



ENERGY RISK MANAGEMENT

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ENERGY MARKET REPORT FOR FEBRUARY 15, 2011

The US Energy Department said the US Northeast emergency heating oil reserve will fall to half its previous size and be filled with 1 million barrels of ultra low sulfur distillate fuel by October. The DOE views 1 million barrels as an adequate emergency buffer to supplement, not replace, inventories until supplies could arrive from Gulf Coast refineries. The Energy Department sold 2 million barrels of heating oil from the emergency reserve held in leased terminal space in Connecticut and New Jersey.

According to a SpendingPulse report by MasterCard Advisors LLC, US weekly gasoline

Market Watch

The US Commerce Department said US retail sales increased in January for the seventh consecutive month. It reported that retail and food services sales increased by 0.3% on the month to \$381.57 billion. Sales in December were up a revised 0.5%. The US Commerce Department also reported that US business inventories increased slightly more than expected in December. It stated that inventories increased by 0.8% to \$1.44 trillion, the highest level since January 2009 after increasing by an upwardly revised 0.4% in November. Business sales increased by 1.1% to \$1.15 trillion in December after increasing by 1.4% the prior month.

The US Labor Department said US import prices increased more than expected in January as costs increased for energy, food and industrial supplies. It reported that the price of goods imported to the US in January increased by 1.5% following an upwardly revised 1.2% gain in December. Import prices are up 4.3% over the past three months. Petroleum import prices in January increased by 3.4% on the month and by 14.3% on the year. Excluding petroleum, import prices increased by 1.1% from December.

The New York Fed's Empire State general business conditions index increased to 15.43 in February, the highest level since June and up from 11.92 in January. The inventories index increased to 9.64 in February from 4.21 in January. It however reported that the index for the number of employees fell to 3.61 in February from 8.42 in January while the average employee workweek index increased to 6.02 from 2.11. The index for business conditions six months ahead fell to 49.4 in February from 58.95 in January.

The International Council of Shopping Centers and Goldman Sachs reported that US chain store sale index in the week ending February 12th fell by 1.4% on the week but increased by 2.7% on the year to 492.3.

The National Association of Home Builders/Wells Fargo Housing Market Index was unchanged at 16 in February as expected.

Euro zone fourth quarter growth stood at 0.3% on the quarter and 2% on the year.

China's National Bureau of Statistics reported that consumer price inflation in China was lower than expected in January at 4.9%. China's core inflation, excluding food prices, increased to 2.6% on the year, the highest in at least a decade from 2.1% a month earlier. Increasing global commodity prices increased producer prices up 6.6% in the year to January, up from 5.9% in December.

Barclays increased its commodity trading risk exposure by 15% in 2010 after scaling back in 2009. Barclays reported that its average daily value at risk at 16 million pounds or \$25.7 million in 2010, up from 14 million pounds a year earlier.

The Federal Aviation Administration said air travel is expected to grow by 3% for US domestic flights in 2011. It stated that US carriers flew 635 million passengers on domestic flights in 2010, up less than 1% from the previous year.

API Stocks

Crude – down 354,000 barrels
Distillate – down 1.176 million barrels
Gasoline – up 1.235 million barrels
Refinery runs – down 2.7% at 80.6%

demand fell by 3% to 8.466 million bpd in the week ending February 11th. Gasoline demand was up 2.8% on the year. The four week gasoline demand averaged 8.785 million bpd, up 3.3% on the year. It reported that the US average retail price of gasoline increased by 3 cents to \$3.13/gallon.

Valero Energy Corp chairman and chief executive Bill Kleese said he expects the differential between Brent and WTI to remain below \$18/barrel in 2011. The large differential between the two crude benchmarks, which settled at \$14.35/barrel on Monday, could be repeated next winter if an oversupply of WTI is seen again at the Cushing, Oklahoma storage hub.

Egypt's Higher Military Council said it hopes to hand over power to civilian rulers, including an elected president, within six months. It insisted that they had no desire to keep control following the overthrow of President Hosni Mubarak. Some secular leaders have raised concerns that having presidential and parliamentary elections so quickly may have an advantage to the Muslim Brotherhood, the Islamist movement seen as the best organized political force. The military also decreed that a committee headed by a respected independent judge, Tareq al-Bishry should finish its work within 10 days on drafting amendments to the constitution. The plan is to then put them to a referendum.

Traffic through Egypt's Suez Canal was disrupted on Tuesday after a ship ran aground due to engine failure in bad weather. A maritime source could not specify when traffic would resume. Five of Egypt's Red Sea ports were closed on Tuesday due to bad weather.

Iran's President Mahmoud Ahmadinejad said that the enemies who planned the anti-government protest in Tehran on Monday would fail to achieve their goals.

