

ENERGY RISK MANAGEMENT

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ENERGY MARKET REPORT FOR NOVEMBER 16, 2011

The head of the IEA, Maria von der Hoeven said the oil market is tightening and high oil prices are already hurting growth in developing economies and threaten any economic recovery in Europe. She however declined to say whether she thought OPEC needed to increase its output at its meeting in December.

BP chief economist Christof Ruehl said oil prices are likely to remain at present levels for some time barring a larger than expected fall in demand. Prices are seen remaining supported by the continuing growth in emerging market energy needs and the likelihood that OPEC will not increase production in the short term.

A senior Iraqi oil official said Iraq will move to end a major contract with ExxonMobil after the company signed a deal with Kurdistan to explore fields there. Iraq's central government and Kurdistan's regional authorities have been disputing over oil and land rights and the former says all foreign oil deals signed with Kurdistan's region are illegal.

DOE Stocks

Crude – down 1.056 million barrels
Distillate – down 2.136 million barrels
Gasoline – up 992,000 barrels
Refinery runs – up 2.2%, at 84.8%

Market Watch

The US Labor Department said the cost of living in the US declined in October from a month earlier, easing concerns over inflation. It reported that the Consumer Price Index fell a seasonally adjusted 0.1% in September, led by a decline in gasoline and other energy costs. Overall prices were up by 0.3% in September. The core CPI increased by 0.1% in October.

The Federal Reserve said US industrial production expanded in October as factory output increased. Overall production increased by 0.7% in October following a revised 0.1% decline in September. The Fed data showed that industries used 77.8% of their capacity last month compared with 77.3% in September.

The Mortgage Bankers Association said applications for US home mortgages fell last week. It said its seasonally adjusted index of mortgage application activity, which includes both refinancing and home purchase demand, fell by 10% in the week ending November 11th. The decline erased a gain of 10.3% the previous week. The MBA's seasonally adjusted index of refinancing applications fell by 12.2% while the index of loan requests for home purchases fell by 2.3%.

Euro zone inflation held at 3% for a second month in October. Economists said it had likely peaked and would soon fall in a struggling economy, giving the European Central Bank room to cut interest rates and focus on growth.

European Commission President Jose Manuel Barroso said the euro zone faces a systematic crisis and will not survive unless it becomes more integrated and disciplined.

JP Morgan increased its WTI price forecasts for 2012 to \$110/barrel from a previous forecast of \$97.50/barrel and to \$118/barrel in 2013 from a previous forecast of \$114.25/barrel. It sees the Brent-WTI spread narrowing to \$5 and \$3/barrel in 2012 and 2013, respectively. It expects the Brent-WTI spread trending towards a more stable relationship between \$1/barrel and \$2/barrel in 2014.

Iran's Foreign Minister Ali Akbar Salehi said Iran is sending an analytical response to a report suggesting it was pursuing

nuclear weapons. He said the letter would be distributed to countries and international organizations. His announcement came before a meeting of the IAEA's 35 member board on Thursday and Friday to consider the November 8th report which suggested Iran was researching nuclear warheads. Meanwhile, Western diplomats said world powers were making progress in narrowing their differences on how to respond to the UN's IAEA report on Iran's nuclear program. They said officials from the US, Russia, China, France, Britain and Germany were in negotiations on drafting a resolution on Iran for a November 17-18 board meeting of the IAEA. The US said it hoped the IAEA's board of governors would send a strong message to Iran when it meets later this week.

