



ENERGY RISK MANAGEMENT

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ENERGY MARKET REPORT FOR SEPTEMBER 19, 2011

The US National Hurricane Center said a low pressure system located about 1,450 miles east of the Windward Islands continues to have a high 60% chance of becoming a tropical cyclone in the next 48 hours.

OPEC's Secretary General Abdullah al-Badri said Gulf OPEC producers that increased oil output to compensate for the shutdown of the Libyan oilfields would certainly reduce production as Libya's output recovers. He said production in fields in central Libya could be back to pre-conflict levels in 15 months, while returning production to normal levels in other areas may take longer. Overall

production before the conflict was 1.6 million bpd. OPEC's Secretary General also stated that the IEA has assured OPEC that it will not repeat June's oil stocks release by consuming countries of the OECD. He also stated that the US economy is not growing as much as hoped and European debt problems are a concern. However he stated that OPEC expects strong demand from China and expects the Chinese economy to grow 8.5% next year. He said negative economic factors are now starting to affect oil demand in parts of the world. He said about \$16-\$20 of current oil prices are supply risk premium.

A senior Saudi official said Saudi Arabia sees oil demand lower than expected in the fourth quarter and 2012 due to the deteriorating global economy. However he added that the market is currently well balanced.

Market Watch

The National Association of Home Builders said US homebuilder sentiment fell in September. The NAHB/Wells Fargo Housing Market Index fell to 1 point to 14 from 15 the month before. The index has been between 13 and 16 for six months in a row and has not been above 50 since April 2006. The index of sales expectations in the next six months fell to 17 from 19.

A Dow Jones Newswire survey showed that the 2011 median price forecast for light sweet crude is \$94/barrel, down from \$96.60/barrel forecast in August. For 2012, the average is forecast at \$96.30/barrel, down from a previous forecast of \$102/barrel. The 2011 median price forecast for Brent crude was increased to \$110.80/barrel from a previous estimate of \$110/barrel while the 2012 average price was forecast at \$108.40/barrel, down from a previous forecast of \$114/barrel.

Platts reported that gasoline demand in Brazil is expected to increase by 16.2% in 2011 to 36.2 billion liters or 227.7 million barrels compared to 2010 as car sales have increased and as fuel ethanol production has declined. The distributors' association Sindicom said that if growth is realized, gasoline sales will have outstripped national production capacity for the second consecutive year and force state led Petrobras to import large volumes of the fuel. Sindicom projects overall sales of motor fuels in Brazil, excluding diesel, to grow by 6.4% in 2011 to 44.9 billion liters.

Low water continues to hamper shipping on Germany's Rhine River and on the German section of the Danube River. Low water is preventing shipping sailing with full loads on north and central sectors of the Rhine River. Vessels were sailing only partly loaded on all of the Danube in Germany.

**September
Calendar Averages**
CL - \$88.12
HO - \$2.9977
RB - \$2.7991

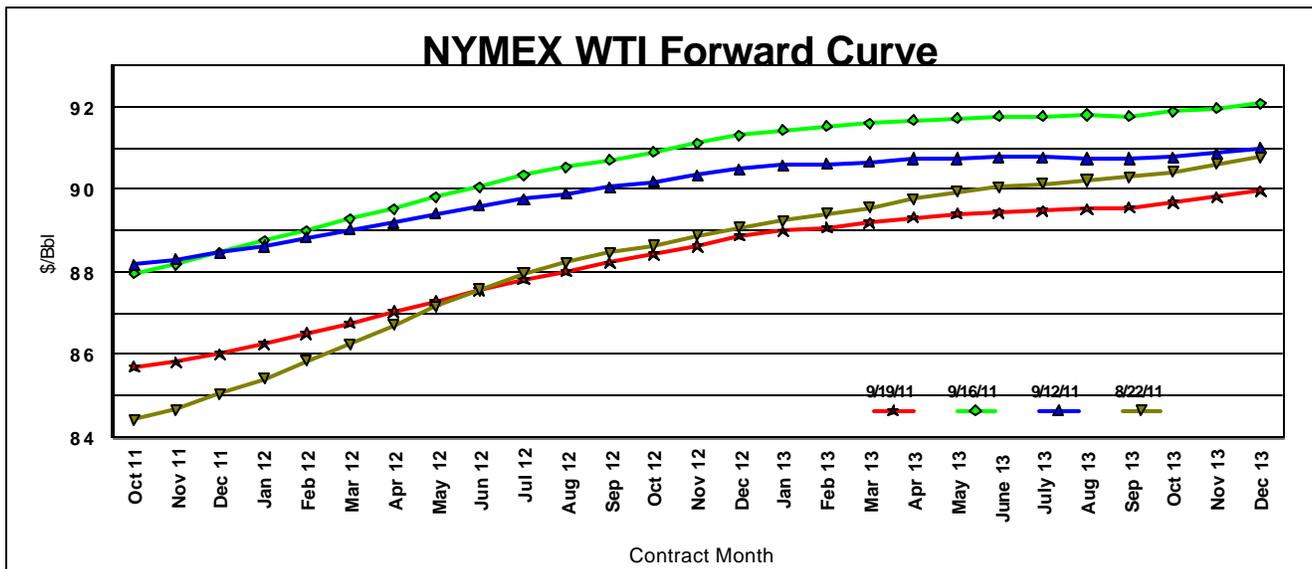
The EIA said world oil demand is expected to increase to 112.2 million bpd over the next two decades, up 1.4% from the previous estimate. Total world petroleum demand was estimated to increase by 26.9 million bpd between 2008 and 2035.

