

STAR ENERGY

Energy Market Update July 28, 2010

NYMEX Prices

Futures Prices as of the close on 7-28-10

| | |
|-------------------|-----------|
| Aug Crude Oil | \$ 76.99 |
| Aug RBOB Unleaded | \$ 2.0634 |
| Aug Heating Oil | \$ 1.9964 |
| Aug Natural Gas | \$ 4.774 |

MARKET COMMENTS: This week provided a lot of market excitement with not much movement. It seems the markets in general want to move higher but there is no confidence to do it. TS Bonnie fizzled and was a non event. Second quarter earnings were a boost for most companies. On the other hand consumer confidence is low. We have been in a \$10 trading range for 8 weeks and, for now, there doesn't seem much to take us out of the range.

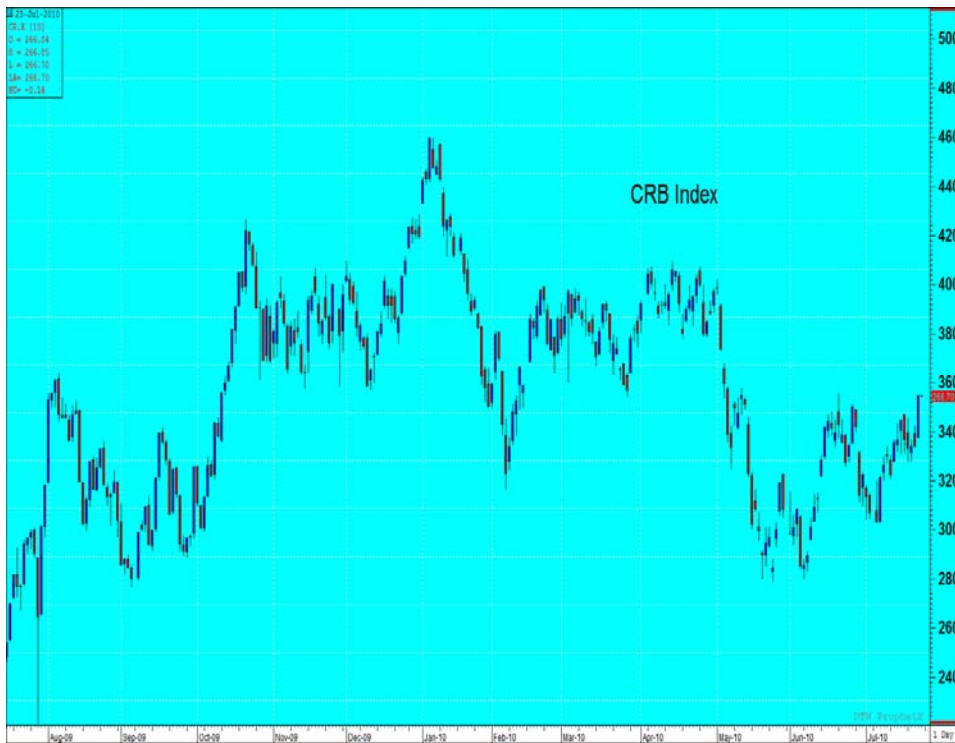
| | <u>Crude</u> | | | | <u>Gasoline</u> | | | | <u>Heating Oil</u> | | | |
|-------------|------------------------------|--------------|------------|------------|--------------------------|--------------|------------|------------|---------------------------|--------------|------------|------------|
| | Change | Total | 3Yr Avg. | 5 Yr. Avg. | Change | Total | 3Yr Avg. | 5 Yr. Avg. | Change | Total | 3Yr Avg. | 5 Yr. Avg. |
| DOE | +7.3 | 360.8 | 329 | 327 | +1 | 222.2 | 210 | 209 | +9 | 167.5 | 139 | 135 |
| EST. | -4.5 / +1.0 | | | | -1.5 / +2.0 | | | | +.500 / +2.5 | | | |
| Prop | U.S. Total = +.5 53.0 | | | | Conway = +.6 24.0 | | | | Belvieu = -.1 23.5 | | | |

CRUDE COMMENTS: Crude oil made a strong upside run last week. Crude is hovering just under price resistance near \$80. IF crude gets over \$80, a further upside run could occur. However, if resistance holds near \$80, crude may setback to near \$75.

