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## ***ENERGY RISK MANAGEMENT***

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### **ENERGY MARKET REPORT FOR MARCH 28, 2011**

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The North Atlantic Treaty Organization took over enforcing a no-fly zone over Libya on Sunday, enabling the alliance to strike at Libyan leader Muammar Gaddafi's forces should they threaten civilians. Sirte was pounded by coalition jets on Monday as rebels closed in on Muammar Gaddafi's hometown in their westward push towards Tripoli. Nine explosions early Monday rocked Sirte as warplanes flew overhead and the coalition operation to enforce a no fly zone in Libya entered its ninth day. The rebels' pursuit of Gaddafi's forces saw them take back control of key oil town Ras Lanuf and

move on as far as Nofilia. Rebels in east Libya seized the town of Nawfaliyah. They also took back control of Ajdabiya and Brega. The rebels promised the uprising would not further hamper oil production in areas under their control and the opposition plans to start exporting oil in less than a week. Coalition warplanes launched a dawn air raid on residential areas of Libyan Leader Muammar Gaddafi's southern stronghold of Sebha on Monday. Meanwhile Muammar Gaddafi's forces

#### **Market Watch**

The National Weather Service forecast US heating demand this week is expected to be 10.1% above normal. Demand for heating oil this week will average 18.8% above normal while heating demand for natural gas will average 10.8% above normal.

The US Commerce Department said US consumer spending increased by 0.7% in February. The increase was the largest since October and the eighth consecutive increase. The increase in spending came as personal income increased by 0.3%. The saving rate, meanwhile, fell to 5.8%. It reported that income increased by 1.2% in January, up from a 1% gain. Spending increased 0.3%, revised up from a 0.2% increase.

The National Association of Realtors' index for pending sales of existing homes increased 2.1% to 90.8. The rise comes after pending sales had declined sharply in January, falling by an unrevised 2.8%. It said year over year, sales fell by 8.2% on the year.

Atlanta Federal Reserve Bank President Dennis Lockhart said he expects the US central bank to complete its full \$600 billion in bond purchases by the end of June as planned. He also stated that the rally in commodity and energy prices is primarily a product of supply/demand and should level off.

Mercuria Energy Group said Brent futures could maintain a premium above US WTI futures for another two years. It said structural problems were preventing crude from moving freely around the US, which had distorted US oil prices. A planned pipeline between Oklahoma and the Gulf Coast, the Keystone XL pipeline project, is meant to deliver more from fast growing Canadian oil sand production to US coastal refiners and reduce US reliance on Middle Eastern oil. However in the absence of the southern pipeline, much of the crude is stored in Cushing, Oklahoma. The head of trading at Mercuria said he did not expect a recovery in European gasoline exports to the US during the peak summer demand period and that the trans Atlantic gasoline arbitrage was unlikely to reopen this summer.

In a letter to the US CFTC, Cargill said that the futures regulator's position limit proposal would undermine efficiency of markets for hedgers, cut liquidity and disrupt well functioning markets. It said position limits place artificial restrictions on traders who have funds but cannot execute it because of regulatory authority.

**March**  
**Calendar Averages**  
**CL – \$102.64**  
**HO – \$3.0435**  
**RB – \$2.9859**

bombarded the western Libyan town of Zintan with rockets early on Monday. The Foreign Ministry said Libyan forces ended their assault on rebel held Misrata and calm was restored, without indicating clearly whether the town was back under loyalist control.

The UK and France called for the rebel National Transitional Council and civil society leaders to help a Libyan transition towards democracy, saying Libyan leader Muammar Gaddafi must go immediately. In a joint statement from French President Nicolas Sarkozy and Britain's Prime Minister David Cameron, Libya's current regime has lost its legitimacy.

Russia's Foreign Minister Sergei Lavrov said the attacks on forces loyal to Libyan leader Muammar Gaddafi amounted to intervention in a civil war on the side of rebels and were not backed by the UN Security Council resolution.

