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ENERGY RISK MANAGEMENT

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ENERGY MARKET REPORT FOR MAY 3, 2011

According to a SpendingPulse report released by MasterCard Advisors LLC, US weekly gasoline demand fell by 1% to 9.157 million bpd in the week ending April 29th. The decline in demand was the fifth in the past six weeks. Gasoline demand was 0.6% below a year ago. Gasoline demand over the past four weeks averaged 9.19 million bpd, down 1.2% on the year. It reported that the US average retail price of gasoline increased by 4 cents to \$3.89/gallon.

Market Watch

Investor T. Boone Pickens believes oil prices will reach \$120/barrel by the end of the year. He also reiterated that the US needs to end its dependence on OPEC.

US Attorney General Eric Holder said a new taskforce focused on fraud in the energy markets would look into whether there was price gouging at the gas pumps or traders were manipulating the markets. The group includes representatives from the Commodity Futures Trading Commission, the Federal Trade Commission, the Federal Reserve Board, Securities and Exchange Commission and the Departments of Agriculture, Energy, Justice and Treasury.

Federal Reserve Bank of Kansas City President Thomas Hoenig called for the central bank to start raising interest rates, citing rising values for assets such as farmland. He said the Federal Reserve's easy money policies risk causing inflation unless the Fed scales them back soon.

The US Commerce Department said US factory sector orders increased for the fifth consecutive months in March. Orders for manufactured goods increased by 3% to \$462.91 billion in March. The gain in factory orders during March followed a 0.7% increase in February. Order for durable goods increased by 2.9% in March.

Britain's manufacturing sector expanded at its slowest pace in seven months in April. The Markit/CIPS manufacturing PMI headline index fell to 54.6 in April, its lowest level since September from a downwardly revised 56.7 in March and well below market expectations of 56.9. The output prices index fell to 64.2 in April from a record 65.2 in March.

The NYMEX announced that US crude oil open interest for all contracts on the NYMEX reached an all time high of 1,608,194 contracts on Friday. It surpassed the previous record of 1,605,830 contracts reached on March 11th.

CME Group Inc said its daily trading volume in April increased by 1.7% on the year but fell by 16% on the month to 12.1 million contracts. It said about 83% of last month's total 243 million contracts were traded electronically. Commodities contract daily volume increased by 44% while metals daily volume increased by 63%.

Deutsche Bank reported that its heating oil index, DBLCI-OY HO, will roll the June 11 heating oil contract to June 12 starting May 3rd to May 9th.

India decided to raise interest rates by a larger than expected 50 basis points in an attempt to fight inflation.

The IEA's executive director Nobuo Tanaka said OPEC should produce more crude, even the sour, heavy quality, because refineries would use it at a lower price. He also stated that due to the high price of crude, the IEA suspects that refineries are using oil inventories.

The Libyan rebels controlling the east of the country said they had no plans to resume significant oil exports. They said their priority was to ensure oil installations were secure. Their top priority is to protect the installations, not to produce. Meanwhile, Italy hopes a meeting it is scheduled to host Thursday on Libya would allow about 1.3 million bpd of crude shut in back on the market. Among the issues to be discussed would be setting up international financial instruments to allow the sale of oil from the price controlled part of Libya to foreign purchasers. The meeting would also seek ways to finance the Transitional National Council or TNC in its struggle against Libya's leader Muammar Gaddafi.

