Energy Brief

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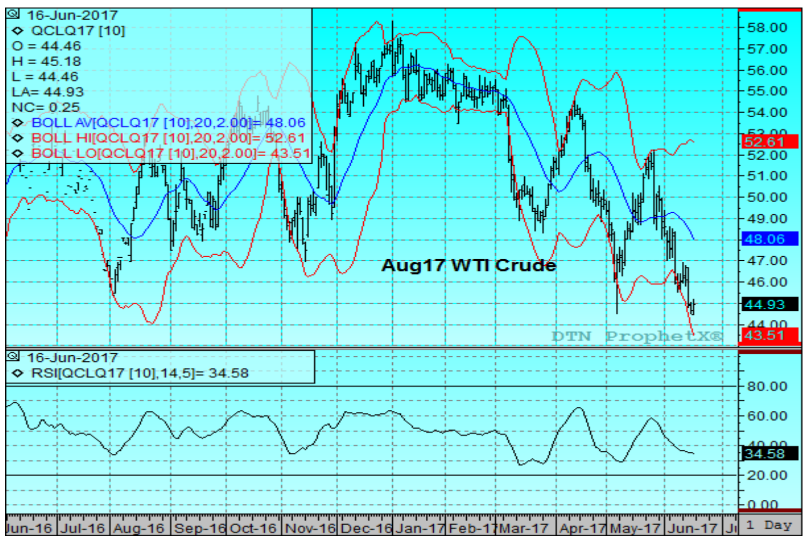
Price Overview



The petroleum complex traded in a tight trading range with values attracting pre weekend booksquaring and registering modest gains. The market still is assessing the weak price action since late May amidst ideas OPEC and non-OPEC production curbs are not enough to counter the large stock overhang and the increasing production of Nigeria, Libya and in North America. Nevertheless, the market is approaching what we see as key support and bearish news appears to be discounted.

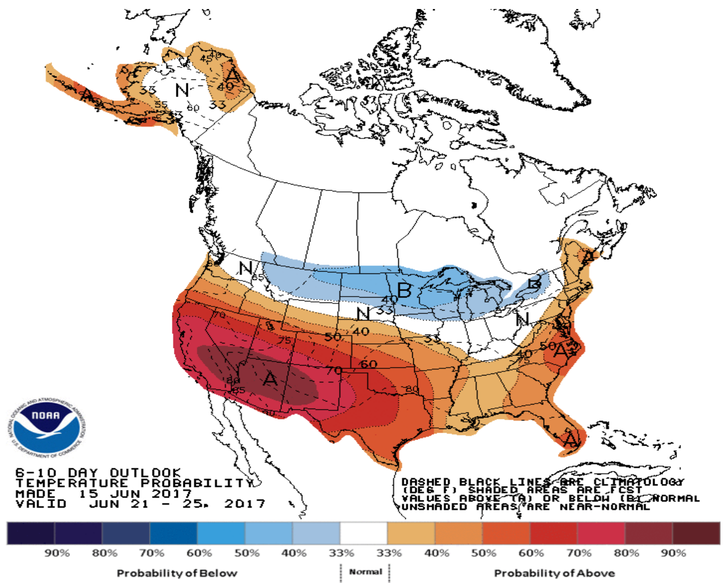
At some point, it looks like the key producers of Saudi Arabia and Russia will need to take action if the market attempts to fall further by reassessing and reining in global production levels. Seasonal tendencies by which Saudi Arabia power generation increases during summer should help limit their export availability and already seems to be limiting export allocations in July. With Russian sanctions by the US getting tighter, Russia appears to have a greater incentive in working with Mid-East producers in a more coordinated fashion in order to support petroleum values due to not only budgetary considerations but also for diplomatic advantage. Any signs of restraint on the part of producers will go a long way to supporting values particularly with the liquidation of speculative long positions recently in evidence.

Potential bearish forces still need to be overcome. The increase in US rig counts which 6 this week continue to point to an expanding US production potential although prevailing prices are providing some disincentive to longer term price expectations and likewise capital investment. In addition, the high refinery runs continue to lead to the production of excess gasoline. Although rising demand should be apparent as we move through the summer, the weakness to demand so far this year is a source of concern.

However the better demand for diesel from the export market might help the bearish connotations associated with products. .

No doubt it will take time for the market to rebalance and it looks that many participants are becoming discouraged just as we move into a stronger period seasonally for demand. During this period, US crude stocks have typically declined along with global stocks but a more distinct draw in gasoline will need to be evident signaling a better demand base. How quickly this occurs will be key for any recovery. Disappointing aspects of the market remain the weakness in US gasoline demand and the production increases from Libya and Nigeria which has weighed on the market more than anticipated. For next week, a key level will be the 44.25 area basis August given the July expiration on Tuesday, June 20 and would favor the long side against this level into the July expiration.

Natural Gas



Following yesterday's strong recovery in response to the EIA report that showed an injection of 78 bcf, prices attracted scattered profit taking. Ideas production looks to be increasing is helping offset forecasts for above normal temps in the 6-10 day forecast. Nevertheless the prospect that demand might surge up to 75.1 bcf over the next two weeks should help underpin values and maintain a firm cash undertone. It appears that demand is stronger than forecast and with exports increasing we look for better support to emerge back toward this week's lows. Early expectations for the EIA report are for an injection of 65 bcf compared to 63 bcf last year and a five year average of 83 bcf. We still see 2.90 as an area of key support in July ahead of its expiration on June 28.

Charts Courtesy of DTN Prophet X