The EIA said the US average retail price of diesel fell by 2.9 cents/gallon to \$3.833/barrel in the week ending September 19th. The price of diesel is up 87.3 cents/gallon or 29% on the year. The EIA also reported that the US average retail price of gasoline fell by 6 cents to \$3.601/gallon on the week.

World Bank chief warned that investment and domestic demand could be impacted by the crisis in advanced economies.

The head of the Organization for Economic Cooperation and Development's trade and agriculture division, Ken Ash said Group of 20 finance ministers meeting this week should decide on an appropriate level of regulation for commodity derivatives markets and ensure they are implemented consistently globally. He said speculation in commodity markets was not a significant driver in the price spike earlier this year and two years ago, but contributed to market volatility caused largely by the fundamentals of supply and demand.

An oil tanker was in a collision with a fishing boat off the coast of Wales early on Monday. The Holyhead port authority said no injuries or oil spill had been reported. The Isle of Man flagged tanker was fully loaded with a cargo of crude oil and travelling from Norway.



Refinery News

IIR Energy reported that US oil refiners are expected to shut 592,000 bpd of capacity in the week ending September 23rd from 715,000 bpd the previous week.

Credit Suisse said US refined products margins fell by 22.65% in the week ending September 16th, falling across all regions, as gasoline prices continued to trend lower. Refinery margins in the Northeast fell by \$2.44 to \$6.60/barrel while margins in the Midwest fell by \$7.79 to \$30.13/barrel and margins in the Gulf Coast fell by \$4.93 to \$28.70/barrel. Margins in the Rockies region fell by \$2.30 to \$45.08 and margins in the West Coast fell by \$7.11 to \$8.30/barrel.

Valero Energy Corp reported flaring due to a problem with a pump at its 180,000 bpd Memphis, Tennessee refinery. It said there was no material impact to production at the refinery. Separately, Valero said there was no impact on production from the compressor snag at its 132,000 bpd refinery in Benicia, California. Valero Energy also said it was restarting a crude unit at its 170,000 bpd refinery in McKee, Texas following repairs on the piping circuit. One of two crude units was temporarily shut on Sunday. It said once the crude unit is restarted, other units such as the hydrocracker, hydrotreater and reformer that were shut during the repair will also be restarted.

Sunoco Inc shut down a hydrotreater at the Point Breeze section of its 335,000 bpd refinery in Philadelphia on September 9th. The unit was shut down due to a faulty instrument.

Chevron Corp said it had no impact on output at its 245,271 bpd Richmond, California refinery following a compressor snag on September 15th.

Total's shipping division is not planning to transport any Libyan crude oil for the time being. Libya's Arabian Gulf Oil Co started pumping oil this month, with the aim of reaching 200,000 bpd in output by the end of September and 1 million barrels of exports every 10 days from the eastern terminal of Tobruk.

Hovensa LLC said production at its 350,000 bpd St. Croix refinery was not affected by a dispute between Wyatt VI Inc and the US Steelworkers over a contract. It did not confirm reports of workers being locked out due to the dispute. It said all required work was being continued.

