

Nd MARKET COMMENTARY

.OUTLOOK "It's really only investor bullishness that's holding oil prices at the current level. The physical supply/demand fundamentals really don't justify \$77-78 a barrel." (John Kemp, Reuters Energy Analyst.) *He adds that the market underestimates the potential for a significant price drop going forward. None of this is something that any observer of the oil market doesn't already know, but it just about sums up yesterday's muted price reaction to bearish economic news in the form of a surprise drop in July durable goods orders and a whopping crude oil increase in the EIA's weekly inventory report (see Inventory Highlights box). This morning's opening minimal follow through suggests the modest erosion may continue into tomorrow when key Q2 GDP numbers are due out. If those are better than the street's expectations of a 2.5% increase (which some analyst think may be the case), prices could get a significant boost, renewing the perception that \$75-80 remains a well-supported trading range.*

Those EIA crude build was dramatic but the one element that persists is the improvement in US demand from last year's admitted weak numbers, the one thing that could eventually overturn Mr. Kemp's case. Total product demand was up 3.4% over 2009, gasoline by 2.1% and distillates, a better measure of recovery, soared by 9.3%. Today's Deutsche Bank's Global Commodities Daily report focuses on this as a key supportive element going forward.

With the two-day downturn, technical indicators have switched to sideways, suggesting that a close under \$76.50 may drive selloffs down to \$75. Meantime analysis supports relatively tight congestion between the \$76.50 and \$78.25.

NYMEX - PRIOR SETTLEMENTS

<i>Heating Oil</i>		
Month	Close	Change
August	\$1.9964	-\$0.0030
September	\$2.0260	-\$0.0034
October	\$2.0546	-\$0.0037
November	\$2.0835	-\$0.0033
December	\$2.1110	-\$0.0036
January	\$2.1380	-\$0.0038
February	\$2.1573	-\$0.0034
March	\$2.1667	-\$0.0030
April	\$2.1666	-\$0.0030
May	\$2.1678	-\$0.0033
June	\$2.1723	-\$0.0038
July	\$2.1871	-\$0.0038
August	\$2.2021	-\$0.0038
September	\$2.2221	-\$0.0035
October	\$2.2421	-\$0.0035
November	\$2.2606	-\$0.0035
December	\$2.2781	-\$0.0035
January	\$2.2951	-\$0.0035
Nov-Mar 10-11 NYMEX strip***		\$2.1341
*** Degree day weighted		
<i>Other NYMEX</i>		
	Close	Change
Crude	\$76.99	(\$0.51)
Natural Gas	\$4.7770	\$0.0340
Gasoline	\$2.0634	\$0.0002

INVENTORY HIGHLIGHTS

	2010	Change	2009	3-yr avg
Crude oil	361	+7.3	348	329
Gasoline	222	+0.1	213	210
Distillates	167	+0.9	163	140
PADD 1	68	+0.5	68	54
N. Eng	10.9	-0.2	11.6	10.2
Ref runs	91	-1	85	88

PETROLEUM CHARTS

