

ENERGY RISK MANAGEMENT

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ENERGY MARKET REPORT FOR DECEMBER 5, 2011

The UAE's Oil Minister Mohamed bin Dhaen Al Hamli said there is enough crude oil in the world market. Meanwhile, Qatar's Deputy Prime Minister Abdullah bin Hamad al-Attiyah said OPEC is likely to maintain its current output at its meeting next week in Vienna. Kuwait's Oil Minister Mohammad Al Busairi said the oil market is stable and OPEC does not need to take any action when it meets in Vienna on December 14th. He also said the world economy is facing a number of uncertainties which raises questions over demand for energy in the short to medium term. Oman Oil Minister Mohammed Bin Hamad al Rumhi also said that the oil market was well supplied and that current prices near \$100/barrel were appropriate.

Market Watch

The National Weather Service forecast that US heating demand this week is expected to be 3.5% below normal. Demand for heating oil this week will average 19.6% below normal while heating demand for natural gas will average 1.6% below normal.

The US Commerce Department said orders fell by 0.4% on the month to \$450.03 billion in October. Orders in September fell 0.1%, revised down from a previously estimated gain of 0.3%. The report showed that durable goods fell 0.5% in October, revised up from a previously estimated decline of 0.7%.

The Institute for Supply Management said the US non-manufacturing sector saw a slower rate of expansion in November. The ISM's non-manufacturing purchasing managers' index came in at 52, down from 52.9 in October. Last month's PMI was the lowest since January 2010. The business activity/production index increased to 56.2 in November from 53.8 in October while the new orders index increased to 53 from 52.4. The employment index fell to 48.9 from 53.3.

According to the Federal Reserve Bank of Chicago, the US economy will grow at a below average rate next year, with inflation moderating and unemployment decreasing slightly. The growth of GDP in 2012 is seen at 2%, up from an expected 1.6% this year. In regards to inflation, the consumer price index is seen at an average of 3.8% this year and 2.4% in 2012 while unemployment for 2012 is seen at 8.8%, down from a forecast of 9.1% this year.

Markit's Eurozone Composite Purchasing Managers Index showed the euro zone's private sector economy contracting for the third month in a row in November. It increased to 47 in November from 46.5 in October. It showed the composite PMI employment index remained at 50.1.

The HSBC Purchasing Managers' Index for China's services sector fell to 52.5 from 54.1 in November, its slowest rate of growth in three months. China's official PMI for its non-manufacturing sector fell to 49.7 in November from 57.7 in October.

The US CFTC approved a rule that puts tighter limits on how brokerage firms can use customer funds, a measure that the now bankrupt MF Global had encouraged the agency to delay. The push to finalize the rule gained momentum after MF Global's collapse. Regulators are still searching for hundreds of millions of dollars in missing customer funds.

Iran's Oil Minister Rostam Ghasemi said OPEC will discuss whether Gulf countries should cut their oil production as Libyan output increases. He however said that it will be a year until Libya's participation in the oil market is back at normal levels. He said Iran is not concerned about the threat that European Union may ban imports of Iranian crude oil. He said Iran does not expect Europe to follow

December Calendar Averages
CL - \$100.72
HO - \$2.9840
RB - \$2.5959

through on its threat to ban imports of oil from the country because it would hurt the euro zone's energy security.

OPEC's Secretary General Abdallah Salem El Badri said Libya's oil production is recovering strongly and added that its production could reach about 1 million bpd by the end of the year and 1.6 million bpd before the end of 2012. Meanwhile, Angola's Oil Minister Jose Bothelo de Vasconcelos said OPEC members may not have to discuss adjusting their quota allocations until Libya reaches its pre-war production level. He said OPEC members may have to agree on a rollover when they meet in Vienna next week.

US State Department's special adviser for non-proliferation and arms control, Robert Einhorn urged South Korea and other allies to expand sanctions on imports from Iran for its suspected nuclear weapons program. He said the allies should show a clear and unified message. He said allies should ban petrochemical imports from Iran, except for crude oil.

The EIA reported that the US average retail price of gasoline fell by 1.7 cents in the week ending December 5th to \$3.29/gallon. The EIA also reported that the retail price of diesel fell by 3.3 cents to \$3.931/gallon on the week.

