

ENERGY RISK MANAGEMENT

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ENERGY MARKET REPORT FOR JULY 6, 2010

According to a SpendingPulse report released by MasterCard

Advisors LLC, US weekly gasoline demand increased 2.4% in the week ending July 1st to 9.56 million bpd.

The increase of 228,000 bpd follows a decline of 17,000 bpd. Demand in the latest four weeks averaged 9.383 million bpd, down 0.5% on the year. It reported that the US average retail price fell by 7 cents to \$3.55/gallon.

Iraq's OPEC Governor Alamri said there is no

indication yet that OPEC would hold an emergency meeting before its next scheduled meeting in December.

Market Watch

The National Hurricane Center said a weather system over the southeastern Gulf of Mexico has a 10% chance of becoming a tropical cyclone within the next 48 hours. It said though this activity is expected to drift northward with no significant development, there is a low chance of its developing into a named storm. If it developed, it would become the second storm of the Atlantic hurricane season after Tropical Storm Arlene slammed into Mexico last week.

The Institute for Supply Management reported that its non-manufacturing purchasing managers' index fell to 53.3 in June from 54.6 in May. It said its business activity/production index fell to 53.4 from 53.6. The new orders index fell to 53.6 from 56.8. The ISM employment index was relatively unchanged at 54.1 from 54 in May.

The People's Bank of China said it will raise its benchmark deposit and lending rates by 0.25%, the third rate increase this year and its fifth rate increase in the latest round of tightening. It said it will increase the one year yuan lending rate to 6.56% from 6.31% and the one year yuan deposit rate to 3.5% from 3.25%.

China Construction Bank Chairman Guo Shuqing said debts incurred by local Chinese governments was a big issue for the country, echoing widespread concerns that China's debt burden could destabilize the economy.

Germany's Economy Ministry said the country's industry orders in May increased mainly due to domestic purchases while foreign demand fell. Industry orders increased by 1.8% on the month in May.

According to Citigroup's global head of commodities research, the gap between WTI crude and Brent could increase to more than \$40/barrel by next summer. Last month, the divergence between WTI and Brent reached a record high above \$22/barrel. The spread between the two major crudes is expected to widen further due to surging oil production in the US and Canada and continued problems with Brent supply.

API Stocks

Crude – down 3.172 million barrels

Distillate – down 1.625 million barrels

Gasoline – down 1.914 million barrels

Refinery runs – down 0.2%, at 86.3%

South Korea has so far released less than a third of the oil products earmarked under the IEA plan to increase supplies. Korea National Oil Corp said South Korea has increased the proportion of petroleum products that would comprise the stocks of oil that it plans to release from emergency reserves. The volume of oil products has been adjusted to 1.519 million barrels from 1.469 million barrels while the volume of crude

oil has been reduced to 1.948 million barrels from 1.998 million barrels. South Korea plans to release a total of 3.467 million barrels in coordination with the IEA's plans to release a total of 60 million barrels globally.

Germany's state stockpiling agency EBV said Germany has not yet made a decision about whether it would sell the remaining volumes of crude and oil products in the IEA's stock release program. Germany sold 63% of the total 4.2 million barrels of crude oil and oil products in tenders last week. Industry source said the Germany is unlikely to offer the remaining volumes of the 4.2 million barrel oil and oil products sale.

A fire that started on an oil tanker following a pirate attack off the Yemeni coast has been extinguished. The Brillante Virtuoso, which was carrying 1 million barrels of oil, was transporting the oil to China from Ukraine.

Iran's Revolutionary Guards launched several anti-ship missiles near the Strait of Hormuz. It fired two Khalij Fars anti-ship missiles on the last day of a 10 day military exercise which also included the launch of ballistic missiles with various ranges. On Monday, the commander of the Guards, General Mohammad Ali Jafari said Iran would close the Strait of Hormuz if Iran was threatened. He also said Iran was increasing its naval presence in the Indian Ocean in order to meet a possible threat from international waters.