Here are some items we are watching:

1. The stock market is holding up well and much of the support may be coming from strength in the Chinese stock market. Remember that China led us lower and now it is trying to pull us back up. Moore research says the DOW has rallied in 10 of the past 12 years from July 27th to August 24th.
2. Many traders felt that with the gulf storm faded, oil prices should be falling. The storm premium was likely a small part of the action last week.
3. There are a lot of oil and stock market traders bearish or negative at the present time.
4. Several points to watch in crude oil prices are support near \$78 with resistance near \$80 this week. A breakout of this \$2 range will be important.
5. Seasonal studies in energies diverge at this time of year. However, the older 15 yr pattern goes up from now into fall.

A rig that had been drilling a relief well to plug BP oil leak was reconnecting equipment to resume work at the spill site on Sunday, after what was Tropical Storm Bonnie disintegrated over the Gulf on Saturday. BP stopped work on the first well July 20 in advance of the storm and put a plug inside to keep it stable until the last round of casing could be installed. BP will move ahead with assembling the four vessel oil-capture system that can handle up to 80,000 barrels/day in the case it is still needed.

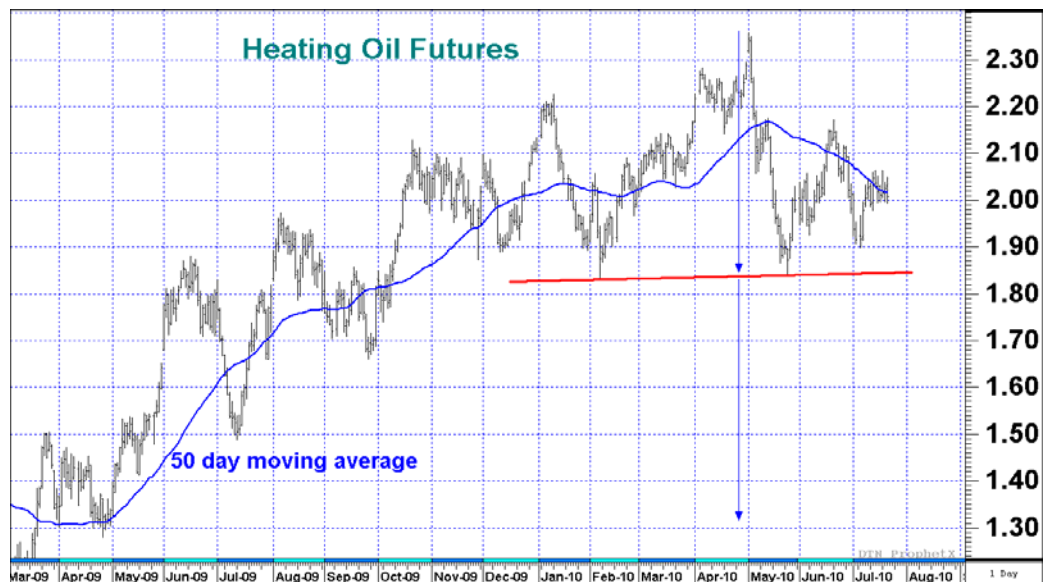


The Reuters-Jefferies CRB index, a global commodities benchmark, hit one-month highs yesterday as oil and copper prices surged 3 percent each on strong euro zone economic data and other positive fundamentals. The index that is comprised of 19 commodities (CRB) was up 1.6 percent, after touching a session peak of 266.41, its highest level since the third week of June. U.S. crude oil futures, which make up the largest weighting on the CRB, jumped 3 percent to almost \$79 a barrel. The market was reassured by better-than-expected european manufacturing and services data,

after Wednesday's testimony by U.S. Federal Reserve Chairman Ben Bernanke describing economic conditions as "unusually uncertain."

A TREND OR NOT? Over the past few years, there has been many reports about global warming or not. Of course, the politicians like to make it attached to one political party or another. A story out earlier this week said that world temperatures in June were the warmest ever for that month. The report was from the National Oceanic and Atmospheric Administration(NOAA). June of 2010 was also the 19th June in a row that sea ice has been below average. Besides all those who want to toss in politics, these continued facts seem to support a warmer period over time. This can have an impact on heating fuels demand over time.

CHARTING THE DIESEL: The following chart of heating oil futures shows a dynamic chart pattern. The pattern unfolding is called a head and shoulders top formation. Several of these patterns in the past year or two have been false signals. Let's see how this one unfolds.



Support lies at 1.90 and 1.85 in nearby heating oil.

Resistance is near 2.08, and 2.18. IF prices would drop under the red line near 1.85, it would open the door for more price weakness. It would project prices under 1.50. Closes over 2.18 would negate that bearish talk and send prices back to the highs just over 2.30.