



ENERGY RISK MANAGEMENT

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ENERGY MARKET REPORT FOR JANUARY 5, 2011

Kuwait's Oil Minister Sheikh Ahmad al-Abdullah al-Sabah said he considered oil at \$80-\$100/barrel to be a fair price and did not expect OPEC to increase output in the first half of the year. He said he did not foresee OPEC gathering ahead of its next scheduled meeting in June unless something dramatic happens.

Britain's Prime Minister David Cameron urged OPEC to increase its crude production after a recent rally in oil prices. The increase in oil prices combined with petrol duty and sales tax rises, have pushed

Market Watch

According to ADP, private sector payrolls expanded at a very strong pace in December. Private sector jobs in the US increased by 297,000 in December compared with market expectations of a gain of 100,000. The estimated change in employment for November was revised to show an increase of 92,000 compared with the initially reported 93,000. The report showed that large businesses with 500 employees or more added 36,000 employees, medium-size businesses added 144,000 workers in December and small businesses with fewer than 50 workers hired 117,000 new employees. It reported that service sector jobs increased by 270,000 while factory jobs increased by 23,000.

The US non-manufacturing sector grew in December at its fastest pace in more than 4 years. The Institute for Supply Management said its index of national services activity increased to 57.1 in December from 55 in November. The report's employment component fell to 50.5 from 52.7 in November while new orders increased to 63 from 57.7.

Growth in the euro zone services sector slowed in December as activity in Ireland and Spain declined. The Markit Eurozone Services Purchasing Managers' Index fell in December to 54.2 from 55.4 in November. The euro zone employment index fell to 51.9 in December from November's high of 53.2. Markit's Eurozone Composite PMI stood at 55.5 in December, unchanged from November.

European Commission President Jose Manuel Barroso said the European Union will realistically meet its target of having 20% of used energy coming from renewable sources by 2020. However he said that more efforts are needed to meet the target of improving energy efficiency by the same year.

China's central bank governor Zhou Xiaochun said the country's economic momentum was strengthening but added that price pressures were also mounting.

DOE Stocks

Crude – down 4.161 million barrels
Distillate – up 1.148 million barrels
Gasoline – up 3.289 million barrels
Refinery runs – up 0.2%, at 88%

petrol prices in Britain to record highs and prompted complaints from consumer groups. He said Britain could use its status as an oil producer that is not part of OPEC to try to persuade it to step up output at a time of high prices.

According to an article in the Financial Times, the chief economist of the IEA, Fatih Birol said high oil prices threaten the global economic recovery, especially because of the

Taiwan's Bureau of Energy said the country's crude oil imports in November increased by 40.8% on the year to 29.1 million barrels. It reported that the country's two refiners, CPC Corp and Formosa Petrochemical Corp refined a combined 3.82 million kiloliters of oil in November, down 10.7% on the year and down 7.5% on the month.

Azerbaijan's Socar said the country plans to increase oil shipments through its Kulevi terminal on Georgia's Black Sea coast to 5 million tons this year from 4 million tons in 2010.

Exports of Mexico's heavy oil is expected to fall to the lowest level in 15 years in 2011 once the Minatitlan refinery is upgraded. The start-up of a major refinery project will cut Maya heavy crude exports by about 110,000 bpd this year. Mexico's Maya crude exports averaged 968,000 bpd over the first 11 months of 2010, down from a peak of 1.621 million bpd set in 2004. The new refinery could increase domestic Maya crude demand to 900,000 bpd by 2016.

Production News

BP Plc was forced to shut down the Raven oil field in Alaska after losing a lawsuit against the owner of the land where the field is located. BP shut down two producing wells and one injector well on the Raven field on December 30th.

Woodside Petroleum resumed operations at the Cossack Pioneer floating production storage and offloading unit on the North West Shelf, off Western Australia, following a five day shutdown due to bad weather. Production from its Enfield oil field off the coast of Exmouth is expected to resume when weather permits.

BHP Billiton said it will increase output at the Pyrenees and Stybarrow oil fields in Western Australia to full rate this week after production was shut due to bad weather. The Pyrenees field has a peak production of 96,000 bpd while the Stybarrow field has a peak production of 24,000 bpd.

According to a Dow Jones survey, OPEC's total oil production in December increased by 85,000 bpd on the month to 29.407 million bpd. Oil production from OPEC's 11 quota bound members, excluding Iraq, increased by about 28,000 bpd in December to 26.887 million bpd. The rate of compliance for the 11 quota bound OPEC members in December fell to 51.4% compared with 52% in November. The Dow Jones survey showed that Iraq's oil production increased by 57,000 bpd to 2.52 million bpd on the week.

