ENERGY RISK MANAGEMENT

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ENERGY MARKET REPORT FOR SEPTEMBER 22, 2011

Oil Movements reported that OPEC's oil exports, excluding Angola and Ecuador, is expected to increase by 130,000 bpd in the four week ending October 8th to 22.7 million bpd.

A European Central Bank study warned the euro currency project is in danger due to member states' spending and the resulting sovereign debt crisis. It called for compulsory fines on states that run deficits above 3% of GDP and financial receivership where adjustment programs do not remain on track.

Meanwhile, the European Union's economic and

Market Watch

The US Labor Department reported that initial unemployment benefit claims in the week ending September 17th fell for the first time in three weeks by 9,000 to a seasonally adjusted 423,000. It reported that the four week moving average of new claims increased by 500 to 421,000. The number of continuing unemployment benefit claims fell by 28,000 to 3,727,000 in the week ending September 10th. The unemployment rate for workers with unemployment insurance for the week ending September 10th was unchanged at 3%.

The Leading Economic Index increased for the fourth consecutive month in August by 0.3% to 116.2 following a 0.6% increase in July.

The Federal Housing Finance Agency's monthly home price index in July increased 0.8% on a seasonally adjusted basis from a month earlier. US home prices increased in July for the fourth consecutive month. June's prices, which increased 0.7% from a month earlier, were revised down from an originally reported 0.9% increase. Compared with a year earlier, prices were still down 3.3%. July's index value was 184.7.

Euro zone industrial orders fell by more than expected in July. The European Union's statistics office Eurostat said new orders in the 17 countries using the euro fell 2.1% compared with June. Industrial orders increased 8.4% in July compared with a year ago.

Meanwhile consumer confidence in the Euro zone fell in September to -18.9 from -16.5 in August. In the wider 27 nation European Union, consumer sentiment fell to -19 from -16.8 in August.

Business activity in Germany grew at its weakest pace in more than 2 years. Markit's German composite output index fell to 50.8 in September from 51.3 in August. New orders fell for the third consecutive month. Germany's PMI fell to 50, a two year low.

Italy's government cut its growth forecasts through 2014 citing a weak macroeconomic environment. It cut its forecast for GDP in 2011 to 0.7% from 1.1% previously, 0.6% in 2012 from an earlier estimate of 1.3% and 0.9% in 2013 from a previous estimate of 1.5%.

China's manufacturing sector contracted for a third consecutive month in September while a measure of inflation increased. HSBC's China Flash Purchasing Managers' Index fell to 49.4 in September from August's final figure of 49.9. The PMI data showed the input price sub-index increased to 58.8 in September, a four month high. If manufacturers are paying more to produce goods, those higher costs could filter into consumer prices, driving up the inflation rate.

BNP Paribas dismissed the idea of the French government taking a stake in the bank amid market concerns about European banks' financial solidity as the sovereign debt crisis worsens.

The Japan Meteorological Agency said Japan would see mostly average temperatures this winter. Eastern Japan will have a 40% chance of average temperatures for the season.

September Calendar Averages
CL - $87.38
HO - $2.9811
RB - $2.7678

monetary affairs commissioner said European leaders will not allow an uncontrolled default of Greek debt and will not let the country leave the euro zone. He however did not rule out the possibility of Greece defaulting. He said 17 countries in the currency bloc needed to work harder on pooling their economic sovereignty.

