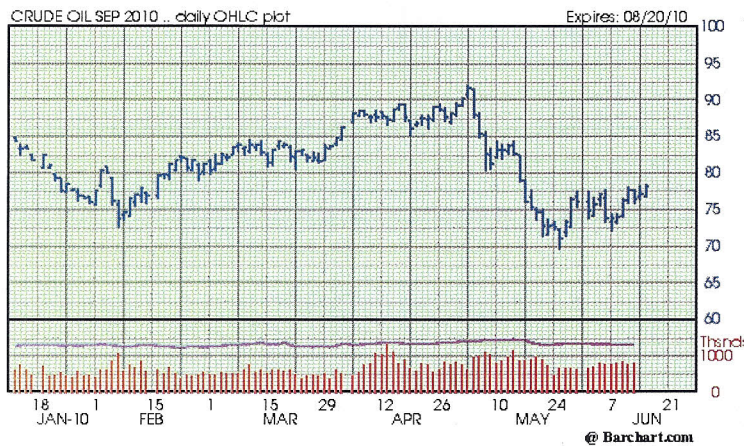


## Crude Oil prices - up, up and away...

### Will Crude rally on a deep sea drilling moratorium?

Since our last report, Crude Oil has steadily made front page news as day 58 of the Gulf Oil spill comes and goes. Reports of up to 60,000 barrels per day have been confirmed even though BP continues to spin their success in slowing the leak. The truth is that nobody really knows how much oil has leaked into the Gulf and the extent of what the short and long-term effects this will have on the environment and the financial viability of the Gulf coast states. President Obama addressed the nation on 6/15/10 to re-assure everyone that the government is doing everything it can to remedy the situation. Crude Oil prices dropped off a cliff during May (see chart below) and have since stabilized in the mid-\$70/bl. range. The US consumes nearly 20% of the world's daily output yet produces less than 2%. For the moment the world is fully supplied with Oil which lent to the \$20/bl. (21%) drop in prices. This however may be short-lived.



A six month moratorium has been imposed on all deep sea drilling off the coast of the US while the government ascertains whether or not the oil companies and their affiliates have followed all appropriate safety regulations. It may only amount to <1% of the world's daily output but could end up having a huge psychological impact on Crude Oil prices. The current over supply of Crude could quickly evaporate due to the seasonal Summer demand.

With over 1 million barrels of oil now dispersed into the Gulf, the likelihood of this going away anytime soon seems remote. The US Dollar continues to rally at the expense of the Euro which is lending to near-term strength in Crude prices. Since Crude is traded in US Dollars, the further the Euro devalues, the more expensive Crude Oil becomes. Aside from the supply/demand picture, if the US Dollar simply gains 10% in value against the Euro in the coming months, we may see September Crude prices bump up against its most recent high of \$92/bl set in April '10.

#### TRADE RECOMMENDATIONS (6/17/2010)

##### Crude Futures:

Long CLU10 (Sept 2010 Crude Oil) at \$74.25 o/b with a GTC sell-stop at \$71.30. If filled, exit position if August 2010 Crude Oil rises above \$84.50. Hold a few positions for a move to \$92/bl.

##### Crude Options:

Buy CLU10 (September '10 Oil) 85 calls (expires- 8/17/10) at 13.80 o/b (\$1380). If filled, exit position if the option price trades above 24.50 (\$2450). Hold a few options for a break-out to new 12-month highs.

