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ENERGY RISK MANAGEMENT

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ENERGY MARKET REPORT FOR FEBRUARY 24, 2011

A US official said the government has no reason to believe that Libyan leader Muammar Gaddafi is dead after oil traders cited a rumor that Gaddafi had been shot. The rumor seemed to be sparked by an interview of a former Libyan cabinet minister in a Swedish newspaper, in which the official said that Muammar Gaddafi would commit suicide the way Adolf Hitler did rather than surrender or flee. Meanwhile, Switzerland said it was freezing any assets the Libyan

Market Watch

The US Labor Department reported that new initial claims for unemployment fell by 22,000 to a seasonally adjusted level of 391,000 in the week ending February 19th. The previous week's level was revised to 413,000 from 410,000. The four week moving average of new claims fell by 16,500 to 402,000 on the week. The report showed that the number of continuing claims fell by 145,000 to 3,790,000 in the week ending February 12th. The unemployment rate for workers with unemployment insurance was 3% in the week ending February 12th, down from 3.1% the previous week.

The Commerce Department said new US single family home sales fell more than expected in January. New single family home sales fell by 12.6% to a seasonally adjusted 284,000 unit annual rate after a downwardly revised 325,000 unit pace in December. Sales were down 18.6% on the year. The median sales price for a new home fell by 1.9% in January from December to \$230,600.

The Federal Reserve Bank of Kansas City's manufacturing index increased to 23 in February from 11 in January.

A Reuters analyst said technical analysis indicate oil prices could breach their 2008 highs and rally to just below \$160/barrel in 2011. Brent crude oil could increase to \$158/barrel in 2011 while WTI crude could increase to \$159/barrel.

Euro zone economic sentiment in February increased to 107.8 from 106.8 in January.

China's Ministry of Industry and Information Technology said the country's industrial output growth in the first two months of the year will likely be slower than the 13.5% annual pace seen in December. Full year industrial output growth in 2011 would likely be slower than last year's average of 15.7%.

CME Group announced the third record volume for its WTI options contracts since the beginning of 2011. On Wednesday, February 23rd, WTI options reached a record 324,655 contracts, surpassing the previous record of 294,411 contracts set on January 31st.

Increasing commodity prices may help end deflation in Japan sooner than expected. However the rally is likely to strengthen its commitment to ultra-loose monetary policy. The persistent weakness of domestic demand and reliance on resource imports mean the commodity rally is primarily a threat to Japan's economic growth.

leader and his family may have in the country.

DOE Stocks

Crude – up 822,000 barrels
Distillate – down 1.333 million barrels
Gasoline – down 2.798 million barrels
Refinery runs – down 1.8%, at 79.4%

Earlier, Libya's leader Muammar Gaddafi addressed the people of Az-Zawiyah, where his forces and rebels were fighting, accusing them of being linked to Osama bin Laden. Meanwhile residents of Benghazi have jailed those they say

are mercenaries and set up committees to run the eastern city now out of the control of leader Muammar Gaddafi.

February Calendar Averages CL – \$88.84 HO – \$2.7594 RB – \$2.5309
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Italy's ENI said turmoil in Libya has cut its oil output by 75% or 1.2 million bpd. ENI chief executive Paolo Scaroni said the unrest in Libya cut production and triggered speculation in the market. Libya normally produces about 1.6 million bpd of oil or 2% of world output. About 1.3 million bpd is exported, mainly to Europe. Meanwhile, the head of BASF, which is suspending its oil production in Libya, said he is confident the country will return to supplying crude oil regardless of who wins the struggle of power in the country. Austria's OMV halted output at its Shat Eira field in Libya. Separately, Libya's Sarir oilfield and the country's Ras Lanuf oil export terminal are operating as normally. Crude oil and oil product terminals east of the capital are in the hands of rebels who seized control from leader Muammar Gaddafi. The residents said the oil and product terminals at Ras Lanuf and Marsa El Brega were being protected.

