



ENERGY RISK MANAGEMENT

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ENERGY MARKET REPORT FOR SEPTEMBER 1, 2011

The US National Hurricane Center said a tropical wave over central Gulf of Mexico has a 70% chance of becoming a hurricane during the next 48 hours as it moves slowly to the northwest. Upper level winds are currently unfavorable for development but are forecast to become more conducive on Thursday. The system could become a tropical depression during the next day or so. Some computer models showed the developing system, which would be called Lee if it became a tropical storm, could pass over the coasts of Texas and Louisiana. US oil companies are monitoring the developing weather

Market Watch

The US Labor Department said initial unemployment benefit claims fell by 12,000 to a seasonally adjusted 409,000 in the week ending August 27th. Claims filed in the previous week were revised to 421,000 from an originally reported 417,000. The four week moving average of new claims increased by 1,750 to 410,250. The report showed the number of continuing unemployment benefit claims fell by 18,000 to 3,735,000 in the week ending August 20th. The unemployment rate for workers with unemployment insurance for the week ending August 20th was unchanged at 3%.

The Labor Department also reported that labor costs increased last spring even more than initially reported as worker productivity fell. Nonfarm business productivity fell at a 0.7% annual rate in the second quarter, revised down from a previously estimated decrease of 0.3%. The second quarter decline of 0.7% followed the first quarter unrevised drop of 0.6% amid the economy's sharp slowdown. The revision to the second quarter number was caused by the government's earlier downward adjustment to economic growth. Unit labor costs climbed at a 3.3% annual rate in the second quarter, revised up from an originally reported increase of 2.2%.

The Institute for Supply Management said its index of national factory activity fell to 50.6 in August from 50.9 in July. Its new orders index increased to 49.6 from 49.2 while the employment index fell to 51.8 from 53.5.

According to the Royal Bank of Canada, US consumers remain pessimistic about the economy. Its consumer outlook index increased up to 40.2 in September from 40.1 in August, which was the lowest reading since November 2009. The RBC current conditions index fell to 28.2 from 28.8. The expectations index increased to 50.6 from 49.4. It also reported that its inflation index fell to 71.9 this month from 75.1 in August.

US retailers reported mixed sales results for August. Based on reports from 23 retailers, sales at stores open at least a year increased 4.4% in August, down from the 4.6% increase analysts expected. Chains were evenly split between those that beat expectations and those that missed.

HSBC reported that China's August PMI stood at 49.9, up from a preliminary estimate of 49.8 and up from July's 49.3 level.

British manufacturing activity fell at its fastest pace in over two years in August. The Markit/CIPS manufacturing PMI headline activity index fell to 49 in August from an upwardly revised 49.4 in July. Manufacturing output contracted for the first time since May 2009.

The API's petroleum stock report will be delayed by one day to Wednesday at 4:30 pm EDT due to the Labor Day holiday. The EIA's weekly petroleum stock report will be delayed by one day to Thursday at 11am EDT.

Mexico's Finance Minister Ernesto Cordero said the country has arranged oil hedges for 2012. Mexico hedges a large portion of its revenues from Pemex for the year ahead.