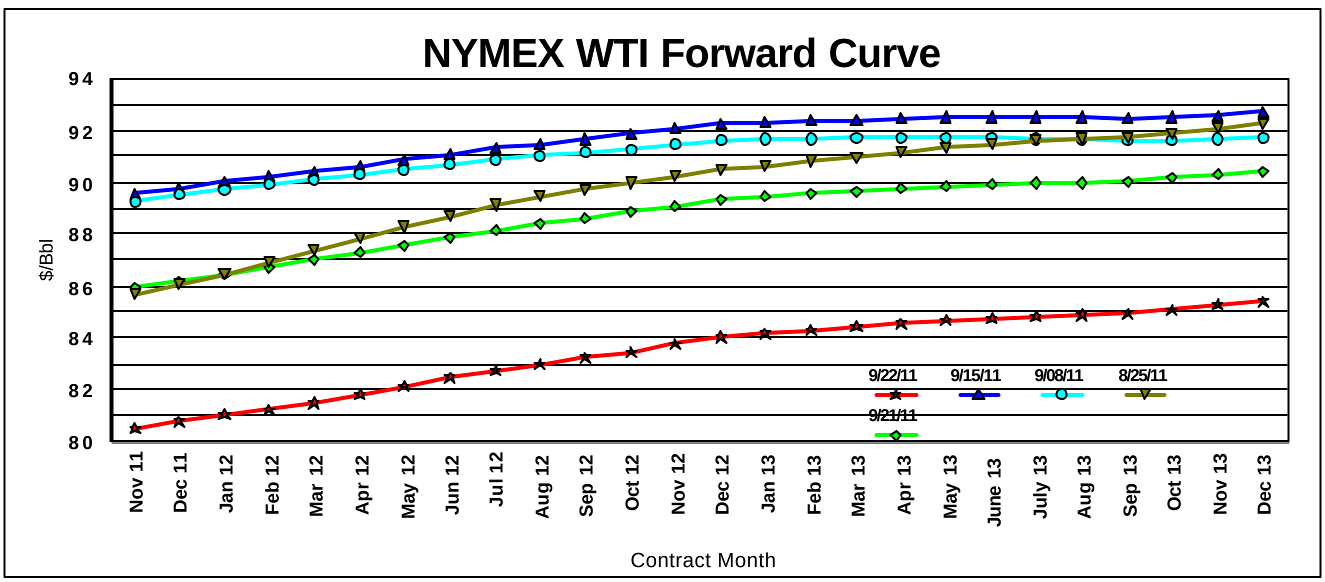
Leaders of seven Group of 20 member countries called for action to help the world economy pull away from a recession in a letter to G20 president France. They urged euro zone countries to act quickly to resolve the euro zone's debt crisis and said the US, along with other high deficit advanced economies, needs to overcome the remaining hurdles to putting its public finances on a sustainable path for the medium term.

Goldman Sachs continued to recommend an overweight positioning in commodities, given strong fundamentals and its expectations of sequential improvement in global economic growth. It reiterated its forecast for high oil prices despite US crude futures falling by 5% and Brent futures falling by 3% on Thursday due to concern over the US economy. It continued to forecast that Brent crude would average $130/barrel next year due to tight supply. However Goldman Sachs did revise down its price forecast for US WTI crude in the next three months due to the disconnect that has emerged between WTI and Brent crude. It lowered its forecast for WTI to $97.50/barrel from $115/barrel.

JP Morgan maintained its price forecast of $115/barrel for Brent crude through 2012. It said there is sufficient supply-side flexibility for oil and it would likely require a recession as deep as 2009 or those seen in the early 1980s to trigger a material downgrade.

Deutsche Bank's RREEF Commodity Advisors sees commodity prices over a 12 month period average 6 to 8% above current levels, despite being cautious in the near term on industrial metals and energy related products. It forecast Brent crude's peak at $120/barrel this year. In the long term, oil prices are expected to increase towards $150/barrel, due to tight spar capacity and strong demand from the emerging markets, in particular China. Spare capacity in oil remain tight and the tightness in capacity will exacerbate both the upside and downside in prices.

The European Union lifted sanctions on Libya in line with a UN decision, partially removing an arms embargo, unlocking frozen central bank and oil funds and allowing Libyan aircraft use European runways.



The CFTC's final rule maintains that the Dodd-Frank law requires position limits to prevent excessive speculation in oil, grain, silver and other commodity markets. The rule also keeps intact a plan to phase in position limits over time until the agency can gather greater data on the $600 trillion over-the-counter derivatives market. The CFTC however modified area that was a major concern for Wall Street Banks and major oil companies. The CFTC's final rule is tentatively scheduled for a vote on October 4th.