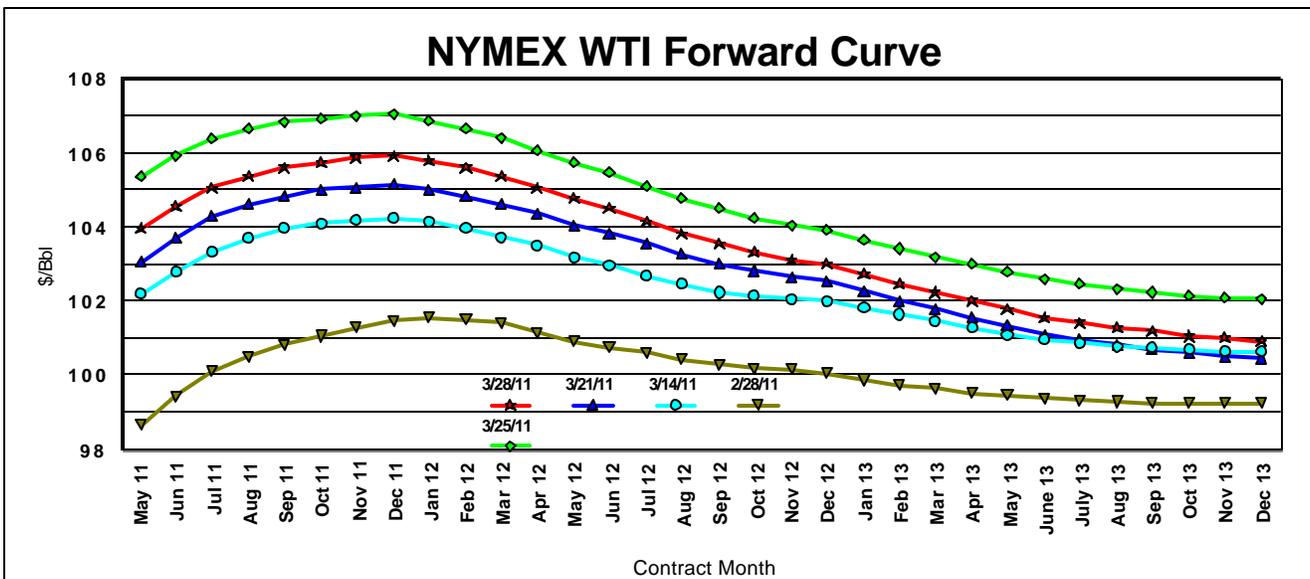
The Gulf Cooperation Council Secretary General Abdulrahman Al-Attiyah said Qatar recognized the rebel Libyan National Council as the only legitimate representative of the Libyan people. Qatar became the first Arab country to recognize Libya's rebels a day after a senior Libyan rebel officials said Qatar had agreed to market crude oil produced from east Libyan fields that Muammar Gaddafi no longer controls. France previously recognized the rebel council as the legitimate representative of Libya, the first and so far only Western power to do so.

The Arab League said it hoped for an end to military operations in Libya so a political solution could be reached.

US Treasury Department officials said crude oil sales by Libyan rebels would not be subject to US sanctions if the transactions are done outside the National Oil Corp and other sanctioned entities in Muammar Gaddafi's regime. The rebels would have to establish payment systems that do not utilize Libya's central bank. Trading sources said Europe's prospects of receiving Libyan oil shipments would be weeks away even if rebels were quickly removed from the international sanctions list.

The UAE OPEC Governor Ali Obaid al-Yabhouni said the UAE stepped in to fill in Libya's oil supply gap.

Bahrain's Foreign Minister Sheikh Khaled said it was completely untrue that Kuwait would mediate to resolve Bahrain's political crisis. Bahrain's leading Shi'ite opposition group Wafaq said it would accept an offer by Kuwait's Emir Sheikh Sabah al-Ahmad al-Sabah to mediate between Bahrain's



Sunni Muslim al-Khalifa ruling family and Shi'ite opposition groups.

Hundreds of Turkmen and Kurdish students clashed on Monday in Iraq's disputed northern city of Kirkuk after Turkmen students tried to hold a ceremony to mark the deaths of Turkmen killed under Saddam Hussein.

Pirates hijacked a Kuwaiti oil tanker off the coast of Oman on Monday. The Zirku crude oil tanker was seized about 250 miles southeast of the Omani port of Salalah. The ship was bound for Singapore from Bashayer, Sudan when it was attacked. Kuwait Petroleum Corp later denied a report from EU naval forces that pirates hijacked a Kuwaiti tanker.

The EIA reported that the US average retail price of diesel increased by 2.5 cents to \$3.932/gallon in the week ending March 28<sup>th</sup>. The price of diesel is up 99.3 cents or 33.8% above a year ago. The EIA also reported that the US average retail price of gasoline increased by 3.4 cents to \$3.596/gallon on the week.

### **Refinery News**

Credit Suisse reported that US refined products margins fell by 3% on average for the week ending March 25<sup>th</sup>. Refinery margins in the Northeast increased by 1 cent to \$7.44/barrel while margins in the Midwest fell by 96 cents to \$19.84/barrel. Margins in the Gulf Coast fell by 74 cents to \$19.65/barrel while margins in the Rockies fell by \$1.94 to \$27.38/barrel and margins in the West Coast fell by 7 cents to \$18.14/barrel.

ConocoPhillips said planned maintenance was currently underway at its Carson refinery in California.

