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ENERGY MARKET REPORT FOR MAY 24, 2011

According to a SpendingPulse report released by MasterCard Advisors LLC, US weekly gasoline demand fell by 1.4% to 9.176 million bpd in the week ending May 20th. The decline of 131,000 bpd followed a 2.1% increase a week ago. Gasoline demand was 2% below a year ago. The four week gasoline demand averaged 9.189 million bpd, down 1.6% on the year. It reported that the US average retail price of gasoline fell by 5 cents to \$3.92/gallon.

The deputy executive director of the IEA, Richard Jones, said it is unlikely OPEC would agree to increase output quotas at its meeting in June.

Market Watch

Morgan Stanley and Goldman Sachs increased their price forecasts for Brent crude, citing diminishing spare capacity among OPEC members as a result of ongoing supply disruptions in Libya and firm demand in emerging markets. Morgan Stanley said it expected Brent to reach \$120/barrel in 2011 and \$130/barrel in 2012 compared with its previous estimate of \$100/barrel and \$105/barrel, respectively. Goldman Sachs raised its Brent crude forecast for 2011 to \$120/barrel, up from a previous estimate of \$105/barrel. It also increased its 2012 Brent crude price forecast to \$140/barrel from a previous estimate of \$120/barrel. Meanwhile JP Morgan also reiterated its forecast that Brent crude should reach \$130/barrel by the third quarter of 2011.

The US Commerce Department said new home sales increased more than expected and the median price increased in April. It stated that sales increased by 7.3% on a monthly basis to a seasonally adjusted annual rate of 323,000 in April. Sales increased by 8.3% in March, revised down from a previously estimated 11.1% increase. The median price for a new home was \$217,900 in April.

The Federal Reserve Governor Elizabeth Duke said US consumers are struggling with higher gasoline costs and a weak housing market, suggesting she is unlikely to be pressing for higher interest rates soon. Federal Reserve Bank of St. Louis President James Bullard also expressed similar sentiment late Monday, saying a pause once the \$600 billion quantitative easing program ends in June would give the Fed time to assess the strength of the economy. He said the US economic growth had disappointed in the first half of the year.

The European Union's statistics office Eurostat said Euro zone industrial new orders fell more than expected in March against February. It said orders in the 17 countries using the euro fell 1.8% on the month but were still 14.1% higher than a year ago. Orders for capital goods fell 4.6% on the month in March while orders for durable consumer goods fell 6.8% on the month and 2.6% on the year.

The US Interior Department is launching an initiative to simplify the way it assesses oil and natural gas royalties. The proposal would involve using market based pricing to be the basis of royalty calculation, rather than the current system that looks at transaction by transaction.

According to a report from the Democratic staff of a House of Representatives oversight committee said the US Congress should take steps to limit speculation in oil markets, which has increased prices as much as 30%. The report is unlikely to gain much traction in the Republican controlled House. It argues that Republicans proposals such as steps to increase domestic offshore drilling, would not achieve the goal of reining in \$4/gallon gasoline prices. It said increasing domestic drilling would impact prices by only 1%.

An advisor to the People's Bank of China said emerging economies should have a say on who should take the helm of the IMF. However he said the overhauling of the agency is more important than the succession issue. He said reform of the IMF could not make significant progress unless the US is willing to give up its dominant voting share in favor of developing countries.

API Stocks

Crude – down 860,000 barrels
Distillate – down 846,000 barrels
Gasoline – up 2.442 million barrels
Refinery runs – up 1.8%, at 83.5%

He said there are other oil producing countries outside OPEC that may do something, such as Russia.

The government of Libya’s Muammar Gaddafi has sent a representative to the governors’ meeting of OPEC in Vienna this week ahead of the June 8th OPEC meeting. It said Libya would be represented by top oil official Shokri Ghanem. Last

week, the rebels seeking to oust Gaddafi said they wanted to represent Libya at the OPEC meeting.

Iran’s parliament speaker called on President Mahmoud Ahmadinejad to appoint an oil minister. Last week, members of the Guardian Council said President Ahmadinejad’s decision to temporarily take over the ministry was illegal.

Iran’s Foreign Ministry rejected as “illogical” new sanctions adopted by the EU against Iran over its disputed nuclear program. The EU tightened its sanctions on Iran, adding more than 100 firms to a blacklist of companies hit by an assets freeze amid efforts to start international talks to convince Iran to halt its nuclear ambitions.

