

MARKET COMMENTARY

OUTLOOK *The sharp reversal in US equities market dragged oil prices lower by the end of the day, coming after an earlier turnaround triggered by an essentially bearish EIA report showing an unexpected increase in crude oil stocks (see Inventory Highlights box) and a large increase in distillate inventories. As for future market direction, crude oil prices currently appear to remain stuck in a narrow band between \$75 and \$78, fluctuating with whatever the prevailing take on the prospects for economic recovery, with the threat of a significantly active hurricane season in the background. (The NHC has reduced the chances that Invest 93 off Haiti will strengthen from 60% to 50% but its projected course squarely into the Gulf is already prompting evacuation of offshore facilities).*

As indicated, the EIA Weekly Inventory Report showed US fundamentals remaining weak, with supply still exceeding demand even though it continues to improve. Quoting the respected Oil and Gas Journal, "Since 2008 the market has filled with oil and the ability to produce it. Measureable inventories are high... (and) global production capacity exceeds actual production by 6 million barrels. Under these conditions prices don't react much to burbles in jittery exporting countries". It will certainly put a ceiling on any potential upside.

Technical indications after yesterday's sharp down turn from last week's highs have retreated from the generally bullish tone of the last few days. The current focus is now on support just below \$76, with resistance in the \$78 area (reinforcing that "narrow band" perception). Even so, the technical outlook suggests the recent advance is not yet over.

NYMEX - PRIOR SETTLEMENTS

<i>Heating Oil</i>		
Month	Close	Change
August	\$1.9892	-\$0.0355
September	\$2.0163	-\$0.0343
October	\$2.0437	-\$0.0322
November	\$2.0720	-\$0.0306
December	\$2.0994	-\$0.0292
January	\$2.1270	-\$0.0282
February	\$2.1464	-\$0.0273
March	\$2.1542	-\$0.0265
April	\$2.1527	-\$0.0246
May	\$2.1524	-\$0.0220
June	\$2.1549	-\$0.0202
July	\$2.1678	-\$0.0192
August	\$2.1821	-\$0.0186
September	\$2.2014	-\$0.0180
October	\$2.2212	-\$0.0174
November	\$2.2402	-\$0.0172
December	\$2.2582	-\$0.0169
January	\$2.2752	-\$0.0164
Nov-Mar 10-11 NYMEX strip***		\$2.1227
*** Degree day weighted		
<i>Other NYMEX</i>		
	Close	Change
Crude	\$76.56	(\$1.02)
Natural Gas	\$4.5370	\$0.0370
Gasoline	\$2.0678	(\$0.0108)

INVENTORY HIGHLIGHTS

	2010	Change	2009	3-yr avg
Crude oil	353	+0.4	343	330
Gasoline	222	+1.1	215	212
Distillates	167	+3.9	161	137
PADD 1	68	+2.7	68	53
N. Eng	11.1	+0.2	11.5	10.1
Ref runs	92	+1	86	88

PETROLEUM CHARTS

