THE HIGHTOWER REPORT

Futures Analysis & Forecasting

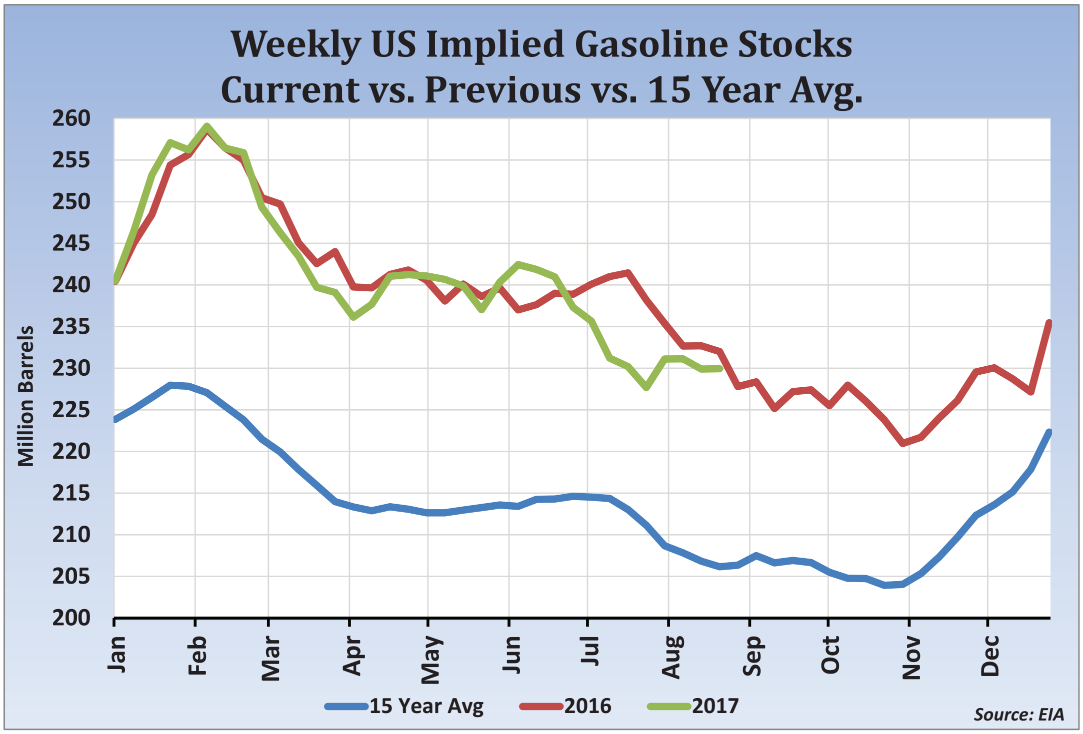
SPECIAL REPORT

HightowerReport.com

September 5, 2017

RBOB Overdone

Buy a Big Break off Refinery Issues & Tightening Supply



Prior to Hurricane Harvey, the fundamentals in the energy complex were improving, but they were already fighting against a one month downtrend within an eight month downtrend pattern. With fears of a shutdown of 5% to 12% of US refining capacity, the crude oil market was forced sharply lower, while at the same time that gasoline prices exploded to the upside.

US crude oil stocks have fallen for nine straight weeks, and the 53.7 million-barrel decline

141 West Jackson • Suite 4002 • Chicago, Illinois • 60604 • 800-662-9346 • 312-786-4450 • info@HightowerReport.com • @HightowerReport

since June 1st points to a cleaning up of supply and should give credence to idea that the June low was significant. The aftermath of the storm will continue to be a negative factor for crude oil over the near term, but the shutdown of a critical portion of US refining capacity will significantly tighten gasoline inventories. It will keep retail prices elevated, and it will clean out the supply channel between the refineries and the retail pump.

We have already seen three record-high weekly implied gasoline demand readings this summer. Gasoline stocks were already below year-ago levels prior to the storm, and they should now fall further below in the coming weeks. Clearly the world has become much more dependent on US refinery production than was previously thought. Prior to Hurricane Harvey, demand was good and overall energy supplies were coming down. Prospects for a smooth, quick return to a 96.6% refinery operating rate (the last reading before the storm) are not very strong.

The gasoline market tremendously overbought. The most recent COT report showed an escalating spec and fund net long position in RBOB, and this will likely be adjusted much higher in the wake of the $0.28/gallon rally that took place after the August 30th report was measured.

Look for a significant corrective setback from this past week's highs, with a first retracement target (of the June/August rally) in the nearby RBOB futures all the way down at $1.5948. Another potential downside corrective point would be $1.5367, but that level would essentially discount the storm damage! Obviously, a return to pre-storm levels would be irrational and unstainable, and such a move should be seen as a signal to buy bull call spreads in the December RBOB contract.

Suggested Trading Strategy

Bull Call Spread - BUY a December RBOB 1.50 call and SELL a December RBOB 1.58 call for a net cost of 325. Use an objective of 590 on the spread, and risk it to 190.

Disclaimer