



ENERGY RISK MANAGEMENT

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ENERGY MARKET REPORT FOR FEBRUARY 16, 2011

Israel's Foreign Minister Avigdor Lieberman said Iran was sending two warships into the Mediterranean Sea and called the act a provocation Israel could not ignore for long. It said two Iranian warships are supposed to cross the Suez Canal on their way to Syria. The Fars New Agency reported on January 23rd that the Iranian Navy planned to send a

fleet of warships to the Red Sea and the Mediterranean Sea in the near future. An Iranian Navy official said the fleet would pass through the Suez Canal and added that the mission would last for one year. The US said it will be watching two ships in the Red Sea that Israel has identified as Iranian.

OPEC delegates stated that not all OPEC ministers will attend an international energy conference in Saudi Arabia next week and informal talks on oil output policy may include only Gulf members. OPEC is not scheduled to formally meet until June. A total of 95 ministers from producer and consumer countries have been invited to the International Energy Forum.

Market Watch

The US Labor Department said wholesale prices in the US increased during January to their highest level in more than two years. The Producer Price Index increased by a seasonally adjusted 0.8% in January following a revised increase of 0.9% in December. The Core Producer Price Index increased by 0.5% in January following an increase of 0.2% in December.

The Federal Reserve reported that US industries unexpectedly cut production in January as more seasonable weather reduced demand from utilities. Industrial production last month fell by 0.1%. December's output was revised to a 1.2% gain from an initial estimate of a 0.8% gain. Capacity utilization also fell slightly, falling to 76.1% in January from a revised 76.2% in December. The output of utilities fell 1.6% in January following a 4.1% increase in December.

The Commerce Department said construction of homes and apartments increased 14.6% in January to a seasonally adjusted annual rate of 596,000 from a downwardly revised 520,000 in December. New building permits fell by 10.4% to an annual rate of 562,000. Construction of single family homes fell by 1% in January following a decline of 8.4% in December.

The European Union's executive commission is expected to call for a 60% cut in greenhouse gas emissions from transport by 2050. The proposed transport targets are based on an existing EU goal to cut the group's greenhouse gas emissions by about 80% by the middle of the century.

DOE Stocks

Crude – up 860,000 barrels
Distillate – down 3.096 million barrels
Gasoline – up 205,000 barrels
Refinery runs – down 3.5%, at 81.2%

Protesters in Bahrain, emboldened by revolts in Tunisia and Egypt demonstrated in the capital on Wednesday. A crowd estimated at more than 1,000 joined a Shi'ite funeral procession for a man, shot dead on Tuesday when fighting broke out at the burial of another protestor. About 2,000 others were at a junction in the center of Bahrain's capital, hoping to emulate the rallies in Cairo. The protesters were

demanding a change of government in Bahrain, where a Sunni family rules over a Shi'ite majority. Meanwhile, Libyan police dispersed an anti-regime protest in the city of Benghazi overnight.

**February
Calendar Averages**
CL – \$87.40
HO – \$2.7408
RB – \$2.4928

US consulate employee Raymond Davis shot dead two Pakistanis last month in what he said was self defense during an armed robbery. The US has insisted he should be released immediately. Pakistan however says his status should be determined by the courts. The Lahore High Court is scheduled to hold a hearing on the case on Thursday, during which the US is expected to present a petition to certify that the US consulate employee has diplomatic immunity and should be released. The dispute is the latest issue straining ties between two countries and has prompted anti-US sentiment in Pakistan.

Refinery News

Colonial Pipeline is allocating its Linden Delivery Line L2 for Cycle 9 because nominations on its line exceeded the company's ability to meet the 5day lifting cycle.

