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ENERGY MARKET REPORT FOR JUNE 29, 2010

OPEC's Secretary General Abdalla Salem el-Badri said he wants to mend fences with the IEA and avoid a repeat of an oil stockpiles release that has strained consumer-producer relations. He said he hoped to set up a meeting with IEA Executive Director Nobuo Tanaka to discuss better coordination between consumers and producers.

The head of the IMF, John Lipsky said he is comfortable with supply and demand fundamentals affecting oil prices after they fell from a peak of nearly \$115/barrel in recent weeks.

Market Watch

The National Hurricane Center said Tropical Storm Arlene's winds increased to 50 mph around midday Wednesday. The system, which off Mexico's eastern coastline, could approach hurricane strength prior to an expected early Thursday landfall. The system though is expected move north of Mexico's main crude export ports and major offshore oil fields also are seen remaining out of the path of the storm.

The National Association of Realtors' seasonally adjusted index for pending sales of existing homes increased by 8.2% on the month to 88.8. It was the strongest monthly gain since last November. April's level was revised up to 82.1. The pending sales index for May was 13.4% above its level last year.

The euro moved higher against the dollar on the expectation that the Greek government would win approval for legislation detailing specific implementation measures for an austerity package. Greek Prime Minister George Papandreou won a parliamentary majority in favor of a five year austerity plan in a vote on Wednesday.

A Commodity Futures Trading Commission case against the US unit of Optiver Holding BV, a Netherlands based hedge fund, has been referred to US Magistrate Judge Theodore Katz for settlement. The hedge fund was charged with using a rapid-fire trading program to manipulate crude, gasoline and heating oil prices on the NYMEX. According to the CFTC, Optiver gained \$1 million in profits in 2007 by accumulating a large position just before the market closes and offsetting those positions at the close itself, manipulating prices through volumes of trades.

Supporters of Venezuela's President Hugo Chavez hailed the release of new footage of the socialist leader as proof he was recovering well from surgery in Cuba despite speculation he may have cancer. Both Venezuela and Cuba released new video and photographs of him walking and chatting with Cuba's Fidel Castro. The new images do not disprove a rumor that he has prostate cancer but they do support the official line that he is recuperating from an operation. The focus is now on whether he will be back in Venezuela to host a regional summit planned for July 5th.

The managing director of S&P warned today that the U.S. would immediately see its top-notch credit rating slashed to "selective default" if it misses a debt payment on August 4th. He said that U.S. Treasury bills maturing on August 4th would be rated 'D' if the government fails to honor them. Meanwhile the IMF said the failure of U.S. lawmakers to agree soon on a deal to raise the government's borrowing limit could deliver a severe shock to a still fragile recovery and global markets.

The European Commission reported today economic sentiment for the Euro Zone for June fell to 105.1 from the 105.5 recorded in May.

EU member governments reportedly have struck a provisional deal today on preventing market abuse in energy trading. The proposed regulation would set up a framework for monitoring wholesale energy markets in order to detect market abuse and manipulation. The deal would require energy traders and other market participants to sign up to national and European registers. The agreement also outlines the levels of fines for non-compliance. The agreement will now have to be approved by the European Parliament, before it can become law.

The president of the Dallas Fed said today that he sees U.S. economy expanding by 4% in the second half of this year

An IEA official said it could decide by mid-July whether strategic oil reserves need to be extended for a month or two. He believes the release will be temporary since demand will likely drop in the fourth quarter. Meanwhile German officials said today that it has started sales of 4.2 million barrels of crude oil and oil products. The bidding deadline is Thursday for the products and Friday for the crude oil. The sales price would be based on international market levels plus a logistics component. The stocks offered for sale were at about 170 locations in Germany.

DOE Stocks

Crude – down 4.375 million barrels
Distillate – up 258,000 barrels
Gasoline – down 1.428 million barrels
Refinery runs – down 1.1%, at 88.1%

Vitol Holding said it is in full compliance with US laws that bar trading with Iran and said it is reviewing whether it will bid for any of the 30 million barrels of crude currently offered from the US SPR. It said it is not precluded from participating in the sale.

Britain's Foreign Secretary William Hague said Iran has carried out secret tests of nuclear capable missiles.

A spokesman for the rebel Libyan National Transitional Council said the council would allow all contracts signed under Muammar Gaddafi if it comes to power and would cancel any where it found signs of corruption.

Refinery News

Colonial Pipeline issued nomination freeze notices on its main distillates line, north of Collins, Mississippi for Cycle 36 and Cycle 37. The company also reported today that it will expand its main distillate line between Houston and Greensboro to add another 55,000 b/d of capacity. The expansion is expected to be completed by June 2012.

Citgo Petroleum Corp's 163,000 bpd Corpus Christi, Texas refinery resumed planned rates Tuesday after problems with an off gas receiving facility cut production on Monday. Problems at the Westmark-Javelina plant also affected production at Valero Energy Corp's refinery.

Pasadena Refining System's 100,000 bpd Pasadena, Texas refinery shut units on Wednesday morning due to a power outage.

LyondellBasell said its 280,700 bpd Houston, Texas refinery was not affected by power problems in the area.

BP Plc's 437,080 bpd Texas City, Texas refinery completed the restart of its fluid catalytic cracking unit No. 1. An electrical power outage shut the unit in April. It was restarted and then shut again on June 13th due to a loss of a blower.

The North Dakota Industrial Commission's Department of Mineral Resources said the rail transport for 50,000 barrels of North Dakota crude that has been disrupted by floods should find an alternate route by July 1st. The oil is normally transported by rail to St. James, Louisiana and Cushing, Oklahoma.