Valero Energy Corp reported emissions from a fuel gas scrubber at its 287,000 bpd refinery in Port Arthur, Texas. Emissions at the refinery started Saturday evening and did not stop until early Sunday morning. There was no material impact on production due to the emission release. Separately, Valero Energy Corp said a sulfur recovery unit problem caused flaring at its 144,000 bpd refinery in Benicia, California. It said no material impact on production is expected.

Marathon Oil Corp experienced an upset at its alkylation unit at its 72,000 bpd Texas City, Texas refinery on Sunday.

Libya's Tamoil has shut its 90,000 bpd Cremona refinery in Italy and would pursue plans to convert it into a storage site. The shutdown will take place between June and September.

Government and industry officials said seven small oil terminals and most of the shipping berths at Japan's northeastern ports remain closed more than two weeks following an earthquake.

ExxonMobil Corp increased its fuel supply to northeast Japan to 140% above pre-earthquake levels. It delivered more than 24 million liters or 6.24 million gallons to retail stations in the Tohoku region. The company received its first shipment of 1 million liters or 26,410 gallons of gasoline and 1 million liters of kerosene at the Shiogama terminal last Wednesday, shipped from its Kawasaki refinery. ExxonMobil's refineries in Japan are operating at higher than normal rates.

Ivory Coast's 80,000 bpd SIR refinery may be forced to shut from the middle of next month unless it obtains supplies of crude oil. The refinery has been struggling to secure crude oil due to European sanctions aimed at forcing incumbent president Laurent Gbagbo from power.

India's Essar Oil may defer its planned refinery shutdown to September-October from a planned shutdown in May-June. In January, it said it planned to completely shutdown its 280,000 bpd Vadinar

refinery for 35 days in May-June to add new units and increase its capacity to 360,000 bpd by the end of June.

China's Sinopec Corp's refining margins in the first quarter are likely to be lower than the fourth quarter last year, with crude oil likely to stay above \$100/barrel.

Shell Refining Co has started construction of a new diesel processing unit at its 156,000 bpd refinery in Port Dickson in Malaysia. The diesel processing unit would enable the refinery to vary its feedstock options, increase diesel production and improve its margins.

**Production News**

Libya's National Oil Co is calling on workers to return to work. After securing the oil sites that are under its control, including fields, export terminals and others, it is calling on workers to return in order to repair the damage caused by sabotage and resume normal operations.

Oil firms that won projects in southern Iraq along with the South Oil Co are increasing the country's crude oil capacities by 600,000 bpd from now until the end of the year to 2.5 million bpd.

ExxonMobil Iraq Ltd said production from its West Qurna I oil field in Iraq increased to 285,000 bpd from an initial 244,000 bpd. The increase exceeds the 10% growth target set under technical services contract.

Venezuela's PDVSA is looking to restructure its exploration and production division as it aims to increase output from the Orinoco Belt. A new unit would be formed by PDVSA to oversee development of the heavy oil fields in the Orinoco Belt. On Sunday, Venezuela's Oil Minister Rafael Ramirez said the country plans to increase its oil production to 5 million bpd by 2014.

India received 74 bids for 33 exploration blocks in the ninth round of auctions held by the country's upstream regulator, while one exploration block did not have any bidders.

OPEC's news agency reported that OPEC's basket of crudes increased to \$110.91/barrel on Friday from \$110.81/barrel on Thursday.

**Market Commentary**

Crude oil headed lower for the third straight day in spite of the ongoing tensions in the Middle East. Prices were as low as 1.7 percent on the day as speculators continue to unwind length. As the dollar weakened, crude oil strengthened, gaining back some of its early losses. Volume was light. Given the recent run up in prices, coupled with uncertainty in regards to the Middle East, speculators continue to lighten their length. We would look for volume to remain light and for the May crude oil contract to trade in a sideways pattern, trending within the range of \$107.00-\$102.00.

Crude oil: May 11 355,480 -6,839 June 11 158,311 +887 July 11 101,593 +855 Totals 1,517,203 -1,195 Heating oil: Apr 11 21,774 -3,882 May 11 92,845 +2,066 June 11 55,711 +1,586 Totals 302,312 +2,647 Rbob: Apr 11 27,211 -3,850 May 11 100,913 +1,529 June11 44,349 +470 Totals 287,088 +55

Crude Oil		Heating Oil		Rbob	
Support	Resistance	Support	Resistance	Support	Resistance
10136		30810		30130	
9622	10695	27980	31525	26965	31970
9540	10880	26680	33510	26300	32450

9267	111.65	27375		25683	35915
9635		23685		25145	36310
8385		22960		24240	
				23631	
				23414	

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