November
Calendar Averages
CL - \$96.44
HO - \$3.1061
RB - \$2.6354

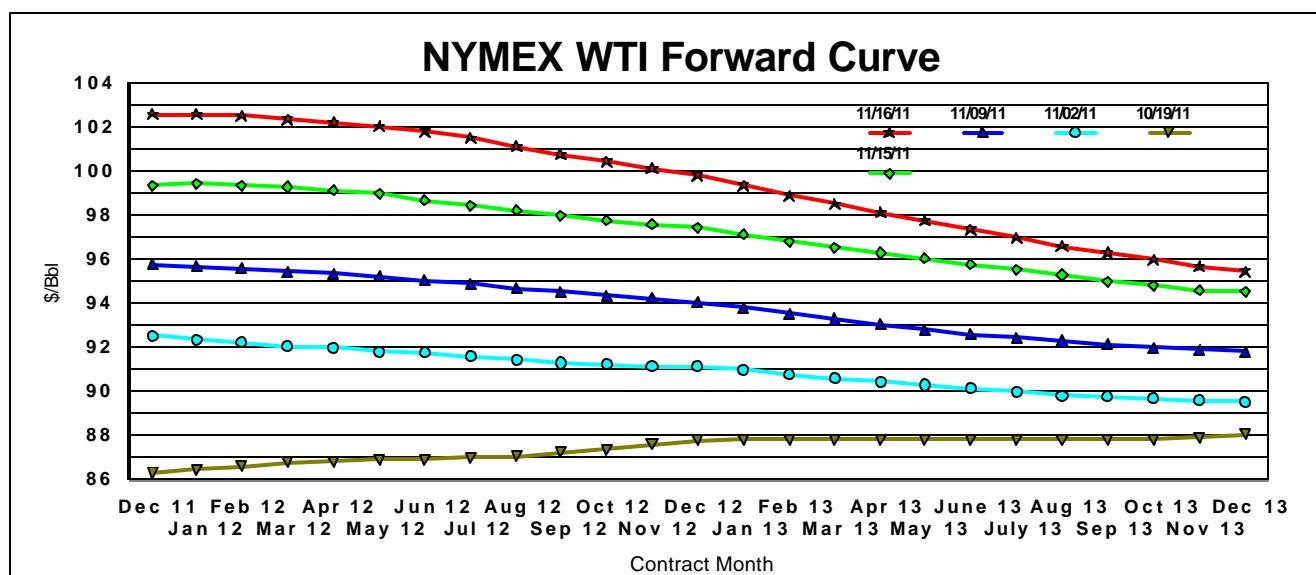
Refinery News

Canada's Enbridge Inc agreed to buy a 50% stake in an oil pipeline currently moving crude from the Gulf Coast to Oklahoma and then reverse the flow. It said it would pay \$1.15 billion for ConocoPhillip's 50% stake in the Seaway Crude Pipeline System. They agreed to reverse the flow of a 500 mile portion of the pipeline to bring crude from Cushing, Oklahoma to the Houston area refining market. Pending regulatory approval of the reversal, the line could ship an initial 150,000 bpd of crude by the second quarter of next year. As part of the reversal of the Seaway pipeline project, it plans to build an 85 mile pipeline from its ECHO terminal in Houston to refineries in Port Arthur, Texas. Meanwhile, Enterprise Product Partners L.P. said it will cancel its Wrangler pipeline project in favor of reversing the Seaway pipeline. Enterprise and Enbridge had been gauging interest in the planned 800,000 bpd Wrangler pipeline as a way to move light, sweet crude to the Gulf Coast from Cushing, Oklahoma.

The Nebraska legislature voted 45-0 to advance a proposed law that would reroute the TransCanada Keystone XL pipeline, avoiding the Sandhills and Ogallala aquifer that environmental groups and many residents fear could be polluted by a spill. Under the bill, the state would pay for a new environmental study for a new route for the pipeline. Separately, TransCanada Corp said the Keystone XL pipeline is still the best alternative to bring Canadian crude to the US Gulf Coast despite a delay and a re-route imposed by the US government last week. It said it could start building the portion of the pipeline that runs from Cushing, Oklahoma to the Gulf of Mexico, even as it awaits US approval for the project.

ExxonMobil shut its Southwest System Pipeline, which carries heavy Louisiana sweet crude, indefinitely starting October 31st.

Tesoro Corp's 100,000 bpd refinery in Wilmington, California was still undergoing work on Tuesday.



