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ENERGY RISK MANAGEMENT

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ENERGY MARKET REPORT FOR OCTOBER 19, 2011

The head of the oil industry and market division at the IEA, David Fyfe said there is a need for more OPEC oil late this year and next year but declined to say whether he believed the group should increase its output quotas when it meets on December 14th. He stated that high oil prices have contributed to the economic slowdown and added that oil demand growth would be largely wiped out if a double dip recession occurs. He said oil supply remains tight and the world will need OPEC's supply to remain at its current level through 2012. However oil stocks are comfortable enough to prevent a major oil price spike in the near future.

The chief economist of the IEA, Fatih Birol said countries in the Middle East and North Africa suffering from political unrest may be under investing in their oil production, laying the grounds for

Market Watch

According to a Federal Reserve survey of conditions, the US economy kept growing slightly in September however prospects for the future appeared to be weakening. It said consumer spending increased slightly in most districts in September, led by car sales and tourism. The Fed saw a slight improvement in construction but residential and commercial real estate activity was weak. It expects prices of commodities, including oil, industrial materials to fall.

The US Labor Department said the cost of living in the US kept rising in September, led by continued increases in food and energy prices. Consumer prices in September increased a seasonally adjusted 0.3% on the month, the third consecutive monthly increase. Prices were up 0.4% and 0.5% in August and July, respectively. The core CPI, excluding food and energy, increased 0.1% in September. Energy prices were up by 2% in September after a 1.2% increase in August.

The US Commerce Department said US housing starts in September increased to the highest level in 17 months. Home construction in September increased 15% on the month to a seasonally adjusted annual rate of 658,000. Housing starts for August were revised upward slightly to an annualized pace of 572,000. Newly issued building permits fell 5% on the month to an annual rate of 594,000, the lowest level in five months.

The Mortgage Bankers Association said applications for US home mortgages fell last week as demand for both refinancing and purchases declined. It said its seasonally adjusted index of mortgage application activity fell 14.9% in the week ending October 14th. Its seasonally adjusted index of refinancing applications fell 16.6% while the index of loan requests for home purchases fell by 8.8%.

Morgan Stanley said its commodities trading risk increased in the third quarter amid strong sales and revenues from the sector. Value at Risk for commodities averaged \$32 million per day in the third quarter compared with \$29 million in the second quarter and \$30 million in the third quarter of 2010. Morgan Stanley said its combined revenue from fixed income, currencies and commodities increased to \$3.9 billion in the third quarter from \$2.1 billion in the second quarter and \$847 million a year ago.

Tens of thousands of protesters rallied in front of the Greek parliament on Wednesday and there were isolated outbreaks of violence as a general strike shutdown much of the country ahead of a vote on a new round of austerity measures. Prime Minister George Papandreou has appealed for support from Greeks before parliament votes on the latest measures which include tax hikes, wage cuts and public sector layoffs.

Chevron Corp chief executive John Watson said the US needs to rework its energy policy in order to increase the development of fossil fuels, in lieu of giving precedence to expensive and unproven alternative sources of energy. He said that in countries such as Canada, Norway, Australia and Brazil the development of affordable fossil fuels is at the top of the policy agenda while in the US energy policy is full of contradictions that hinder the exploitation of domestic oil and gas resources.

CME Group Inc raised concerns about regulators' new rule on speculation in commodity markets. It said that the new rule could constrain legitimate risk management activities by commercial participants. It also said it was concerned that the rules would encourage people to migrate to markets outside the US that don't have the same limits. The CFTC on Tuesday approved a rule that would limit the positions traders can take in 28 different commodities.

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DOE Stocks

Crude – down 4.729 million barrels
Distillate – down 4.266 million barrels
Gasoline – down 3.324 million barrels
Refinery runs – down 1.1%, at 83.1%

much higher oil prices. He said about 90% of growth in world oil supply in the next 10 years will need to come from that region. The world needs to invest \$38 trillion in energy infrastructure over the next 25 years, around half of which will be in oil and gas. Separately, the IEA said the world is headed for a dire future where high energy prices drag on economic growth and global average temperatures increase

by more than 3.5 Celsius, unless there are significant innovations to lower the cost of clean energy and carbon capture technology.

French President Nicolas Sarkozy left the euro zone crisis talks with Germany's Angela Merkel and other policymakers on Wednesday without making comments about what was discussed. France has argued that the most effective way of leveraging the European Financial Stability Facility is to turn it into a bank which could then access funding from the European Central Bank, however both the central bank and the German government have opposed this.

Refinery News

Colonial Pipeline notified shippers that it was freezing Cycle 57 nominations on Line 27, which runs from Mitchell to Norfolk, effective Tuesday. Colonial also said it was allocating its main distillate line north of Collins, Mississippi for Cycle 60. It was also allocating its Linden Delivery Line segment L2-IMTT, servicing deliveries to IMTT Bayonne, for Cycle 57. Colonial also allocated its main gasoline line north of Collins, Mississippi for Cycle 60.

IIR Energy reported that US oil refiners are expected to shut in 1,242,000 bpd of capacity in the week ending October 21st, down slightly from 1,259,000 bpd shut in during the previous week.

