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### Trader's Corner

*This week's Trader's Corner focuses on total U.S. propane inventory.*

As we write, propane is retreating rapidly following a bearish Energy Information Administration (EIA) report on inventory that occurred last week. Inventory built about 600,000 barrels more than average for week 33 of the year. Midwest inventory also gained (though slightly below average), ending two weeks of reported draws.

In this report, we are going to look at total U.S. propane inventory and why recent results made such a big difference in price direction. However, before we do, we want to remind you of last week's topic. We discussed very specifically how to protect gains using a put option. We would like you to go back and read that piece again because the pullback in prices we have experienced since then will make the "lesson" much more meaningful to you. If you don't have last week's report, please contact us and we will send it to you again.

On Friday, Aug. 17, we called the close on Belvieu propane at 92.5 cents and Conway at 82 cents. One week later, as we write, Belvieu has dropped 12.625 cents and Conway 10 cents to 79.875 cents and 72 cents, respectively. Those are very significant 14 percent and 17 percent drops in value.

We all know propane prices had been in a strong uptrend,

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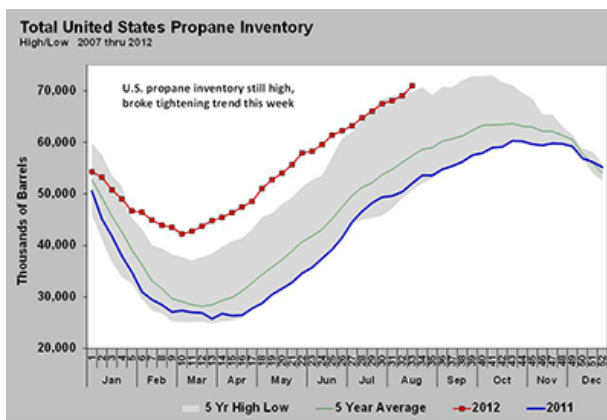
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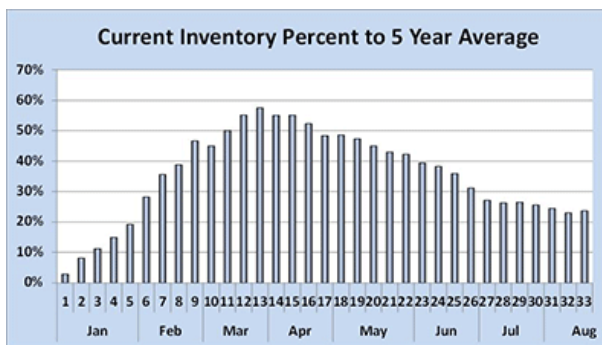
especially in Conway over this month, but when the momentum broke it was significant. The momentum was built on the inventory trend, not the inventory position. The uptrend in price was very dependent on the inventory trend remaining intact. The reason for the sharp pullback was that the trend faltered.

Upward momentum in Belvieu was already lost before last week and prices were drifting slightly lower. The drift lower was directly related to higher-than-average builds in Gulf Coast propane inventory. However, Midwest inventory continued to decline and experienced draws for a couple of weeks. That pushed Conway prices higher and limited the downside for Belvieu. But, as the chart below shows, the overall position of U.S. propane inventory was very high and thus bearish for prices.



If one were just looking at the chart above, he would see little reason for the price rally in the first place. Inventory was consistently setting new five-year high marks. In fact, propane prices were reflecting the high inventory, with record low values relative to WTI crude. Conway had traded to just 25 percent of crude and Belvieu to 34 percent earlier this summer.

However, over the last month or so, traders stopped trading the inventory position and started trading the inventory trend.



The chart above shows how much inventory is above the

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five-year average. Inventory was 57.43 percent above the five-year average during week 13 or at the end of winter.

From there, the amount of inventory excess or overhang began to decline very slowly. This trend was largely ignored for a couple of months. The focus remained on inventory position, not inventory trend.

But that began to change a couple of months ago, as the trend became the focus and prices began to rise as a result. Then the trend began to shallow up, resulting in Belvieu prices leveling off. The neutral-to-bullish pricing for propane was highly dependent on the continuation of the trend.

What made last week significant was the trend was broken. Inventory was 23 percent of the five-year average in week 32, but increased to 23.62 percent in week 33. The break in the trend put the focus squarely back on inventory position, which is bearish indeed.

Propane should continue to trade the inventory position unless the trend resumes its downward pattern. That will make every EIA report into the foreseeable future very important to price direction.

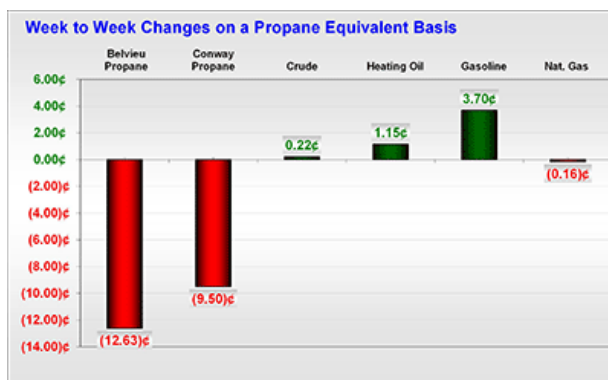
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**WEEK IN REVIEW**

Crude stayed neutral for the week, as threats to supply offset worries about the global economy.

Propane took a heavy hit after the EIA reported bearish inventory data.

We start the week bearish as propane has been trading the inventory data and crude failed to hold above technical support on Friday.



**LAST WEEK'S DAILY HIGHLIGHTS**

**Monday:** The upward momentum for propane continued

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to slow. Reports that the European Central Bank (ECB) planned to step in to buy bonds when euro zone sovereign debt reached a predetermined level sent crude up, but then the ECB denied the report, causing crude to retreat to near Friday's close.

**Tuesday:** Conway ended a four-day slide with a solid rally. Belvieu also moved up but lagged crude and Conway. Traders pushed crude higher on hope there was some truth to the European Central Bank plan for managing sovereign debt.

**Wednesday:** Propane prices sunk after the Energy Information Administration released bearish inventory data for propane. Inventory built nearly 600,000 barrels more than average for the 33rd week of the year. Crude posted gains after a 5.4-million-barrel draw on crude inventory and nearly a million-barrel decline in gasoline stocks.

**Thursday:** Major retreat in propane prices as traders continued to trade the inventory data from Wednesday. WTI surged early following the release of the minutes of the last Federal Reserve meeting. The minutes suggested that the Fed was moving closer to another round of quantitative easing. However, later in the morning, a Fed president said the probability of more quantitative easing had declined with recent economic data.

**Friday:** Propane prices gave up another big chunk of value as prices reacted to the inventory build reported on Wednesday. Crude finished slightly lower as a possible reserves release pushed money from crude toward equities.

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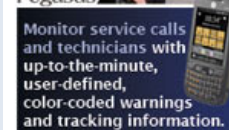


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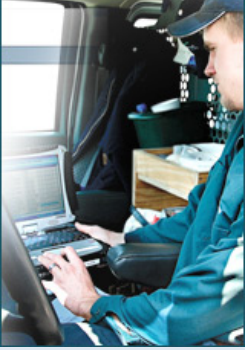




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