The IEA said between 500,000 and 750,000 bpd or less than 1% of global daily consumption has been removed from the market. It said it continues to monitor and analyze developments in the current situation. The IEA said it could adequately compensate for a potential shortfall of oil supplies, saying it's prepared to release its emergency oil stocks that can cover 145 days of imports. It said IEA members have 1.6 billion barrels of emergency oil stocks at their disposal.

Bank of America Merrill Lynch said oil production in Libya is expected to shut down completely and could be shut for a prolonged period of time.

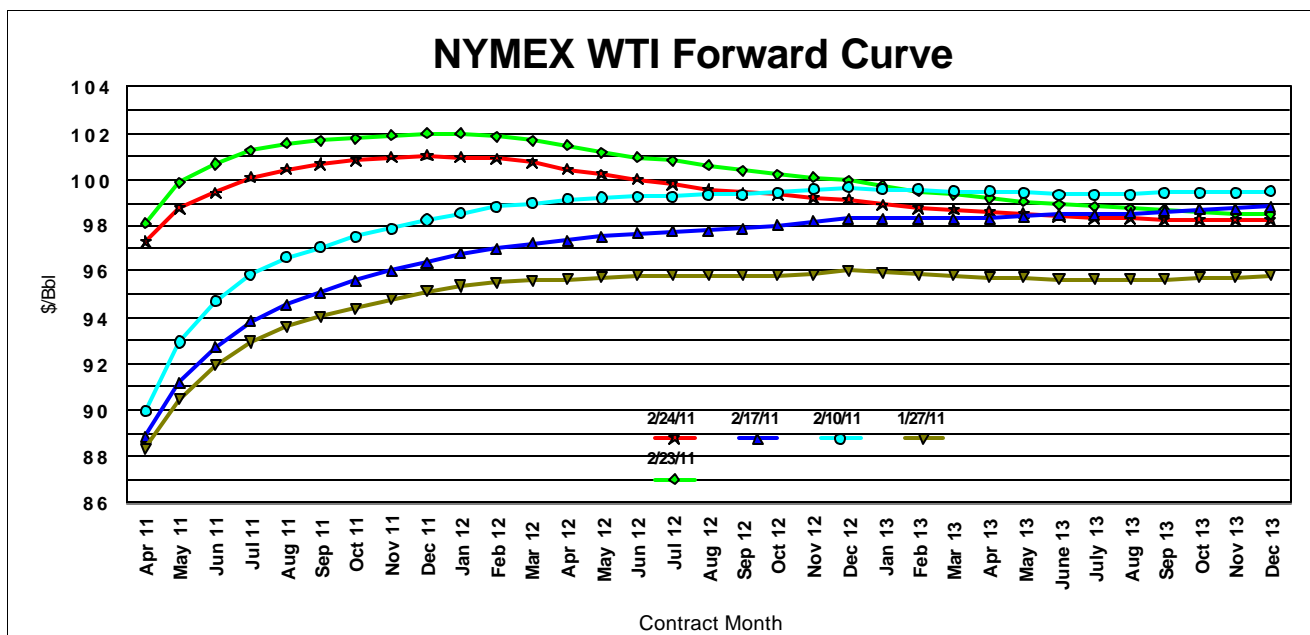
A senior Saudi oil official said Saudi Arabia is willing and able to offset any shortage of Libyan oil as soon as European companies request it. Saudi Arabia's Oil Minister Ali Al Naimi this week said that the country has 4 million barrels of spare capacity. The Financial Times reported that Saudi Arabia is in active talks with European oil companies to meet the production shortfall left by Libya. The country is considering two options to increase its supplies. The first would be to increase Saudi production and send more crude through the country's East-West pipeline, which links the Gulf region with the Red Sea port of Yanbu, for shipments to Europe. Another possibility would be a swap arrangement, whereby West African crude intended for Asian buyers is redirected to Europe, with Saudi Arabia stepping in to supply Asian customers.

