



ENERGY RISK MANAGEMENT

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ENERGY MARKET REPORT FOR JUNE 8, 2011

OPEC failed to reach a consensus to increase its production during its meeting on Wednesday.

OPEC's Secretary General Abdullah El-Badri said the effective decision was no change in policy and that OPEC hoped to meet again in three months to assess the situation. Saudi Arabia and other Gulf producers were seeking to push

through an increase in production however Iran, Venezuela and Algeria refused to consider an increase. Iran's Oil Minister and OPEC's President Mohammad Aliabadi refuted speculation that OPEC was ineffective following the group's failure to increase oil production quotas as expected. He said he would call for an emergency meeting before the scheduled December meeting in Vienna. Meanwhile, Saudi Arabia's Oil Minister Ali al-Naimi said the OPEC meeting was one of the worst the group has held after failing to agree on increasing production. He however stated that Saudi Arabia was committed to supplying the oil market with whatever oil it needed. He said Saudi Arabia, Kuwait, Qatar and the UAE were ready to increase their production. The four countries proposed a 1.5 million bpd increase from the current 28.8 million bpd. Venezuela's Oil Minister Rafael Ramirez said OPEC

members had differing views on future global oil demand, which made it difficult to reach a consensus. He said OPEC members would continue consulting each other and see how the market reacts. He said an increase in OPEC's crude production would have caused a collapse in global prices.

A Gulf delegate said Saudi Arabia, Kuwait and the UAE plan

Market Watch

The Federal Reserve said growth slowed in some US regions during May as higher food and energy costs and supply disruptions stemming from Japan's earthquake took a toll.

An adviser to China's central bank said US Republican lawmakers are playing with fire by contemplating even a brief debt default as a means to force deeper government spending cuts. The idea of a technical default, essentially delaying interest payments for a few days, has gains backing from a growing number of Republicans who see it as a price worth paying if it forces the White House to cut spending. However any form of default could destabilize the global economy and sour already tense relations with US creditors such as China. The adviser to China's central bank said a default could undermine the US dollar.

The European Union's statistics office Eurostat confirmed its estimate that GDP in the EU increased 0.8% on the quarter in the first quarter this year, up from 0.3% in the previous quarter. In year on year terms, GDP growth was 2.5%, up from 1.9% in the fourth quarter of 2010.

A commissioner of the US Commodity and Futures Trading Commission, Bart Chilton said any shift in high frequency trading to Asia to avoid new regulations in the US and European Union is likely to be short lived and insignificant in size. Asian exchanges are opening up to computer driven trading, encouraging increasing numbers of algorithmic and high-frequency traders to set up in the region's financial centers.

DOE Stocks

Crude – down 4.845 million barrels

Distillate – up 810,000 barrels

Gasoline – up 2.209 million barrels

Refinery runs – up 1.2%, at 87.2%

to unilaterally increase their production to meet increased demand, despite OPEC's inability to act collectively. The delegate said the breakdown of OPEC talks means the end of the quota system. A senior OPEC delegate said OPEC's failure to reach an agreement on output leaves members free to produce at will. Two Gulf sources said Saudi Arabia plans to immediately increase its output to as much as 10 million bpd in the aftermath of the breakdown of the talks. Saudi Arabia in May increased its output by 450,000 bpd to 9 million bpd.

June Calendar Averages CL – \$99.96 HO – \$3.0496 RB – \$2.9764
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The IEA expressed disappointment that OPEC members were unable to agree on the need to increase oil supplies and reiterated that it stands ready to ensure markets are well supplied.

White House spokesman Jay Carney said oil supply is not meeting world demand and added that the US has had conversations with producing countries. He said that President Barack Obama was keeping open the option of using US strategic oil reserves but no decisions about that has been made.

The EIA reported that US ethanol production increased to the highest level since late January. Ethanol production totaled 915,000 bpd in the week ending June 3rd, up 6,000 bpd on the week while ethanol stocks fell by 583,000 barrels to 19.64 million barrels.

