MARKETS

Inventory Surge Pushes Gasoline Futures Lower

By Nicole Friedman

U.S. gasoline futures tumbled Wednesday after weekly inventory data showed that supplies of refined petroleum products rose more than expected last week, in the latest sign of a crude-oil glut that is rippling through financial markets.

U.S. crude-oil prices stabilized as figures showed that crude supplies fell. But the large increases in product inventories suggest that the glut of oil is being turned into a glut of refined products, and that demand hasn't risen enough to absorb growing supplies.

Light, sweet crude for February delivery fell as low as $47.72 a barrel on the New York Mercantile Exchange after the inventory data were released, down from about $49 a barrel ahead of the report, before recovering at midday.

Oil closed up 72 cents, or 1.5%, to $48.65 a barrel.

Brent crude rose five cents, or 0.1%, to $51.15 a barrel on ICE Futures Europe.

Gasoline futures for February delivery fell 1.67 cents, or 1.2%, to $1.3376 a gallon.

U.S. crude-oil supplies fell by 3.1 million barrels, according to the U.S. Energy Information Administration, bucking expectations for a 300,000 barrel increase in a Wall Street Journal survey of analysts.

But gasoline supplies grew by 8.1 million barrels and stocks of distillates, including diesel fuel and heating oil, rose by 11.2 million barrels. Analysts had expected gasoline supplies to gain 3.2 million barrels and distillate stockpiles to rise by 2.3 million barrels.

U.S. consumption of petroleum products fell slightly in the week, the EIA said. The lower demand could be attributable to a moderate winter lowering heating-oil consumption.

Also, demand by drivers is less responsive than it used to be to low gas prices, according to the EIA, because cars are more fuel-efficient and many drivers have changed their habits in response to high prices in recent years.

The rise in distillate supplies is the largest on record, based on EIA data going back to August 1982.

"This is clearly an extraordinary build," said Andy Lipow, president of Lipow Oil Associates in Houston.

"Refineries are continuing to turn the crude-oil surplus into a petroleum-product surplus...They're hoping that the demand materializes."

Some market watchers also said the large increase in distillates could be due to a drop in exports.

"With oil prices down 50% [in 2014], to half of what they were, it's counterintuitive that we would see a big reduction in demand," said Dominick Chirichella, analyst at the Energy Management Institute. "I assume that something happened on the export side."

The Gulf Coast recently faced a shortage of ships that could export refined products overseas, according to a Jan. 5 blog post by Platts.

"We're getting very congested on the Gulf Coast, between gasoline and distillate exports, as well as propane exports," Mr. Lipow said.

The EIA doesn't update its export data weekly.

The most recently available monthly data showed that total crude-oil and product exports rose to 4.1 million barrels a day in October, the highest level for that month on record.

Oil supplies rose by 1.3 million barrels in Cushing, Okla., the delivery point for the benchmark Nymex contract.

Falling supplies at Cushing helped boost oil prices above $100 a barrel last spring, but stockpiles are now the highest since February 2014.

Oil prices have plunged in recent months amid a global glut. Production has grown rapidly, especially in the U.S., and demand growth has remained tepid.

Fears about economic growth in the eurozone have further weighed on prices this week.

Oil Firms' Dilemma as Prices Drop

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payouts. Brent crude fell by 0.8% to $50.69 a barrel on the ICE Futures Europe exchange on Wednesday, having briefly traded below $50 a barrel for the first time since 2009.

Even when oil traded at over $100 a barrel in recent years, major oil companies consistently needed to borrow to cover their outlays.

A Citi Research analysis of 12 of the world's biggest nonstate-owned oil companies says their cumulative spending on dividends and capital investment—excluding certain acquisitions—was 24% higher than their cash flow in 2013, and has similar estimates for 2014.

Shell, for example, had $40 billion in net cash flow in 2013. But, Citi says, Shell's capital spending and dividend payments outstripped cash flow by 36%. Exxon's cash flow exceeded its dividend and capital spending each year from 2008 to 2013, Citi says, with the exception of 2009. But Citi estimates its shareholder payouts and investment will exceed cash flow by 22% in 2015.