Iran's OPEC Governor, Muhammad Ali Khatabi said there is no shortage in the oil market warranting action by OPEC over unrest in Libya. Meanwhile, Algeria's Energy Minister Youcef Yousfi said OPEC will act if Libya's current crisis leads to significant disruptions in world oil markets.

Russia's Prime Minister Vladimir Putin warned that rallying oil prices amid instability in Libya pose serious threat to the world. Separately, he stated that Russia was concerned over the European Union's new energy market rules. He contends the rules would lead to higher energy prices and prices instability.

The French Foreign Ministry said violence during anti-regime protests in Libya could constitute crimes against humanity and getting international justice involved should be considered. It said a UN rights council resolution is being discussed strongly condemning the massive and unacceptable violence currently carried out in Libya. The resolution will make the Libyan authorities face their responsibilities. France's Defense Minister said he hoped Muammar Gaddafi's time as a leader was coming to an end.

Algeria lifted a 19 year old state of emergency in a concession to the opposition. The end of the state of emergency was one of the opposition groups' demands. The state of emergency was imposed to help authorities combat Islamist rebels.



The Associated Press reported that two Iranian warships arrived at Syria's Latakia seaport on Thursday afternoon after sailing through the Suez Canal.

Oil Movements reported that OPEC's oil exports, excluding Angola and Ecuador, are expected to fall by 310,000 bpd to 23.88 million bpd in the four weeks ending March 12th.

Banks warned an output loss from another oil producer, in addition to Libya, would lead to global shortages and demand rationing. They stated that OPEC needs to act quickly as the oil rally could derail economic activity. Goldman Sachs said the world would not be able to cope with another Libya style oil production outage. It said it feared unrest contagion to other producing countries. Barclays Capital said it saw no downward pressure on prices until more oil comes to the market. It said OPEC producers need to make an explicit move to reassure the market over oil supplies if they wish to exert any downward pressure on the market. Meanwhile, BNP Paribas said it expected Brent to average \$117/barrel and WTI to average \$105/barrel in the second quarter. Citi said the oil market needs to see real action from Saudi Arabia on oil output increases rather than words to lower oil prices. Deutsche Bank said oil prices above \$120/barrel would be an inflection point for global economic growth.

Chile's Empresa Nacional de Petroleo said if the political unrest in Libya and other parts of the Middle East subsides, crude oil prices would likely fall back to about \$90/barrel.

The CFTC's chairman Gary Gensler said the CFTC is working on a proposed rule for testing and supervision of algorithmic trading. The CFTC may further define what will be targeted in the agency's new authority to crack down on disruptive trading practices that were outlawed by the Dodd-Frank law. The CFTC is considering a proposal that would clarify how the agency would identify certain trading practices that Dodd-Frank prohibits, such as spoofing or the practice of intentionally canceling orders before they can be executed.

BlackRock Inc, CME Group Inc and Intercontinental Exchange are urging the US CFTC to lower a proposed limit for transactions that occur on centralized futures markets. The CFTC proposed that 85% of all transactions in a futures contract must be done through a market's central limit order book system, with the remaining 15% allowed to be done off-exchange in block trades. The proposal is meant to protect price discovery for futures by limiting non-public block trading. BlackRock suggested the CFTC lower the limit to 75%.

Bahrain's foreign minister, Sheikh Khaled bin Ahmed al-Khalifa said the country is seeking a national dialogue. He said he expected formal talks between the government and the opposition to start within days.

