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## ***ENERGY RISK MANAGEMENT***

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### **ENERGY MARKET REPORT FOR MARCH 26, 2010**

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OPEC oil production is likely to increase further as compliance is not an issue with prices around \$80/barrel.

Algeria's Oil Minister Chakib Khelil said OPEC does not need to tighten its compliance with its oil output cuts at this stage and added that prices are expected to rise in 2011. He said oil prices are expected to trade in the low \$80s at the end of 201 and rise next

year. He said OPEC's meeting last week did not discuss tighter adherence. In February, the 11 OPEC members with quotas pumped nearly 2 million bpd more than their target and compliance stood at 53%.

US Secretary of State Hillary Clinton said there would be increasing activity in the near future towards a package of UN sanctions on Iran over its nuclear program. She said the Obama administration held constructive talks with all its partners and in-depth consultations with Russia and other international partners on sanctions.

Iran's Foreign Minister Manouchehr Mottaki attacked Israel's settlement plans in occupied East Jerusalem on Friday, saying Muslims around the world need to take action. He added that the 22 nation Arab League should take a strong stance at its meeting in Libya this weekend. Israel's right

#### **Market Watch**

The US Commerce Department reported that the growth in the US economy in the fourth quarter of 2009 was slightly lower than previously reported. GDP increased at a 5.6% annual rate in the fourth quarter, down from its previous estimate of 5.9%. GDP growth in the third quarter was 2.2%. The revision was greater than market estimates. Economists estimated that GDP would be adjusted to show a growth of 5.8%. It reported that consumer spending October through December increased by 1.6%, revised down from a previous estimate of 1.7%. Business spending was also revised down, increasing by 5.3% down from a previously reported level of 6.5%. The Commerce Department also reported that after-tax corporate profits increased by 6.5% in the fourth quarter, down from a 12.7% increase in the third quarter. Business inventories fell \$19.7 billion in the fourth quarter, slightly more than the \$16.9 billion estimated last month.

According to Thomson Reuters/University of Michigan's Surveys of Consumers, US consumer sentiment was unchanged in March from February. The final March reading for the survey's overall index on consumer sentiment was 73.6, unchanged on the month but slightly above market estimates. However, the survey's index of current economic conditions increased to 82.4 in March from February's 81.8. It is higher than market estimates of 81.8. The survey's barometer of consumer expectations weakened to 67.9 at the end March from 68.4 in late February.

South Korea's navy opened fire at an unidentified ship near the North Korean border in the Yellow Sea after one of its own ships was sunk. South Korea's military said a ship from its navy was sinking but could not immediately confirm any firing.

**March  
Calendar Averages**  
**CL – \$81.07**  
**HO – \$2.0881**  
**RB – \$2.2498**

wing government announced new building projects in East Jerusalem. US officials have sought to persuade Israel into suspending further East Jerusalem projects and discussing core issues such as borders and the status of Jerusalem as part of indirect talks with the Palestinians.

The International Monetary Fund said it closely watching Greece's debt crisis. It reiterated that the fund is willing to consider any requests from its members for financial help.

**Refinery News**

Late Thursday, Valero Energy Corp restarted a crude unit that was shut during maintenance work on a fluid catalytic cracking unit at its 180,000 bpd Memphis, Tennessee refinery. Its 70,000 bpd fluid catalytic cracking unit and its 12,000 bpd alkylation unit remain shut for maintenance.