Refinery News

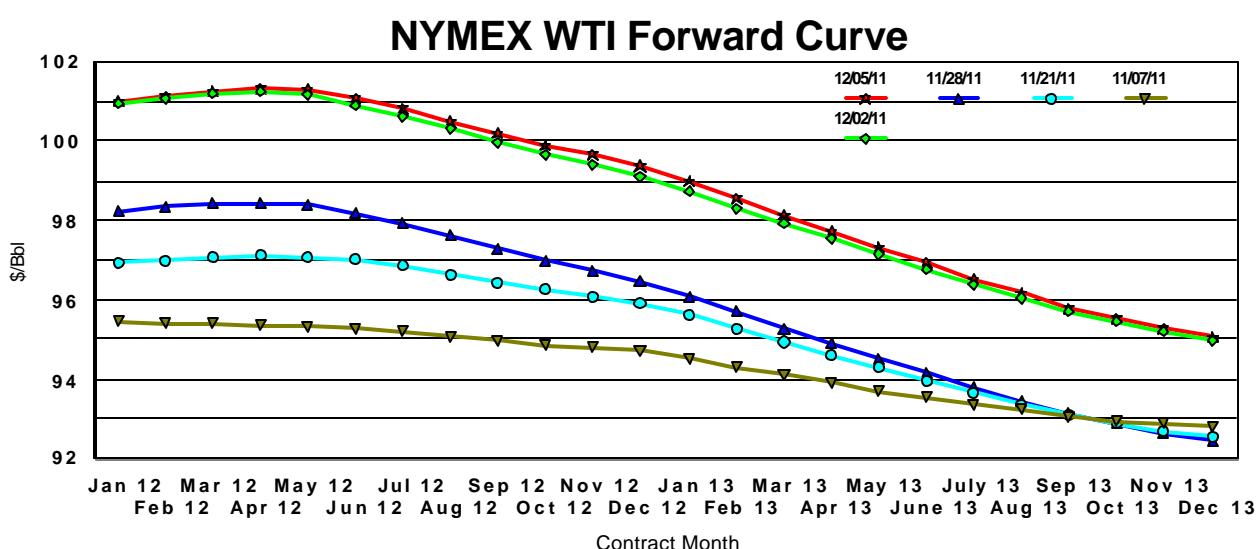
IIR Energy reported that US oil refiners are expected to shut in 363,000 bpd of capacity in the week ending December 9th, down from 539,000 bpd of shut capacity during the previous week.

Enbridge has disclosed its first agreement with a British Columbia First Nation in support of the Northern Gateway pipeline to carry Alberta oil sands crude to the British Columbia coast for tanker shipment to the Asia Pacific region.

Credit Suisse reported that US regional margins on refined products fell about 18.2% on average last week. Margins in the Northeast fell by \$1.05 to \$5.39/barrel in the week ending December 2nd while margins in the Midwest fell by \$3.34 to \$10.80/barrel and margins in the Gulf Coast fell by \$2.51 to \$12.16/barrel on the week. Margins in the Rockies region fell by \$5.55 to \$21.91/barrel while margins in the West Coast fell by 73 cents to \$4.47/barrel on the week.

Alon reported a gas compressor was restarted at its 67,000 bpd refinery in Big Spring, Texas. The compressor tripped due to a high level fault.

Tesoro Corp said its 166,000 bpd Golden Eagle refinery in Martinez, California is in the process of



returning to normal operations following a November 28th shutdown of an unspecified distillation unit. Separately, Tesoro Corp plans to invest about \$180 million to expand production in a Salt Lake City, Utah refinery as the refiner expects the capital project to increase crude oil throughput capacity there by 7%.

Royal Dutch Shell Plc is in the early stages of planning projects to turn natural gas into fuels such as diesel in the US. Shell is interested in large scale projects similar to the Pearl Gas to Liquids plant it developed in Qatar.

China's Sinopec Corp plans a one month regular maintenance at a 160,000 bpd crude unit at its Qilu plant in the summer of 2012. The maintenance will cut the total crude throughput at the refinery by about 400,000 tons or 4% to 10.1 million tons or 202,000 bpd next year.