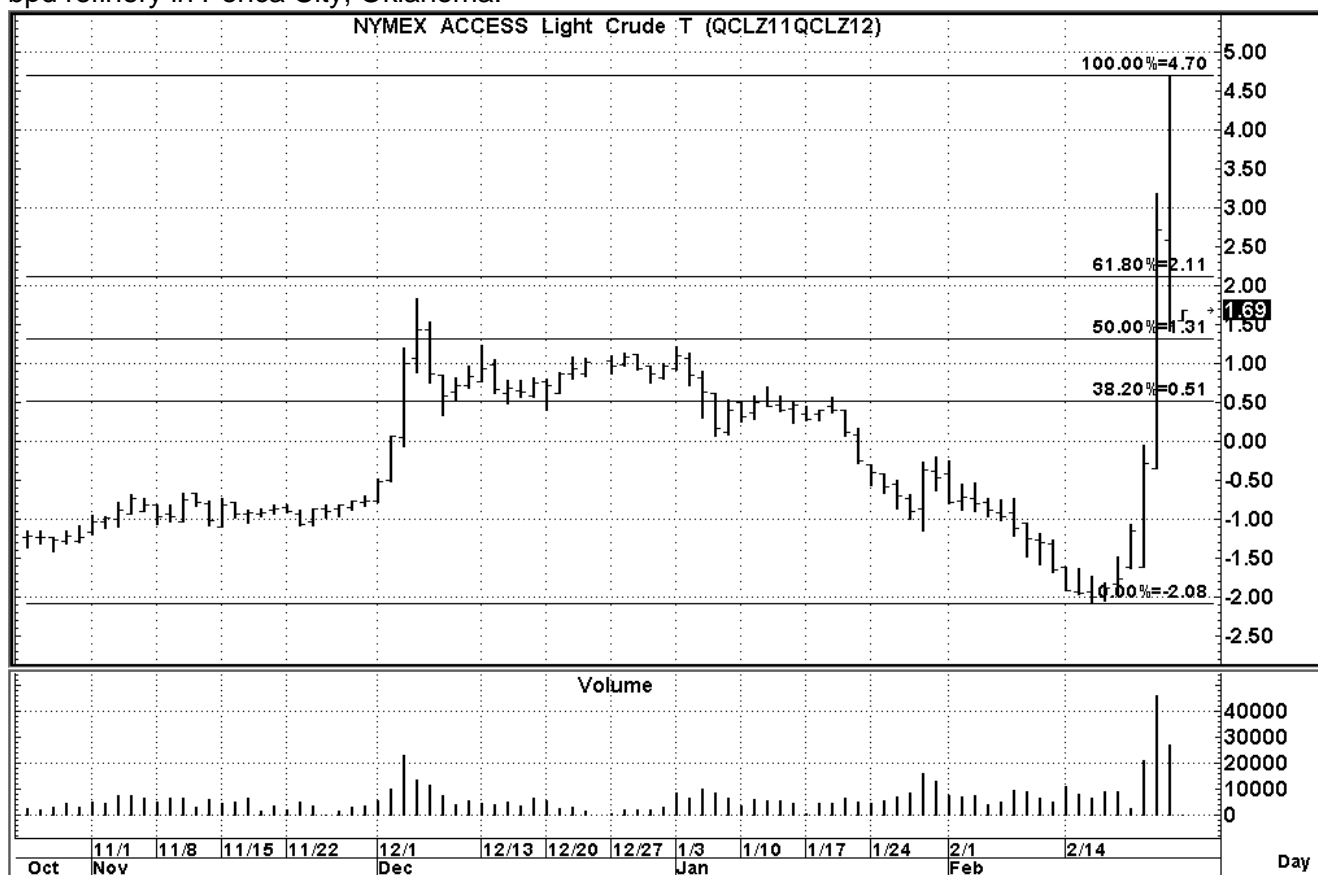
Refinery News

The Houston Chronicle reported that about 6,000 gallons of gasoline leaked from a pipeline early Thursday in an area near Texas City. Magellan Midstream Partners shut the oil products pipeline that runs from Texas City to Pasadena, Texas. No fire or explosion was reported.

Valero Energy Corp restarted its 144,000 bpd refinery in Benicia, California after it was shut on December 30th for planned overhaul.

Sunoco Inc began planned maintenance work at its 335,000 bpd refinery in Philadelphia, Pennsylvania. It was unclear what units were involved in the planned work. Meanwhile it is restarting the crude gas compressor at the Point Breeze section of the refinery. It is restarting a fluid catalytic cracking unit at the Girard Point section of the refinery.

