

# ENERGY RISK MANAGEMENT

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# **ENERGY MARKET REPORT FOR JANUARY 7, 2011**

Talks between world powers and Iran on its nuclear program are expected to resume on January 20<sup>th</sup> in Istanbul.

ICAP Shipping estimated that crude oil stored globally in Very Large Crude Carriers fell to 41 million barrels in the week ending January 7<sup>th</sup> from 44 million barrels in the week ending December 24<sup>th</sup>.

### **Refinery News**

Colonial Pipeline is freezing nominations for gasoline and distillates for Cycle 1

#### **Market Watch**

The US economy created fewer jobs than expected in December however the unemployment rate fell to its lowest level in more than 1-1/2 years. The Labor Department said non-farm payrolls increased by 103,000 below an expected increase of 175,000. Private hiring increased by 113,000 while government employment fell by 10,000. However overall employment for October and November was revised to show 70,000 more job gains than previously reported. The unemployment rate fell to 9.4%, the lowest level since May 2009, from 9.8% in November.

The European Union's Statistics office Eurostat said the unemployment rate in the Eurozone was unchanged at 10.1% in November while the unemployment rate for the European Union was also unchanged at 9.6%. Eurostat also reported that third quarter GDP growth in the eurozone was 0.3%, up from a previously reported 0.4% while third quarter GDP growth in the European Union was 0.5%.

Federal Reserve Governor Elizabeth Duke said she is encouraged by signs that economic recovery is starting to gain traction and believes market expectations for a stronger recovery have recently bid up interest rates. She believes the recovery is gaining momentum but that inflation expectations will remain subdued. She said sustained gains in consumer spending and business investment along with an easing of credit conditions will reinforce each other, increasing confidence and reinforcing a recovery that will gradually reduce unemployment over time.

on its Linden Line L6 on Friday as demand for space is greater than capacity. Colonial also issued a nomination freeze for Line 32 for Cycles 71, 72 and 1.

Royal Dutch Shell is restarting its 145,000 bpd Anacortes, Washington refinery after it was shut on Thursday due to problems with the boiler system.

Hovensa LLC sees no impact to production from a leak in one of the sulfur recovery units at its 500,000 bpd refinery in St. Croix.

Flint Hills Resources said it will acquire two lowa ethanol plants.

January Calendar Averages CL – \$89.53 HO – \$2.51.98 RB – \$2.4285 Japan's Mitsui Chemicals is scheduled to shut a 553,000 ton/year naphtha cracker at its Chiba plant for eight days starting on Sunday for minor cleaning maintenance. The cracker is due to restart on January 17<sup>th</sup>.

# **Production News**

Canadian Natural Resources Ltd halted crude production at its northern Alberta oil sands mine after a fire broke out in a plant facility Thursday afternoon. The fire at the Horizon oil sands plant's main upgrader injured four people. It said it conducted an orderly shutdown immediately following the incident. The plant, with a capacity of 110,000 bpd, produced over 90,000 bpd in 2010 or 6% of Canada's oil sands output. Its production averaged 83,700 bpd in December, down from 107,800 bpd in November. It is not yet known when crude production will resume.

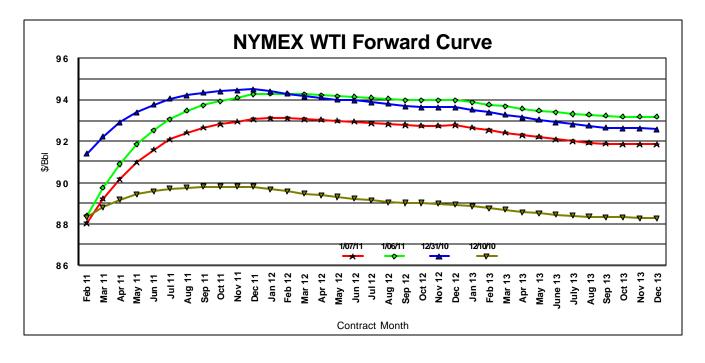
The February loading program for North Sea Brent crude is scheduled to load 4.8 million barrels, up 600,000 barrels in January. The volume is equivalent to 171,429 bpd compared with 135,484 bpd in January.

Forties crude oil supplies are expected to be lower than originally scheduled in January after revisions to the loading program. Two late January cargoes of Forties have been dropped from the loading schedule while one has been added, bringing the total number of cargoes for January down to 24.

Denmark's DONG Energy has found oil at its Sara prospect in the Danish sector of the North Sea. The Danish Energy Agency said the licensee will now evaluate the results of Sara-1 and make plans for the additional work that is necessary to determine if the oil discovery can be produced commercially.

The Baku-Tbilisi-Ceyhan oil pipeline is expected to pump 20.9 million barrels of Azeri Light crude in February, down 4.75 million barrels on the month. The February loadings amount to 746,429 bpd compared with 827,419 bpd in January.

