



ENERGY RISK MANAGEMENT

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ENERGY MARKET REPORT FOR AUGUST 19, 2011

OPEC delegates said OPEC members, including Saudi Arabia, are not worried by resurgent price volatility and are not considering an emergency meeting.

The API reported that US crude oil demand in July fell by 0.5% on the year to 19.218 million bpd. Demand for gasoline fell by 2.8% to 9.044 million bpd in July while distillate demand increased by 10.9% on the year to 3.931 million bpd. It also reported that crude oil production fell to a 3 year low of 5.209 million bpd, down 1.5% on the year. Crude oil and petroleum product imports averaged 10.807 million bpd, down 14.7% on the year.

Turkish warplanes and artillery struck Kurdish rebels in northern Iraq for a second night, hours after the rebels mounted attacks on security forces in southeastern Turkey. The Turkish military said warplanes attacked 28

Market Watch

The US National Hurricane Center said a tropical depression strengthened on Friday to become Tropical Storm Harvey northeast of Central America. Tropical Storm Harvey was about 155 miles east of Roatan Island, Honduras with sustained winds of up to 40 mph. The government of Belize, issued a tropical storm warning, as winds battering much of the region's Atlantic coast are forecast to get stronger before the center of the storm reaches land, expected on Saturday. The NHC is also tracking two areas with the potential for tropical storm development in the Atlantic. A tropical wave 900 miles east of the Lesser Antilles has a 40% chance of forming a tropical storm during the next 48 hours and a system off the west coast of Africa has a 50% chance of storm formation during the period.

Major banks kept their oil price forecasts unchanged for this year and next despite the fears of a double dip recession that has impacted the equities markets and pushed oil futures down 8%. They said tight oil supplies and rising demand would keep prices well into 2012. Barclays Capital forecast Brent crude will reach \$115/barrel by the end of this year and increase to \$121/barrel in the last quarter of 2012. Goldman Sachs said that while the risk of recession in the US and the downside risk for its forecasts have increased, US oil demand levels do not show signs that the economy has fallen back into a recession. It forecast Brent crude to reach \$120/barrel by the end of the year and \$130/barrel next year. Morgan Stanley said the bank still expects oil prices to increase as its bullish forecast was already based on a negative growth estimate for the global economy.

The Economic Cycle Research Institute said its Weekly Leading Index fell to 123.9 in the week ending August 12th from 127.6 the previous week, originally reported at 127.9%. The index's annualized growth rate fell to -0.1%, its lowest level since December 10, 2010 from 1.5% a week earlier.

Federal Reserve Bank of New York President William Dudley said headwinds from external shocks undermined US economic growth in the first part of the year, which is likely to break its momentum for the remainder of 2011. He said the economy is poised to pick up speed in the last few months of the year. However he added that persistent weakness in labor markets, a depressed housing sector and volatile global markets prompted him to revise downward his expectations of how quickly the economy would recover.

Separately, Cleveland Federal Reserve Bank President Sandra Pianalto said the US economy would likely grow 2% this year and 3% during each of the next two years. She said the inflation rate would probably fall from its current level during the rest of 2011 and into 2012.

The CME Group Inc announced it was changing margin requirements for trade in crude oil and refined products spreads contracts, effective Monday. It cut the margin requirement on hedge or exchange members from \$1,500 to \$1,150 and the margin requirement on speculators from \$2,025 to \$1,553.

**August
Calendar Averages**
CL – \$86.36
HO – \$2.9264
RB – \$2.8386

Kurdistan Workers Party targets on Thursday in the areas of Qandil mountain, Hakurk, Avasin-Basyan and Zap.

Libyan rebels said they launched an offensive on Friday against Zliten after a fight lasting just hours had taken over the center of the disputed town. Libyan rebels also claimed control of the strategic town of Zawiyah and its

refinery. It is the last major barrier before the rebels can advance onto Tripoli from the west. Meanwhile, China's Xinhua News reported that a Venezuelan plane landed on the island of Djerba to evacuate members of the Libyan leader's family from Tunisia to Venezuela's capital Caracas. A source said that it was highly likely that Muammar Gaddafi is no longer in the Libyan capital of Tripoli, following overnight NATO strikes against his residential compound.