ConocoPhillips performed an unplanned shutdown of the fluid catalytic cracking unit 4 at its 198,000 bpd refinery in Ponca City, Oklahoma.



ExxonMobil Corp is normalizing operations at its 348,500 bpd refinery in Beaumont, Texas following a compressor trip on Wednesday afternoon. Production was not impacted by the compressor trip.

Frontier Oil will conduct planned work on a fluid catalytic cracking and an alkylation unit at its 47,000 bpd refinery in Cheyenne, Wyoming in late March and early April.

Imperial Oil reported a power failure and a toxic vapor release at its 121,000 bpd refinery in Sarnia, Ontario. It is working to resume normal operations at the refinery.

Greece's Hellenic Petrol may import West African crude to replace Libyan imports.

China's General Administration of Customs reported that crude oil imports in January reached 21.8 million metric tons or 5.15 million bpd, up 27.4% on the year. China's liquefied natural gas imports in January increased to 814,186 tons, up 4.8% on the year. It also reported that China cut its diesel exports in January by 79% on the year to 95,886 tons to keep more barrels in the domestic market. Its diesel imports however increased by 82% on the year to 183,298 tons.

Gasoline stocks held in independent storage in the Amsterdam-Rotterdam- Antwerp terminal in the week ending February 24th increased by 9.48% on the week and by 28.63% on the year to 993,000 tons. Gas oil stocks fell by 4.22% on the week but increased by 0.24% on the year to 2.543 million tons while fuel oil stocks increased by 17.29% on the week and by 16.16% on the year to 726,000 tons. Naphtha stocks increased by 35.71% on the week and by 68.89% on the year to 76,000 tons while jet fuel stocks increased by 3.16% on the week but fell by 8.97% on the year to 751,000 tons.

Singapore's International Enterprise reported that the country's residual fuel stocks in the week ending February 23rd increased by 3.253 million barrels to 20.183 million barrels. It also reported that the country's light distillate stocks fell by 568,000 barrels to 10.17 million barrels while its middle distillate stocks fell by 252,000 barrels to 13.441 million barrels on the week.

Production News

Pemex reported that Mexico's oil production increased to an eight month high in January of 2.584 million bpd, up from 2.574 million bpd in December. Crude oil exports however fell to 1.444 million bpd from 1.5 million bpd in December.

BP's TNK-BP said it fully replaced its 2010 hydrocarbon reserves on the back of high oil prices, increased exploration activity and oil recovery methods at brown fields. Its proved reserves increased in 2010 to 8.8 billion barrels of oil equivalent from 8.6 billion boe.

BP agreed to buy a 30% stake in Reliance Industries' 23 oil and gas blocks, a move seen as potentially increasing India's output.

Brazil's next auction of oil and natural gas concessions will depend on a decision by the country's

The New York Times

February 24, 2011

Continued Fighting

Sabratha A few nights of fighting between rebel and pro-Qaddafi forces were reported here.