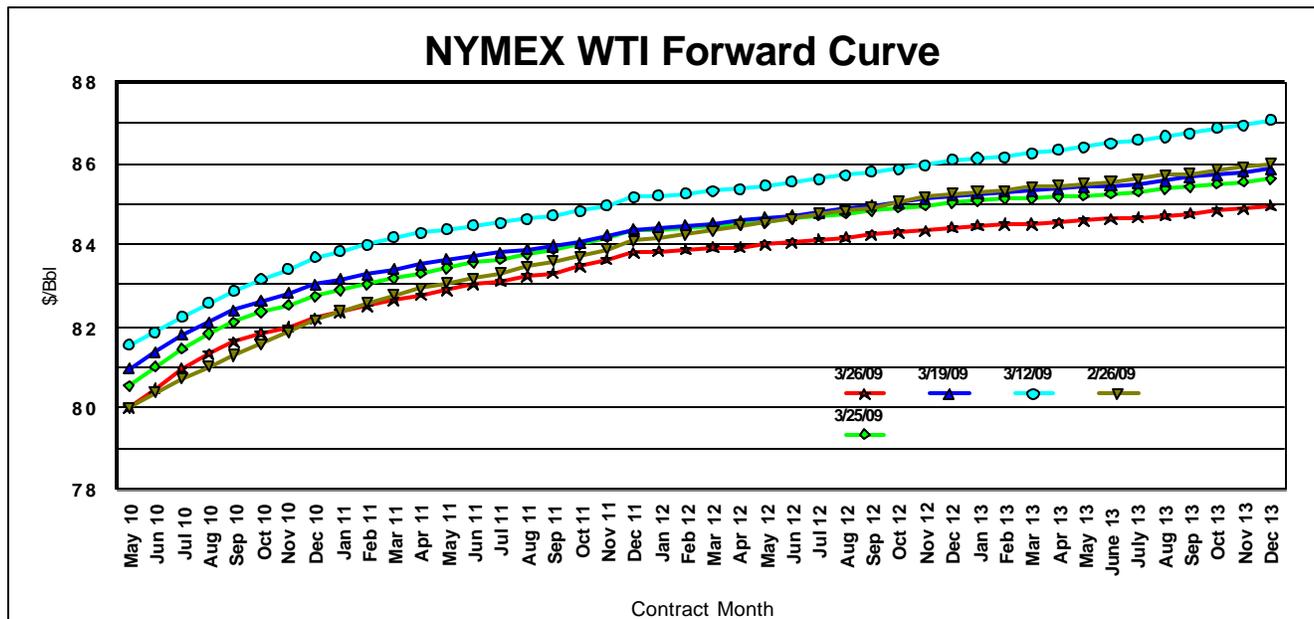
According to government data, India's domestic oil product sales in February increased 0.4% on the year to 11.39 million tons as a decline in naphtha demand was offset by a rise in transport fuel demand. Naphtha sales in February fell by 40% on the year to 755,000 tons while diesel sales increased by 8.6% to 4.67 million tons and petrol sales increased by 12% to 1.06 million tons.

Major refiners in South Korea are likely increase their purchases of Russia's new ESPO Blend crude due to lower costs and higher yield during refining processes. South Korea's SK Energy has been importing a 740,000 barrel cargo every two months since February and the refiner with a total refining capacity of 1.1 million bpd is looking to increase its purchases. South Korea's GS Caltex, which operates a 750,000 bpd refinery, has also been importing ESPO since last month.

BP signed 2010 term deals with Japan's Cosmo Oil and Japan Energy to buy at least eight cargoes of 10 ppm sulfur gas oil totaling 2.4 million barrels, about 30% less than its 2009 contract with South Korea's S-Oil.

Poland's PKN Orlen signed a deal with Glencore Energy UK Ltd on spot oil supplies for its Czech unit Unipetrol. Under the deal, Glencore will deliver crude oil worth an estimated \$27.6 million to Unipetrol.

Trader said more than 300,000 tons of clean oil products have been booked for March to early April loading from Asia to the West, with the majority bound for Chile. Shipping data showed a total of



205,000 tons of clean products were booked for March loading from Japan and South Korea to US Gulf Coast/Chile, of which 145,000 tons was bound for Chile and 60,000 tons of mostly gasoline was bound for the US Gulf Coast.

### **Production News**

Baker Hughes reported that the number of rigs searching for oil and natural gas increased by 17 to 1,444 this week. The number of rigs searching for oil increased by 15 to 489 while the number of rigs searching for natural gas increased by 2 to 941.

Planned maintenance on the Buzzard oilfield in the UK has been delayed until May from an original plan to conduct maintenance in April.

Russia's oil exports from East Siberia will stay duty-free this year but a tax may be levied in 2011 costing Rosneft, Surgut and TNK-BP over \$2 billion. A total of 22 fields in the region last year won exemption from paying export duties. It has been proposed that the zero duty rate be replaced by a uniform levy on excess profits or other taxes while the energy ministry has insisted on keeping the current scheme. The ministries have to agree by April 15<sup>th</sup> on the duty that will be applied in May.