**September
Calendar Averages**
CL – \$88.93
HO – \$3.0518
RB – \$2.8927

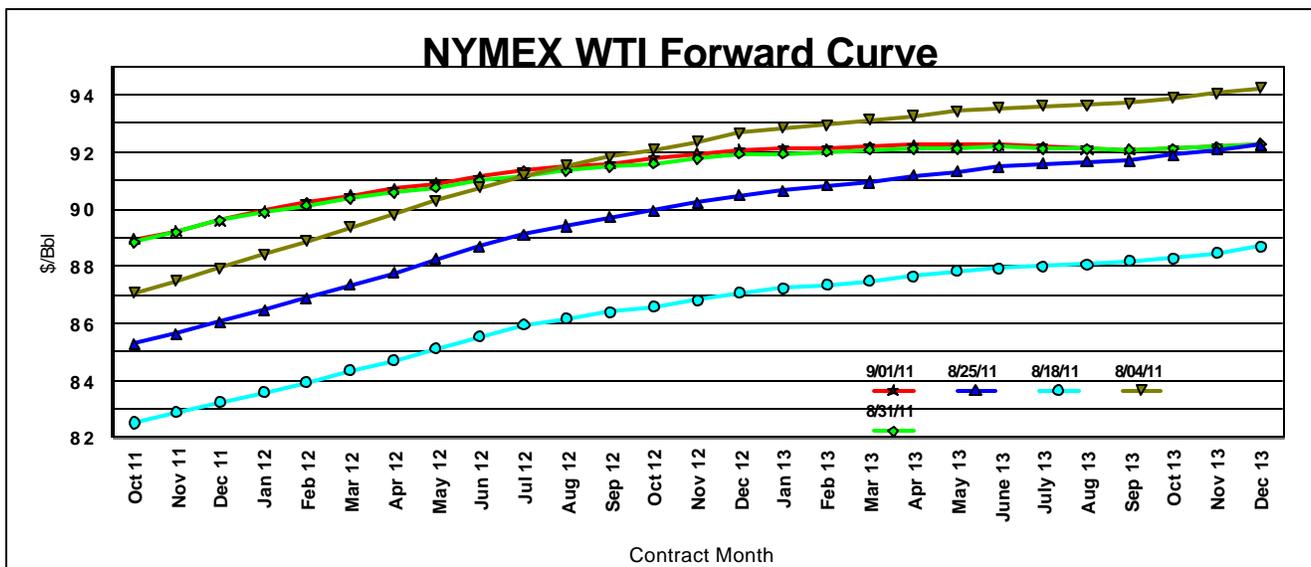
system as it is likely to develop into a tropical storm near the Gulf. Meanwhile a low pressure system located about 360 miles north of Bermuda has just a 10% chance of becoming a tropical cyclone. Hurricane Katia formed late Wednesday and was moving west with winds of 75 mph but posed no immediate threat to land. It is expected to make a turn to the west-northwest in coming days and could be a major hurricane by the weekend.

Oil companies are shutting in production in the Gulf of Mexico due to the threat of storms. The Bureau of Ocean Energy Management, Regulation and Enforcement said about 5.7% of oil production and 2.4% of natural gas production in the US Gulf of Mexico was shutdown on Thursday. It said about 79,989 bpd of oil and 127 mmcf of natural gas production was shut in. BP said all workers were evacuated from the platforms that were partially evacuated Wednesday ahead of the two weather systems forming in the area. Workers were evacuated from the Mad Dog, Holstein, Atlantis, Nakika, Thunderhorse, Pompano, Horn Mountain and Marlin platforms, resulting in shut-ins. The Mad Dog, Thunderhorse and Nakika platforms are three of the Gulf's six largest production platforms, with combined output of about 367,000 bpd of oil. Anadarko also said it was shutting in production at all eight of its Gulf facilities, including the Independence Hub. ExxonMobil said it was evacuating about 140 employees and contractors from Gulf Coast offshore facilities, shutting in gross production of about 11,000 bpd and 60 million cubic feet/day of natural gas. Royal Dutch Shell Plc has shut in minimal production in the Gulf and is evacuating some staff from its Gulf of Mexico operations. Chevron Corp said it was evacuating some workers from its Gulf of Mexico operations because of a tropical disturbance. It said no production has been affected. Apache Corp and Transocean Ltd also started evacuating some workers from its Gulf of Mexico oil and gas platforms. BHP Billiton said it was shutting in all production and fully evacuating workers from its two oil and gas platforms in the Gulf of Mexico. Murphy Oil is also shutting in its Gulf of Mexico production ahead of the weather disturbance.

The Energy Department about 98.4% of the 30.64 million barrels of crude oil sold from the SPR was delivered as of August 31st. The loading of the last 500,000 barrel began Thursday and will be completed on Friday.

Oil Movements reported that OPEC's exports are expected to increase by 50,000 bpd in the four weeks ending September 17th.

