

## **ENERGY RISK MANAGEMENT**

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### **ENERGY MARKET REPORT FOR OCTOBER 3, 2011**

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The Energy Department said late Friday it would purchase a total of 1 million barrels of ultra-low sulfur diesel fuel in October and November for shipment to the government's heating oil reserve in the Northeast. The move follows the awarding of the final two contracts for storage of 350,000 barrels of oil for the reserve. Hess Corp received a contract to store 100,000 barrels of ultra-low sulfur distillate at its Groton, Connecticut terminal. The contract is valid for a year with three one-year extensions.

Global Companies LLC received a contract to store 250,000 barrels.

The one year contract also has three one-year renewal options. The move will complete the conversion of the government's Northeast Heating Oil Reserve from a 2 million barrel facility to a 1 million barrel facility containing the cleaner burning fuel that is used in diesel engines.

The EIA reported that the US average retail price of diesel fell by 3.7 cents/gallon to \$3.749/gallon in the week ending October 3<sup>rd</sup>. The price of diesel fell to its lowest level since February 28<sup>th</sup>. Diesel prices are 25% above a year ago. The EIA also reported that the US average retail price of gasoline fell by 7.6 cents/gallon to \$3.433/gallon in the week ending October 3<sup>rd</sup>. It is up 70.1 cents/gallon or 25.7% above a year ago.

#### **Market Watch**

US factory activity expanded at a faster pace than expected in September as production and hiring increased. The Institute for Supply Management reported its monthly index of national factory activity for September increased to 51.6 in September from 50.6 in August. Its index of factory employment increased to 53.8 in September from 51.8 in August.

Global manufacturing contracted for the first time in over two years in September, reinforcing fears of another recession. The Global Manufacturing PMI, compiled by JPMorgan and research and supply organizations, fell in September to 49.9 from 50.2 in August. In Europe and Asia, factory activity fell in September to levels not seen since the financial crisis. Markit's Eurozone Manufacturing Purchasing Managers Index fell to a final reading of 48.5 in September from 49 in August. The HSBC Purchasing Managers' Index for China's services sector increased to 53 in September, recovering from an all time low of 50.6 in August. Meanwhile, India's manufacturing output recorded its largest monthly decline since late 2008. In Japan, the manufacturing sector contracted in September for the first time in five months.

The US Commerce Department said its seasonally adjusted annual rate of construction spending in August increased by 1.4% to a seasonally adjusted annual rate of \$799.15 billion following a decline of 1.4% in July.

Dallas Federal Reserve Bank President Richard Fisher said he believed US inflation would trend towards 2%. He also stated that he expected the economy to grow at under a 2% annual pace for the remainder of the year. He said job creation is the largest challenge in the country and the Federal Reserve has created the right conditions for it. He said there is ample liquidity.

Preliminary figures released by Greece on Sunday showed it may miss a deficit target set just months ago in a bailout package, suggesting the steps taken to avert bankruptcy may not be enough.

The chairman of the CFTC, Gary Gensler said delays on a long awaited rule on position limits is of little concern as long as they yield improved rules. Last month, the CFTC delayed by another two weeks to October 18<sup>th</sup> its meeting to consider the ruling on position limits or a cap on the number of contracts traders can hold in commodity markets.

<b>October</b>
<b>Calendar Averages</b>
<b>CL - \$77.61</b>
<b>HO - \$2.7529</b>
<b>RB - \$2.5110</b>

Iran's OPEC Governor Muhammad Ali Khatibi said Iran shares the Saudi view that the market is balanced and sees no need for a change in output for OPEC. He however said it was too early to say what OPEC would decide when it meets on December 14<sup>th</sup> in Vienna. He also stated that OPEC members are narrowing down differences over the group's quota system due to crimping demand from deteriorating economic conditions.

On Saturday, Saudi Arabia's Oil Minister Ali al-Naimi said supply and demand were now even, suggesting the group may be on course to reach a consensus in December.

