SPRAGUE MARKETWATCH
Thursday, September 02, 2010

MARKET COMMENTARY

***OUTLOOK** Strong manufacturing reports out of China and the US, reversing several weeks of disappointing macroeconomic news, triggered the biggest one day rally on Wall Street in eight weeks with its weaker dollar corollary as investors moved into riskier equities. The combination produced a somewhat surprisingly large spike in oil prices, going against the tide of a bearish EIA Weekly Inventory Report (see Inventory Highlights box) and pushing up against the limits of resistance, in what at the time seemed to be a rather overdone reaction. That may be subject to some correction today, evident in this morning's weaker opening, as investors again reconsider whether the recession is really over on the basis of one day's good news.*

That EIA report showed crude stocks rising three times more than forecast and gasoline coming in with a small draw as expected (but still much less than in previous years in one of the busiest driving weeks of the summer). Distillates showed a surprisingly large draw down but mostly attributable to continuing large exports as overseas demand exerts itself. More significantly as Greenwood Associates Doug Podolak points out, it still leaves distillate stocks 8.4% over last year, and a whopping 25.8% over the past 5-year average. The overall net effect is bearish, as all these US inventory reports have generally been all year, with the current total stocks excess over 209 now at 42 million barrels or 3.8%.

Technically, yesterday's spike leaves analysts uncertain and looking for choppy sideways congestion over the next few days before further direction develops. On hindsight, the events of the last week suggest the market found a floor at the bottom of the much discussed $70-80 trading range but need to break through resistance at $74 to indicate the prevailing downside bias is over.

NYMEX - PRIOR SETTLEMENTS

Heating Oil Month	Close	Change
October	$2.0411	$0.0494
November	$2.0632	$0.0478
December	$2.0871	$0.0462
January	$2.1139	$0.0459
February	$2.1313	$0.0459
March	$2.1395	$0.0460
April	$2.0950	-$0.0409
May	$2.0982	-$0.0412
June	$2.1037	-$0.0414
July	$2.1197	-$0.0416
August	$2.1372	-$0.0419
September	$2.1587	-$0.0422
October	$2.1797	-$0.0424
November	$2.1982	-$0.0424
December	$2.2157	-$0.0427
January	$2.2342	-$0.0422
February	$2.2427	-$0.0422
March	$2.2432	-$0.0422
Nov-Mar 10-11 NYMEX strip***		$2.1167

*** Degree day weighted

Other NYMEX	Close	Change
Crude	$73.91	$1.99
Natural Gas	$4.0410	($0.1070)
Gasoline	$1.8891	$0.0317

INVENTORY HIGHLIGHTS

	2010	Change	2009	3-yr avg
Crude oil	362	+3.4	343	328
Gasoline	225	-0.2	205	197
Distillates	175	-0.8	164	142
PADD 1	73	+0.3	70	58
N. Eng	13.1	-0.1	12.3	10.6
Ref runs	87	-1	87	89

PETROLEUM CHARTS