The Federal Trade Commission said the price of gasoline is driven mainly by crude oil prices moved



by supply and demand, rather than speculative futures trading or other factors. The FTC report found that while OPEC has some ability to affect crude prices, its effectiveness as a cartel is limited. It also said that the loss of refinery capacity after the hurricanes in 2005 affected the price of crude oil. It did not find conclusive evidence that speculation in the futures market affected prices.

The White House downgraded its outlook for the economy in its midyear review of the annual budget, predicting slower than expected growth for the next several years. GDP growth this year is projected to grow 1.7% compared with 2.7% expected back in February, while 2012 is expected to see growth of 2.6%, down from a previous estimate of 3.6%. The White House review predicted unemployment would average 9.1% this year and 9% in 2012.

Libyan rebels have extended a deadline for forces loyal to Muammar Gaddafi to surrender by a week to September 10th. The ultimatum applied to town holding out in the south and center of the country as well as Gaddafi's hometown of Sirte.

Algeria's Foreign Minister Mourad Medelci said fallen Libyan dictator Muammar Gaddafi is not hiding in Algeria. Separately, Libya's Muammar Gaddafi said he was ready for a long battle against NATO backed rebels even if the country is destroyed.

The European Union has lifted its sanctions on some Libyan ports, banks and oil and gas companies. An EU official said sanctions were lifted on six ports, 16 companies working in the oil and gas sector, five financial institutions and one airline.

Libya's new rebel government, the National Transitional Council dismissed a claim that it had promised France control of 35% of the country's oil production, dismissing a purported letter from their government. Meanwhile, French Foreign Minister Alain Juppe also said he had no knowledge of any deal to secure Libyan oil. Total also stated that it had not discussed oil contracts in Libya and was not aware of a deal between Libya's new government and France that would give France priority access to Libyan oil wealth. Separately, the British representative for Libya's National Transitional Council said contracts for Libya's oil sector will be awarded on merit and not on political favoritism.

Total SA's chairman and chief executive Christophe de Margerie said it was essential for world oil supplies that Libya restore its oil infrastructure as soon as possible.

Refinery News

Colonial Pipeline reopened two segments of its fuels pipeline after an inspection showed no damage from a 3.4 magnitude aftershock in central Virginia on Thursday morning. Colonial closed the main line north of Greensboro, N.C. and a small stub line in Virginia as a precaution.

Magellan Midstream Partners LP plans to reverse its Houston-to-El Paso pipeline to bring West Texas crude oil directly to the Gulf Coast refiners and bypass the Cushing, Oklahoma oil hub. By reversing the pipeline and switching its cargo to crude oil from finished fuels, Magellan would feed Gulf Coast refiners. It hopes to complete the project by the middle of 2013. Following the reversal, the pipeline would have an initial capacity of 135,000 bpd. Magellan also plans to build 1.25 million barrels of storage at Crane, Texas and east Houston.

Marathon Petroleum Corp was restarting units at its 212,000 bpd refinery in Catlettsburg, Kentucky after a power outage on Tuesday. It however said its fire hit fluid catalytic cracking unit was still shut.

BP warned of planned flaring at its 265,000 bpd Carson, California refinery. The flaring is scheduled to occur on September 7-19.

PBF reported a line crack that led to a release of benzene at its 160,000 bpd refinery facility in Paulsboro, NJ.

Germany's 310,000 bpd Miro refinery shut a fluid catalytic cracking unit earlier this week. The shutdown was unplanned.

Taiwan's Formosa Petrochemical Corp will restart the second of three crude distillation units at its 540,000 bpd refinery this weekend after it was shut following a fire at the end of July. The third crude distillation unit will be restarted by the first half of September, with exports resuming in the second half if no problems are encountered.

Singapore's International Enterprise reported that the country's residual fuel stocks increased by 1.352 million barrels to 21.54 million barrels in the week ending August 31st. The country's light distillate stocks fell by 1.037 million barrels to 8.78 million barrels while middle distillate stocks fell by 259,000 barrels to 13.257 million barrels on the week.

