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ENERGY MARKET REPORT FOR FEBRUARY 21, 2011

Libyan leader Muammar Gaddafi said he would not step down despite a nationwide revolt against his rule. He was quoted as saying that he would die in Libya as a martyr. In an address, he blamed the unrest on youths and called the protesters “rats and mercenaries” who want to turn Libya into an Islamic state. He called on all Libyans to take control of the streets. Libya’s leader later told Italy’s Prime Minister Silvio Berlusconi that his country was fine. Meanwhile, Time magazine’s intelligence columnist reported that Libyan leader Muammar Gaddafi has ordered his security forces to sabotage the country’s oil facilities. The columnist said the sabotage would begin by blowing up pipelines to the Mediterranean.

Libya’s ambassador to the US called on Washington to speak strongly in defense of the Libyan people, saying it is time to get rid of the government of Muammar Gaddafi. Ambassador Ali Aujali said he no longer represents his country’s government and called on Gaddafi to step aside to avoid

Market Watch

The National Weather Service reported that US heating demand this week is expected to be 4.1% below normal. Demand for heating oil will average about 1% above normal while heating demand for natural gas will average 1.6% below normal.

The S&P/Case Shiller composite index of single family home prices in 20 metropolitan areas fell by 0.4% in December from November on a seasonally adjusted basis. For the year 2010, prices fell by 2.4%.

The US Conference Board said its index of consumer confidence increased to 70.4 in February from a revised 64.8 in January. It was the highest level since February 2008. The expectations index increased to 95.1 in February while consumer expectations for inflation in the coming 12 months increased to 5.6% from 5.5% in January.

Nigeria promised to pass reforms to its oil and gas sector within weeks. Presidential adviser Emmanuel Egbogah said the Petroleum Industry Bill would be passed after years of delay. He said the terms of the bill would make Nigeria’s deep offshore acreage, where most of its future production potential lies, attractive to investors.

Germany’s Economy Minister sees no risk to growth forecast from oil price effects.

The API’s weekly petroleum stocks report will be delayed by one day until Wednesday at 4:30 pm EST. The EIA’s weekly petroleum stocks report will also be delayed until Thursday at 11am EST.

The Chicago Board Options Exchange’s Crude Oil Volatility Index, known as Oil VIX, rallied more than 22% due to concerns about sudden rises in crude oil prices. Call options on Tuesday outpaced puts in the USO, an investment vehicle traded on stock exchanges that allows non-oil trade participants exposure to oil futures movements.

The US CFTC fined Cantor Fitzgerald and Co \$100,000 for wash sales of reformulated gasoline futures on the NYMEX between March and April of 2007. It said that at least in three occasions, a former employee prearranged the purchase and sale of hundreds of RB contracts.

Ecuador’s Finance Ministry said the country received another \$1 billion from China in a cash-for-oil deal. It received its first \$1 billion from China in exchange for oil in 2009.

**February
Calendar Averages**
CL – \$87.66
HO – \$2.7418
RB – \$2.5063

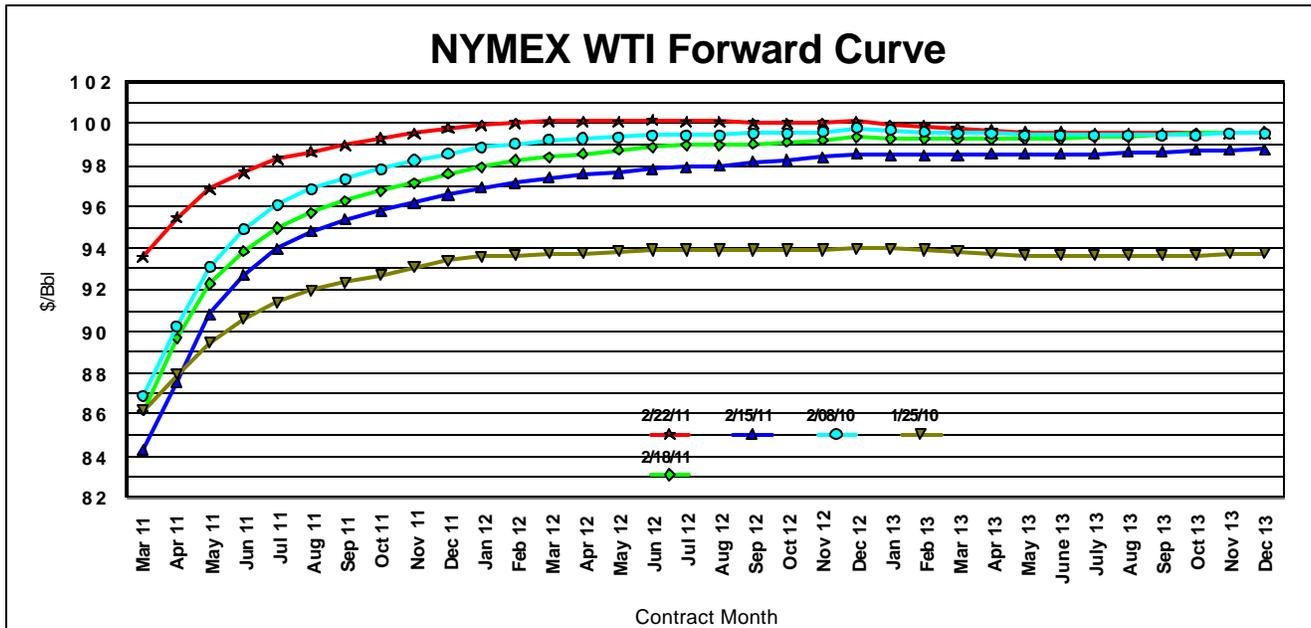
further bloodshed. Meanwhile, Libya’s ambassador to India said African mercenaries were being used by the authorities, prompting some army troops to switch sides to the opposition.