Romania's Petromidia refinery will shut down on October 22nd until November 3rd for maintenance and upgrades. In addition to maintenance work, the refinery will also have new facilities integrated to ensure it will be able to process 5 million tons of raw materials in 2012.

India's Reliance Industries Ltd said one of its refineries at the Jamnagar complex will shut two units for about four weeks of maintenance and inspection. The shutdown of the light cycle oil hydrocracker unit started Monday while that of the vacuum gas oil hydrotreating unit will start September 23rd. However it said its refineries are expected to operate at their maximum crude processing capacity of 1.3 million bpd during the period.

Taiwan's CPC Corp plans to reduce its daily crude runs in the fourth quarter compared with the previous quarter, due to heavy scheduled maintenance at its Taoyuan and Dalin refineries. It plans to process an average of 400,000-410,000 bpd next quarter, down from 450,000-460,000 bpd in the third quarter.

A crude oil tanker is bound for Mellitah in Libya. The tanker is scheduled to arrive on September 21st.

Production News

Saudi Arabia produced 9.606 million bpd of crude in July, down 207,000 bpd on the month, according to the Joint Data Initiative. It reported that Saudi Arabia exported 7.189 million bpd in July, down from 7.378 million bpd in June. It also stated that Kuwait's oil production in July stood at 2.6 million bpd, up from 2.55 million bpd in June.

Abu Dhabi is producing about 2.5 million bpd of crude oil and expects its production to remain unchanged this year.

BP restarted production at the Valhall field in the North Sea over the weekend and oil exports are expected to continue increasing in the days to come. The field was producing 42,000 bpd when its operations were halted on July 13th due to a fire.

Angola is scheduled to export 1.81 million bpd of crude oil in November, up from 1.57 million bpd in October, as a new oilfield helps to increase supplies.

Total SA wants to expand its oil and gas business in Libya. Total chief executive Christophe de Margerie is in talks with representatives of Libya’s National Transitional Council on how to support industrial development and oil and gas production. He said Total is working on a list of concrete proposals it plans to submit to the NTC by the end of the year.

Kazakhstan said it will increase export duties on light refined fuels to \$143.54/ton starting September 27th from \$114.05/ton in August. It will also increase export duties on heavy refined fuels to \$95.69/ton from \$76.03/ton.

Chevron Corp said it has started to repair a pipeline off the Louisiana Coast in the Gulf of Mexico that leaked a small amount of oil a week ago. It expects to finish repairing the Main Pass pipeline system by midweek. About 8,000 to 9,000 bpd from the company’s Gulf production remain shut in.

Market Commentary

Statements by OPEC’s secretary general, stating that oil demand would not meet expectations combined with the European debt crisis pushed crude oil to its lowest level in a week. Storm activity is seasonally winding down, removing that aspect from the market. The November contract fell just below the support level of \$85.00 only to bounce back above it. The fundamentals, which have been impacting this market, are beginning to look bearish, as are the technicals. Coming into tomorrow’s session we would look for the November crude oil to test the \$85.00 level again. A settlement below this level sets prices up for a run at \$80.00.

Crude oil: Oct 11 57,434 –21,805 Nov 11 306,299 +6,119 Dec 11 191,505 -232 Totals 1,401,165 – 17,904 Heating oil: Oct 11 67,914 –4,718 Nov 11 74,241 Dec 11 54,400 +166 Totals 334,200 +139 Rbob: Oct 11 60,691 –5,420 Nov 11 66,671 +3,378 Dec 11 49,525 +3,939 Totals 278,767 +3,742

| Crude Oil | | Heating Oil | | Rbob | |
|-----------|------------|-------------|------------|---------|------------|
| Support | Resistance | Support | Resistance | Support | Resistance |
| 8500 | 8694 | 27020 | 32777 | 25145 | 33369 |
| 7552 | 9057 | 26680 | 33370 | 24240 | 35915 |
| 7487 | 9122 | 27375 | 33510 | 23631 | 36310 |
| 7365 | 9726 | 23685 | | 23414 | |
| 6423 | 9872 | 22960 | | | |
| 6394 | 10071 | | | | |
| 6119 | 10222 | | | | |
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