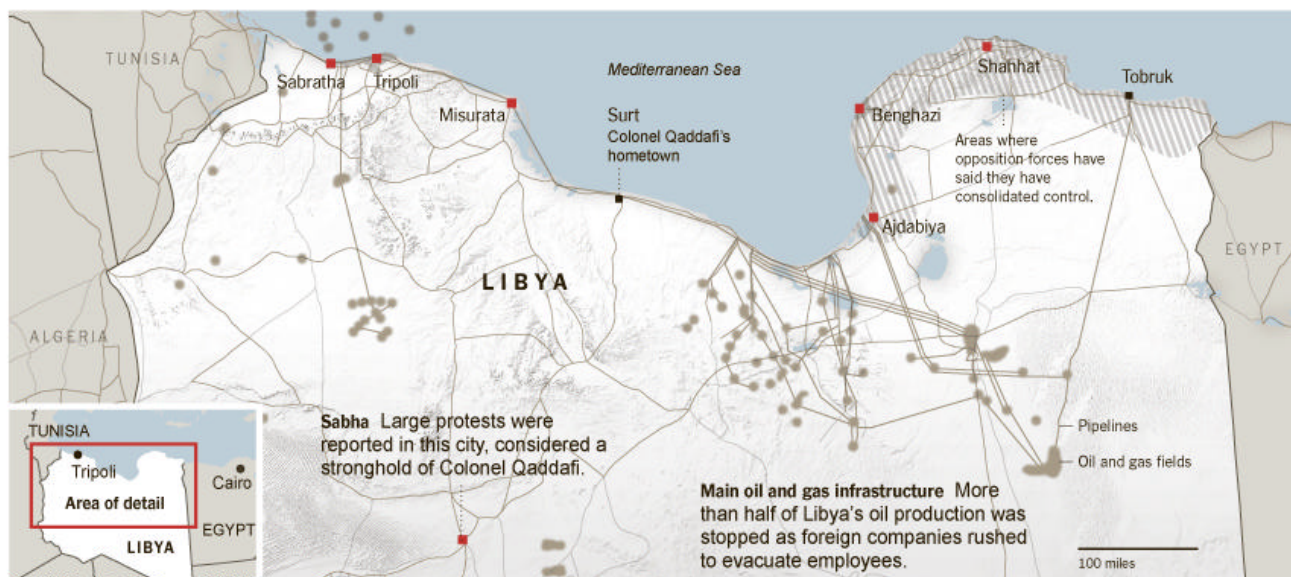
Tripoli Thousands of African fighters were massing on roads leading to Tripoli to reinforce Col. Muammar el-Qaddafi's stronghold.

Misurata Government opponents claimed victory in this town.

Ajdabiya Pro- and antigovernment forces were still fighting near this town.

Benghazi Two ferries left with 3,000 passengers heading for Turkey.

Shahhat Pro-Qaddafi fighters were detained in a school-turned-makeshift prison.



National Energy Policy Council. Separately, China's Sinopec Corp said it planned to participate in Brazil's next oil and gas bidding rounds.

Anadarko Petroleum Corp plans to increase spending this year, the majority of the company's budget earmarked for exploration. It plans to spend \$5.6 billion to \$6 billion, up from \$5.2 billion last year. Output this year is expected to range from 244 million barrels of oil equivalent to 248 million barrels of oil equivalent.

Market Commentary

Once again the energy markets had a wild day, initially trading higher off of the tensions in Libya, only to turn lower on the day after assurances to meet supply shortfalls came from the IEA and Saudi Arabia. Late session rumors circulating that Libyan leader Muammer Qaddafi was either dead or had left the country, sent prices spiraling lower after the floor session closed. This is indeed a volatile market, which is taking place under high volume. One cannot look at the supply/demand situation alone and decide on a definitive direction for prices. Concern remains that the rebellions will spread across the Middle East, especially into Saudi Arabia. With tomorrow being Friday, we would not look for anyone to be willing to go home short this market. Based upon a weekly spot continuation chart, there is resistance set up at \$98.41. Moving oscillators for this chart are calling for higher prices. Although technicals will be difficult to trade off of given the geopolitical situation in the Middle East, the aforementioned resistance will be our weekly target to settle above.

Crude oil: April 11 303,774 +2,892 May 11 189,119 +8,211 June 11 136,424 -3,109 Totals 1,525,033 +18,439 Heating oil: Mar 11 19,640 -12,594 Apr 11 95,995 3,767 May 11 43,319 -356 Totals 312,706 -9,094 Rbob: Mar 11 23,443 -8,863 Apr 11 82,969 3,492 May 11 51,674 +1,253 Totals 278,064 -3,814

Crude Oil		Heating Oil		Rbob	
Support	Resistance	Support	Resistance	Support	Resistance
8772					
8647	9776	26680		25683	
8387	9841	23685	29500	25145	
8231	103.85	22960	30955	24240	28793
8180	111.65	22013	31525	23631	29600
8000		21860	33510	23414	
7984		21140		22560	
7900		20702			

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