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Daily Oil & Gas Filter

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MACRO NEWS

The significant news in the oil market yesterday was the US Department of Energy's weekly inventory data. Market expectations were exceeded by a 3.7m bbl draw in crude stocks while a gasoline build of 0.9m bbls was about in-line and distillate fuel inventories declined 2.9m bbls. All improvements on the previous day's API data.

Comment: These numbers appear to be quite bullish and the price action yesterday indicates the market liked what it saw. However, we need more convincing given the sharp drop in crude imports last week and the still low refinery utilisation, which fell back to 80%, can explain some of the movement. That said, cold weather in the US should, if it continues, lead to a recovery in demand the market needs to begin clearing excess inventory.

OIL & GAS PRICES (Yesterday's Close)

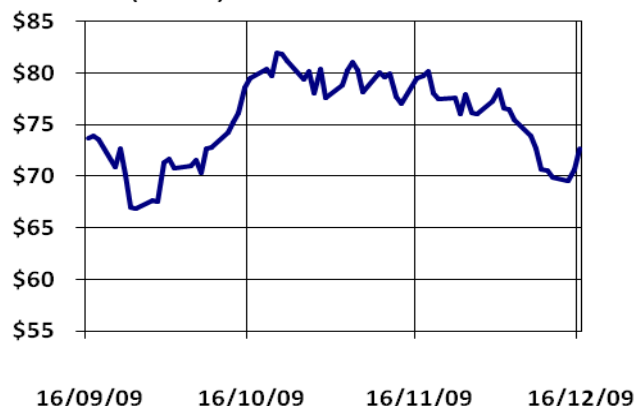
WTI*	\$72.66	+\$1.97
Brent**	\$74.29	+\$1.42
Henry Hub Gas	\$5.56	+\$0.03

* January contract

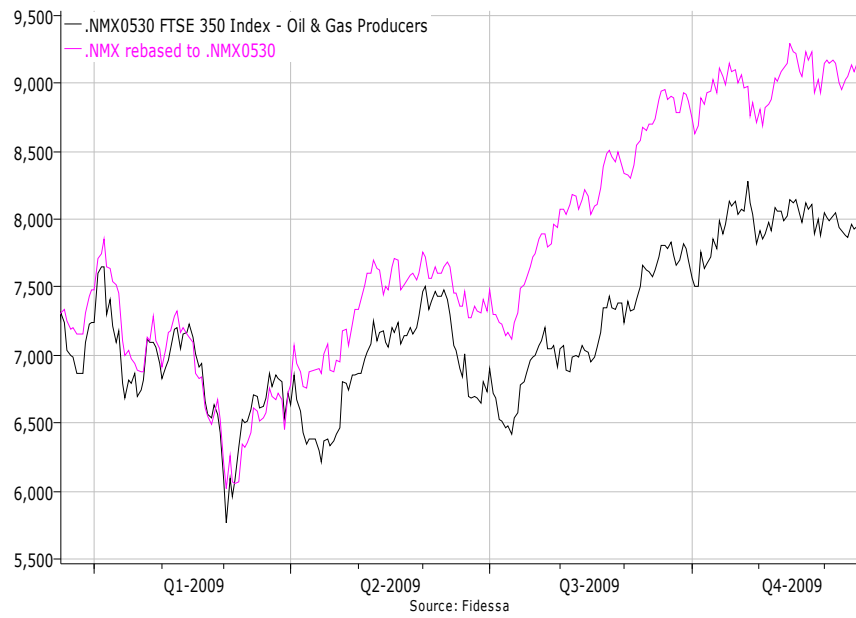
** February contract

This morning, WTI and Brent are trading lower at \$72.25 and \$73.90 respectively.

WTI (JAN10) CRUDE 3-MONTH PERFORMANCE



OIL INDICES PERFORMANCE



DAILY SECTOR PERFORMANCE

Yesterday's % Change

FTSE 350 - Oil & Gas	0.34%
FTSE 350 Index	0.73%
FTSE AIM Oil & Gas	0.33%
FTSE AIM All-Share Index	0.26%

COMPANY NEWS

WOOD GROUP announced a pre-close trading update. The company commented that it had continued to benefit from a robust performance from its production support related businesses and believed that EBITDA for the year would be in line with market expectations. In development related engineering activities, project delays in upstream and downstream projects have reduced volumes and margins. In well support, the division has benefitted from early implementation of cost reduction measures. Reasonable demand continues in gas turbine services. The company's financial position remains strong and the company states it will deliver good operating cash flow for the year. The company also states it considers it is well positioned to deliver good growth as the energy market recovers.

Comment: Overall a rather downbeat statement but we agree that the company's financial position remains strong. We continue to rate the shares a **HOLD**.

MELROSE RESOURCES released a 2010 production and capital expenditure outlook. While saying 2009 production would be a modest 4% higher than prior guidance on a working interest basis, the group set 2010 production at 17,500 boepd on a net entitlement basis. Egypt is expected to contribute 78% of production while Bulgaria and the US make up 17% and 5% respectively.

The capital expenditure budget for next year is expected to be around \$169 million of which \$55 million is contingent on approval of the planned farm-in to offshore Romanian concessions and the start of the Galata gas storage project in Bulgaria. Of the firm capital commitments, the focus on exploration will increase with these activities consuming 33% of the budget compared to 19% this year.

GULFSANDS PETROLEUM announced an update on operations at Block 26 in Syria where it is operator. The Khurbet East 13 (KHE-13) development well encountered 29 metres of net oil pay. An open hole drill stem test flowed naturally over a 24 hour period at an average rate of 1,020 bopd. The rig has since moved and begun drilling the KHE-14 development well. Upon completion of KHE-14, the rig will be moved to the south to drill the Zaman-1 exploration well which will target the same Cretaceous Massive formation as is currently under production at Khurbet East.

PETROCELTIC INTERNATIONAL announced it has increased its stake in the conveniently named B.R268.RG permit located in Italy. The farm-in agreement signed with Vega Oil S.p.A. will result in Petroceltic's interest increasing from 40% to 70% and assuming operatorship. Vega will retain the remaining 30%. In return, Petroceltic will pay 100% of the drilling and completion costs of the proposed Elsa-2 well. The Elsa prospect has gross unrisksed contingent recoverable oil and gas resources of 104.2 million barrels and 31.5 BCF respectively.

PETROLATINA announced an operational update on its activities in Colombia. Main highlights include:

- Two additional wells drilled on the Los Angeles Field
- The Zoe-1 exploration well expected to reach target depth within approximately the next ten days
- Current production of 1,004 b/d net compared to 280 b/d net in 2008

OILEX announced that its rig had arrived at the location of the Lolotoe-1 well in JPDA 06-103 (between Australia and Papua New Guinea) and was running anchors prior to spudding.

THIS MORNING'S BULLS

Description	Mid	Chg	%chg
RANGE RES. ORD NPV (DI)	4.13	0.50	13.79
AURELIAN ORD 5P	29.75	2.25	8.18
ITHACA ENERGY COM SHS NPV (DI)	70.75	4.25	6.39
XCITE ENERGY ORD SHS NPV (CDI)	53.25	2.25	4.41

THIS MORNING'S BEARS

ASCENT RES. ORD 0.1P	4.63	-0.25	-5.13
OILEX ORD NPV	9.50	-0.75	-7.32
NOSTRA TERRA ORD 0.1P	0.86	-0.07	-7.53
PETROLATINA ORD USD0.10	60.00	-6.00	-9.09

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