US Senator John Kerry denounced Libyan leader Muammar Gaddafi’s deadly crackdown on anti-government protests as beyond despicable and called for global pressure to end his regime.

Libya’s Zawiya tribe has taken control of the Missala, Nafoora and Sarir oilfields. Separately, trade sources said Libya declared force majeure on all oil product exports and imports are also blocked. Flows from marine oil terminals in Libya were halted. Operations at Libyan cargo ports were shut due to violence in the country. Meanwhile Total SA said it continued with the evacuation of the majority of its foreign staff from Libya and their families and said its oil production was unaffected by the violence in the country. Italy’s Eni SpA, with about 244,000 bpd of production in Libya, said it was evacuating nonessential oil workers and added that it would not have any impact on its output. Repsol suspended all its operations in Libya. Occidental Petroleum Corp said its Libyan oil and gas production of 15,000 bpd of oil equivalent was not affected by the ongoing unrest and the company continues to produce from its concessions there.

Oil producing countries met informally in Riyadh on Tuesday to discuss a possible OPEC meeting to consider increased production due to the Libya crisis. However Saudi Arabia’s Oil Minister Ali al-Naimi said OPEC is not calling an extraordinary meeting before its scheduled meeting in June. He said OPEC is ready to meet any potential supply shortage due to the current political upheaval in Libya. He however does not see long term impacts from the current fear in the market. He said inventories are currently at a very comfortable level and added that OPEC is ready to meet shortages in the market if and when it happens. He reiterated his support for an oil price in the range of \$70-\$80/barrel. Saudi Arabia’s Oil Minister also stated that the conditions in 2011 are not the same as in 2008. Meanwhile, Ecuador Oil & Mines Minister Wilson Pastor said OPEC is concerned by unrest across the Middle East but does not believe increasing its output will stabilize the oil market. Kuwait’s Oil Minister Sheikh Ahmad al Abdullah Al Ahmed Al Sabah said the current oil price is a result of speculation and political factors. The UAE’s Oil Minister Mohammed Al Hamli said OPEC is concerned about the current political turmoil in Libya but is watching the market closely.

The IEA’s chief economist Fatih Birol said high oil prices pose a danger for a world economic recovery



and industrialized countries stand ready to release oil from stockpiles to meet any Middle East supply disruptions. He said the rising cost of oil would weaken the trade balances of industrialized countries, add to inflation and put pressure on central banks to adjust interest rates. The IEA's executive director Nobuo Tanaka said any small disruption in oil production as a result of ongoing unrest in Libya could cause a rally in oil prices. He said the IEA will discuss whether to tap strategic stockpiles of crude oil at a governor's board meeting this week. About 50,000 bpd of oil output from Libya has been shut in due to the unrest. The IEA's executive director said OPEC should increase its supply before June if consumer demand remains strong.

German Economics Minister Rainer Bruederle said the country's oil supply is not endangered by the uprising in Libya.

Italy said it has enough oil reserves for 90 days and gas for 30 days. Italy imports 25% of its oil and about 10% of its gas from Libya.

India urged OPEC to act to calm oil prices that have increased above \$100/barrel. India's Oil Minister Jaipal Reddy said he thought current high prices were not based on any gap between supply and demand but were caused by political factors and unrest in the Middle East.

The head of Vitol, Ian Taylor expects OPEC to increase its production if Libya's oil supply is disrupted to allow prices to return to the \$90-\$100/barrel range.

Two Iranian naval ships crossed the Suez Canal on Tuesday into the Mediterranean Sea. The ships are expected to return through the canal on March 3rd.