Libya's interim government said the level of oil production was improving at a faster rate than expected but said it would take 12-18 months for production to return to normal. Separately, according to a report from Petroleum Policy Intelligence, Libya's oil production is set to reach 1 million bpd by the end of November and will return to pre-war levels by the middle of next year.

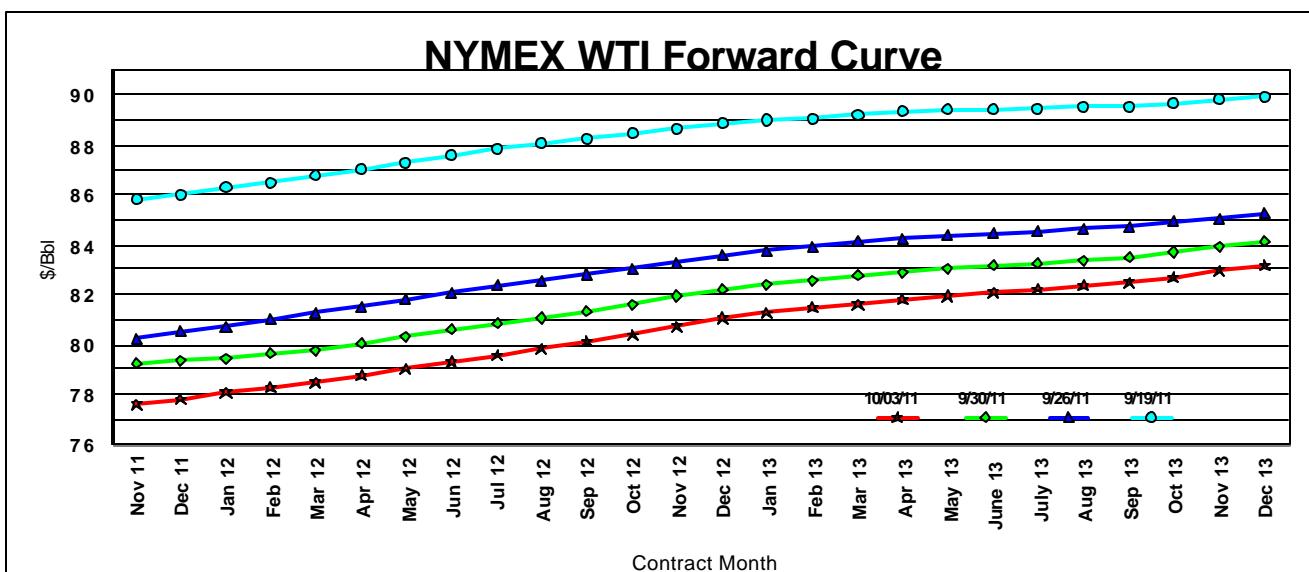
Libya's National Oil Corp said it will start pumping oil at two major oilfields with a combined capacity of 450,000 bpd in about two weeks. The company's chairman said Libya's current production was 350,000 bpd but reiterated that it could take up to 15 months for output to return to pre-war levels.

### Refinery News

Credit Suisse reported that US regional refining margins increased more than 14% on average in the week ending September 30<sup>th</sup>. Refining margins in the Northeast increased by \$2.20/barrel to \$7.62/barrel while margins in the Midwest increased by 27 cents/barrel to \$31.47/barrel while margins in the Gulf Coast increased by \$1.33/barrel to \$30.55/barrel. Refinery margins in the Rockies region increased by 27 cents/barrel to \$50.22/barrel while margins in the West Coast increased by \$2.07/barrel to \$10.45/barrel.

The Ozark crude oil pipeline from Cushing, Oklahoma to Wood River, Illinois remained shut for unscheduled inspection on Monday with no target date for restart. The 231,000 bpd pipeline, which carries oil from the NYMEX delivery hub at Cushing to refineries in the Midwest, was shut as a precaution after a section under the Mississippi River was found uncovered.

