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## ***ENERGY RISK MANAGEMENT***

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### **ENERGY MARKET REPORT FOR SEPTEMBER 22, 2010**

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The chairman of Libya's National Oil Corp, Shokri Ghanem, said OPEC should keep its oil production targets unchanged at its next meeting on October 14<sup>th</sup>

#### **DOE Stocks**

**Crude** – up 970,000 barrels  
**Distillate** – up 347,000 barrels  
**Gasoline** – up 1.59 million barrels  
**Refinery runs** – up 0.2%, at 87.8%

and comply more closely with its production quotas. He however said that oil prices should be higher to compensate for rising food costs which have effectively reduced the value of income from oil exports.

According to a draft statement by the five permanent members of the UN Security Council, China, France, Russia, the UK and US as well as Germany, the foreign ministers will tell Iran they hope for an early negotiated solution to the standoff over its nuclear program and new talks on a potential nuclear fuel swap plan. The draft statement also stated that the group discussed the implementation of the UN sanctions against Iran. It also stated that the group would

#### **Market Watch**

The US National Hurricane Center said there was a 60% chance a tropical depression could form in the Caribbean Sea over the next 48 hours. Most computer models forecast the system will move west across the Caribbean and make landfall in Central America in about four or five days. A computer model however showed the system may turn northwest toward the Gulf of Mexico. The NHC also continued to monitor Tropical Storm Lisa, which was expected to remain in the far eastern Atlantic near the Cape Verde Islands over the next several days.

Private weather forecaster, Weather Services International said the Atlantic region can expect one more major hurricane this fall and added that the Northeast still faces double the average risk of getting hit. It forecast that the Atlantic hurricane season would see a total of six major hurricanes with winds of at least 111 mph. There have already been five major hurricanes this year. It said there would be a total of 18 named storms this season, with 10 of those strengthening into hurricanes.

Separately, WSI said temperatures across the northeast US will average warmer than normal in October to December while temperatures in the Southeast and the Pacific Northwest will average below normal.

The US Federal Housing Financing Agency's home price index in July fell by 0.5% to 192.4 following a fall of 1.2% in June to 193.4.

The European Commission said Euro zone consumer confidence improved marginally in September. It said consumer confidence in the 16 country currency area increased to -11.2 in September from an upwardly revised -11.4 in August. In the wider, 27 country European Union, consumer sentiment worsened to -11.8 from -11.2.

The Securities and Exchange Commission said the new market for swaps trading would benefit from the competition, access, liquidity and transparency established in the cash equities market. The SEC and CFTC will need to decide how to define swap execution facilities, or SEFs, and how the new market will work once far more of the complex products are forced through transparent venues and clearinghouses.

The IntercontinentalExchange will introduce about 100 new over-the-counter energy contracts by mid-2011. The new products will include oil swaps, energy options and coal contracts. Separately, the ICE said its Brent crude oil futures contract was gaining further traction as a global benchmark, particularly in developing Asian markets. It said Brent is the only truly global crude oil benchmark.

welcome a meeting of the Vienna Group comprised of Russia, France, the US and the IAEA to discuss technical elements of a revised arrangement to supply fuel for a medical research reactor.

Russia's President Dmitry Medvedev issued a decree prohibiting the delivery of the S-300 air defense missile systems to Iran due the UN sanctions against Iran.

Turkey's Trade Minister, Zafer Caglayan, said the prohibition of all banking transactions with Iran by the US led sanctions was a mistake and added that Turkey is lobbying the US to change the measure. He said the financing of goods not banned by the sanctions program should be permitted.

