about 4% higher than the 5-year average
- Natural gas prices have found support at the $3.50 MMBtu level and remain above this level trading near $3.60 MMBtu. With the heating season upon us, natural gas prices may have put in the low for the year. .
- Coal & Utilities: To return next week.

PAST PERFORMANCE IS NOT NECESSARILY INDICATIVE OF FUTURE RESULTS. THE RISK OF LOSS ASSOCIATED WITH FUTURES AND OPTIONS CAN BE SUBSTANIAL

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Petroleum Markets: Getting More Bullish…

Headlines, fundamentals, technicals, and sentiment have all turned bullish, setting the stage for crude oil's run to over $90 as of the close today. Last week, we discussed improving headlines out of Europe concerning the banks and energy fundamentals gradually improving. We have also discussed at length the intra-market tool that we often use to ascertain the long-term trend of markets. The equity markets continue to move higher materially and could be setting up to test this year's previous highs. With the bullish back drop in equity markets underpinning the Energy complex, we are growing more confident in our $100 yearend price target for WTI given the bullish forces that have aligned.

"Bullish Forces Have Aligned, Expecting Further Upside"

Fundamentally, stocks for both crude oil and gasoline have quickly tracked back down to their respective 5-year average. The reduction in stocks has improved fundamentals over the near-term, which should bolster the bull's argument for higher prices. With that said, a sluggish global economy and adequate stock levels across the board for this time of year should mute any risks of a price spike.

In summary, we believe there is further upside ahead for the energy complex as all the bullish forces aforementioned are in place to carry this momentum higher, likely near the $100 level for WTI. The biggest story that has transpired over the last few weeks are the positive news flow out of Europe, which has dissipated the extreme bearish sentiment, and most notable, the fundamental picture for the energy complex as both crude and gasoline stocks have fallen rather quickly to the 5-year average. Near-term, we expect the $88 level to be near-term support where we expect dip buyers to enter and $100 to be the next major area of overhead resistance.

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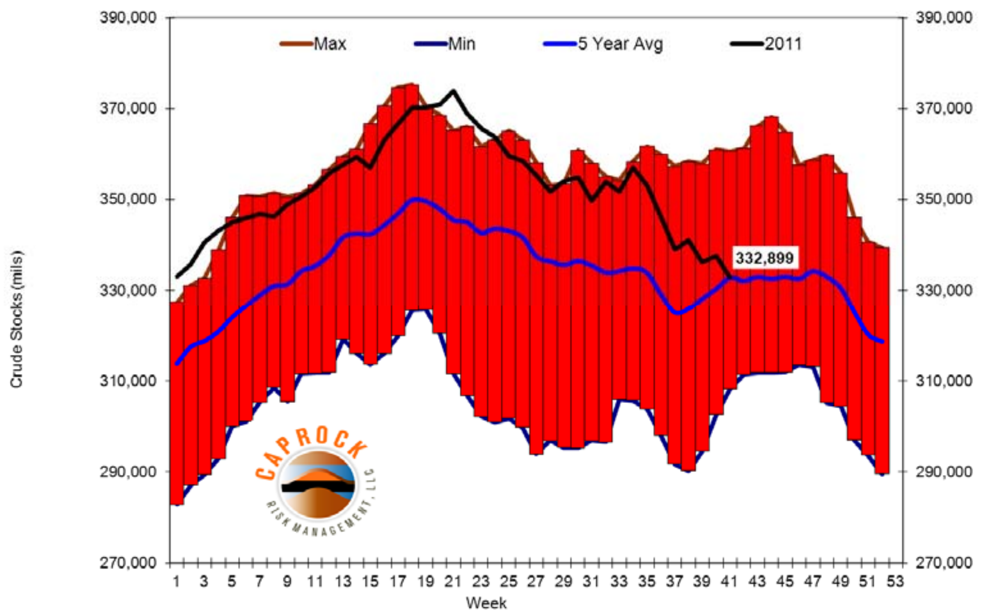
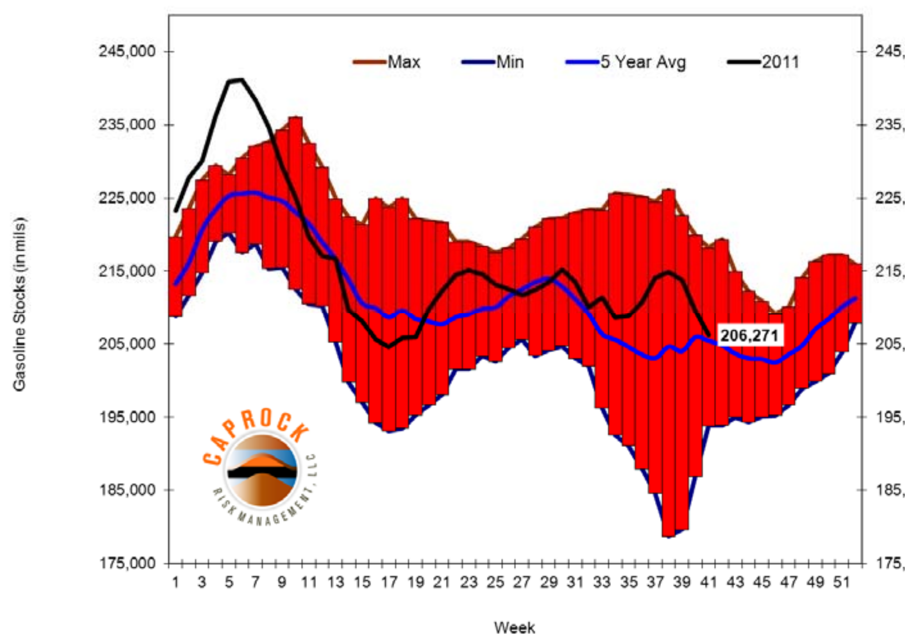
Exhibit 1: Crude Oil Stocks (in mils)