ConocoPhillips reported units upset due to a transformer fire at its 247,000 bpd refinery in Sweeny, Texas. It is in the process of restarting the units following the fire. Meanwhile, ConocoPhillips completed repairs to a hydrotreater at its 139,000 bpd refinery in Wilmington, California. Gasoline differentials in the LA market fell 6 cents to a 21.5 cent/gallon premium to November on Wednesday amid the news.

Valero Energy Corp had an electrical outage at its 88,000 bpd refinery in Houston. It said plant production rates of affected process equipment were immediately reduced. No information was given as to which units were affected. It however said that the refinery was returning to planned rates on Wednesday.

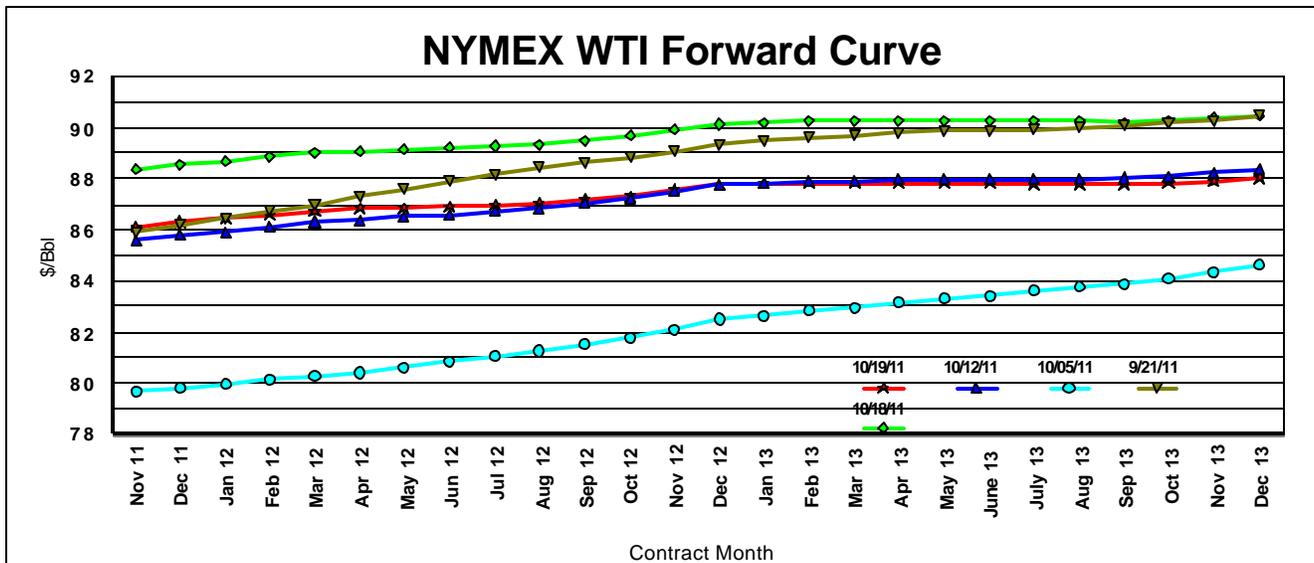
Royal Dutch Shell said it is carrying out planned maintenance on a unit at its 100,000 bpd Scotford refinery near Edmonton, Alberta. It said the work would have no material impact on its production. Separately, Shell said its 120,000 bpd Geelong refinery in Australia's Victoria state suffered power disruption which had impacted production and workers were trying to return operations to normal.

The Shymkent oil refinery in Kazakhstan closed on Wednesday for a scheduled 30 day maintenance period. The refinery process Kazakh and West Siberian crude and produces products such as gasoline, diesel, jet fuel and liquefied gas.

South Africa's Energy Ministry said it was experiencing shortages in the supply of liquefied petroleum gas and bitumen due to problems at four of the country's six refineries. It did not state which refineries were having problems.

German household heating oil stocks stood at 59% of capacity as of October 1st, up from 56% at the beginning of September.

October Calendar Averages
CL - \$83.63
HO - \$2.9050
RB - \$2.6798



The Petroleum Association of Japan reported that the country's crude oil inventories in the week ending October 15th fell by 920,000 barrels on the week and by 770,000 barrels on the year to 98.54 million barrels. Japan's gasoline inventories fell by 340,000 barrels on the week but increased by 540,000 barrels on the year to 12.59 million barrels while its kerosene stocks were unchanged on the week and increased by 3.19 million barrels on the year to 20.58 million barrels and its naphtha stocks fell by 280,000 barrels on the week and by 3.08 million barrels on the year to 11.21 million barrels. Japan's crude runs totaled 3.07 million bpd, down 50,000 bpd on the week and by 220,000 barrels on the year. Refinery utilization rates fell by 1.2% on the week but increased by 3.2% on the year to 74.1%. Japan's total oil sales fell by 7.3% on the week but increased by 24% on the year to 2.82 million bpd.