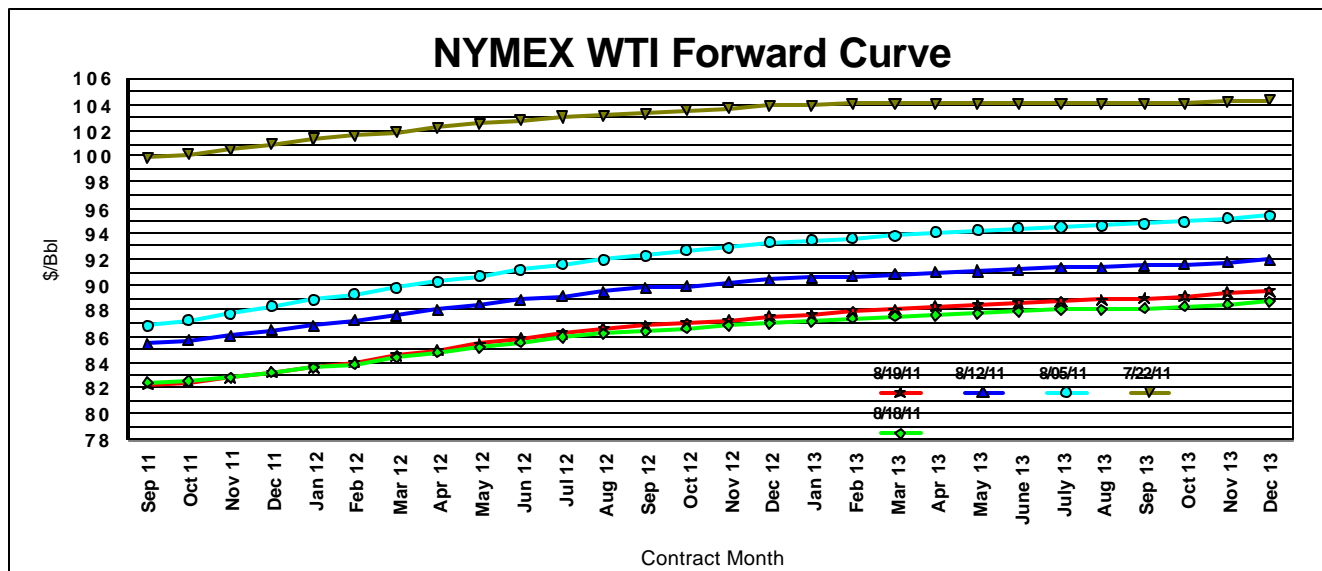
Forces loyal to Syria's President Bashar al-Assad fired live ammunition to disperse protests demanding his removal from office in the eastern city of Deir al-Zor and the southern Hauran Plain as demonstrations broke out across the country. Syrian forces shot dead at least 14 people when they opened fire to break up anti-regime demonstrations.

The EU announced that 20 new names have been added to a list of Syrian individuals and businesses hit with sanctions, with a deal also close for a ban on oil imports. European Union governments meeting in Brussels also decided to prepare detailed plans for an embargo on the import of Syrian crude oil into the bloc and suspending assistance to Syria by the European Investment Bank.

Britain's Gulfsands Petroleum could face difficulties with future projects if the European Union follows that US in toughening sanctions against Syria. The US on Thursday imposed new sanctions on Syria, including a ban on US imports of Syrian oil products, raising the possibility that the EU could also act as part of an effort to financially isolate the government of Bashar al-Assad. Gulfsands Petroleum currently produces about 12,000 bpd of oil in Syria and has been able to increase production in recent months despite escalating violence in the country.

Refinery News

Colonial Pipeline allocated Cycle 48 shipments on its Line 20 carrying distillates from Atlanta, Georgia to Nashville, Tennessee. It also stated that it would allocate Linden Delivery Line segment L2-IMTT, servicing deliveries to IMTT Bayonne, for Cycle 45.



IIR Energy reported that the volume of refining capacity shut in by US refiners fell by 284,000 bpd to 313,000 bpd in the week ending August 19th.

ExxonMobil Corp said a fluid catalytic cracking unit No. 3 at its 560,000 bpd Baytown, Texas refinery tripped offline. It said there was minimal impact on production and all customer needs were met. The unit is expected to return to service on Saturday.

Valero Energy Corp said the west crude unit and fluid catalytic cracking unit at its 180,000 bpd Memphis, Tennessee refinery are increasing in rates after the unit resumed operations on Wednesday night. The units were shut on August 5 due to a fire.

Brazil's Petrobras will build the Abreu e Lima refinery in northern Brazil with or without PDVSA. It said there would be no impact on the continuity of the refinery by this week's decision to delay a deadline until November for PDVSA to gain loan guarantees for the \$14 billion project. Meanwhile, Petrobras said it expects Brazil to become one of the largest oil consumers by 2020. It estimated Brazil's oil demand would increase to 3.095 million bpd of derivatives by 2020.