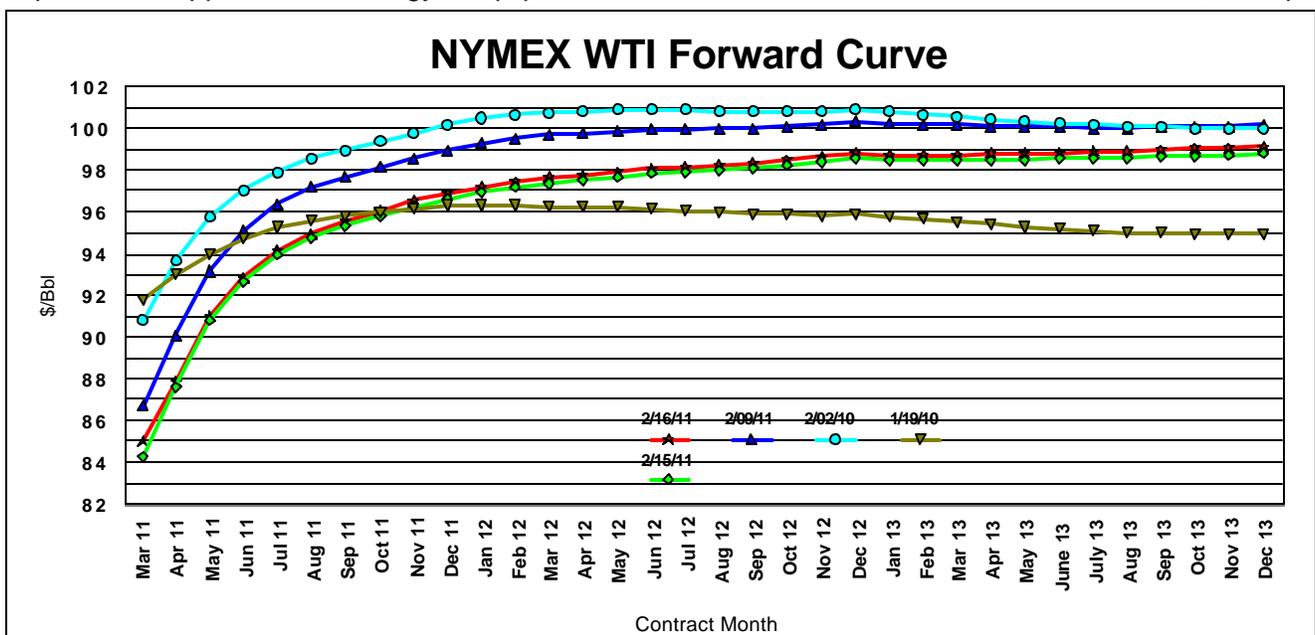
Valero Energy Corp shut a 30,000 bpd hydrocracker unit at its 170,000 bpd McKee refinery in Sunray, Texas repair compressor seals. Valero also reported unplanned flaring due to the breakdown of an unspecified unit at its 80,887 bpd refinery in Wilmington, California. Production at the refinery was not impacted. Separately, Valero restarted a crude unit at its 235,000 bpd refinery in Aruba. Production at the refinery was shut when the collapse of a 20,300 barrel freshwater storage tank resulted in damage to several pipes carrying petroleum products. The crude unit should reach planned operating rates soon.

Motiva Enterprises LLC's 285,000 bpd refinery in Port Arthur, Texas released gases Tuesday because of an unplanned shutdown of its wet gas compressor.

ConocoPhillips reported equipment malfunction at its 146,000 bpd Borger, Texas refinery.

Japan's Cosmo Oil Co shut a 25,000 bpd No. 2 reformer at its 220,000 bpd Chiba refinery on Sunday for unplanned maintenance.

Japan's JX Nippon Oil & Energy Corp plans to conduct scheduled maintenance at its 180,000 bpd



crude distillation unit at its Muroran refinery from May 10th to June 20th.

The Petroleum Association of Japan reported that crude oil inventories in the week ending February 12th fell by 1.254 million kl to 14.135 million kl. Gasoline stocks held by Japanese refiners fell by 6,310 kl to 2.256 million kl on the week while gasoil stocks increased by 130,907 kl to 1.99 million kl, kerosene stocks increased by 65,770 kl to 1.937 million kl, naphtha stocks increased by 118,484 kl to 1.936 million kl and jet fuel stocks increased by 5,283 kl to 776,996 kl. The PAJ also reported that refinery runs stood at 85.5%, down from the previous week's level of 89.3%.