Tesoro filed notices with state pollution regulators that a planned overhaul at the refinery would be extended through Friday. Los Angeles gasoline differentials increased by 9 cents due to the ongoing work at the refinery.

BP Plc's 405,000 bpd Whiting, Indiana refinery completed its month long maintenance of a crude and coker unit. The refinery ran at about 50% of capacity while work was performed to update equipment to process heavy crude oils. Meanwhile, BP's 406570 bpd Texas City, Texas refinery was operating normally on Wednesday as workers attempted to determine the source of odors that triggered complaints from nearby residents.

ExxonMobil Corp said it was preparing to shutdown its 305,000 bpd Antwerp refinery in Belgium due to a labor strike.

Indian Oil Corp plans to increase its group refining capacity by 87% to 2.46 million bpd by March 2021, buoyed by demand for fuel products in the country.

Brazil's Petrobras said it expects to bring an additional 414,000 bpd of capacity on stream by the end of 2012. Petrobras' average production in the first nine months of the year was 2.599 million bpd of oil equivalent.

The Petroleum Association of Japan reported that the country's crude oil inventories in the week ending November 12th fell by 780,000 barrels on the week but increased by 2.92 million barrels on the year to 97.75 million barrels. Japan's gasoline stocks increased by 140,000 barrels on the week and by 90,000 barrels on the year to 12.71 million barrels while kerosene stocks increased by 520,000 barrels on the week and by 5.8 million barrels on the year to 22.68 million barrels and naphtha stocks increased by 570,000 barrels on the week but fell by 980,000 barrels on the year to 11.25 million barrels. Japan's crude runs increased by 30,000 bpd on the week but fell by 320,000 bpd on the year to 3.41 million bpd. Refinery utilization rates increased by 0.7% on the week but fell by 0.1% on the year to 82.4%. The PAJ also reported that total oil sales fell by 2.8% on the week and by 13.5% on the year to 2.71 million bpd.

China's National Development and Reform Commission said the country's apparent consumption of refined oil products in the January-October period was 201.84 million metric tons, up 5.6% on the year. China's gasoline consumption increased by 7.4% to 59.89 million tons while its diesel consumption increased by 4.7% to 127.04 million tons. China's apparent demand of refined oil products in October totaled 21.24 million tons. It also stated that China's refined oil product stocks at the end of October fell slightly from the end of September levels and increased moderately from a year earlier. It did not give a specific amount or percentage change for October.

China's Sinopec is seeking up to 1.255 million tons of gasoil for its term contract next year.

Saudi Aramco sold an unusually high volume of three 80,000 ton cargoes of fuel oil for December lifting out of Jubail in a single tender. The lots, for December 3-5, December 8-10 and December 18-20 loading, were all sold to BP.

A further decline in water levels this week is hindering freight shipping on the Rhine and Danube rivers in Germany and many vessels are sailing only 20-50% full.

Production News

Oil production at the Buzzard oilfield in the North Sea has declined to zero, potentially causing more loading delays of Forties crude.

Trade sources stated that two more cargoes of North Sea Forties crude loading in December were delayed due to lower than expected output while a November loading shipment was delayed further.

Libya's oil production is quickly being restored in Zawiyah and around the country in large part because both the Qaddafi regime and the former rebels avoided permanently damaging the industry. Libya's oil production remains at about 40% of the level that it was before the revolution began. However none of the country's 40 critical oil and gas fields were seriously damaged in the war. Also, oil ports and refineries, idled by international sanctions and months of fighting are ramping back up. Officials predict that by June, Libya will be pumping 1.6 million bpd of oil. Unless oil production to pre-war levels, the country's economy and political stability will suffer. Conversely, if oil output increases substantially, Libya's citizens could become quite wealthy. Corruption remains a risk, however. The country's acting Oil Minister said the current government's priority was to restart production and it would leave any renegotiation of existing oil contracts or issuance of new ones for a future elected government.