India's Foreign Minister S.M. Krishna said India will consider any Iranian proposal to make payments for crude oil imports in rupees depending on the banking laws of the country. The Press Trust of India reported on Thursday that Iran has agreed to receive payments for \$12 billion worth of oil it sells to India in rupees however the Reserve Bank of India is yet to agree to the proposal.



Hess Corp increased its 2011 capital spending plans by 44%, allocating \$1 billion more to field development alone as crude prices increase. Its 2011 capital and exploratory budget is \$5.6 billion, with \$3.1 billion for production, \$1.6 million for developments and \$900 million for exploration. Much of the 2011 field development will occur in the Bakken oil shale in North Dakota and two deepwater fields in the Gulf of Mexico.

Petrobras said oil and gas production from Brazil's Guara-Norte and Cernambi pre-salt fields will be moved up to 2014 with the chartering of two new floating production, storage and offloading vessels. Output from the fields was originally planned to start after 2014. Each platform is expected to have a daily output capacity of 150,000 barrels and 8 million cubic meters of natural gas.

Turkey may introduce new fees on tankers carrying oil and other commodities through its straits to reduce traffic on its waterways. Turkey's government has stated that it wants to cut the amount of cargo travelling through its Bosphorus and Dardanelles Straits by 2013 or 2014 and has met with international oil companies to urge them to back a planned pipeline to the Mediterranean. About 150 million tons of oil and petroleum pass through the channels each year.

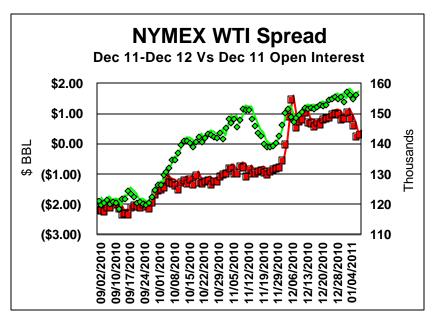
## **Market Commentary**

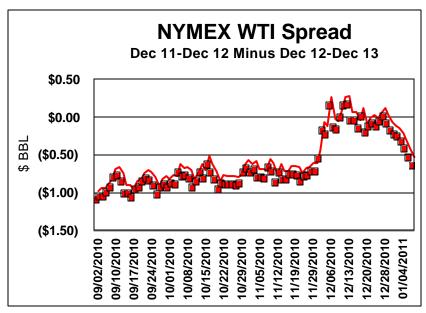
Crude oil rose early in the session in response to Canadian Natural Resources Ltd. shutting its Horizon oil sands project. These early gains were erased, with crude oil hitting a three week low, declining on a report that showed U.S. employers added fewer jobs than expected for the month of December. The shutting of the Canadian Natural Resources Ltd. could lead to a shortage of supply directly into Cushing, OK, the NYMEX delivery point. Based on the possibility of this, the front end of the curve moved out and the front month spread gained 18 cents. Back in the middle of December, we saw a significant move in the December 11/December 12 spread in comparison to the December 12/December 13 spread, whereby the front spread gained against the deferred. Since then, the Dec 11/Dec 12 has fallen back into negative territory versus the Dec 12/Dec 13 spread. Although we are late in profiting from this move, we believe that another opportunity may be presenting itself. The difference between the two spreads is approaching an area of congestion between the -\$.65 and -\$1.00 level. We would be looking for this butterfly spread to trade back within the aforementioned congestion area, waiting for an opportunity to buy the Dec 11, sell the Dec 12 and buy the Dec 13 crude oil within this range, believing that the front spread would once again gain against the deferred spread. We would be comfortable putting on this position around the -\$.80 to -\$.85 level, looking to take profits between flat and \$.20.

The Commitment of Traders report showed that non-commercials in the crude market cut their long position by 13,084 contracts to 149,466 contracts in the week ending January 4<sup>th</sup>. The combined futures and options report showed that the funds cut their net long position by 11,515 contracts to 201,275 contracts on the week as the market traded off its highs. Meanwhile, the disaggregated futures and options report showed that managed money funds cut their net long position by 29,638 contracts to 187,408 contracts on the week. Producers/merchants cut their net short position by 22,044 contracts to 155,914 contracts while swap dealers increased their net short position by 14,962 contracts to 86,085 contracts on the week.

Crude oil: Feb 11 28,938 –13,683 Mar 11 237,037 +15,972 April 11 101,075 +5,099 Totals 1,501,066 Heating oil: Feb 11 96,756 –6,306 Mar 11 64,247 +416 Apr 11 27,652 Totals 299,211 –4,600 Rbob: Feb 11 91,192 –2,777 Mar 11 56,971 +2,490 Apr 11 30,498 -422 Totals 274,536 +1,980.

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





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