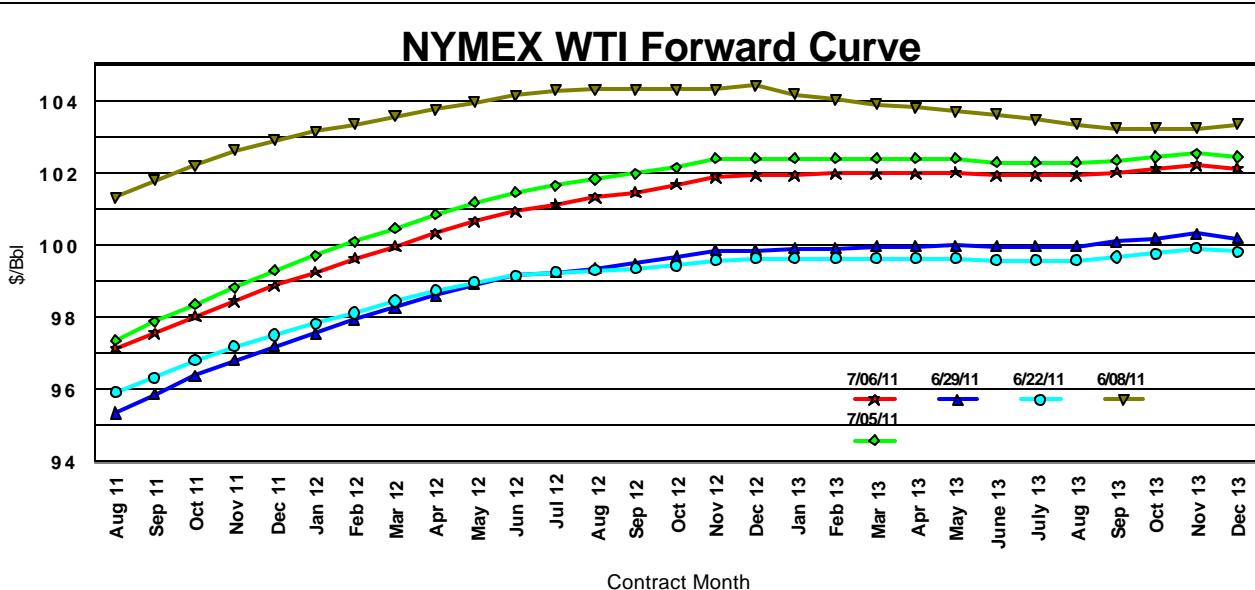
Libyan rebels launched offensives on two fronts to the south and east of Tripoli on Wednesday in the biggest push in weeks towards Muammar Gaddafi's stronghold in the capital. The advances came as reports stated that Muammar Gaddafi was seeking a deal under which he would step down. His government has denied that any such negotiations are under way. However a senior Libyan official said there were signs that a solution to the conflict could be found by the beginning of August.

Refinery News

PBF Energy's 182,000 bpd Delaware City, Delaware refinery reported loss of a hydrogen compressor that triggered flaring on Monday. It also reported sulfur dioxide emissions due to an instrument failure late Tuesday.

A reformer and hydrocracker unit at Marathon Petroleum Co's 464,000 bpd refinery in Garyville, Louisiana remained shut for unplanned work. The units were shut last Thursday.

Tesoro Corp reported flaring on Monday during start up at its 93,500 bpd refinery in Kapolei, Hawaii.



| July Calendar Averages | | | |
|------------------------|----------|--|--|
| CL | \$96.16 | | |
| HO | \$2.9481 | | |
| RB | \$2.9825 | | |

The release of sulfur dioxide lasted two hours.

ConocoPhillips completed scheduled maintenance at its 120,200 bpd Rodeo, California refinery.

A worker at WRB Refining LLC in Wood River, Illinois died after falling from a tank. The worker was performing routine maintenance at the 362,000 bpd refinery.

