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ENERGY RISK MANAGEMENT

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ENERGY MARKET REPORT FOR SEPTEMBER 24, 2009

Iran's President Mahmoud Ahmadinejad told the Washington Post and Newsweek that Iran is open to a meeting of its nuclear experts with counterparts from the US and other countries to dispel unease about Iran's nuclear program. He also said that during talks with world powers next week, Iran will offer to purchase enriched uranium from the US for medical purposes. He said about 20 medical products are currently being created at a nuclear research reactor, which serves to produce radioactive isotopes to diagnose and treat diseases.

Market Watch

The US National Hurricane Center said a low pressure system in the eastern Atlantic Ocean near the Cape Verde Islands is producing disorganized shower activity. It said some slow development is possible over the next day or two as it moves west-northwest at 10-15 mph but gave the system a low chance, less than 30%, of becoming a tropical cyclone during the next 48 hours.

Iran's Deputy Economy Minister Mohammad-Reza Farzin said about 250,000 bpd of gasoline, diesel and other fuel are smuggled out of Iran. Smuggling inflates demand forcing the country must import more fuel at international prices, at a great cost to its treasury which then has to sell it at subsidized rates. He said at some border points, smugglers have built pipelines to transport the fuel out of the country. Separately, Iran has bought two cargoes of about 55,000 tons of diesel for September delivery, its first purchases of the fuel for six months as it prepares to meet winter heating demand.

The US Labor Department said initial claims for unemployment benefits fell by 21,000 to 530,000 in the week ending September 19th. The four week moving average of initial claims fell by 11,000 to 553,500 from the previous week's revised figure of 564,500. In the Labor Department's report, the number of continuing claims fell by 123,000 to 6,138,000 from the preceding week's revised level of 6,261,000. The unemployment rate for workers with unemployment insurance for the week ending September 12th was 4.6%, down 0.1% from the prior week's unrevised rate of 4.7%.

Algeria's Energy and Mines Minister Chakib Khelil said world oil prices are expected to remain at their current level this year before a possible increase in 2010 if the world economy rebounds. He ruled out a rise to \$100/barrel next year because of continued concerns over a world economic rebound. He said the main challenge for OPEC is to ensure compliance with the group's latest output cut.

According to Oil Movements, OPEC oil exports, excluding Angola and Ecuador, will increase by 160,000 bpd to 22.49 million bpd in the four weeks ending October 10th. OPEC shipments are expected to gradually increase as the US, Europe and Asia start to prepare for winter.

September
Calendar Averages
CL – \$69.92
HO – \$1.7696
RB – \$1.7835

Refinery News

The Renewable Fuels Association said US ethanol production is on track to exceed 2009 targets. It said the ethanol industry is producing the product at a rate of 11.5 billion gallons this year. The Renewable Fuels Standard requires that 7.5 billion gallons of renewable fuels be added a year to the country's fuel supply by 2012 and that fuel blenders use 36 billion gallons by 2022.

Valero Energy Corp plans to restart a hydrocracker unit at the east plant of its 340,000 bpd Corpus Christi, Texas refinery that was shut for unplanned maintenance earlier on Thursday morning. The cause of the shutdown is not known at this time. It however said the shutdown should be brief.

Japan's Nippon Oil Corp restarted a 24,000 bpd continuous catalytic cracking unit and a 28,000 bpd fluid catalytic cracking unit at its Marifu refinery on September 21 as scheduled.