India's Junior Oil Minister R.P.N. Singh said the country's expects its exports of refined petroleum products to increase to 70 million metric tons/year by 2014 from about 50 million tons in the last financial year ending March 31st. India's Oil Ministry reported that the country's oil product sales in October increased by an annual 3.8% to 12.05 million tons due to higher demand for fuels. India sees no impediments to importing Iranian oil despite a new wave of sanctions imposed by the West.

Venezuela's PDVSA made a down payment for a minority stake in the 230,000 bpd Abreu e Lima oil refinery that is being built by Brazil's Petrobras.

A rare cargo of North Sea Forties crude due to be sent to South Korea by BP has been bought by GS Caltex.

Water levels on the Rhine and Danube River in Germany have started to increase due to rainfall. However shipping remained hampered by the unusual shallowness of both rivers.

Production News

Lloyds Bank Corporate Markets said the UK oil industry is at risk of underinvestment in the next 20 years.

The UAE's Oil Minister Mohamed bin Dhaen Al Hamli said a new oil pipeline that will enable the UAE to bypass the strategic Strait of Hormuz waterway by exporting crude via the emirate of Fujairah will be completed soon.

Russia's seaborne Urals crude exports in December are expected to fall by 2% on the month due to fewer shipments from the Baltic Sea port of Primorsk. Seaborne Urals exports from Primorsk are expected to fall by 7.8% to 6 million tons or 1.42 million bpd. The decline was offset by a 23% increase in deliveries from the Black Sea port of Novorossiisk to 3.824 million tons or 904,000 bpd.

Iran's deputy oil minister Ahmad Qalebani said Iran plans to increase its oil production from the current 3.5 million bpd to 5.1 million bpd by 2015. He said the country's oil capacity currently stands at 4.2 million bpd.

Brazil's National Petroleum Agency reported that the country's oil production in October increased by 5.4% on the year and by 0.3% on the month to 2.105 million bpd.

Ecuador's central bank exported 7.8 million barrels of crude oil in October, down 6% from 8.3 million barrels in September.

Saudi Aramco increased most of its official selling prices for January term supply of crude oil. Saudi Aramco set the price of its Extra Light crude bound for Europe at BWAVE plus \$1.85/barrel, up 55 cents; it set the price of its Light crude at BWAVE minus \$10 cents/barrel, up 40 cents; the price of its Medium crude at BWAVE minus \$2/barrel, up 20 cents and the price of its Heavy crude was set at BWAVE minus \$4.15/barrel, up 5 cents. The price of its Super Light crude bound for Asia was set at the Oman/Dubai average plus \$5.90/barrel, up \$1.95; the price of its Extra Light crude was set at the Oman/Dubai average plus \$5.65/barrel, up \$1.70, the price of its Light crude was set at the Oman/Dubai average plus \$4.15/barrel, up \$1.65 and the price of its Medium crude was set at the Oman/Dubai average plus \$2.75/barrel, up \$1.65. Saud Aramco set the price of its Extra Light crude bound for the US at the Argus Sour Crude Index plus \$1.55/barrel, down 30 cents, the price of its Light crude at the ASCI minus 5 cents/barrel, unchanged on the month; the price of its Medium crude at the ASCI minus \$1.90/barrel, unchanged on the month and the price of its Heavy crude at the ASCI minus \$3.30/barrel, up 10 cents on the month.

Bentek Energy said today that it estimates oil production from the Utica shale play could reach 140,000-150,000 bdoe by 2016. Bentek said the formation located in Ohio is very similar to that of the Eagle Ford Shale play in south Texas.

Market Commentary

Crude oil extended last week's gains as traders jumped into commodities as an investment hedge. Increased tensions with Iran combined with slightly positive unemployment numbers from the U.S. added to today's bullishness. Prices will continue to gain support from the confrontational rhetoric between Iran and the global community. The European debt issue will provide a ceiling for prices, while a promising economic outlook in the U.S. will underpin prices. The current technical outlook is supportive and should help take the January contract up towards \$103.37.

Crude Oil		Heating Oil (Jan)		Rbob (Jan)	
Support	Resistance	Support	Resistance	Support	Resistance
9499		30622		24988	25939
9251	10337	29288	30937	24734	26283
8916	10753	28800	31956	24516	
8581	11483	26850		24480	
				23803	

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