Loading volumes of Angolan crude are expected to fall in January, according to the provisional loading program. Angola is expected to export 55 cargoes with a volume totaling 1.7 million bpd in January, down from 1.72 million bpd scheduled for export in December after an additional cargo of Hungo was added to the program.

Urals crude exports from Primorsk are expected to total 5.8 million tons during December, down from 6.3 million tons scheduled for November while Novorossiisk loading are expected to increase to 3.7 million tons from 3 million tons scheduled for November.

Statoil ASA's plans to appraise the oil and gas potential of some exploration blocks offshore Alaska will depend on how quickly the company is granted the necessary permits from the US regulators. Statoil acquired 16 blocks in the Chukchi Sea in a 2008 licensing round.

Canadian Oil Sands Ltd cut its 2011 production outlook at its Syncrude oil sands project to between 105 and 107 million barrels due to extended maintenance.

Brazil's Petrobras is maintaining its 2.1 million bpd production target at its operations in Brazil for 2011, despite some production stoppages and equipment problems in the first nine months of the year. It said it will speed up development of some production projects in a move to compensate for output, which fell 4% below target in the months ending September 30th to an average of 2.013 million bpd. It plans to add 20 new wells to its system during the final quarter as well as speed up drilling in its Santos pre-salt fields.

Turkey's Energy Minister Taner Yildiz said Turkey and Royal Dutch Shell Plc will sign a deal to conduct oil and natural gas exploration on Turkish land and offshore.

Iraq's State Oil Marketing Organization reported that the country increased the official selling price of its Basra Light and Kirkuk crude to customers in Europe and Asia and left the price unchanged for customers in the US. The price of Basra Light crude bound for Europe was increased by 95 cents to \$3.15/barrel below Dated Brent while the price of the crude grade bound for Asia was increased by 15 cents to \$1.80/barrel above the Oman/Dubai average. The price of Basra Light crude bound for the US was unchanged at \$1.60/barrel below the Argus Sour Crude Index. Meanwhile, it also increased the price of Kirkuk crude bound for Europe by 60 cents to \$1.35/barrel below Dated Brent but left the price unchanged for crude bound for the US at 10 cents/barrel over ASCI.

Market Commentary

Crude oil was given a boost today by the announcement that Enbridge will attain ConocoPhillip's share of the Seaway Pipeline, which runs from Cushing, OK to the Gulf Coast. The announcement by Enbridge that it would reverse the direction of oil flow from the pipeline gave strength to crude oil, especially the middle to back end of the curve. The December12/December13 crude oil spread widen out to as much as \$4.70, almost \$2.00 higher on the day. Thoughts going forward are that the reversal of the direction of crude oil going through the pipeline will help shrink the overhang of supplies. This directional change may provide only temporary relief to the supply log jam, which has experienced increased production. Crude oil has increased by 49 percent since the beginning of October, poising momentarily between the range of \$90.00 and \$95.00. Given the rapid rise without a drastic change in fundamentals, one must anticipate a price correction. We would look for a dip back to the top of this range and would reevaluate the market from that point.

Crude oil: Dec 11 109,230 -41,082 Jan 12 321,163 8,800 Feb 12 84,562 -927 Total 1,357,129 -26,575 Heating oil: Dec 11 68,883 -4,106 Jan 12 70,879 +1,281 Feb 12 30,640 -1,312 Totals 297,574 -3,029 Rbob: Dec 11 59,081 -4,746 Jan 12 74,011 +57 Feb 12 27,389 -783 Totals 297,549 -4,526

Crude Oil		Heating Oil		Rbob	
Support	Resistance	Support	Resistance	Support	Resistance
9489	9960	26975	32777	24670	33369
8917	10134	26680	33370	24240	35915
8507	11483	27375	33510	23631	36310
8337		23685		23414	
7570		22960			
7487					
7365					
50-day MA	88.41				
100-day MA	89.76				
200-day MA	95.24				

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