BP has started trading fuel oil in the Middle East, taking about 200,000 cubic meters of storage in the UAE port of Fujairah that became operational at the beginning of the month. It also bought 80,000 tons of fuel oil from Kuwait Petroleum Corp for November 14-15 loading from Shuaiba.

Asian countries' imports of West African crude are expected to increase to about 1.68 million bpd in November from 1.44 million bpd in October. About 53 cargoes of West African crude, mostly Angolan and Nigerian, have been sold to Asia.

Enterprise Products Partners LP opened a bidding season for shippers on a proposed expansion of its Skelly-Belvieu natural gas liquids pipeline. The project would add 17,000 bpd of capacity to the pipeline, which runs from Carson County, Texas to Enterprise's NGL processing hub in Mont Belvieu. The additional capacity could be available by the fourth quarter of 2012. It is also in the midst of an open commitment period for a proposed 125,000 bpd pipeline that would transport ethane from gas and oil fields in Pennsylvania, Ohio and West Virginia to the US Gulf Coast.

Production News

BP said it delayed the start up of production from its Skarv oil and gas field off Norway until late in the first quarter of 2012. Originally the field had been due to enter production in August.

Iraq's Prime Minister Thamer Ghadhban said ExxonMobil Corp, BP Plc and Italy's Eni SpA will spend about \$100 billion to upgrade three oilfields in southern Iraq. He said about \$50 billion would be spend to upgrade the West Qurna Phase 1 oilfield, which ExxonMobil is developing and the remaining \$50 billion would be spent by BP and Eni to upgrade the Rumaila and Zubair oil fields, respectively.

The three fields are pumping about 2 million bpd, which is the majority of Iraq's total oil production of 2.9 million bpd. Meanwhile, Iraq has agreed with oil majors to build an oilfield water injection plant in southern Iraq following disagreements over costs that suspended the project for months. ExxonMobil Corp was picked on behalf of foreign oil firms to lead the water injection project, needed to increase oil production rates from Iraq's southern oilfields.

Deloitte's petroleum services group said offshore drilling activity in the UK North Sea has continued to decline, falling 36% in the third quarter from the same period last year with 16 exploration and appraisal wells started. Only 11 wells were started in the UKCS in the second quarter and just 37 began operations in the first nine months of the year, down 41%. The relative lack of new wells in the region comes despite an oil price of over \$100/barrel.

Azerbaijan's state statistics agency reported that the country produced 35.5 million metric tons of oil in January to September, down 7.9% on the year. Its natural gas production over the nine months fell by 2.6% on the year to 19.4 billion cubic meters. The government expects oil production in 2011 to total 51.55 million tons.

The governor of Colombia's southern oil region of Putumayo, Julio Byron Viveros warned the Colombian military's focus on providing security to candidates and officials ahead of elections later this month has left oil pipelines and other infrastructure less protected and more vulnerable to attacks by Marxist rebels. He said that over the past two days Marxist rebels have blown up three sections of the small Oso oil pipeline and used dynamite to knock over two electricity towers, which cut power to residents in the area. He said more attacks are likely ahead of the October 30th elections for governors, mayors and town councilors. An official at Ecopetrol said there was no official data to support or refute Gov. Viveros' claim that attacks on energy infrastructure have increased during the political campaigns.

Russian investment group Summa Capital and a branch of Vitol, VTTI, is expected to build an oil terminal in Rotterdam. The consortium of Summa and Vitol Tank Terminals International won a tender for rights to build the 55 hectare terminal Tank Terminal Europoort West, which is expected to take on a significant share of global oil trade.

Nigeria's state oil company lowered its official selling prices for its Bonny Light and Qua Iboe crude by 10 cents to a premium of \$3.55/barrel over Dated Brent, down from a premium of \$3.65/barrel for October.

Market Commentary

Crude oil gathered momentum to the upside as it responded to the 4.73 million barrel drop in inventories. Weaker equity markets put a lid on prices, curtailing the move to the upside. Gasoline continued to head lower despite the 3.32 million barrel inventory decrease, as most of the focus is being put on heating oil. A late session sell-off came as the equity market and the euro sold off. Basis a spot continuation chart, the November crude oil contract traded at its highest level in one month. We remain with our conviction that this market will continue to trade in a choppy fashion as traders react with sentiment about the economy.

Crude oil: Nov 11 49,861 -19,707 Dec 11 356,220 +1,922 Jan 12 174,057 +2,734 Total 1,431,563
-138 Heating oil: Nov 11 55,728 +326 Dec 11 69,770 +4,691 Jan 12 47,996 +2,542 Totals 298,894
+5,785 Rbob: Nov 11 47,115 -2,120 Dec 11 75,083 +2,816 Jan 12 40,241 +367 Totals 278,350
+3,873

Crude Oil		Heating Oil		Rbob	
Support	Resistance	Support	Resistance	Support	Resistance
8507	9052	26975	32777	24670	33369
8337	9122	26680	33370	24240	35915
7570	9443	27375	33510	23631	36310
7487	9726	23685		23414	
7365	9872	22960			
6970	10071				
6423					
6394					
50-day MA	85.07				
200-day MA	94.78				

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