Source: EIA Data, CRM Estimates

"Both Crude and Gasoline Stocks Have Tracked Down to their Trailing 5-Year Averages… Fundamentals Have turned more Bullish"

Exhibit 2: Gasoline Stocks (in mils)



Source: EIA Data, CRM Estimates

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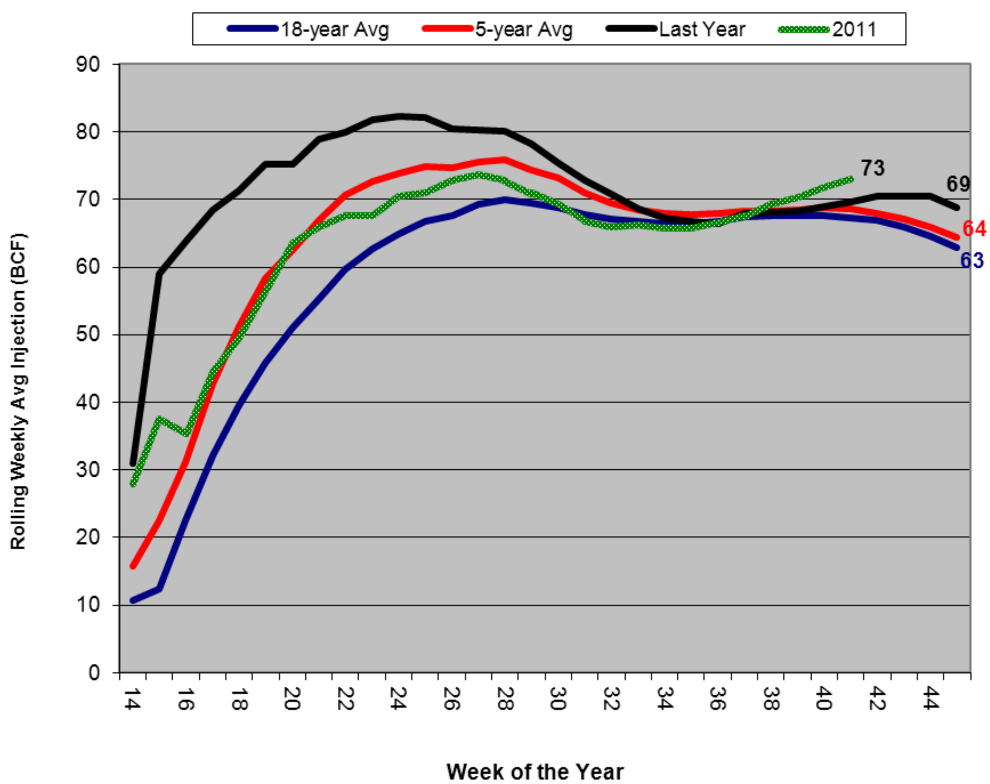
Natural Gas: Injection Season Picks Up Late Steam

EIA Data: Last week's EIA natural gas data (week 41), Caprock forecasted an injection of 106 BCF while the Reuter's survey of analysts forecasted an injection of +110 BCF. The actual number was +103 BCF, slightly below analysts' estimates as well as breaking an 18-year record (first time injections were north of 100 BCF for this time period). The trailing 5-year average for week 41 is +64 BCF. Last year, we saw an injection of +91 BCF. Through week 41, natural gas storage levels are currently at 3,624 BCF, about 4% higher than the 5-year average (see exhibit 4).

Based on our models, the trailing 18-year average for this period in the injection cycle has averaged +67 BCF. To date, weekly injections are now averaging +73 BCF, higher than the trailing 18-year average thanks to a late season surge in injections. This time last year, the U.S. was averaging +70 BCF while the trailing 5-year average is +69 BCF.