PDVSA's Paraguana refining complex will increase gasoline and diesel output later than previously expected in July. It completed repairs of fire damaged incurred in March in Amuay's 85,000 bpd VGO hydrotreater. The unit is expected to resume operations early next week or 10 days later than planned. It would allow Amuay's catcracker to increase production by 20,000 bpd to 100,000 bpd. Its flexicoker unit is seen online in mid-August. It will increase distillate production by 35,000 bpd. Meanwhile, residual fuel output is expected to fall by 50% to 50,000 bpd.

Algeria's Sonatrach partially shut its 335,000 bpd Skikda refinery for maintenance. The duration of the maintenance outage is unknown. Algeria bought four gasoline cargoes of between 25,000-30,000 tons each for prompt delivery.

Kinder Morgan Energy Partners LP plans to gauge shipper interest this fall for an expansion of its Edmonton, Alberta to Vancouver pipeline and expanded port facilities for overseas oil exports. It said the 300,000 bpd pipeline could likely be expanded by a few hundred thousand barrels. It is also studying expanding its Westridge dock at the Port of Vancouver by adding a second berth that could accommodate Suezmax tankers that can carry a million barrels of oil.

TransCanada Corp said ExxonMobil's 1,000 barrel oil spill into the Yellowstone River would not derail its plans to build the Keystone XL pipeline. It is awaiting State Department approval to build the Keystone XL line, which would carry 700,000 bpd of crude oil to the Gulf Coast. A final decision on the company's application is expected by year end. Environmentalists, some legislators and landowners along the line's planned route are urging the Obama administration to deny TransCanada's application.

Meanwhile, ExxonMobil Corp said it shutdown the Montana pipeline that leaked crude into the Yellowstone River last Friday following a pre-arranged emergency plan before the actual site of the spill was found. The company shut down the pumps moving crude oil at Exxon's Silvertip pipeline, which carries oil from the Wyoming-Montana border to an Exxon refinery in Billings, Montana six months after a loss of pressure was detected.

The Petroleum Association of Japan reported that crude oil stocks in the week ending July 2nd increased by 217,520 kiloliters to 17.407 million kl or 110 million barrels. Its gasoline stocks increased by 45,854 kl on the week to 2.099 million kl while its gasoil stocks increased by 132,053 kl to 1.927 million kl and its kerosene stocks increased by 54,054 kl to 2.258 million kl. Japan's naphtha stocks fell by 178,419 kl to 1.655 million kl and its jet fuel stocks fell by 28,662 kl to 793,126 kl. Japan's average crude runs increased by 60,000 bpd to 3.28 million bpd in the week ending July 2nd.

Production News

Saudi Aramco has offered higher than contracted term supplies for August loading to at least one Asian refiner. There may be little demand among Asian refiners for the extra Saudi barrels, given the release of additional volumes by IEA members and higher than expected prices Saudi Aramco announced on Tuesday. Separately, Saudi Aramco will delay all naphtha shipments from its Rabigh refinery. The 400,000 bpd Rabigh refinery resumed operations around the second half of June following planned maintenance that started on April 21st.

Oil workers at Petrobras held protests at production facilities on Wednesday, causing minimal disruption to operations. Oil workers union FUP said protesting workers, who are demanding Petrobras increase their share of the company's profits, delayed the start of work by one or two hours by preventing some workers from accessing their work stations. More protests are set to follow on Thursday and Friday at terminals and other facilities.

Apache Corp said it drilled two high yielding oil wells in the Forties field in the UK North Sea. The Charlie 4-3 well began producing at a rate of 12,567 bpd, the highest rate seen for well in the field since 1990. The Delta 3-5 well had an initial production rate of 8,781 bpd.