Security forces dispersed hundreds of protesters for a fifth consecutive day after pro-government and anti-government demonstrators clashed in Yemen's capital San'a. The threat of turmoil in Yemen has pushed President Ali Abdullah Saleh to offer significant concessions, including a pledge to step down in 2013 and an invitation to the opposition for reconciliation talks. Yemeni protesters have complained of repression but have also noted economic conditions. Separately, thousands of Shi'ite protesters marched into the capital of Bahrain on Tuesday after a man was killed in clashes between police and mourners at a funeral for a demonstrator shot dead at an earlier anti-government rally. Protesters said their main demand was the resignation of Prime Minister Sheikh Khalifa bin Salman al-Khalifa who has governed the country since its independence in 1971.

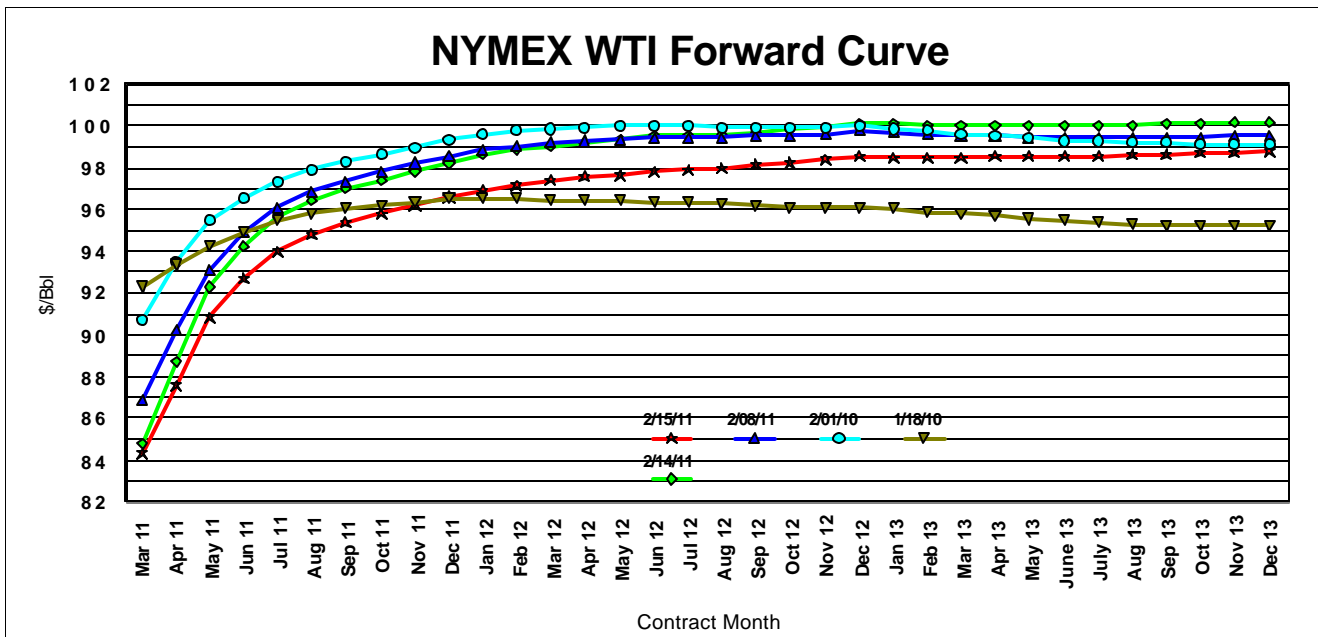
Russia's Foreign Minister Sergei Lavrov said that another round of UN sanctions on Iran would create social problems in the country and added that Russia could not support them. He said UN sanctions imposed so far had targeted people linked to Iran's nuclear program but there were no longer any similar opportunities.

The chairman of the CFTC Gary Gensler said the new rules for the \$600 trillion over-the-counter derivatives market should not apply retroactively. He said the CFTC adapted an earlier position limit plan based on comment period held a year ago. He added that it will consider comments on new position limit plan during the current comment period. The chairman of the CFTC also stated that it was the commission's intention not to have margin requirements applied to an end user. Companies, such as brewer MillerCoors and heavy equipment maker Caterpillar are concerned that they will have to set aside more capital or margin when using derivatives to hedge risk.

Refinery News

Western Refining Inc began restarting units at its 122,000 bpd El Paso,

**February
Calendar Averages**
CL – \$87.62
HO – \$2.7377
RB – \$2.4880



Texas refinery after it halted operations last week because of extreme cold weather. It expects to return to normal operations later this week.

Repsol began to start up the desulphurizing unit at its 220,000 bpd Bilbao refinery. The unit was shut on January 13th for scheduled maintenance.

India's Oil Secretary S. Sundareshan said India's annual crude refining capacity is expected to increase to 240 million tons in two years. He said the country could export 80-90 million tons of oil products annually in two years' time.