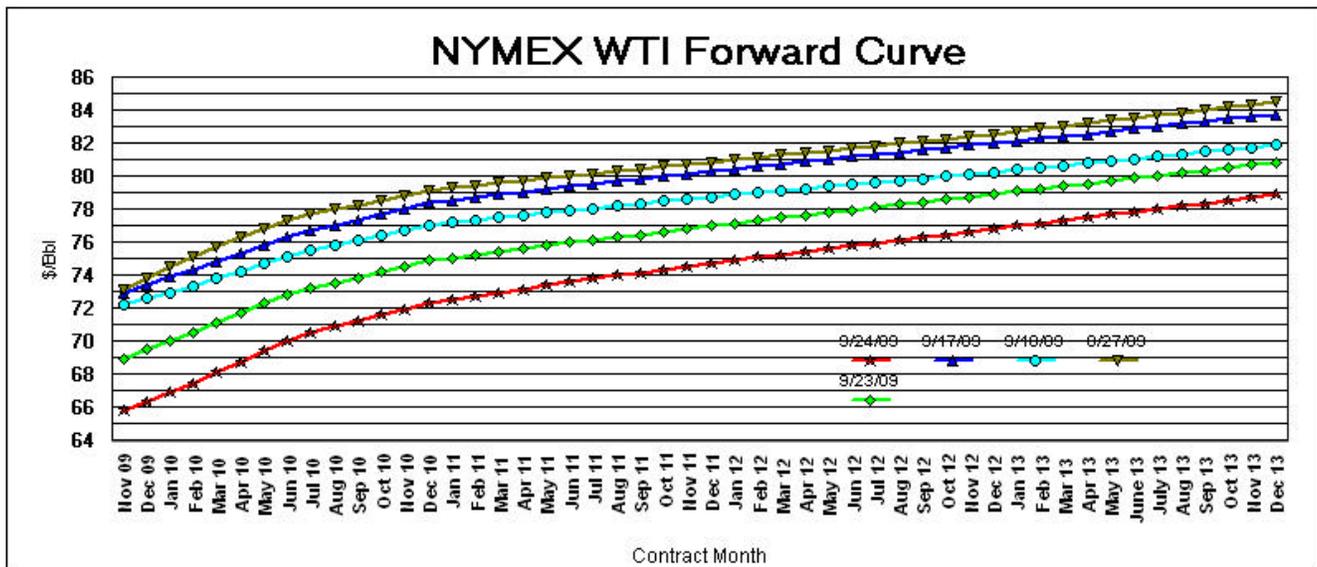
South Korea's SK Energy will restart its No. 4 crude unit next week, about a week after the facility with a refining capacity of 240,000 bpd was shutdown for maintenance.

Taiwan's Formosa Petrochemical Corp will cut crude processing rates at its 540,000 bpd refinery to 67% in October from 98% in September due to upcoming maintenance work at its secondary units. It is scheduled to shut both gasoline making units at the Mailiao refinery in October.

India's Hindustan Petroleum Corp Ltd shutdown a 600,000 ton/year fluid catalytic cracking unit at its Vizag refinery for repairs starting in mid-September and is expected to restart the unit on Monday.

China has started construction of a 5.4 million cubic meter strategic oil reserve site at Dushanzi in Xinjiang as part of the second phase of its strategic oil reserves. The project has started with its first phase of 3 million cubic meters, which is due to be finished by July 2011. China has completed plans for its second phase of strategic oil reserves with a capacity of 26.8 million cubic meters or 170 million barrels, after filling the first four storage tanks totaling 16.2 million cubic meters of 102 million barrels. China will also finish building oil tanks capable of holding 170 million barrels for the third phase strategic petroleum reserves by 2020. China is expected to have a storage capacity of 440 million barrels of crude oil or about 105 days of net imports by 2020.

Japan's crude oil imports fell by more than 10% for the seventh consecutive month in August while liquefied natural gas imports fell almost 6% as industrial demand for oil and power remained weak. Japan's crude imports fell by 12.4% to 17.827 million kiloliters or 3.62 million bpd in August while its liquefied natural gas imports fell by 5.9% to 5.367 million tons.



Korea National Oil Corp said South Korea's crude imports in August increased by 3.6% on the year to 72.774 million barrels. It reported that South Korea's domestic oil product demand in August increased by 3% on the year to 62.584 million barrels.

India's domestic oil product sales in August increased by 6.2% on the year to 10.73 million tons, led by higher sales of petrol and diesel. India's diesel sales increased by 15.1% on the year to 4.18 million tons while gasoline sales increased by 17.4% on the year to 1.05 million tons in August. According to government data, India's crude oil imports increased by 2.7% to about 11.17 million tons or 2.64 million bpd. India's exports of oil products fell by 39.8% to 1.91 million tons due to refinery shutdowns and lower global demand.