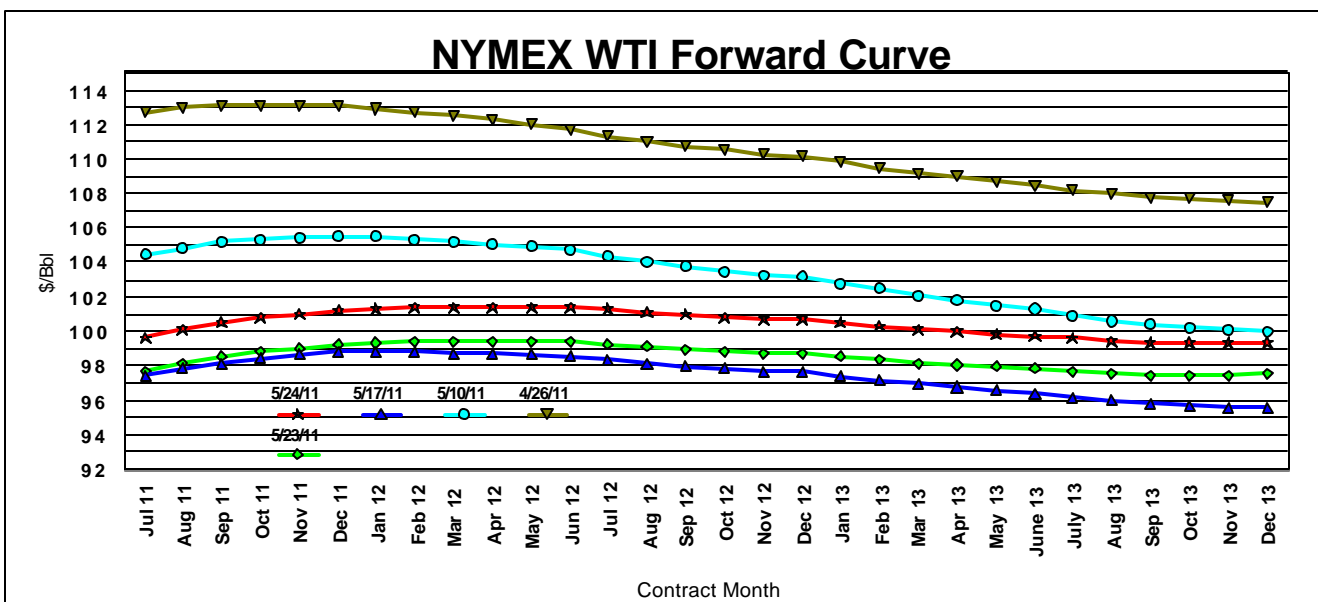
**May
 Calendar Averages
 CL – \$101.39
 HO – \$2.9548
 RB – \$3.1002**

The US announced it was imposing sanctions against seven foreign entities including Venezuela’s state oil company, PDVSA, as part of new efforts to contain Iran’s nuclear ambitions. The US State Department said the company supplied gasoline and other refined petroleum products to Iran in violation of the 1996 Iran Sanctions Act. It said Venezuela’s PDVSA supplied Iran with at least two cargoes of a blending component used to improve gasoline. The sanctions would prohibit PDVSA from competing for US government contracts, obtaining US export licenses and from obtaining financing from the Export-Import Bank of the US. The sanctions on PDVSA would not affect the company’s subsidiaries, including Citgo and would not prohibit the export of crude to the US.

The UN’s IAEA said it received new information on possible military dimensions to Iran’s nuclear program, increasing concerns about the true nature of Iran’s nuclear program. It also said Iran continued to increase its stockpile of low-enriched uranium.

Refinery News

The southern leg of Plains All American Pipeline LP’s Rainbow pipeline could reopen on Tuesday as the pipeline’s power supply was restored earlier than expected. The shutdown of the pipeline on May



15th following a series of wildfires in northern Alberta, has shut in about 150,000 bpd of crude oil production from the region.

Enbridge Inc said shippers on its Ozark pipeline would only get 9% of the capacity requested for next month as companies try to move crude from the storage hub at Cushing, Oklahoma. It said its customers requested 2.6 million bpd of shipments on the line next month, almost 12 times the Cushing to Wood River, Illinois line's expected capacity in June of 217,000 bpd. Meanwhile, Enbridge's Spearhead line, which runs to Cushing from Flanagan, Illinois, has plenty of capacity. Shippers requested to move 51,000 bpd next month on the 170,000 bpd line.

Marathon Oil Corp said the spinoff of its refining and sales operations is on track to be effective on June 30th. Marathon Petroleum Corp would be the fifth largest US refiner with six refineries that have a combined capacity of 1.1 million bpd and Marathon Oil, which would be a global exploration and production company.

ExxonMobil reported a unit startup at its 238,600 bpd Joliet, Illinois refinery after the unit suffered a problem.

Alon US Energy Inc said a processing unit leak at its 68,000 bpd refinery in Bakersfield, California would have no effect on the company's scheduled restart of operations. The refinery is still scheduled to start up at the end of the quarter.

