

**Nd MARKET COMMENTARY**

**OUTLOOK** Friday's 11-week crude oil price high finalized along with Bennie's prospects of developing into a major storm (it was essentially done by Saturday) and underwhelming results of the "stress tests" on the European banking system's capability of responding to the debt crisis over there. Those same elements are being credited for this morning's slide below \$79, but investors are about pushing it down too far ahead of a number of important US macroeconomic reports due out this week, starting with June new home sales today and consumer confidence, durable goods, and Q2 GDP. However, disappointing results could easily renew concerns over the double-dip possibility. Lastly, oil is technically near the top of the recent trading range. If it fails to break out, more downside is likely.

"Contango" is a strange word and refers to a commodity's pricing structure in which forward prices exceed current values and understanding what it means is essential to understanding why a commodity that is in current overwhelming oversupply like petroleum continues to attract investors. Without lecturing, very simply investors see oil as a diminishing strategic resource, where future values will always be more attractive than present ones. Consequently it just makes sense to buy, hedge and store. Hence contango. When it weakens, the converse is true, and when there is a significant disruption and prices shoot up everybody makes money. Except the consumer.

As previously noted, with crude prices near \$80, they are pressing up against resist levels, and Friday's rejection suggests a pullback. A close under \$77.50 signals the end of the attempted breakout but a break of \$76-76.50 is necessary to show a reversing turn back to lower levels.

**NYMEX - PRIOR SETTLEMENTS**

<u>\$Heating Oil</u>		
Month	Close	Change
August	\$2.0505	-\$0.0119
September	\$2.0786	-\$0.0109
October	\$2.1058	-\$0.0093
November	\$2.1327	-\$0.0093
December	\$2.1587	-\$0.0096
January	\$2.1853	-\$0.0100
February	\$2.2040	-\$0.0101
March	\$2.2124	-\$0.0092
April	\$2.2110	-\$0.0089
May	\$2.2107	-\$0.0083
June	\$2.2133	-\$0.0079
July	\$2.2268	-\$0.0076
August	\$2.2412	-\$0.0076
September	\$2.2606	-\$0.0076
October	\$2.2806	-\$0.0076
November	\$2.2996	-\$0.0076
December	\$2.3176	-\$0.0076
January	\$2.3346	-\$0.0076
Nov-Mar 10-11 NYMEX strip***		\$2.1813
*** Degree day weighted		
<u>Other NYMEX</u>		
	Close	Change
Crude	\$78.98	(\$0.32)
Natural Gas	\$4.5260	(\$0.0370)
Gasoline	\$2.1222	(\$0.0244)

**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**