"Natural Gas Fundamentals took a turn more bearish as weather demand softened considerable for this time of the year"

Exhibit #3: Rolling Weekly Average Injection



Source: EIA Data, CRM Estimates

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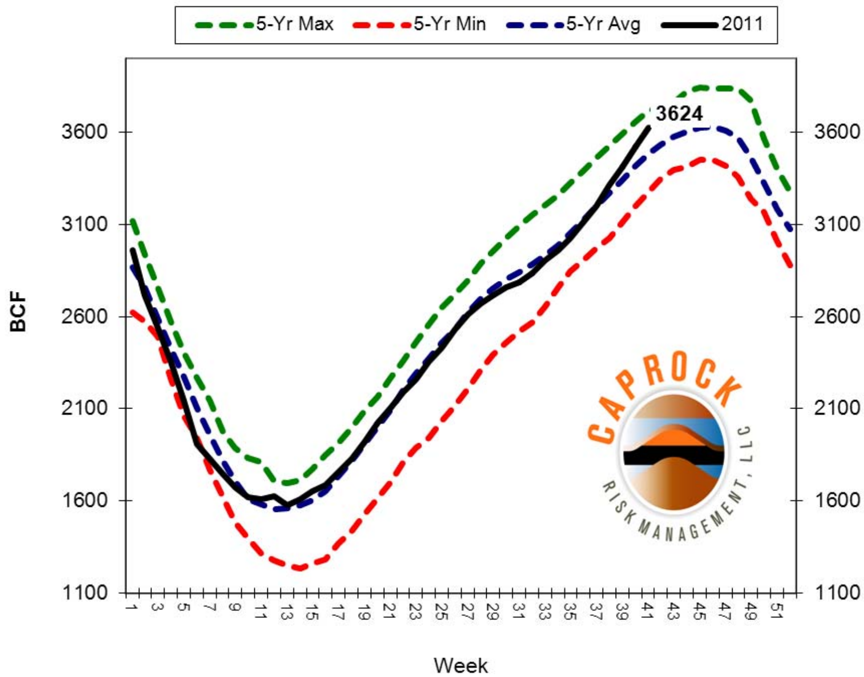
Exhibit #4: Natural Gas Stocks

"2011 Injection Season Ranks 5th out of 18, NG Stocks (3,624 BCF) about 4% higher than the 5-Year Average"



Source: EIA Data, CRM Estimates

Natural Gas Conclusion

With temperatures nationally hovering around the key 65 degrees level (measure of heating and cooling degree days) demand for heating and cooling were well below average leading to the recent surge of injections over the last three weeks. However, once we hit November, the end of the injection season and the start of the heating season, we expect demand to pick back up. Natural gas prices have found support at the $3.50 MMBtu level and remain above this level trading at $3.59 MMBtu. With the heating season upon us, natural gas prices may have put in the low for the year. A breach of $3.50 MMBtu would turn the charts bearish again over the short-term with the next support level coming in at the $3.20 MMBtu level.

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Analysts' Bios:

Christopher Jarvis, CFA, CMT *is the Chairman, Chief Executive Officer, and President of Caprock. He served as the Senior Commodities Strategist for vFinance Investments, a holding company of National Holdings Corporation and as the Head of vFinance Investments Commodities division. vFinance is a wholly owned subsidiary of National Holdings. Prior to working at vFinance Investments, Mr. Jarvis was a senior energy and commodities strategist with Merrill Lynch and Advest. Mr. Jarvis is a regular contributor to CNBC, Fox Business, Reuters, Bloomberg, The Street.com, and Dow Jones wire service, among others.*

He holds a BA from University of Massachusetts and a MBA from University of Connecticut. Christopher has earned the right to use the Chartered Financial Analyst (CFA) designation. He is a member of the CFA Institute. Lastly, Christopher has also earned the right to use the Chartered Market Technician (CMT) designation and is a member of Market Technicians Association (MTA).

Glenn Wattley *has over 30 years of management and technology experience having started his career with CONSOL Energy, Inc and MSA in Pittsburgh, PA. He spent almost twenty years with Arthur D. Little, Inc., leading its utilities practice and Andersen Consulting (now Accenture) as a partner in strategic services. Most recently he has been managing director of West Bay Energy, LLC, a management strategy firm he founded in 1999.*

Over the years Glenn has brought to a range of energy and utility clients strategic business expertise. His consulting work is practical including implementation. He has been retained as a CEO for a privately held startup company, as well as advisor to client board of directors and C-level managements for business turnaround and performance improvement. His work includes due diligence on investment opportunities including merger and acquisition and initial public offerings of energy and technology companies. Glenn is a recognized thought leader and analyst having appeared on NBC, CBS, ABC, CNBC and PBS. He is quoted extensively in the press and has given dozens of keynote addresses at industry conferences. He is also a recognized expert in the application of advanced energy technology such as Smart Grid, distributed generation, renewable energy, fuel cells, coal gasification, etc. Glenn has been retained as an expert witness on industry, business and financial matters. His client base includes investment banks, utilities, public utility commissions, energy and mining companies and the Federal Department of Justice.

Glenn holds a BS in Mechanical Engineering from Columbia University's School of Engineering and Applied Science, and a MBA from Harvard Business School.

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