Seven floating oil storage facilities offshore Southern Malaysia have been given a two week reprieve from eviction as required by a government notice that expired a day ago. The reprieve on the converted VLCC off Pasir Gudang port could be extended to a month.

Production News

According to a Dow Jones Newswires survey, OPEC's crude oil production increased to its highest level since the 2008 world financial crisis. It reported that OPEC's total production increased by 151,000 bpd to 30.518 million bpd in August. It reported that the 11 OPEC members bound by quotas increased their production by 191,000 bpd to 27.778 million bpd. Saudi Arabia's oil production increased by 33,000 bpd to 9.85 million bpd while the UAE increased its production by 50,000 bpd to 2.55 million bpd and Nigeria increased its production by 175,000 bpd to 2.4 million bpd. It reported that Iraq's oil production in August fell by 40,000 bpd to 2.74 million bpd.

Statoil said Norway's overall oil and gas production has the potential to increase after 2020. It said in the near term, Statoil's 2011 output to be slightly under the 2010 level.

Iraq's State Oil Marketing Organization said Iraq's oil exports in August increased by 1.1% on the month to 2.189 million bpd. Basra Light crude exports flowed at about 1.728 million bpd in August, up from 1.708 million bpd in July while Kirkuk crude sales increased to 461,000 bpd in August from 456,000 bpd in July. Despite the increase in oil exports, revenues fell slightly to about \$7.126 billion from \$7.311 billion in July due to a fall in world oil prices.

Brazil's National Petroleum Agency reported that the country's oil fields produced 2.077 million bpd of crude in July, up 1% on the year. It also reported that the country's natural gas production increased to 67 million cubic meters/day in July, up 7.2% on the year but down 0.6% on the month.

The Brazilian government's decision this week to reduce the amount of anhydrous ethanol mixed into gasoline is more likely to affect fuel imports than prices at the pump or supplies of sugar. Starting October 1st, the gasoline mix sold at Brazilian fueling stations will contain only 20% anhydrous ethanol, down from the current 25%. The use of less anhydrous ethanol could require Petrobras to import an additional 1 billion liters of gasoline for the domestic market over the next six months or so.

China's Ministry of Finance said the country will exempt tariffs and value added tax for five more years on imported equipments, instruments, parts and special tools that it could not make but are necessary in offshore oil and gas production and onshore coal bed methane gas production. Tax waivers for

import equipment and instruments used directly in oil and gas exploration and production in some Chinese deserts will also be extended to the end of 2015.

Market Commentary

Oil advanced again today, strengthening on promising manufacturing growth out of China and job growth out of the U.S. Prices fell from their highs on news of refinery shut-ins. There is really a lack of any new significant news behind this market, leaving doubt that strength will be unable to sustain itself. Technically, our stance has not changed. Prices should advance towards the \$91.00 area, bringing in a round of selling on failed attempts to trade beyond this level. Thoughts of increasing demand boosted gasoline, pushing prices close to a seasonal high. This move higher came just ahead of the U.S. Labor Day weekend, typically known as the end of the summer driving season. The shutting in of production by BP and Murphy Energy due to storm threats helped foster this move.

Crude oil: Oct 11 286,496 -1,802 Nov 11 177,868 +5,724 Dec 11 211,531 +8,339 Totals 1,523,787 +28,894 Heating oil: Oct 11 97,520 +1,686 Nov 11 42,187 +1,202 Dec 11 53,814 +644 Totals 308,822 -2,212 Rbob: Oct 11 81,436 +1,328 Nov 11 31,436 +1,586 Dec 11 46,230 +863 Totals 251,245 -301 .

Crude Oil		Heating Oil		Rbob	
Support	Resistance	Support	Resistance	Support	Resistance
7552	8988	27020	32777	25145	33369
7487	9122	26680	33370	24240	35915
7365	9726	27375	33510	23631	36310
6423	9872	23685		23414	
6394	10071	22960			
6119	10222				
50-day MA	91.51				
200-day MA	95.30				

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