Russian oil spot prices for domestic delivery in April remained flat within the ranges seen last month, as a higher oil export duty for April offset the rise in netback for Urals exports. The oil export duty for Urals exports in April are expected to reach \$268.90/ton, up 6.6% or \$15.30/ton. The average price of Urals crude on FOB Primorsk basis during the March spot trading period increased by about \$1/barrel to an average \$74.60/barrel.

OPEC's news agency reported that OPEC's basket of crudes increased further to \$77.03/barrel on Thursday from \$76.90/barrel on Wednesday.

### **Market Commentary**

The oil market settled in negative territory for the third consecutive session on Friday after the Commerce Department reported that growth in the US economy in the fourth quarter of 2009 was slightly lower than previously reported. GDP increased at a 5.6% annual rate in the fourth quarter, down from its previous estimate of 5.9%. The market, which posted its high of \$81.46 in overnight trading on Globex, erased its gains following the release of the GDP estimate and sold off to \$79.59. The market continued to trade lower to a low of \$79.54 in afternoon trading. It however bounced off its low and settled in a sideways trading range ahead of the close. The crude market settled down 53 cents at \$80.00. The oil market will remain driven by economic news. Technically, the market is seen trending lower. The market is seen finding support at its low of \$79.54 followed by \$78.57, \$78.06, and \$77.05. Resistance is however seen at \$80.24, \$80.75, \$81.00 and its high of \$81.46. More distant resistance is seen at \$81.64, \$82.20 and \$83.16. Meanwhile, the heating oil market settled up just 4 points at \$2.0697 after posting an outside trading day. The market posted a high of \$2.0940 and sold off to its low of \$2.0490 amid the sell-off in the crude market and later settled in a sideways trading pattern. Similar to the crude market, the RBOB market settled down 1.03 cents at \$2.2074 after it too posted an outside trading day. It traded to a high of \$2.2373 in overnight trading before it sold off to its low of \$2.1895 early in the session. The heating oil market is seen finding support at \$2.0490, \$2.0253, \$2.0159, \$1.9909 and \$1.9764. Resistance is seen at \$2.0775, \$2.09, \$2.0940, \$2.0975, \$2.1046, \$2.116 and \$2.144. The RBOB market is seen finding support at \$2.1930, its low of \$2.1895, \$2.1550, \$2.1372 and \$2.1271 while resistance is seen at \$2.2209, \$2.2373, \$2.255, \$2.2664 and \$2.304.

Crude Oil May 10 317,719 -11,615, June 10 173,683 +5,524, July 10 93,827 +3,396 Totals 1,284,017 -7,215 Heating Oil APR10 26,068 -7,679, May 10 94,024 +3,358 June10 50,729 -580 Totals:

322,398 -4,060. Gasoline APR10 25,071 -5,504, May 10 120,691 +2,124, June 58,279 +1,265 Totals 324,188 +969

The Commitment of Traders report showed that non-commercials in the crude market cut their net long position by 12,224 contracts to 111,919 contracts in the week ending March 23<sup>rd</sup>. The combined futures and option report showed that non-commercial in the crude market cut their net long position by 14,082 contracts to 194,443 contracts on the week. The funds cut their total long position by 10,432 contracts to 284,939 contracts. The disaggregated combined futures and options report showed that producers/merchants increased their net short position by 4,630 contracts to 214,844 contracts while swap dealers switched from a net short position of 7,644 contracts to a net long position of 6,723 contracts on the week. Managed money funds cut their net long position by 14,235 contracts to 159,306 contracts while other reportable increased their net long position by 153 contracts to 35,137 contracts. The combined futures and options report also showed that non-commercials in the product market cut their net long position. The funds in the heating oil market cut their net long position by 2,410 contracts to 20,873 contracts on the week while non-commercials in the RBOB market cut their net long position by 2,320 contracts to 74,718 contracts on the week.

<b>Crude Support</b>	<b>Crude Resistance</b>
79.54, 78.57, 78.06, 77.82, 77.05, 76.32, 73.71	80.24, 80.75, 81.00, 81.46, 81.64, 82.20, 83.16
<b>Heat Support</b>	<b>Heat resistance</b>
2.0490, 2.0253, 2.0159, 1.9909, 197.64	2.0775, 2.09, 2.0940, 2.0975, 2.1046, 2.1160, 2.1440
<b>Gasoline support</b>	<b>Gasoline resistance</b>
2.195, 2.1550, 2.1372, 2.1271	2.2209, 2.2373, 2.255, 2.2664, 2.304

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