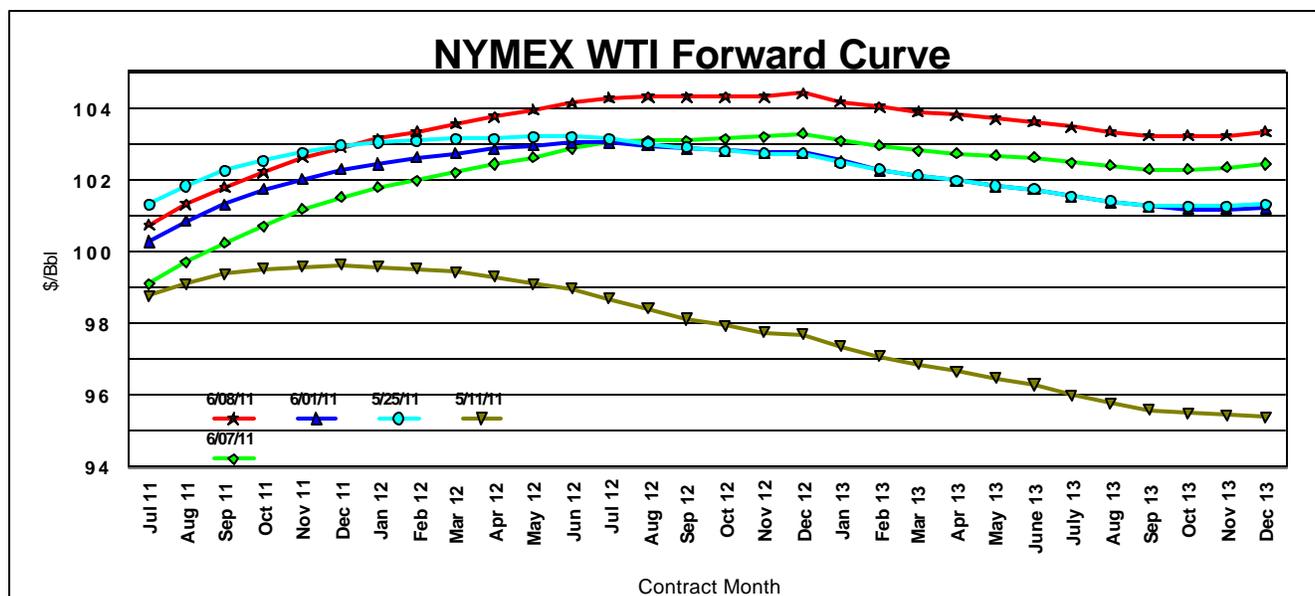
The US warned that Iran's decision to triple its capacity to purify uranium and to move the process to a secretive plant was provocative. Iran said it would transfer its operation to enrich uranium to 20% purity from its Natanz plant to the Fordo underground site near the holy city of Qom. The National Security Council urged Iran to reconsider its decision to comply with its international obligations.

Refinery News

Tesoro Corp's 97,000 bpd refinery in Wilmington, California is ramping towards normal operating rates following Monday's power outage.

ExxonMobil Corp said the shipping docks at its oil refinery in Baton Rouge, Louisiana were completely reopened after closing to barge traffic on May 15th when the Mississippi River swelled past its flood stage. The docks were partially reopened by May 26th when water levels began to recede.

BP Plc reported the start up of its fluid catalytic cracking unit 3 at its 437,080 bpd Texas City, Texas refinery. The startup began on Wednesday and is expected to last two days.



Shell Oil Co reported a unit upset at its Deer Park, Texas refinery.

Units at Valero Energy Corp's 287,000 bpd Port Arthur, Texas refinery began the process of restarting soon after power was restored following an outage caused by a lightning strike on Monday evening.

ConocoPhillips reported that a mechanical issue at its refinery in Rodeo, California resulted in excess emissions early Wednesday. It did not disclose the cause of the mechanical issue or what equipment was involved in the incident.

Kuwait National Petroleum Co's 200,000 bpd Shuaiba refinery is operating at full capacity after a major shutdown in April lasting until mid-May.

Indian Oil Corp plans to shut its 160,000 bpd Mathura refinery in September-October for maintenance.

Gasoline production at Gazprom Neft's Moscow refinery is likely to fall by about 20% in June to about 150,000 tons following a fire last week. The production cuts could exacerbate Russia's fuel shortage as the country battles a gasoline deficit created by price caps and insufficient refining capacity. Gazprom plans to restart its units by June 20th.

The Petroleum Association of Japan reported that the country's crude oil inventories in the week ending June 4th increased by 4.69% on the week and by 9.62% on the year to 17.93 million kiloliters. It also reported that Japan's gasoline inventories fell by 6.13% on the week and by 18.79% on the year to 2.01 million kl while its gas oil stocks fell by 10.24% on the week and by 4.11% on the year to 1.84 million kl. Japan's naphtha stocks fell by 2.86% on the week but increased by 8.71% on the year to 2.05 million kl, while its jet fuel stocks fell by 10.55% on the week but increased by 9.45% on the year to 900,000 kl and kerosene stocks fell by 1.64% on the week but increased by 24.61% on the year to 2.24 million kl. The PAJ also reported that refinery runs fell to 62.1% from 68.1% on the week.