Sunoco Logistics Partners LP agreed to acquire terminals in New Jersey and Massachusetts from Sunoco Inc and ConocoPhillips. It is purchasing Sunoco's Eagle Point tank farm in New Jersey for about \$100 million in deferred distribution units. It also signed a deal to buy ConocoPhillips' East Boston terminal for \$56 million plus the fair value of inventory.

Japan's Idemitsu Kosan Co shut a 160,000 bpd crude distillation unit at its Aichi refinery on Wednesday due to a gas leak. The company is investigating the cause of the leak and the restart schedule remains unclear.

Government data showed that India's refineries processed 14.38 million tons or 3.4 million bpd of crude in May, up 2.7% on the month. Refinery runs in May were 4.5% higher than the 13.75 million tons reported in May 2010. India's crude oil production increased 9.6% on the year in May to 3.23 million tons or 763,500 bpd. Government data also showed that India's natural gas production fell by 9.6% in May to 4.14 billion cubic meters from 4.59 billion cubic meters a year earlier. Meanwhile, India's crude oil imports in May increased by 1.75% on the year to 13.63 million tons or 3.22 million bpd.

The Petroleum Association of Japan reported that crude oil inventories in the week ending June 25th fell by 246,429 kiloliters to 17.19 million kl or 108 million barrels. It reported that Japan's gasoline stocks increased by 91,328 kiloliters to 2.05 million kl while its gasoil stocks increased by 70,452 kl to 1.795 million kl while its kerosene stocks increased by 57,376 kl to 2.204 million kl on the week.

<p>June Calendar Averages CL – \$96.33 HO – \$2.9792 RB – \$2.9469</p>

Gasoline premiums may face downward pressure from an increase in South Korea supply in the coming months. Hyundai Oilbank Ltd turned from a buyer to a net exporter after commissioning a new 52,000 bpd residual fluid catalytic cracking unit on May 6th, increasing the availability of export cargoes for other Korean refiners that supply its domestic retail network.

Thailand's PTT plans to import an additional 29 million liters of fuel oil with 2% sulfur from Singapore to help offset the impact of an offshore gas pipeline leak. The second lot of fuel oil would be delivered on July 1st, while the first lot of 30 million liters is scheduled to arrive on July 6th. The main pipeline is expected to resume operations in the next two weeks.

Saudi Arabia's fuel oil exports to East Asia surged to a 26-month high of 450,000-500,000 tonnes, almost twice the level of June's exports.

The EIA estimated U.S. oil demand in April was weaker than previously reported, with monthly oil consumption posting its first year over year drop since November 2009, as it declined by 1.57% from April 2010. Much of this decline was caused by escalating gasoline prices which caused demand in gasoline to drop by 3.75%. The agency also estimated April crude oil imports fell to its lowest level for the month since 1997. Imports were down by 10.5% from the same month a year ago. Canada and Saudi Arabia remain the two largest suppliers to the United States.

Production News

OPEC's reference crude oil basket price rebounded to \$103.59 a barrel on Tuesday from \$101.56 on Monday.

ExxonMobil Corp said it began producing oil from the Hibernia Southern Extension development, adding 223 million barrels of new reserves. Oil began flowing from the Hibernia South field during the weekend.

The economic advisor to President Dmitry Medvedev said the Kremlin is seeking to implement a unified export duty on oil products in 2012 or 2013 contrary to statements made by the Energy Minister earlier this week that the new tax system should come into effect this summer. The proposal to change the oil export duty system would cut the duty on crude oil to a marginal rate of 60% from 65%, previously while adjusting duties on refined products to 66% of the level of crude oil.

Vietnam produced around 1.17 million tons or 285,900 bpd of crude oil in June, down 2.8% on the year. Crude production in the first half of the year increased 0.1% on the year to 7.23 million tons.

Two more Forties crude oil cargoes are believed will be delayed in July due to lower than expected field production levels. It now appears that at least five cargoes will be delayed in July.

Market Commentary

Early session gains were boosted by unexpected decreases in both crude oil and gasoline inventories. Prices had trimmed early gains on news that Greece had voted for an austerity plan in efforts to resolve its debt crisis. Most of the focus has been on Greece and its economic crisis, as traders feared that demand would dwindle upon a slowdown of the European financial system. Today's release of the inventory numbers gave hope that demand is increasing as refiners turnaround more barrels of crude oil. The August crude oil contract traded as high as \$95.84, prior to settling up \$1.88 on the day, at \$94.77. Technical indicators are calling for a test at the descending trendline on a spot continuation chart. This trendline is currently set at \$96.03.

Crude oil: Aug 11 316,712 -1,760 Sept 11 183,770 +9,855 Oct 11 74,297 +2,896 Totals 1,524,313 +21,254 Heating oil: July 11 15,260 -6,390 Aug 11 94,798 +3,009 Sept 11 46,523 +671 Totals 309,256 +102 Rbob: July 11 11,376 -4,464 Aug 11 71,536 +1,503 Sept 11 44,815 +2,632 Totals 234,667 -631

Crude Oil		Heating Oil		Rbob	
Support	Resistance	Support	Resistance	Support	Resistance
			31325		
		27150	32777		33369
	9821	26680	33370	26965	35915
	10244	27375	33510	26300	36310
8950	10339	23685		25683	
8700	10845	22960		25145	
8625	11120			24240	
8500	11483			23631	
8385	11563			23414	
	11703				

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