An Exxon spokesman said the company will lay out its capital spending plans for 2015.

Shell Chief Executive Ben van Beurden has said in recent months that last year's capital spending would be lower than 2013's. A spokesman said the company has enough borrowing capacity to maintain dividend and capital spending levels "for a reasonable period of time." Shell's gearing—or debt as a percentage of the company's capital—was 13% last year, Citi says. The company has said it can afford to bring that number up to 30%.

BG Group PLC's dividend and capital spending exceeded cash flow by 47% in 2013, Citi says, and estimates that number rose to 58% last year. A BG spokesman said the company has finished large projects responsible for "the biggest investment period in the company's history."

Eni SpA's capital and dividend spending exceeded cash flow by 59% in 2013, Citi says, though it estimates that fell to 18% last year. An Eni spokeswoman said the company has had a cost-cutting plan in place since the summer.

BP's dividend plus capital investment last year was 2% higher than its cash flow, according to Citi estimates. The bank expects that number to rise to 24% this year. BP's chief financial officer said last year said the company's "first priority within the financial framework will always be to the dividend."

Using debt to cover dividend and capital investments isn't necessarily a problem, especially given the current low interest rates globally. That is the gamble that many companies took in recent years, as they poured money into giant development projects. And even now, the gearing for the world's four biggest nonstate-controlled oil companies is below 20%, which analysts say is a healthy level.

But while the need to borrow in past years came from a decision to invest heavily in growth, borrowing in the near future will be to make up for lost revenue from the oil price drop.

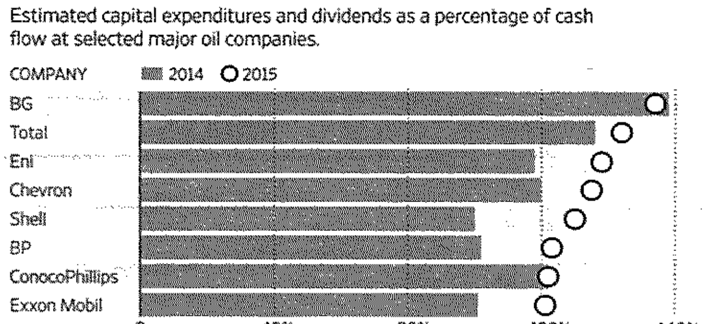
"It's a short-to-medium-term problem, so we're reassessing our position on our holdings in the sector," says Richard Champion, the chief investment officer at Sanlam Private Investments, which was heavily invested in Shell and held shares in BP as of October.

He expects that if oil prices don't rebound in the next two years, the big companies will have to either cut their dividends or invest less in new projects, imperiling their output.

"These guys are in a really hard spot," he said.

Cash Call

Estimated capital expenditures and dividends as a percentage of cash flow at selected major oil companies.



Source: Citi Research

The Wall Street Journal

Hope for ECB Aid Gives Stocks a Lift

By Tommy Stubbington

The latest downbeat news about the eurozone—figures showing consumer prices fell last month from a year earlier—sent stocks higher as investors reasoned the European Central Bank is now more likely to broaden its efforts to boost the economy.

MARKET REPORT

The European Union's statistics agency said Wednesday that consumer prices last month were 0.2% below their December 2013 levels. A decline had been expected because energy prices have plummeted, but the drop was bigger than economists had foreseen.

The Stoxx Europe 600 index rose by more than 1% but slipped back to close with a gain of 0.5%, or 1.59 points, at 333.20. The euro sank to a nine-year-low against the U.S. dollar of $1.1802. It has already fallen more than 2% against the greenback this year.

Investors have been betting for months that the European Central Bank would use large-scale buying of government debt, a tactic known as quantitative easing, or QE, to pump money into the economy, as both the U.S. Federal Reserve and Bank of Japan have done. But the ECB has yet to move ahead.

The decline in inflation is likely to prompt the central bank to take more action, according to Javier Corominas, head of economic research at Record Currency Management, which oversees $52.6 billion of assets. "They are going to take this as the ammunition they need to do QE," he said.