**May
Calendar Averages**
CL – \$112.29
HO – \$3.2215
RB – \$3.3387

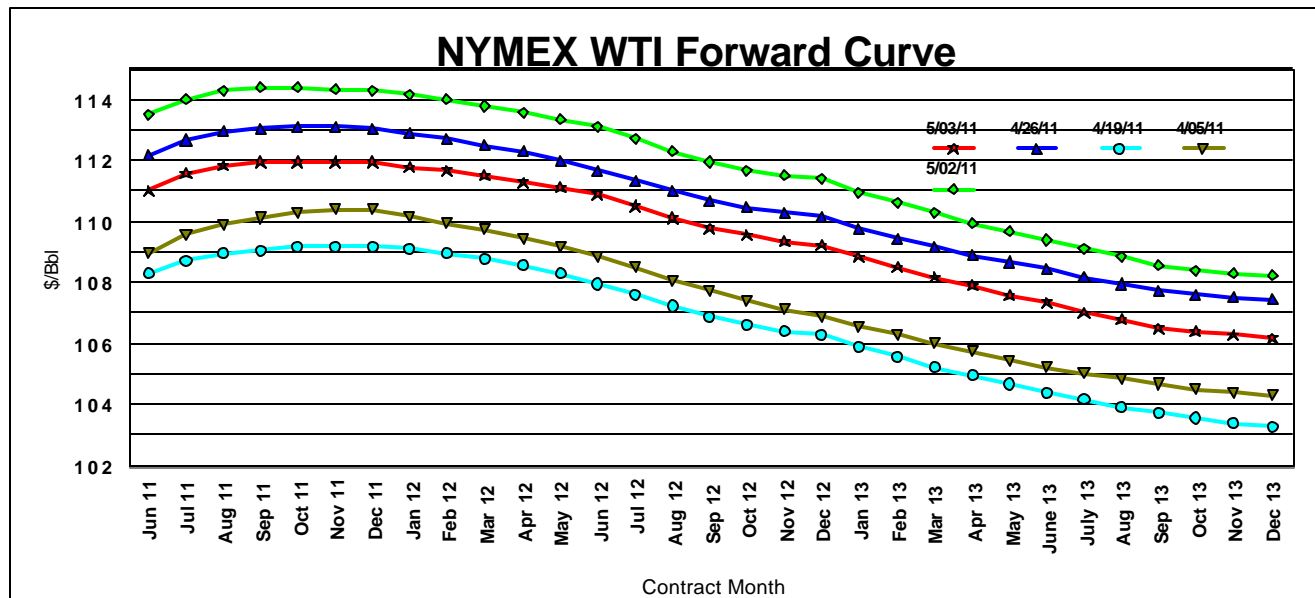
Separately, Libyan rebels said their economy would collapse by June unless France, Italy and the US make a \$3 billion loan secured by Muammar Gaddafi's frozen assets. The rebel leadership is not longer seeking for Gaddafi's assets to be unfrozen and given to the rebel administration but for credit lines to be opened that would be secured by the countries in which these assets are being held. Ali Tarhoni, who holds the economy and oil portfolio in the rebel administration believed Gaddafi's frozen assets around the world amounted to \$165 billion.

API Stocks
Crude – up 3.196 million barrels
Distillate – down 1.492 million barrels
Gasoline – up 680,000 barrels
Refinery runs – up 0.6% at 82.2%

Refinery News

Colonial Pipeline said it was allocating its main distillate line north of Collins, Mississippi, for Cycle 26.

Enterprise Products Partners LP said it would build an 80 mile extension of its 350,000 bpd Eagle Ford Shale Crude Oil Pipeline as part a long term transportation agreement with Chesapeake affiliate. The extension project would originate in Wilson County, Texas to a site near Gardendale, Texas. The extension is expected to start operations in the first quarter of 2013.



Valero Energy Corp said its 214,000 bpd Texas City, Texas refinery was at planned rates following a power outage last week. Valero also said emissions at its 185,000 bpd St. Charles, Louisiana refinery were related to the turnaround of its fluid catalytic cracking unit. Meanwhile, Valero reported that its 87,400 bpd Ardmore refinery in Oklahoma was operating at planned rates. A plant wide turnaround, which started on March 11th, was completed by April 25th. It also reported that one of two crude units

at its Aruba refinery remained shut for unplanned maintenance. The unit was taken offline early last week to repair a leak. There is no estimate yet of when it would resume service.

Several processing units at ConocoPhillips' 139,000 bpd refinery in Wilmington, California are returning to normal operations after shutting down on Monday due to a power dip. The units unexpectedly tripped offline on Monday afternoon and resulted in a period of unplanned flaring.