Valero Energy Corp said its sulfur recovery unit at its 185,000 bpd St. Charles refinery in Louisiana, which reported flaring on Friday, was back in operation the same day. The upset had no material impact on production.

Sunoco restarted a 12,000 bpd alkylation unit at its 178,000 bpd refinery in Marcus Hook, Pennsylvania on Friday. On May 9th, it had reported emissions of sulfur dioxide at the refinery.

Irving Oil restarted the larger of two fluid catalytic cracking units at its 300,000 bpd St. John, New Brunswick that shutdown earlier in the week unexpectedly.

Iran's Abadan oil refinery suffered an explosion during a visit on Tuesday by President Mahmoud Ahmadinejad. The President was unhurt however several workers were wounded in the incident, which resulted from a technical problem.

Germany's residential heating gasoil stocks in May held steady on the month at 47% of total capacity. It is at its lowest level since June 2008, when tanks were as low as 44% of capacity.

India's diesel demand is expected to increase this summer as subsidies make it cheaper than fuel oil for power generation, potentially tightening distillate supplies in Asia if India does not act soon to increase local tariffs. India's diesel imports may increase to 53,000 bpd, up from 41,000 bpd.

Production News

Norway's Statoil said it was halting helicopter traffic from Stavanger due to the volcanic ash from Iceland. It said there was no impact on oil and gas production.

Saudi Aramco is expected to study drilling again at its mothballed, first oil field, Dammam, known as the Prosperity Well. Saudi Aramco's chief executive Khalid al-Falih said the Number 7 well there produced 32 million barrels of oil before it was shut. He said the Dammam field still accounts for 500 million barrels of its proven reserves. Saudi Aramco cancelled plans in 2008 for restarting production at the Dammam field because of high costs.

Venezuela's Oil Ministry said the country's oil production increased to 2.81 million bpd in March, up from 2.77 million bpd in February. It stated that Venezuela's exports in April fell 7.5% on the month to 2.22 million bpd.

Indonesia's oil and gas regular BPMigas said the country's crude oil and liquid condensate production would likely total 933,000 bpd to 945,000 bpd, below its target this year of 970,000 bpd. In February, BPMigas estimated production losses at 37,850 bpd this year, largely on the back of unplanned shutdowns due to bad weather and project delays. Crude production averaged 907,200 bpd in the January-April period.

China's Sinopec Corp expects its overseas oil production to reach 43 million tons by 2015.

Ecuador may use a Peruvian oil pipeline to transport crude from its fields in the south east of the country. Ecuador is looking to carry oil from its jungle wells to the Pacific Coast. Ecuador has said it plans to tender 12 new oil blocks in the Amazon in October. There are estimates of reserves of about 120 million barrels of crude oil.

Market Commentary

Once again crude oil traded in a jagged fashion as it responded to weakness in the dollar and revisions in price estimates for Brent by Goldman Sachs and Morgan Stanley. For those of you who are young enough to remember the old saying, "When EF Hutton speaks everybody listens", it appears that Goldman Sachs has become the new Hutton. Enhancing today's higher move was a report stating that Chinese demand for oil was up 8.3 percent, coming in at 9.4 million barrels per day in April. This compares to April of 2010. The July crude oil contract climbed 2.4 percent, peaking the session at \$100.09. Slow stochastics and the relative strength index have been trending sideways in neutral territory, supporting a pattern of congestion. Patterns of congestion typically occur prior to the continuation of the previous move, which in this case would be to the upside.

Gasoline gained, as U.S. inventories were 16 percent below a year earlier, according to Energy Department data. This weekend's three-day Memorial Day holiday period is the traditional kickoff of the summer driving season, putting seasonal demand at the forefront of this market. U.S. refining margins had been strong as a result of the discount between Brent and WTI but have recently come under pressure. With more refiners in the U.S. ramping up for the summer season and refining capacity in Asia on the rise, we would look for further slippage on the cracks. According to tomorrow's DOE numbers, gasoline inventories are expected to rise by 400,000 barrels per day, which will add additional force to the downside.

Crude oil: July 11 411,611 -5,019 Aug 11 90,352 +2,052 Sept 11 96,868 +6,179 Totals 1,534,010 +4,380 Heating oil: June 11 42,427 -5,202 July 11 92,206 +3,567 Aug 11 35,598 +1,028 Totals 316,011 +1,110 Rbob: June11 37,238 -4,586 July 11 81,963 +2,318 Aug 11 26,445 -931 Totals 271,018 -2,135

Crude Oil		Heating Oil		Rbob	
Support	Resistance	Support	Resistance	Support	Resistance
9620	10300		31325		
9535	10845	27695	32777		33369
9284	11120	26680	33370	26965	35915
8700	11483	27375	33510	26300	36310
8625	11563	23685		25683	
8500	11703	22960		25145	

8385	12126			24240	
	14933			23631	
				23414	

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