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## ***ENERGY RISK MANAGEMENT***

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### **ENERGY MARKET REPORT FOR JULY 29, 2010**

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The EIA today revised downward its final estimate for May U.S. oil demand by 4.21% or 828,000 b/d to 18.827 mbd. Despite this downward revision, May demand was still 3.58% higher than a year earlier. Gasoline demand is seen to be 1.43% above a year ago, while distillate and Jet Fuel demand was up 6.3% each year on year.

#### **Refinery News**

Tesoro Corp said today that it is overhauling its 93,500 b/d refinery in Kapolei, Hawaii. The maintenance

turnaround is the last major maintenance project that the company is planning this year. The company estimates that overall its seven U.S. refineries will run between 72-78% of capacity in the third quarter of this year. Much of the reduced output is the result of the 120,000 b/d Anacortes, Washington refinery being off line since its April explosion and fire. The refinery is expected to restart in early September.

Shell reported today its Pearl GTL (gas to liquids) plant will be completed by the end of this year with production ramping up in 2011. The plant will process about three billion barrels of oil equivalent over

#### **Market Watch**

The Federal Reserve Bank of Kansas City reported today that its manufacturing output index stood at 14 in July, up from 3 recorded in June.

Fed governor Fisher said today that while he sees U.S. economic growth, it would most likely remain "suboptimal". He sees economic recovery once regulatory clarity is achieved.

The U.S. Labor Department reported that initial claims for state unemployment insurance dropped by 11,000 to a seasonally adjusted 457,000 in the latest week, versus an expectation of 459,000. But continuing claims rose more than expected, growing by 81,000 to 4.57 million people.

The IMF in a report noted that China sees the debt strains in Europe has increased its concerns about the global economic recovery, thus making the Chinese more cautious about unwinding its recent fiscal stimulus. But the Chinese noted that with inflation risks subdued there was less a need for higher nominal interest rates at this point. They are concerned that higher rates could risk fueling capital inflows. The IMF's final report though failed to outline an estimate on how much the yuan is overvalued, possibly for political reasons, even though an earlier staff report had estimated its was under valued by 5-27%.

Moody's' Investor Service warned today that the U.S. government needs to elaborate a credible plan to address its soaring debt in order to maintain its Aaa credit rating.

CFTC Commissioner Chilton said today that said that the agency is still determining the position limits for various commodities, but a revised position limit rule will apply to energy, metals and agricultural commodities. He said he hoped to get the new limits in place on time and for it to go into effect right away. He also noted that capital and margin requirements for swap dealers and major swap participants will be reasonable and balanced.

its lifetime from the huge North Field. The plant will process the natural gas into diesel, kerosene, lubes, naphtha and paraffin.

Frontier Oil said it experienced a fire early this morning at its crude unit at the 52,000 b/d Cheyenne refinery. The cause of the fire and extent of the damage was still being assessed, but operators hoped to have the unit back on line in two weeks.

According to IE Singapore, stocks of light distillate were at their lowest level since the end of May. In the week ending July 28<sup>th</sup>, onshore inventories of naphtha and gasoline dropped by 1.669 million barrels to 9.861 million barrels.

Idemitsu said today it plans to restart its Hokkaido RFCC and reformer in early August.

Sunoco said its refinery rates in the second quarter averaged 92%, the highest since 2007. The company noted that its closure of the Eagle Point, New Jersey refinery last November has helped improve its operating rates. Its refinery profit margins were higher, as a result of production increases for premium gasoline by 20% in the Northeast and ULSD diesel production up 23% system wide.

Flint Hills reported that its hydrotreaters and a continuous catalysts regeneration unit were among units shut Thursday in a malfunction that also denied hydrogen to the hydrocracking unit at the 288,468 b/d Corpus Christi, Texas refinery.

### **Production News**

Russia's oil pipeline company Transneft said it will see its oil shipping fee rising by an average of 3.3% from August 1<sup>st</sup> and an additional 9.9% from December 1<sup>st</sup>. The increased fees are helping the company support new pipeline projects and upgrades.