ExxonMobil Corp said it was increasing production rates at its 60,000 bpd refinery in Billings, Montana, more than a week after the restart of a crude oil pipeline that supplies it. The refinery was operating at reduced rates after the Silvertip crude oil pipeline was shut on July 1<sup>st</sup> after leaking about 1,000 barrels of crude into the Yellowstone River.



Valero Energy Corp said there was no material impact to production associated with a feed rate cut to a sulfur recovery unit on Thursday at its 287,000 bpd Port Arthur, Texas refinery. It cut feed to a sulfur recovery unit on Thursday after a faulty transmitter triggered a malfunction and emissions. Valero Energy reported acid gas flaring at its 144,000 bpd Benicia, California refinery.

Sunoco reported a compressor malfunction that led to emissions at its 178,000 bpd Marcus Hook, Pennsylvania refinery.

Flint Hills Resources reported a process unit shut after a leak in a flange caused the unit to depressurize at its 280,500 bpd Rosemount, Minnesota refinery. The incident occurred on Sunday afternoon.

PBF Energy reported a carbon monoxide boiler on a fluid catalytic cracking unit was shut at its 182,200 bpd Delaware City, Delaware refinery on Sunday.

Petrobras' 100,000 bpd Pasadena, Texas refinery was shut Friday afternoon after a fire started on the plant's crude distillation unit.

Murphy Oil sold its Meraux refinery to Valero Energy.

Kuwait National Petroleum Co controlled a gas leak at its 460,000 bpd Mina al-Ahmadi refinery. The accident took place during routine maintenance work at the gas unit.

Workers at LyondellBasell's Berre l'Etang refinery in France voted to prolong a six day strike by another 24 hours after the company announced last week it planned to close the refinery. Labor union members at three nearby refineries at the Berre industrial site in southern France decided on Friday against joining the strike.

Japan's Showa Shell Sekiyu will cut its October-December crude processing volume by 9% on the year to 7.85 million kiloliters or 536,700 bpd. The cut in runs follows the permanent closure of a 120,000 bpd Ogimachi crude distillation unit in early September.

Royal Dutch Shell Plc said it would not restart its fire hit oil refinery at Pulau Bakom unless safety is ensured, even though the damage is limited to the vicinity of a pump house. It declared force majeure on the supply of oil products to some customers on Sunday following a fire at its 500,000 bpd Singapore refinery. The company will continue talks with its customers about mitigating any potential impact. Shell Singapore has cancelled the lifting of four million barrels of Saudi Arab Light crude for loading in October. Meanwhile, an Abu Dhabi National Oil Co source said Royal Dutch Shell has not requested to cancel any crude shipments to its Singapore refinery. Separately, Shell is expected to shut its Singapore chemical complex in about a week and it's already cutting its operating rates.

Targa Resources Partners LP acquired two storage and terminal facilities for refined petroleum products and crude oil to further expand its downstream business. The Targa Sound Terminal on the Hylebos Waterway in the Port of Tacoma, Washington, which has a 758,000 bpd capacity, handles refined petroleum products, liquefied petroleum gas and biofuels, including ethanol and biodiesel. The Targa Baltimore Terminal on the Patapsco River, in Baltimore, Maryland has about 505,000 barrels of storage capacity contains blending and heating capabilities and has tanker-truck and barge loading and unloading infrastructure.

South Korea's Ministry of Knowledge Economy said the country's September crude oil imports increased by 8.2% on the year to 81 million barrels.

India's oil imports in August increased by 48.7% on the year to \$10.3 billion.

OMV said its first cargo of condensate from Libya since March has been delivered to the port of Trieste.

Saudi Aramco sold two fuel oil cargoes, both for October loading, at two year high prices amid tight supplies of on-specification cargoes. The two cargoes, of up to 90,000 tons each, were sold into the Middle East market.

### **Production News**

According to a Dow Jones Newswire survey, OPEC's total oil production stood at 30.525 million bpd in September, up 7,000 bpd on the month. The increase in oil production was due to Libya's resumed oil production and an increase in Iraq's and Angola's oil production. OPEC 11's, excluding Iraq, oil production fell to 27.745 million bpd in September from 27.778 million bpd.