The head of Iraq's SOMO, Falah Alamri said the country's oil exports in June averaged 2.274 million bpd. He said Iraq's oil revenues in June stood at about \$7.17 billion compared with \$7.47 billion in May. Its Basrah Light exports flowed at 1.727 million bpd in June, up from 1.725 million bpd in May while Kirkuk crude exports in June flowed at 547,000 bpd, up from 500,000 bpd in May.

Italy's Energy Regulator head Guido Bortoni said the current Libyan crisis, which has caused a halt in exports, does not threaten Italy's supply needs this year. He said there is sufficient global supply to cover the 1.6 million bpd production that Libya is not exporting.

Italy's Eni SpA has started production from the Appallosa field in the deepwater of the Gulf of Mexico, with a daily output of about 7,000 barrels of oil equivalent. Oil production at the field started on June 21st.

ConocoPhillips said production has declined at its Penglai 19-3 oil field in Bohai Bay as a result of its cleanup efforts following oil leaks. Production has dropped by about 4% because the company has relieved pressure on its well as part of the cleanup process. The Penglai field is expected to reach peak production of more than 150,000 bpd later this year. Separately, China's largest offshore oil and gas producer, Cnooc said oil spills at Bohai Bay are basically under control, downplaying reports that said there would be a lasting impact on the environment.

Colombia's Ecopetrol SA said an exploratory well in the central state of Meta has yielded oil, while small in initial size, helps to prove the area's potential. The oil was found at the Fauna-1 well, making it the latest of four wells in the Cano Sur block in Colombia's Llanos Orientales.

Vietnam Oil & Gas Group said it is starting production at new fields in the second half of the year and starting construction on a second refinery. PetroVietnam said it will begin producing at five oil fields. It is targeting a production level of 7.8 million tons of crude in the January-June period, with a full year output level of 15 million tons, unchanged on the year.

Namibia's Mines and Energy Minister Isak Katali said an estimated 11 billion barrels in oil reserves have been found off the country's coast. First production is planned within four years. The finding could put Namibia on par with Angola, whose reserves are estimated at about 13 billion barrels.

Market Commentary

Most of today's volatility took place during the early morning session, with the balance of the day trading in a tight range. The European sovereign debt crisis remains a constant market influence, as it weakens the euro and strengthens the dollar. Whenever the dollar strengthens, dollar denominated commodities tend to weaken. Traders continue to hold on to their bullish sentiment despite weak underlying fundamentals. There is no apparent shortage of supply or any looming threats to it. In the short term, market participants will most likely remain bullish as they try to take prices back above the \$100 mark. On a technical standpoint, the August crude oil contract touched and bounced off of

\$95.90, the neckline on the inverse head and shoulders pattern. On a technical play, we would look to buy bounces off of this neckline, which is set at \$95.92 for tomorrow's session.

Crude oil: Aug 11 291,009 -8,728 Sept 11 200,220 +1,004 Oct 11 72,752 -833 Totals 1,522,391 +144
 Heating oil: Aug 11 86,939 -3,122 Sept 11 45,293 -576 Oct 11 25,091 +1,086 Totals 296,314 -2,257
 Rbob: Aug 11 75,284 -3,183 Sept 11 48,373 +2,704 Oct 11 23,988 +178 Totals 235,190 +1,107

| Crude Oil | | Heating Oil | | Rbob | |
|-----------|------------|-------------|------------|---------|------------|
| Support | Resistance | Support | Resistance | Support | Resistance |
| | | | 31325 | | |
| | | 27150 | 32777 | | 33369 |
| 9592 | 9821 | 26680 | 33370 | 26965 | 35915 |
| 9428 | 10215 | 27375 | 33510 | 26300 | 36310 |
| 8950 | 10339 | 23685 | | 25683 | |
| 8700 | 10845 | 22960 | | 25145 | |
| 8625 | 11120 | | | 24240 | |
| 8500 | 11483 | | | 23631 | |
| 8385 | 11563 | | | 23414 | |
| | 11703 | | | | |

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