A Reuters survey released today estimated that OPEC currently is only meeting half of its promised production cuts in July due in part to a large jump in Nigerian crude production. Supply from the 11 members with output targets (excluding Iraq) averaged 26.95 mbd in July up 200,000 b/d from June levels. Compliance has been slipping since March and April 2009 when it peaked at 81%. Nigerian oil production has jumped almost 250,000 b/d this month as a result of 100,000 b/d of output from the EA stream, 80,000 b/d more from Qua Iboe crude and 30,000 b/d of Escravos.

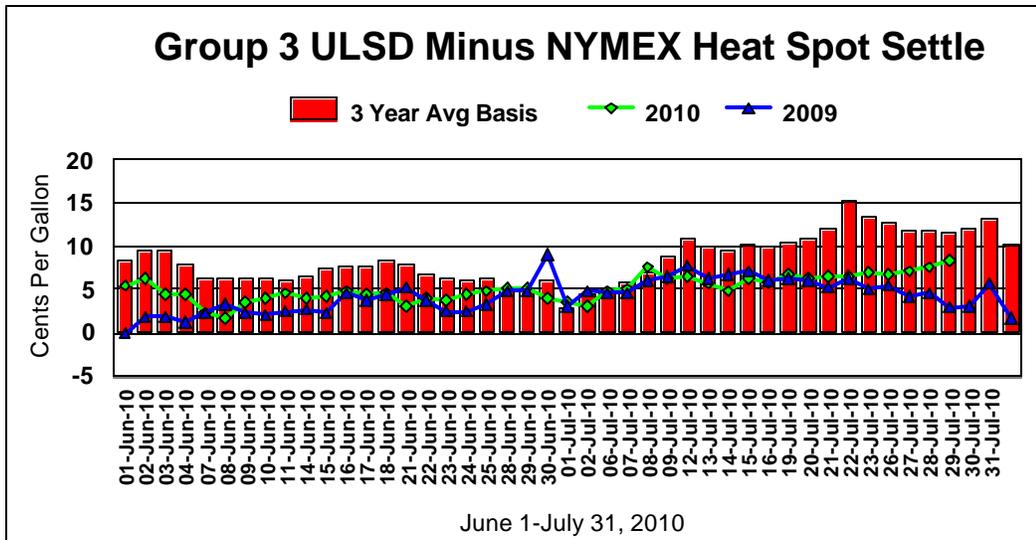
<p style="text-align: center;"><b>July Calendar Averages</b></p> <p><b>CL- \$76.14</b></p> <p><b>HO – \$2.0036</b></p> <p><b>RB – \$2.0571</b></p>
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A port official in Fujairah said today that it appears a submarine or a sea mine could have caused the damage to a Japanese supertanker as it passed through the Strait of Hormuz early Wednesday morning. The cause is still under investigation. The U.S. Navy though said that no U.S. or coalition vessels were near the Japanese super tanker at the time of the incident.

Qatar has notified at least two Asian buyers it will supply its Land crude at full contracted volumes for September, unchanged from August levels. Term buyers have yet to be notified about supply allocations for Qatar Marine crude. Qatar has been supplying full volumes for both grades for over a year.

Suncor Energy and Cenovus Energy, two of the top three oil producers in the Canadian oil sands, both reported that they increased their production in the second quarter and have moved forward on major expansion plans. Suncor said its oil sands output though averaged 295,000 b/d, excluding its share of Syncrude production, down 2%. Canadian Oil Sands Trust reported its Syncrude production was now seen at 110 million barrels for 2010 some five million barrels less than previous forecast due to recent outages in the upgrader during July.