Taiwan's Bureau of Energy reported that the country's oil product demand in December increased by 23.8% on the month to 4.555 million tons, led by an increase in naphtha demand of close to 50%.

TransCanada Corp increased the cost estimate for its Keystone pipeline system by \$1 billion to \$13 billion because of the rising Canadian dollar. It expects to receive US State Department approvals for the line in mid- to late 2011 instead of its previous forecast for the first half of this year. It said the line is expected to start operations sometime in 2013, instead of the first quarter of 2013.

Armenia's Minister of energy and natural resources, Armen Movsisian said construction will begin this year on a pipeline taking oil from Iran to Armenia. He said after the pipeline is completed in 2013, Armenia will receive 1.5 million liters/day of Iranian gasoline and diesel fuel for 25 years. Landlocked Armenia has been seeking alternative import routes since the 2008 war delayed fuel cargoes at ports in Georgia, causing shortages in the country.

Production News

Crude oil production from nine of the main North Sea streams is expected to increase by 1% in March to 2.033 million bpd, up from 2.012 million bpd planned in February. The daily output from the four benchmark North Sea crude oil stream, Brent, Forties, Oseberg and Ekofisk are due to fall in March to about 1.13 million bpd from 1.22 million bpd in February.

ExxonMobil added 3.5 billion barrels of oil equivalent to its proven reserves last year, replacing more than 200% of its production for 2010. It said its 2010 proved reserves base increased to 24.8 billion barrels.

Pemex reported that its crude oil production in the February 1-13 period fell to 2.535 million bpd from an average of 2.584 million bpd for the full month of January. Most of the shortfall came from the lower production at its Ku-Malooob-Zaap oilfield, which produced 801,000 bpd, down from 849,000 bpd in the full month of January.

A senior Iraqi oil official said the government plans to hold a new oil and gas licensing auction later this year. Iraq's proven reserves, estimated at 143 billion barrels could fall sharply within a few years if the country does not increase its exploration for oil.

Japan Oil, Gas and Metals National Corp said Saudi Aramco will start storing crude oil in Japan this month as scheduled, with the first ship carrying about 1.9 million barrels of crude set to arrive on February 23rd. JOGMEC and Saudi Aramco signed a contract in December allowing the firm to store about 600,000 kiloliters or 3.8 million barrels of crude in Okinawa for three years.

China's CNOOC will invest 350 billion yuan or \$53.06 billion in exploring for oil and gas in China over the next five years.

Russia's oil export duty in March is expected to increase by 5.3% to \$365/ton from the current level of \$346.60/ton as oil prices continue to rally. The duty on light refined fuels is expected to increase to \$244.60/ton in March from \$232.20/ton in February while the duty on heavy refined fuels is expected to increase to \$170.40/ton in March from \$161.80/ton in February.

Colombia's Ecopetrol proposed that Castilla export crude, currently priced against WTI, be priced against Brent crude.

Canadian Natural Resources Ltd and North West Upgrading are expected to sign an agreement to process bitumen for the Alberta government. The companies would process the oil paid to the provincial government under the Bitumen Royalty in Kind program, which allows producers to pay royalties with bitumen in lieu of cash.

Market Commentary

Crude oil headed lower again today, giving back early gains as equities fell and the dollar briefly strengthened. Brent was also pressured, as it appears to be getting away from itself. Focus was on the spread between Brent and WTI, which is getting top heavy at current levels. Despite protests in Iran and other Middle Eastern countries, the fear premium supplied by the situation in Egypt, seems to be subsiding. Although supply disruptions are still a concern, we may see further weakness in this arbitrage due to the expiring March Brent contract. The March WTI contract bounced off of our first downside objective of \$83.85, finishing the day at \$84.32. The March/April spread narrowed today, as shorts began to cover ahead of March expiration. Short covering in the March WTI also impacted the aforementioned arbitrage between Brent and WTI. With expectations for DOE numbers calling for additional builds in inventories, we would look for crude oil to come under pressure again tomorrow. The target level for crude oil is \$81.80, the 50% retracement number between the range of \$92.84 and \$70.76.

Crude oil: Mar 11 171,051 -19,848 April 11 255,591 May 11 166,341 +3,481 Totals 1,567,738 +4,822
Heating oil: Mar 11 71,444 +16 Apr 11 66,195 +2,863 May 11 38,176 +1,490 Totals 316,911 +5,910
Rbob: Mar 11 56,234 -4,223 Apr 11 61,870 May 11 47,137 +1,788 Totals 274,429 +5,066

Crude Oil		Heating Oil		Rbob	
Support	Resistance	Support	Resistance	Support	Resistance
	8615			24240	25480
8387	8707	26680	28040	23690	27085
8231	8811	23685	29500	22560	
8180	8955	22960	30955	22050	
8000	9385	22013		21600	
7984	103.85	21860		20300	
7900	111.65	21140		20130	
7598		20702			

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