About 4,000 protesters demonstrated in the Iraqi city of Sulaimaniyah on Tuesday, the latest protest against the dominance of two major parties in the region. Iraqi officials have attempted to head off nationwide rallies in recent days by cutting the pay of ministers and lawmakers, increasing funds dedicated to food for the needy and delaying the implementation of new import tariffs that would increase prices on goods. Meanwhile more than 10,000 government loyalists demonstrated in Bahrain's capital of Manama in a show of support for the island's Sunni Muslim leaders, struggling with unprecedented protests by majority Shi'ites.

Russia's President Dmitry Medvedev warned that Islamist extremists were trying to rip Russia apart. He said a wave of unrest in North Africa and the Middle East could bring fanatics to power across the region.

Algeria's cabinet on Tuesday adopted an order to lift the 19 year old state of emergency, a concession designed to keep out a wave of protests sweeping the Arab world. The state of emergency was imposed to help the authorities combat Islamist rebels.

The EIA reported that the US average retail price of diesel increased by 3.9 cents to \$3.573/gallon in the week ending February 21st. It also reported that the US average retail price of gasoline increased by 4.9 cents to \$3.189/gallon on the week.

Refinery News

The US Coast Guard reported that ship piloting operations to and from the oil ports of Houston and Texas City were halted due to fog. It said there was a queue of 74 vessels.

Colonial Pipeline allocated Cycle 13 shipments on its Line 20 carrying distillates from Atlanta, Georgia to Nashville, Tennessee as demand for shipping space exceeded line capacity.

Credit Suisse reported that US refined products margins increased last week. Margins in the Northeast increased by 5 cents to \$7.16/barrel in the week ending February 18th while margins in the Midwest increased by \$2.43 to \$20.37/barrel. Margins in the Gulf Coast increased by \$2.54 to \$20.49/barrel while margins in the Rockies increased by \$4.06 to \$31.31 and margins in the West Coast increased by \$4.91 to \$25.36/barrel.

Valero Energy Corp completed a turnaround at its 144,000 bpd refinery in Benicia, California that started on December 30th. Its crude unit has resumed operations while other units will begin restarts in sequence over the next several days. Separately, Valero said its HCU at its 171,000 bpd McKee, Texas refinery was restarted late last week. It is increasing towards planned rates.

A fluid catalytic cracking unit at Exxon Mobil Corp's 192,500 bpd refinery in Chalmette, Louisiana resumed operations over the weekend. It shut the unit on January 22nd for unplanned work.

Lion Oil said a power failure caused unit shutdowns at its 75,000 bpd El Dorado, Arkansas refinery. It said it is working to restart the units.

Holly Corp will buy Frontier Oil Corp for \$2.85 billion in stock, strengthening its position in the US Midwest and Rockies as it taps into rising supplies of Canadian crude oil. The purchase would allow Holly to better compete with Valero and diversify its access to different types of crude oil to supply gasoline, jet fuel and other refined materials.

Italy's ERG SpA said it has no problems at the moment with Libyan oil supplies for its ISAB refinery in Sicily.

South Korea's Korea National Oil Corp said the country imported 83.38 million barrels or 2.69 million bpd of crude in January, up 11% on the year. South Korea's refineries processed 78.28 million barrels of crude in January, up 7% on the year but down 1.1% on the month. It reported that the country's commercial crude oil stocks increased by 48.8% on the year to 13.71 million barrels.

Production News

Data from China's Ministry of Land and Resources showed that the country's discoveries of proven geological oil reserves in 2010 increased slightly on the year. China discovered 1.15 billion tons of proven geological oil reserves and 594.5 billion cubic meters of proven geological natural gas deposits in 2010. The country's remaining proven oil reserves that are technologically recoverable increased by 6.5% on the year to 3.14 billion tons at the end of 2010 and remaining extractable gas deposits increased by 3.7% on the year to 3.9 trillion cubic meters.

A senior Iraqi oil official said Iraq wants to offer the Nassiriyah oilfield to international oil companies in a package that would include building a nearby refinery. This would revive development of the field that has been stalled for several years after negotiations with a Japanese company failed.

Equatorial Guinea expects oil production to increase to 300,000 bpd in 2012 from its current level of 244,000 bpd, mainly due to the start up of the Aseng offshore field in the first quarter.