TransCanada Corp said today it is not anticipating any significant further delays in approvals for its Keystone XL pipeline by U.S. regulators. The company noted the 90 day delay in the U.S. State Department's approval for the plan will not have an impact on its costs or schedule

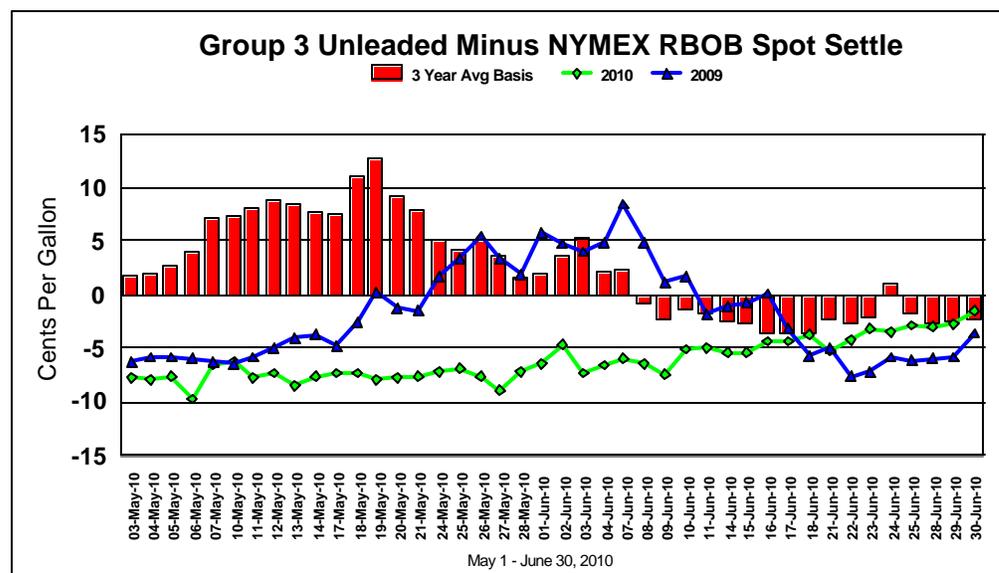


Enbridge said its damaged crude oil pipeline in Michigan is no longer leaking oil and workers have been able to excavate the damaged section of the line. Operators said the pipeline will not restart until government officials give the go ahead. No specific restart

date has been set at this time. The U.S. EPA has estimated that more than one million gallons of crude have leaked into the surrounding areas and may take months to clean up.

Traders noted today it appeared more North Sea Forties crude cargoes for August loading were deferred due to unstable production at some fields. So far nine cargoes for August loading have been deferred and one cargo has been dropped. There have been rumored production problems at the Buzzard field. BP reported today it plans to shut its Unity Riser platform in the North Sea for six days of planned maintenance starting August 1<sup>st</sup>.

Nexen, which operates the largest oil field in the North Sea, said production at Buzzard was returning to normal after output was restricted because of operating issues at the St. Fergus gas terminal. The restrictions were lifted at around 9 am and production was quickly ramped up to 120,000 b/d with full rates of 200,000 b/d expected by the weekend.



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### **Market Commentary**

Crude oil gained strength as the dollar weakened against the euro, making commodities more attractive as a financial hedge. Today's run-up follows yesterday's sell-off to a one-week low after the market reacted to the inventory numbers. The weakness in the dollar overshadowed bursting inventory levels as the market detached itself from its underlying fundamentals. Contributing to today's rise in prices was U.S. jobless claims which fell by 11,000 for the week ending July 24 and economically positive news out of Europe in regards to consumer confidence, which rose to its highest level in two years. The September crude oil contract is now back above \$77.76, the 200-day moving average and settled just below the 62% Fibonacci retracement number of \$78.40. The established range of \$70.00-\$80.00 remains and market participants continue to play the range. We would look for this market to continue to be influenced by economic news, with inventories keeping a cap on prices.

Crude oil Sept 10 356,939 -25 Oct 10 99,337 5,303 Nov 10 76,501 +8,854 Totals 1,253,299 +13,270  
 Heating oil Aug 10 13,241 -6,349 Sept 10 78,607 +1,624 Oct 10 35,472 +1,749 Totals 295,023 +88  
 Gasoline Aug 10 15,259 -6,260 Sept 10 97,832 -208 Oct 10 39,559 +2,032 Totals 246,798 -2,335.

Crude Oil		Heating Oil		Rbob	
Support	Resistance	Support	Resistance	Support	Resistance
7775		18965	20685	18890	21280
7569	7970	18480	21390	18750	21925
7427	8325	18365	21625	18420	24880
7293	8710	18055	21875	18260	27085

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