Euroilstock reported that European refinery production in July increased modestly as refiners sought to capture higher margins. Total refinery output in 16 European countries in July increased by 2.8% on the month but fell by 4.8% on the year to 11.216 million bpd. Gasoline production increased by 1.4% on the month but fell by 7.9% on the year to 2.624 million bpd while middle distillate production increased by 2.3% on the month but fell by 3.9% on the year to 5.727 million bpd and fuel oil production increased by 1.8% on the month but fell by 5.2% on the year to 1.261 million bpd. Refinery utilization in July increased to 82.92% from 80.97% in June.

Sinopec Engineering Inc started operations of a feedstock hydrotreating facility, part of a reforming unit, on August 15th in Iran's Arak refinery. Iran aims to add 70,000 bpd of gasoline making capacity around 2011/12 at the refinery.

China's state owned Assets Supervision and Administration Commission said Sinopec Jinling Petrochemical Corp has increased gasoline output due to tighter domestic supplies. It operates a 270,000 bpd refinery that produced 45% of its planned monthly gasoline output for August in the first nine days of the month.

Production News

Royal Dutch Shell Plc sealed a leak from an underwater pipe at its Gannet Alpha platform that had been spilling crude into the North Sea for more than a week. It estimates some 218 tons of crude oil has spilled into the sea since last Wednesday. It said some 660 tons of residual oil remains in the depressurized pipe, which has been secured on the seabed with concrete mats. The next phase of the operation would be to remove this remaining oil from the pipeline.

Libyan rebels could resume oil production at the Sarir and Mesla oilfields in the east of the country within 3 weeks in a bid to ease fuel shortages and potentially restore some supply to the world markets. An official at Libya's Arabian Gulf Oil Co said its fields are undergoing maintenance and still waiting for security. The rebels stopped pumping oil to Mediterranean export terminals under their control after pro-Gaddafi forces attacked oil facilities in the desert. The Sarir and Mesla fields have total capacity of about 250,000 bpd or around one sixth of Libya's total pre-war capacity.

ConocoPhillips said that more than 85% of oil-based mud from its oil spill in China's Bohai Bay had been recovered and vowed to finish the cleanup by the end of the month. The oil leak at the Penglai 19-3 oilfield polluted 840 square kilometers of water.

Nigeria set its official selling price for its Bonny Light and Qua Iboe crude at premiums of \$2.50/barrel to dated Brent. It is up \$1.95/barrel in August.

Market Commentary

Crude oil experienced another trading session filled with volatility, as it traded on both sides of unchanged. Weakness in the dollar boosted the appeal of commodities as a hedge, helping to cut losses. Global economic news is pointing to a recession, which will surely impact demand. As is evident in the forward curve, confidence going forward is diminishing, as the forward curve appears to be flattening. Speculators have lessened their length in the market due to the uncertainty in regards to a global recession. Crude oil prices have fallen for the fourth straight week, despite trading above last week's high of \$87.87. Based upon a weekly spot continuation chart, for the first time since November of 2010, crude oil settled below \$83.37 the 38 percent retracement between the range of \$114.83 - \$32.48. Slow stochastics remain pointing to the downside above oversold territory. Coming into next week, prices should continue lower, working towards support at \$73.65

The latest Commitment of Traders report showed that non-commercials in the crude market cut their net long position by 4,484 contracts to 131,234 contracts in the week ending August 19th. The combined futures and options report showed that the funds cut their net long position by 2,509 contracts to 176,484 contracts. Meanwhile the disaggregated futures and options report showed that managed money funds cut their net long position by 169 lots to 142,769 lots on the week.

Crude oil: Oct 11 307,645 +10,633 Nov 11 143,993 +2,496 Dec 11 195,731 -3,784 Totals 1,496,057 -24,428 Heating oil: Sept 11 49,057 -7,961 Oct 11 64,140 +2,836 Nov 11 39,364 -556 Dec 11 48,399 -545 Totals 306,045 -5,416 Rbob: Sept 11 44,494 -9,391 Oct 11 67,658 +3,467 Nov 11 34,782 +2,238 Totals 260,118 +5,143

Crude Oil		Heating Oil		Rbob	
Support	Resistance	Support	Resistance	Support	Resistance
7552		27020	32777	25145	33369
7487	8337	26680	33370	24240	35915
7365	8988	27375	33510	23631	36310
6423	9122	23685		23414	
6394	9726	22960			
6119	9872				
	10071				

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