

**HOUSTON, June 11 -- Oil prices continued to escalate** June 10 with the front-month US benchmark contract closing above \$71/bbl in the New York market for the first time in 8 months following reports of unexpected drops in crude, gasoline, and distillate fuel inventories.

Crude topped \$72/bbl in early trading June 11 after the International Energy Agency in Paris increased its prediction of global oil demand for the first time in 10 months, amid indications of a pending economic recovery.

“Improving demand-related sentiment continues to support prices,” said analysts in the Houston office of Raymond James & Associates Inc. “China continues to soak up crude as its May net imports figure reached the second highest level ever.”

In New Orleans, analysts at Pritchard Capital Partners LLC said, “Crude and commodities also received further support from a weak US Treasury market. According to the US Treasury’s ‘Monthly Statement of Public Debt,’ the amount of total public debt outstanding has climbed from \$10.7 trillion in December 2008 to \$11.3 trillion at the end of May, and if the deficit is \$1.8 trillion as predicted, the Treasury still has another \$1.2 trillion of debt to issue. As a result, commodities may continue to be seen as an alternative for some investors.”

The Energy Information Administration said commercial inventories of benchmark US crude fell 4.4 million bbl to 361.6 million bbl in the week ended June 5. Gasoline stocks dropped 1.6 million bbl to 201.6 million bbl in the same period. Distillate fuel inventories were down 300,000 bbl to 149.7 million bbl (OGJ Online, June 10, 2009).

Olivier Jakob at Petromatrix, Zug, Switzerland, pointed out, “Gasoline stocks are not rebuilding in the weeks that followed the Memorial Day weekend, and that could be a sign of firm end-consumer driving demand. US gasoline stocks are now 8 million bbl lower than a year ago, and the data released by Euroilstock yesterday shows European gasoline stocks to be a mirror image of the US, with gasoline stocks on our side of the Atlantic also down 8 million bbl at the end of May vs. a year ago.”

### **IEA outlook**

IEA increased its oil demand forecast by 120,000 b/d to 83.3 million b/d. The latest total is down 2.9% from 2008 demand, compared with IEA’s previous prediction of a 3% decline. This “may reflect a slowing in the previously sharp decline,” said agency officials.

They also reported production by the Organization of Petroleum Exporting Countries increased 160,000 b/d to 28.4 million b/d. Production in the 11 member countries other than Iraq increased 110,000 b/d to 26 million b/d, compared with their official quota of 24.85 million b/d.

IEA increased its estimate of 2009 non-OPEC supply by 170,000 b/d due to stronger growth of new Russian fields, more robust North Sea production, and higher crude output in Colombia. Non-OPEC production this year is expected to total 50.5 million b/d, down 100,000 b/d from 2008.

Global oil production in May dropped 210,000 b/d to 83.7 million b/d. A production drop of 370,000 b/d

among member nations of the Organization for Economic Cooperation and Development outstripped increased OPEC production, IEA reported.

While the IEA report “was on the more bullish side,” it contained nothing too surprising or “game-changing,” Raymond James analysts said.

### **Energy prices**

The July contract for benchmark US sweet, light crudes escalated by \$1.32 to \$71.33/bbl June 10 on the New York Mercantile Exchange. The August contract gained \$1.29 to \$72.30/bbl. On the US spot market, West Texas Intermediate at Cushing, Okla., was up \$1.32 to \$71.33/bbl. Heating oil for July delivery increased 2.5¢ to \$1.83/gal on NYMEX. Reformulated blend stock for oxygenate blending (RBOB) for the same month climbed 4.86¢ to \$2.02/gal.

The July natural gas contract lost 2.3¢ to \$3.71/MMBtu on NYMEX. On the US spot market, gas at Henry Hub, La., increased 3¢ to \$3.56/MMBtu. EIA reported the injection of 106 bcf of natural gas in to US underground storage in the week ended June 5. That increased the amount of working gas in storage to 2.4 tcf, up 586 bcf from the same period a year ago and 438 bcf above the 5-year average.

Pritchard Capital Partners noted BP PLC’s latest Annual Statistical Review of World Energy showed US gas production rose 7.5% in 2009—“10 times the prior 10-year average,” they said.

In London, the July IPE contract for North Sea Brent crude gained \$1.18 to \$70.80/bbl. Gas oil for June was up \$9.25 to \$564.50/tonne.

The OPEC office in Vienna was closed June 11, so there was no price update on that group.