Iraq's Oil Minister Abdul Kareem Luaiby said the country's oil production reached 2.9 million bpd, the highest level since the US led war in 2003. He said the country's output is expected to reach 3 million bpd by the end of the year.

The head of Iraq's State Oil Marketing Organization said Iraq's oil exports in September fell to 2.101 million bpd, down 4% on the month. Iraq's exports in the year to date totaled 2.18 million bpd, up 15% from 1.89 million bpd in the same period of 2010.

Qatar has notified at least one Asian buyer that it will supply Marine crude at full contracted volumes for November, unchanged from October levels.

An Eni pipeline in Nigeria's Niger Delta has been damaged and is leaking oil into the creeks. The pipeline suffered minor damage and the company does not plan to introduce a force majeure. The pipeline is located in Nembe, Bayelsa state, a region which has been the scene of sabotage attacks in recent months by local residents who say oil companies have broken agreements to supply provisions in exchange for pumping oil.

BP Plc is already receiving more than 80,000 bpd of oil equivalent as a result of its tie-up with India's Reliance Industries Ltd.

Russian seaborne crude exports supplied to ports by Transneft increased to 2.73 million bpd in September from 2.58 million bpd in August.

Russia's Energy Ministry reported that the country's oil production reached a post-Soviet high of 10.3 million bpd in September, up from 10.28 million bpd in August. Exports via pipeline monopoly Transneft increased by 6.7% to 4.26 million bpd in September from 4.02 million bpd in August.

Azerbaijan's SOCAR said the country's oil exports via Russia in January-September fell by 6.4% to 1.46 million tons.

Colombia's Ecopetrol SA said it found oil in a new well in the Cano Sur area. It found oil in the Trasgo-1 well. The new discovery brings to five the successful oil wells drilled in the Cano Sur block. Initial production tests showed average output of 120 bpd in the well.

Dubai's Al Jalila oilfield is on track to begin operations before the end of 2011.

Magnum Hunter Resources Corp announced a daily production exit rate of 8,000 bpd of oil equivalent in the third quarter. A combination of new wells completed and placed online in the Eagle Ford, Marcellus and Williston Basin contributed to the significant increase in companywide daily production. It reiterated and confirmed its previously announced exit rate guidance of a minimum of 10,000 bpd of oil equivalent at the end of 2011.

### **Market Commentary**

Crude oil continued to slip on the possibility that Greece may have no choice but to default on its debt. The November contract dipped 2.9 percent, bottoming out at \$76.85. An early session rebound was short-lived as the market lacked the ability to sustain strength above the unchanged level of \$79.20. Economic uncertainty will continue to play out in this market, keeping a lid on prices. As long as prices remain below key resistance at \$90.60, the tone of this market will remain bearish. Currently, there is support set at \$75.70. Breaks below this number leave additional room to the downside, with \$64.23 the target.

Crude oil: Nov 11 300,388 +9,189 Dec 11 223,570 +12,584 Jan 12 124,184 +196 Totals 1,412,893 +27,303 Heating oil: Nov 11 103,741 +720 Dec 11 64,228 +1,609 Jan 12 39,355 +1,743 Totals 329,128 +2,4452 Rbob: Nov 11 86,600 +5,385 Dec 11 56,957 +3,858 Jan 12 26,475 -358 Totals 263,171 +7,303

Crude Oil		Heating Oil		Rbob	
Support	Resistance	Support	Resistance	Support	Resistance
7570	8500	27020	32777	25145	33369
7487	8817	26680	33370	24240	35915
7365	9060	27375	33510	23631	36310
6423	9122	23685		23414	
6394	9726	22960			
	9872				
	10071				
	10222				
<b>50-day MA</b>	<b>87.50</b>				
<b>200-day MA</b>	<b>95.25</b>				

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