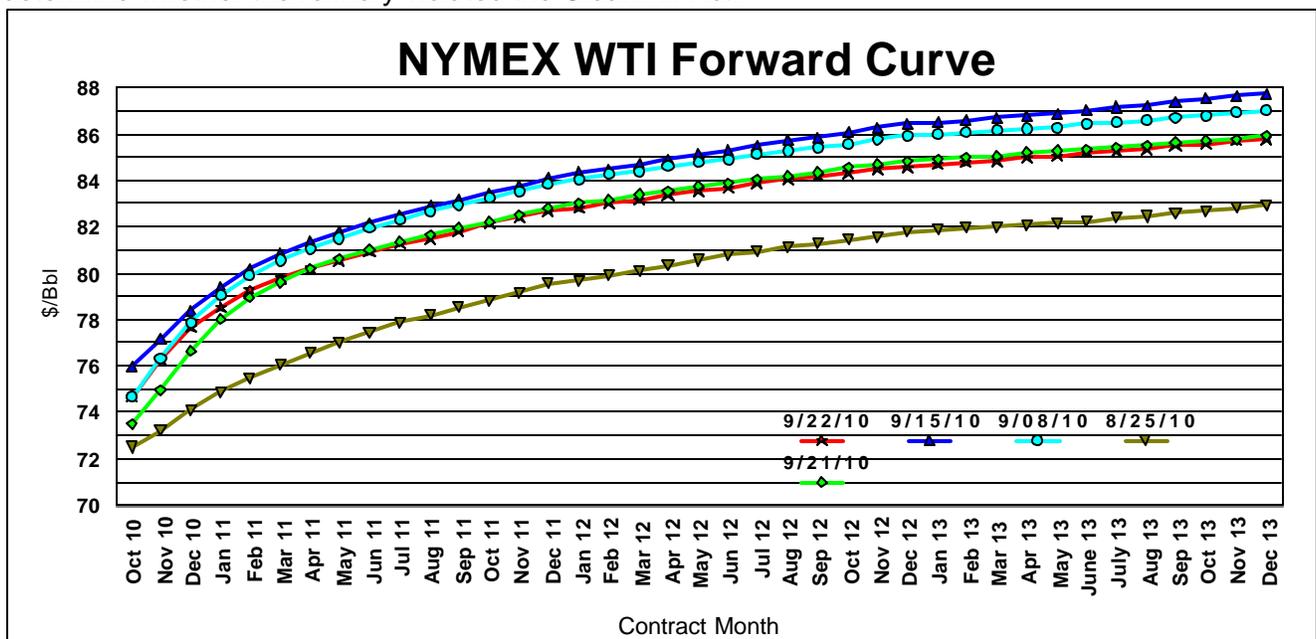
Three French men working for Bourbon, a marine services supplier, were kidnapped of the coast of Nigeria, a week after the abduction of five French nationals in Niger. The kidnapping happened overnight after several speed boats attacked the Bourbon Alexandre vessel and its 16 crew members in the Gulf of Guinea. Al Qaeda's North African wing claimed responsibility on Tuesday for the kidnapping of seven foreigners in Niger last week. Bourbon, which is working with French and Nigerian authorities to investigate the attack, said no claim of responsibility had been made at this stage.

**September  
Calendar Averages**  
**CL – \$74.95**  
**HO – \$2.0959**  
**RB – \$1.9358**

**Refinery News**

Flint Hills Resources plans to restart its fluid catalytic cracking unit No. 2 and a sulfur recovery unit in the East Plant section of its 290,000 bpd Corpus Christi, Texas refinery that have been shut since September 10<sup>th</sup>. Flaring associated with the restart was expected to start on Tuesday.

BP Plc said two employees at its Texas City, Texas refinery suffered steam burns while performing work at a unit. The refinery was the site of a fatal explosion in 2005. Last week, the EPA said it was launching an investigation into a benzene release that started April 6<sup>h</sup> and lasted until May to determine whether the refinery violated the Clean Air Act.



Japan's Idemitsu Kosan Co expects to restart a 256,000 ton/year naphtha cracker at its Tokuyama plant in western Japan in early October as planned following the completion of scheduled maintenance. The company also shut a 120,000 bpd crude distillation unit at its Tokuyama refinery on Tuesday as part of its efforts to cut refinery runs.

Indian Oil Corp plans to shut its naphtha cracker at its Panipat refinery for 15 days by the end of September, which may increase its naphtha exports.

Crude shipments through the Caspian Pipeline Consortium pipeline will remain unchanged next year at 34-35 million tons.