Singapore's International Enterprise reported that the country's residual fuel stocks fell by 304,000 barrels to 20.082 million barrels in the week ending September 23rd. It also reported that Singapore's light distillate stocks increased by 666,000 barrels to 9.743 million barrels while its middle distillate stocks built by 125,000 barrels to 14.759 million barrels on the week.

Gasoline stocks in independent storage in the Amsterdam-Rotterdam-Antwerp area in the week ending September 24th fell by 3.59% on the week but increased by 58.17% on the year to 726,000 tons. Gas oil stocks fell by 1.79% on the week but increased by 49.02% on the year to 2.958 million tons while fuel oil stocks fell by 7.34% on the week but increased by 7.95% on the year to 543,000 tons. Naphtha stocks increased by 26.39% on the week and fell by 8.08% on the year to 91,000 tons while jet fuel stocks increased by 10.24% on the week and by 79.04% on the year to 786,000 tons.

Russia's Transneft has scheduled maintenance work on a pipeline to Novorossiisk in the middle of October. Next month Urals crude supplies to Novorossiisk will be halted for three days amid planned work. Quarterly schedule showed Russian and transit seaborne exports from the Black Sea port of Novorossiisk in October-December will fall by 6.6% to 11.26 million tons or 900,000 bpd.

Production News

The first phase of Kazakhstan's Kashagan oilfield in the Caspian Sea will be 72% complete by the end of the year and first oil is expected in 2012. The first phase is designed to produce 450,000 bpd. Production is expected to reach 1 and 1.5 million bpd in the second and third phases, respectively.

Indonesia's BPMIGAS has urged ExxonMobil to ensure crude oil production from Cepu block peaks on schedule in 2012 or else it may lose the right to operate the block. Last week, Indonesia's newspaper Koran Tempo reported that US oil major ExxonMobil may not achieve its crude oil production target of 165,000 barrels from the Cepu block until 2013 because of a late tender process.

Nigeria's National Petroleum Corp increased its official selling price for October Bonny Light and Qua Iboe crude to Dated Brent plus \$1.65/barrel, up from Dated Brent plus \$1.35/barrel in September.

OPEC's news agency reported that OPEC's basket of crudes fell to \$67.87/barrel on Wednesday from \$68.59/barrel on Tuesday.

Market Commentary

Crude oil fell to its lowest level in a month in response to a slumping housing market, which heightened concerns about an economic recovery. The dollar rose and equities fell, lending to today's sell-off. Perhaps this sell-off was long overdue given the current supply/demand scenario. Prices are still feeling the effects of yesterday's DOE release of inventory levels, which blanketed this market with bearishness. Crude oil inventories are 9.1 percent higher than the five-year average, with fuel demand slumping to its lowest level since January. The back end of the forward curve for crude oil

weakened somewhat as hopes of an economic recovery down the road diminished. Key support was taken out today, with the November contract trading below the \$67.00 area. Based upon Fibonacci retracement numbers and using the range of \$74.96 - \$58.32, the next downside objective is \$64.68, which represents a 62% retracement of the aforementioned range.

Crude OCT.09 0 -4,080 NOV.09 304,629 +4,708 DEC.09 180,676 +8,461 JAN.10 62,557 +1,444
 FEB.10 27,456 -52 MAR.10 31,396 +55 Totals: 1,144,557 +19,692 Heating OCT.09 26,225 -3,636
 NOV.09 63,033 +378 DEC.09 57,318 +175 JAN.10 31,359 +258 FEB.10 17,114 +341 MAR.10
 15,447 +55 Totals: 314,636 -1,845 GASOLINE (OCT.09 27,369 -5,985 NOV.09 76,377 +2,160
 DEC.09 32,833 -577 JAN.10 21,117 +600 FEB.10 6,137 +47 MAR.10 11,471 +542 Totals: 202,519 -
 3,853