According to preliminary data from the Maritime and Port Authority of Singapore, the number of oil, gas and chemical tankers passing through the port of Singapore in January increased by 4.1% on the month while overall tonnage was 6.1% higher. A total of 1,367 oil tankers passed through the port in January, up from 1,267 in December.

Production News

Woodside halted production at its Enfield oil field off the coast of Western Australia due to a tropical low in the area. Production at its Vincent oil field remained shut in due to a planned maintenance outage. It said there was no impact to production from its Cossack Pioneer floating production storage and offloading unit.

Norway's Statoil said about 730 kilograms of gas leaked on its Gullfaks B platform in an incident in December. It said the incident occurred on December 4th as a pipeline on the North Sea oil platform was being replaced.

According to preliminary data supplied by Saudi Arabia, the country's oil production increased to a two year high in December of 8.365 million bpd, up from 8.259 million bpd in November. Saudi Arabia's oil exports in December fell to 6.049 million bpd from 6.342 million bpd in November. Inventories in the country increased to 270.365 million barrels in December from 266.394 million barrels in November.

Angola is expected to export 1.54 million bpd of crude in April, down from 1.73 million bpd in March. It plans to export eight 950,000 barrel cargoes of Cabinda crude in April. It also plans to export four Dalia, seven Girassol, five Hungo, four Kissanje, three Kuito, two Mondo, seven Nemba, four Plutonio and two Saxi cargoes.

Russia's Transneft said the country would cut spending on the trans-Balkan Burgas-Alexandroupolis oil pipeline project but denied reports that it would withdraw from the project. The pipeline would link the Bulgarian port of Burgas to Alexandroupolis in Greece and transport 35 million metric tons of oil a year.

Brazil's Petrobras announced late Tuesday new discovery of oil in the Santos Basin pre-salt reservoirs.

Canadian Natural Resources Ltd is expected to build a new plant to process Alberta's royalty bitumen. The bitumen refinery is expected to be completed in mid-2014 with a capacity to process 37,500 bpd of oil.

Total said it has no plans to acquire Repsol as it would go directly against its goal to reduce its European refinery capacities.

OPEC's news agency reported that OPEC's basket of crudes increased by 76 cents to \$99/barrel on Tuesday from \$98.24/barrel on Monday.

Market Commentary

Despite crude oil inventories growing less than expected, crude oil headed lower after the release of the DOE numbers, reaching a new daily low of \$84.12. The resurfacing of a report, originally dated January 23, 2011, stating that Iran was sending two warships towards the Suez Canal, set off a short covering, fear inflicted rally that pushed crude oil 2% higher on the day. Prices then settled in, trading within the range of \$85.32 - \$84.82 for the remainder of the session. From a fundamental perspective inventory levels for crude oil and its products remain unseasonably high, set above the average ranges for this time of year. Based upon this and barring any major shift in market news regarding the Middle East, we will find it difficult for this market to sustain strength for any length of time. We would not however discount a move back towards the \$88.35 level, prior to prices heading back down.

Crude oil: Mar 11 147,213 -23,838 April 11 258,637 +3,046 May 11 170,756 +4,415 Totals 1,559,669 -8,069 Heating oil: Mar 11 67,234 -4,210 Apr 11 69,027 +2,832 May 11 40,295 +2,119 Totals 321,435 +4,524 Rbob: Mar 11 49,525 -6,709 Apr 11 66,674 +4,804 May 11 48,355 +1,218 Totals 276,250 +1,821.

Crude Oil		Heating Oil		Rbob	
Support	Resistance	Support	Resistance	Support	Resistance
	8615			24240	25480
8387	8707	26680	28040	23690	27085
8231	8835	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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