Investors world-wide are increasingly concerned that consumer prices will fall, damaging the economy by prompting people to put off making purchases or investments in hopes that prices will fall further.

Expectations that the ECB will begin buying government debt have contributed to rallies in Europe's bond markets, and prices remained strong on Wednesday. Bond yields fall when prices increase.

The yield on 10-year German debt moved to 0.47% late Wednesday, having touched a record low of 0.43% before the inflation figures were released.

Stocks in the U.S. rose as well, buoyed by the gains in Europe and by upbeat news about employment at home. The Dow Jones Industrial Average jumped 212.88 points, or 1.2%, to 17584.52. The broader S&P 500 advanced 23.29 points, or 1.2%, to 2025.90, and the Nasdaq Composite Index gained 57.73 points, or 1.3%, to 4650.47.

A report from Automatic Data Processing showed that U.S. private-sector employment increased by 241,000 jobs in December.

Improvement in the labor market is a "very strong tailwind for the market to continue higher in 2015, excluding the global macroeconomic situation," said Jeffrey Yu, head of single-stock derivatives trading at UBS AG. He said that much of the recent selling in U.S. stocks—Wednesday's gain by the S&P 500 followed five sessions of losses—had been sparked by global concerns and the slide in oil prices.

Wednesday, U.S. crude prices rose 72 cents, or 1.5%, to $48.65 a barrel as investors responded to news that U.S. stockpiles of oil declined last week. Brent oil gained five cents per barrel to $51.15 on the ICE Futures Europe exchange.

In U.S. stock trading, **J.C. Penney** was 20% higher in late trading. The retailer reported stronger-than-expected holiday sales.

In Europe, **Deutsche Telekom** rose 2.9% after its T-Mobile US unit posted strong growth in the number of wireless subscribers during its fourth quarter.

Aggreko shares rose 3%. The U.K. temporary-power provider said it expects a small increase in 2014 profit after winning a contract in Argentina and extending an existing contract with the same customer.

—Carla Mozee and Saumya Vaishampayan contributed to this article.

Fund Scorecard

U.S. Long/Short Equity

These funds primarily take long/short positions in US equities. At least 60% of their assets are in UCDA (US/Canada/Developed America) equities. Ranked on % total return (dividends reinvested) in Euros for one year ending January 07, 2015

Leading 10 Performers

FUND RATING*	FUND NAME	FUND MGM'T CO.	CURR.	LEGAL BASE	% Return in $US** YTD	1-YR	2-YR	5-YR
NS	**The Amvona Fund, L.P.**	Lemelson Capital Management, LLC	USD	USA	**57.17**	58.71	90.27	NS
5	**Krensavage Partners LP**	Krensavage Asset Management, LLC	USD	USA	**48.16**	55.43	57.33	40.46
4	**Outer Islands Capital LP**	Outer Islands Capital Management LLC	USD	USA	**49.18**	49.18	52.59	24.13
3	**Lycos Value Class O Fund**	Lycos Asset Management Inc.	CAD	CAN	**42.92**	42.92	25.71	24.30
4	**Harvest Small Cap Partners**	Harvest Capital Strategies LLC	USD	USA	**42.80**	41.17	24.02	16.37
4	**Marlin Fund, Limited Partnership**	Masters Capital Management LLC	USD	USA	**34.18**	40.39	54.07	34.45
NS	**JENOP Global Healthcare Fund A USD**	Optima Fund Management LP (New York)	USD	CYM	**35.52**	39.03	NS	NS
5	**Cushing MLP Opportunity Fund, LP**	Cushing Asset Management, L.P.	USD	USA	**31.63**	37.89	29.00	25.60
NS	**Venator Select Fund A**	Venator Capital Management Ltd.	CAD	CAN	**33.57**	37.67	NS	NS
5	**M. De Groote Total Market**	M. De Groote Co.	USD	USA	**33.58**	37.24	41.91	30.83

NOTE: Changes in currency rates will affect performance and rankings.
KEY: ** 2YR and 5YR performance is annualized
NA-not available due to incomplete data;
NS-fund not in existence for entire period

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