Suncor Energy Inc is beginning a turnaround of an upgrader unit that was shut on May 1st. The work on upgrader 2 is expected to last 6 weeks.

Wynnewood Refining Co reported the release of sulfur dioxide from a sulfur recovery unit at its Wynnewood, Oklahoma refinery due to an unknown cause.

Suncor Energy Inc started planned maintenance activities on one of two of its oil sands upgrader. It said maintenance was scheduled to last about 6 weeks at its oil sands operations near Fort McMurray, Alberta.

Sonoco Products Co said its Hartselle, Alabama reel operations was undamaged by violent weather. It said both plants are operating using backup power. It is unclear how long both facilities would be on temporary power.

JX Nippon Oil & Energy Corp restarted shipments from its Sendai refinery on Tuesday for the first time since it was damaged during the March 11th earthquake. The refinery's daily shipment capacity of gasoline, kerosene, and other oil products stands at 2,500 kl or about 50% of the level prior to the earthquake and tsunami. It is shipping existing inventory for now as its refining operations are still offline. The company's refining facilities in Sendai are not expected to come back online until around the summer 2012.

China Petrochemical Corp said it completed construction of a diesel hydrotreating unit with an annual capacity of 3 million metric tons at the Zhenhai refining complex. The unit produces diesel conforming to Euro 3 emission standards.

Khartoum Refinery Co, jointly owned by China National Petroleum Corp and the Sudanese government, completed major maintenance of its 100,410 bpd refinery in late April. The refinery, which supplies more than 80% of Sudan's fuel market, resumed operations on April 28th following 67 days of maintenance work.

PetroChina and Sinopec have asked the government to cut fuel consumption tax to reduce their refining losses. PetroChina paid 22.9 billion yuan of consumption tax for gasoline and diesel in the first quarter of the year while Sinopec paid 30.3 billion yuan in taxes. PetroChina sustained a refining loss of 6.13 billion yuan or \$944 million in the first quarter while Sinopec posted a refining loss of 576 million yuan due to increasing crude costs.

A consortium comprising Saudi Aramco and a German investment holding company are interested in acquiring ConocoPhillips' Wilhelmshaven refinery in Germany.

Production News

According to a Reuters survey, OPEC's oil production fell for the third consecutive month in April as unrest in Libya and field maintenance in Angola cut supplies. Supply from all 12 members of OPEC averaged 28.42 million bpd in April, down from a revised 28.48 million bpd in March. Saudi Arabia's production in March was 700,000 bpd lower than initially estimated.

Production of Bakken crude in Montana and North Dakota was shut in after a spring snowstorm caused a power outage. The snowstorm has temporarily forced the shutdown of a negligible amount of crude production from the Bakken shale formation.

Shell Oil plans to apply on Wednesday for a federal permit to drill for oil in the Beaufort Sea off the Alaskan shore. It also plans to submit an application next week to drill in the Chukchi Sea, also offshore Alaska. The permits would allow Shell to use two rigs to drill up to 10 wells by 2013.

Georgia's Kulevi oil terminal on the Black Sea shipped 13% less crude and oil products in April 2011 compared with March 2011. The terminal shipped 291,932 tons of crude and refined products in April compared with 336,574 tons in March. The terminal shipped 331,747 tons of crude and refined products in April in comparison with 313,660 tons in March. Shipments of Tengiz crude oil from Kazakhstan through Kulevi in April totaled 79,834 tons.

According to a provisional loading program, crude oil exports through the Caspian Pipeline Consortium are scheduled at 2.33 million metric tons in May, down 252,900 tons on the month.

Marathon Oil's first quarter earnings increased as the company benefitted from strong growth at its international exploration and production business and sharply higher refining and marketing margins. It reported a profit of \$996 million in the first quarter, up from \$457 million a year ago. Marathon cut its 2011 production forecast to 345,000 and 365,000 bpd of oil equivalent, excluding Libya impacts, from 380,000 to 400,000 bpd of oil equivalent. Marathon plans to spend about \$1 billion this year to increase its output in regions such as the Bakken in North Dakota, Anadarko Woodford in Oklahoma and Eagle Ford in Texas. Separately, Marathon said the addition of equipment at the Athabasca oil mine in Canada has brought total production capacity at the mine up to 250,000 bpd. Marathon Oil also reported that its gasoline sales in April fell by 5% on the month.