Indonesia's Energy Ministry stated that the country's subsidized gasoline consumption in 2011 is estimated to reach 23.2 million kiloliters while subsidized diesel demand is estimated to reach 13.1 million k. It also reported that Indonesia increased its estimate for subsidized gasoline demand to 25.1 million kl or 157.8 million barrels in 2011, above its budget target of 22.9 million kl. It also increased its estimate for subsidized diesel demand to 14.6 million kl in 2011, up from a target of 11.8 million kl.

### **Production News**

Some North Sea Forties crude cargoes for early October loading are likely to be shipped to Canada to meet demand spurred by shutdowns of US-Canada pipelines over the past couple of months. ExxonMobil Corp booked a tanker with the capacity of 135,000 deadweight tons for October 1<sup>st</sup> loading from Hound Point, the Forties loading terminal in Scotland, to Portland, Maine. Shell booked a tanker for October 4-6 loading while BP also booked a tanker for October 7-9 loading. Since early September, at least three additional tankers have sailed to Portland from Hound Point after loading Forties crude.

Increasing oil recovery from Norway's ageing oil fields could bring in an extra \$1.2 trillion, over twice the value of the country's sovereign wealth fund, according to a government appointed commission. The commission recommended 44 measures that it said could increase the recovery rate to 60% from a projected rate of 46% if nothing is done. It said an additional 2.5 billion standard cubic meters of oil or 15.7 billion barrels could be recovered.

Total SA said it will resume exploration operations on Brunei's deepwater Block CA-1 after it signed a deed of amendment with Petroleum Brunei altering a 2003 production sharing agreement.

Vietnam's Petrovietnam will receive its first crude oil from a joint venture field in Russia's Nenetsky autonomous region on September 30<sup>th</sup>. The field has reserves of 95 million tons, with peak annual production of 125,500 bpd.

OPEC's news agency reported that OPEC's basket of crudes increased by 8 cents to \$75.34/barrel on Tuesday from \$75.26/barrel on Monday.

Venezuela's state shipping company has signed a deal to buy 10 Aframax oil tankers worth \$700 million from Russia's United Shipbuilding Corp by 2016.

Australia & New Zealand Banking Group Ltd lowered its forecast for WTI crude prices in 2011 by 1% to \$88/barrel due to higher than average inventories and slowing economic growth in the US. It cut its 2010 price estimate by 1.7%.

### **Market Commentary**

Initial market activity saw crude oil prices above \$75.00 a barrel, as the dollar weakened against the euro. Gains were limited as unexpected inventory increases in crude oil sent prices lower for the second straight day. Inventories now sit 13 percent above the five-year average. Prices also fell as the equities market declined on news that U.S. home prices dropped, once again raising economic concern. The November/December crude oil spread increased slightly as concern that the economic

outlook going forward would further hamper demand. Despite a declaration that the recession has ended, demand remains sluggish. This has helped to contain market gains. With the lack of any supportive news, crude oil should remain range bound and choppy, trading between \$65.00 and \$80.00.

Crude oil: Nov 10 364,576 +4,338 Dec 10 220,071 +1,929 Jan 11 85,125 +5,956 Totals 1,324,114 – 13,633 Heating oil: Oct 42,137 –2,499 Nov 10 78,890 +1,863 Dec 10 71,414 +1,513 Totals 332,803 +1,898 Rbob: Oct 10 41,046 –6,065 Nov 10 86,041 +4,710 Dec 10 39,343 +248 Totals 241,578 -119

| Crude Oil |            | Heating Oil |            | Rbob         |            |
|-----------|------------|-------------|------------|--------------|------------|
| Support   | Resistance | Support     | Resistance | Support      | Resistance |
|           | 7781       | 18965       | 22530      | 18240        |            |
| 7367      | 7866       | 19236       | 22700      | <b>16010</b> | 22345      |
| 7307      | 8100       | 18920       | 22945      |              | 24880      |
| 7260      |            |             | 23775      |              | 27085      |
| 7190      |            |             |            |              |            |

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