India's Oil Minister Murli Deora said India expects to resolve the oil payment issue with Iran in a couple of days. The payment dispute emerged after the Reserve Bank of India said late last month that all trade related payments with Iran had to be cleared outside the Asian Clearing Union mechanism. A meeting of stakeholders has been scheduled for January 7th to work out a solution to the payment dispute. India's top buyer of Iranian crude, Mangalore Refinery and Petrochemicals Ltd is seeking as much as 2.6 million barrels from the spot market, in the face of any possible supply disruption. Separately, India's Oil Minister said the government is trying to prevent further increases in prices of diesel, cooking gas and kerosene. Any increases in the price of diesel leads to an increase in prices of essential commodities such as food items due to higher freight costs. Meanwhile the chairman of the Prime Minister's Economic Advisory Council, C. Rangarajan said India can deregulate diesel prices when inflation comes down.

Norway's Statoil said it and other oil producers were comfortable with oil prices between \$70 and \$90/barrel.

Saudi Aramco cut its official selling prices for February term supplies of crude oil to Northwest Europe, the Mediterranean and the US. The price of its Extra Light crude bound for Northwest Europe in

February was set at BWAVE minus 65 cents, down 70 cents on the month; the price of its Light crude was set at BWAVE minus \$3.05, down 80 cents; the price of its Medium crude was set at BWAVE minus \$5.05, down \$1 and the price of its Heavy crude was set at BWAVE minus \$7.30, down \$1.30. The price of its Extra Light crude bound for the Mediterranean was set at BWAVE minus 85 cents, down \$1.10; the price of its Light crude was set at BWAVE minus \$2.95, down \$1.25; the price of its Medium crude was set at BWAVE minus \$5.45, down \$1.55 and the price of its Heavy crude was set at BWAVE minus \$7.90, down 2. The prices of its Extra Light crude bound for the US was set at the Argus Sour Crude Index plus \$2.45, down 5 cents; the price of its Light crude was set at the ASCI plus 5 cents, down 20 cents; the price of its Medium crude was set at ASCI minus \$2.10, down 20 cents and the price of its Heavy crude was set at ASCI minus \$4.05, down 30 cents. The price of its Super Light crude bound for Asia was set at the Oman-Dubai average plus \$6.40, up \$1.15; the price of its Extra Light crude was set at the Oman-Dubai average plus \$3.50, up 40 cents; the price of its Light crude was set at the Oman-Dubai average plus \$1.60, unchanged; the price of its Medium crude was set at the Oman-Dubai average minus 95 cents, down 40 cents and the price of its Heavy crude was set at the Oman-Dubai average minus \$2.90, down 75 cents.

OPEC's news agency reported that OPEC's basket of crudes increased by \$1.48/barrel to \$91.27/barrel on Tuesday.

Market Commentary

February crude oil rose 1 percent, settling back above \$90.00 a barrel, gaining on signs that the U.S. economy is improving. According to the Institute for Supply Management, the service sector, which covers approximately 90 percent of the economy increased to 57.1. Brent also rose after a composite index based on a survey of euro-area purchasing managers in both the service and manufacturing industries expanded more than expected. This is an indication that the global economy is improving, which in turn will lead to an increase in demand. In the past five weeks, U.S. oil inventories have declined 24.4 million barrels, or 7.8 percent in the past five-weeks. One must keep in mind that the past week was the last week of 2010 and refiners were most likely drawing on inventories for end-of-the-year tax purposes. Going forward, if draws do not continue, crude oil may have difficulty maintaining its strength. With today's low extending beyond that of yesterday and the fact that crude oil rallied back and settled above unchanged, higher prices should continue tomorrow. The RSI, after retreating from its line of resistance has once again turned to the upside, supportive for prices. We would look for a test at the recent high of \$92.58. Should the RSI fail again at the resistance line and turn to the downside, prices will most likely follow.

Crude oil: Feb 11 310,848 -4,174 Mar 11 214,467 +3,860 April 11 94,273 +1,787 Totals 1,471,226 +15,328 Heating oil: Feb 11 106,571 -2,387 Mar 11 62,804 +4,379 Apr 11 28,842 +555 Totals 306,563 +2,538 Rbob: Feb 11 94,225 -446 Mar 11 52,899 +1,994 Apr 11 31,212 -841 Totals 270,115 +902

| Crude Oil | | Heating Oil | | Rbob | |
|-----------|------------|-------------|------------|---------|------------|
| Support | Resistance | Support | Resistance | Support | Resistance |
| | 9385 | 23685 | 26712 | | 24880 |
| 8826 | 103.85 | 22960 | 27070 | 22560 | 27085 |
| 8590 | 111.65 | 22013 | 29500 | 22050 | |
| 8350 | | 21860 | 30955 | 21600 | |
| 7945 | | 21140 | | 20300 | |
| 7900 | | 20702 | | 20130 | |
| 7871 | | | | | |

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