Venezuela's PDVSA said it is talks with Korea National Oil Corp and Korea Gas Corp on potential joint projects in Venezuela. KNOC is evaluating a joint venture in the Orinoco heavy crude oil belt. PDVSA has stated that it signed a memorandum of understanding with Korea's SK Engineering and Construction to work on production facilities. PDVSA is looking to increase production to about 4 million bpd from current official levels of about 2.7 million bpd.

Saudi Aramco set the official selling price of its Extra Light crude bound for the US at the Argus Sour Crude Index plus \$3.45, up 45 cents on the month. It set the price of its Light crude at ASCI plus 45 cents, up 25 cents on the month; the price of its medium crude was set at ASCI minus \$2.25, down 5 cents on the month and the price of its Heavy crude was set at ASCI minus \$4.80, down 60 cents on the month. The price of its Extra Light crude bound for Europe was set at BWAVE minus \$1, up 75 cents on the month, the price of its Light crude was set at BWAVE minus \$4.15, up 35 cents, the price of its Medium crude was set at BWAVE minus \$6.90, up 25 cents and the price of its Heavy crude was set at BWAVE minus \$9.60, up 15 cents. The price of its Super Light crude bound for Asia was set at the Oman/Dubai average plus \$7.75, up \$1.70 on the month; the price of its Extra Light crude was set at the Oman/Dubai average plus \$4.85, up \$1; the price of its Light crude was set at the Oman/Dubai average plus \$2.15, up 50 cents; the price of its Medium crude was set at the Oman/Dubai average minus 75 cents, up 25 cents and the price of its Heavy crude was set at the Oman/Dubai average minus \$3.50, down 5 cents.

The European Union Naval Force of EU Navfor said a product tanker was hijacked 180 nautical miles east of Malindi, Kenya in the Indian Ocean. The vessel was hijacked April 30th en route to Mombasa in Kenya from the Malaysian port of Kuala Tanjung.

Crude oil tanker earnings on the Middle East route increased on Tuesday from the end of last week although increasing vessel availability kept rates at depressed levels not seen since 2009. Cantor Fitzgerald said it appeared that the temporary increase in Middle East crude exports meant to offset the Libyan oil disruption has been reversed, which has impacted the number of cargoes needing ships.

Market Commentary

As the dollar rose and the S&P fell, crude oil tumbled 3 percent to a low of \$110.30. Anticipation that tomorrow's DOE numbers will show another increase in stock levels added to the pressure on prices. Traders appear to still be weighing in on the impact the death of bin Laden has or will have on this market, which at the current moment does not seem to be too much. Fear does loom that fractions of al-Qaeda will try to disrupt supply infrastructures. The slow stochastic moving oscillators have crossed to the downside in overbought territory, with the RSI turning to the downside. This is an indication that prices are headed lower and that a test of support at \$109.88 is due.

Crude oil: June 11 340,962 -658 July 11 222,101 +10,114 Aug 11 82,069 +1,752 Totals 1,625,407 +17,213 Heating oil: June 11 119,080 +923 July 11 49,468 +827 Aug 11 30,269 +784 Totals 315,658 +5,005 Rbob: June11 103,692 +326 July 54,224 +2,694 Aug 11 28,544 +1,190 Totals 300,192 +5,508

Crude Oil		Heating Oil		Rbob	
Support	Resistance	Support	Resistance	Support	Resistance
11030		30810			35915
10988	11483	27980		30130	36310
10845	11563	26680	33510	26965	
10484	11703	27375		26300	
10270	12126	23685		25683	
10136	14933	22960		25145	
10000				24240	
9622				23631	
9540				23414	

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