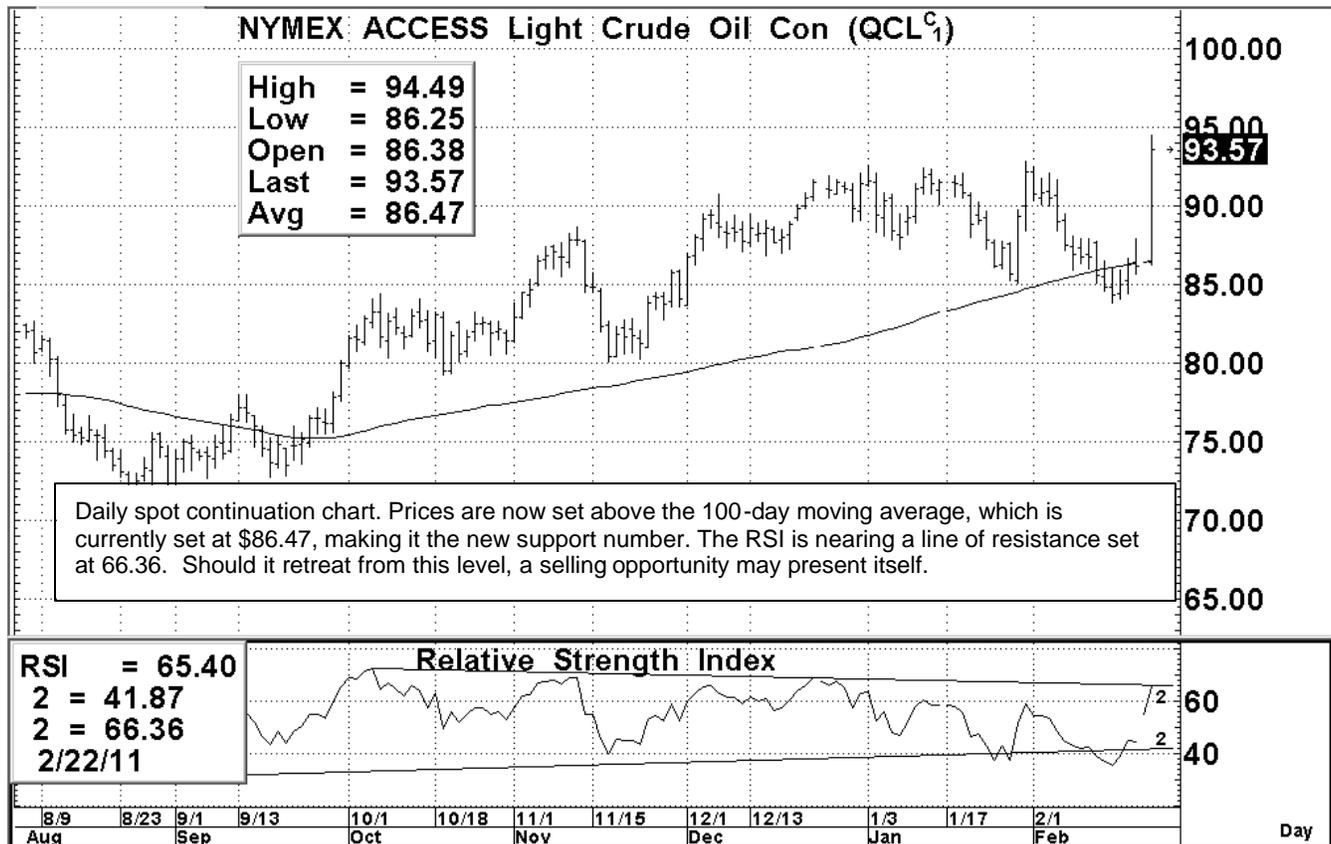
Market Commentary

Oil traded at its' highest level in 2 ½ years in response to protests in Libya and the impact they were having on supplies. Word from OPEC and the IEA that they could help meet any shortfalls prevented prices from trading above Monday's high of \$98.48, basis the April contract. The gap between Brent and WTI continued to narrow after traders came back from the long U.S. President's Day holiday weekend, with the April Brent and the April WTI tightening to -\$10.30, last we saw. With tensions worsening in the Middle East, fear is that protests will spread and disrupt supplies to Europe. Should

this happen, expectations are that Brent will gain further against the WTI. This market will continue to be driven by fear despite there being no apparent shortage of supply. Prices will continue to experience volatile moves given the situation in the Mid-East. Time will tell, if indeed, this will lead to a shortage in supply. From a technical perspective, the RSI is once again approaching an area of resistance. Previously, when this moving oscillator retreated from this former line of resistance, prices soon followed. Should this occur again, we would look for a test at the 100-day moving average of \$86.47, based upon a spot continuation chart.

Crude oil: April 11 297,201 +20,941 May 11 179,848 +715 June 11 133,199 +2,870 Totals 1,511,253 -19,952 Heating oil: Mar 11 38,636 -13,006 Apr 11 84,954 +6,850 May 11 42,982 +426 Totals 317,449 -4,344 Rbob: Mar 11 39,383 -1,936 Apr 11 77,258 +752 May 11 49,267 +63 Totals 283,669 -733

Crude Oil		Heating Oil		Rbob	
Support	Resistance	Support	Resistance	Support	Resistance
8647					
8387		26680		25683	27085
8231	9776	23685	29500	25145	27195
8180	103.85	22960	30955	24240	28793
8000	111.65	22013	31525	23631	29600
7984		21860	33510	23414	
7900		21140		22560	
7598		20702		22050	



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