Production News

The July loading program for North Sea Ekofisk crude is scheduled at 330,645 bpd compared with 343,333 bpd in June.

Yemen's Oil Minister said Saudi Arabia has given Yemen three million barrels of oil to help it cope with fuel shortages amid political unrest.

Kuwait's Oil Minister Mohammad Al-Busairi said Kuwait expects to increase its crude oil production to 4 million bpd by 2020.

BP Plc said its annual Statistical Review of World Energy that global proven oil reserves increased by 6 billion barrels to 1.383 trillion barrels at the end of 2010. Oil production increased to 82 million bpd or an annual total of 29.9 billion barrels while world oil demand recovered after two years of declines to 87.4 million bpd in 2010. Demand increased by 2.7 million bpd or 3.1% on the year. In regards to the refining sector, refinery throughputs in the non-OECD countries exceeded those of the OECD for the first time, with global crude runs up 1.8 million bpd in 2010, led by a 1 million bpd increase in China. BP also reported that the world's gas reserves increased slightly to 187.1 trillion cubic meters from 186.6 trillion cubic meters in 2009. Global gas consumption increased by 7.4% in 2010 to 3,169 billion cubic meters while gas production increased by 7.3% to 3,193.3 bcm.

Brazil's Petrobras expects to nearly triple crude oil production this decade as it develops recently discovered offshore oil fields. It said its production should increase to about 6 million bpd by 2020.

Exxon Mobil said it made two new oil discoveries and one new natural gas find in the deepwater Gulf of Mexico. The new wells could produce about 700 million barrels of oil equivalent.

Italy's Eni SpA said it made a major oil discovery in the deepwater Gulf of Mexico while drilling the Hadrian North Prospect, the first exploration well it participated in since the drilling moratorium was lifted.

Statoil said it is buying a stake in a deepwater prospect in the Gulf of Mexico operated by Nexen. The partners will drill an exploration well in the second half of the year.

An oil official in Angola confirmed an offer was made by PT Pertamina for a 25% stake in an Exxon Mobil Corp block.

India Oil Corp has no plans to increase petrol prices before June 15th.

Market Commentary

The oil market rallied over \$100 after OPEC announced that it failed to find a consensus to increase production and left its production quotas unchanged. The market traded mostly sideways in overnight trading and posted a low of \$98.02. However the market rallied to \$101.20 early in the session following the OPEC announcement. Also, a larger than expected draw in crude stocks of 4.8 million barrels provided further support to the market. It settled in a sideways trading pattern before it rallied to its high of \$101.89 in afternoon trading. The crude market remained supported and settled up \$1.65 at \$100.74. While the Brent market continued to trade higher and posted a high of \$118.59, the differential with WTI narrowed a bit following yesterday's sharp gains. The Brent contract traded at a premium to WTI of \$16.85 today. The crude market is seen erasing some of today's gains as some OPEC members, such as Saudi Arabia may unilaterally increase their production levels. The market is seen finding support at \$100.22, \$98.80 and its low of \$98.02 followed by more distant support at \$97.74, \$96.37, \$95.54 and \$95.15. Resistance is however seen at \$101.20, its high of \$101.89, \$103.39 and \$105.16

Crude oil: July 11 288,420 -29,307 Aug 11 140,481 +23,109 Sept 11 130,183 +8,721 Totals 1,515,910 +10,886 Heating oil: July 11 95,143 -2,189 Aug 11 48,132 +1,168 Sept 11 38,835 +1,075 Totals 314,662 +2,240 Rbob: July 11 77,068 -6,276 Aug 11 41,927 +932 Sept 11 37,894 +2,226 Totals 251,327 -3,928.

Crude Oil		Heating Oil		Rbob	
Support	Resistance	Support	Resistance	Support	Resistance
10022	10120	30839	30990	29709	30017
9880	10189	30703	31050	29623	30265
9802	10331	30524	31130	29200	30575
9774	10339	30430	30950	28833	30889
9637	10516	30015	31825	28435	32404
9554	10985	29825		28214	32591
9518	11527	29762			32674
		28952			33652
		28395			

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