Refinery News

Chevron Corp said repairs continued on the leaking Main Pass crude oil pipeline, exceeding previous estimates of a midweek completion. The repairs are keeping 8,000 to 9,000 bpd of crude shut in.

ConocoPhillips' 185,000 bpd Trainer refinery in Pennsylvania was operating at reduced rates on Thursday due to a leak that resulted in a release of 10 gallons of crude on Wednesday morning. The unit was temporarily shut down as a precaution.

Valero Energy Corp said a crude unit and other units at its 170,000 bpd McKee, Texas refinery resumed planned rates after completing repairs.

Vitol is reoffering Libyan Sarir to oil companies after its attempt last week to sell the oil failed due to confusion over quality. This would bring Libyan crude back to the spot market for the first time since the conflict. The crude is expected to load October 1-10.

Gasoline inventories held in independent storage in the Amsterdam-Rotterdam-Antwerp area in the week ending September 22nd increased by 5.84% on the week but fell by 36.23% on the year to 544,000 tons while its gasoil stocks fell by 4.68% on the week and by 5.06% on the year to 2.344 million tons and fuel oil stocks increased by 13.85% on the week but fell by 4.8% on the year to 814,000 tons. Naphtha stocks fell by 9.33% on the week but increased by 23.64% on the year to 68,000 tons while jet fuel stocks fell by 1.92% on the week and by 32.01% on the year to 512,000 tons.

South Korea's Korea National Oil Corp said the country imported 72.77 million barrels or 2.35 million bpd of crude oil in August, down 3.8% on the year. South Korean refineries processed 74.84 million barrels of crude in August, down 1.1% on the year and down 4.3% on the month. The country's commercial crude oil stocks fell 0.6% on the year to 8.28 million barrels while its private oil inventories at the end of August stood at 62.6 million barrels, up 4.7% on the year but down 6.4% on the month.

The Petroleum Association of Japan reported that crude stocks held by Japanese refiners in the week ending September 17th increased by 204,520 kiloliters to 15.04 million kl or 94.58 million barrels. Japan's gasoline stocks fell by 3,815 kl to 2,270 million kl while its gas oil stocks increased by 50,927 kl to 2.096 million kl. Its naphtha stocks increased by 42,263 kl to 1.737 million kl and jet fuel stocks increased by 37,624 kl to 716,202 kl. The PAJ also reported that crude runs averaged 3.46 million bpd, up from the previous week's level of 3.43 million bpd.

Turkey's Bosphorus and Dardanelles Straits are scheduled to close to shipping for a few hours next week due to naval exercises. Ship logistics company GAC said the straits will close on September 29th.

Production News

Nigeria is scheduled to export 1.89 million bpd of crude in November.

An International Monetary Fund official said Libya's oil production will take more than a year to recover following the conflict. Earlier, the head of the economy, finance and oil commission at Libya's

National Transitional Council said Libya's oil production is expected to resume in the next few days. However he stated that a return to pre-conflict production levels is still far off. Meanwhile, Libya's National Oil Corp said the country's oil production is set to reach 500,000 bpd by early October. It said Total's 45,000 bpd Al-Jurf field was in the process of restarting and that the 200,000 bpd Repsol operated El-Sharara field would begin pumping soon. It said the 120,000 bpd Zawiyah refinery is due to restart next week and will be fed by importing crude from other Libyan ports.

Italy's Eni SpA expects to resume some Libyan natural gas production by mid-October while the resumption of oil production could take much longer. It said restarting oil production is more technically demanding than restarting natural gas production. It said it could take a year for oil output to resume.

Austria's OMV said its main production assets in southwest Libya appear to be relatively undamaged but added that it would take time to get the logistics in place to have them running normally again. It said projections that Libya would be able to increase overall production to 1 million bpd in six months were possibly a little optimistic.

Analysts said Libyan oil is starting to move into the market but it could take as long as three years to return to pre-conflict levels. Before the conflict, Libya produced 1.6 million bpd of crude. Libya's Sirte Basin, which holds 80% of Libya's proven oil reserves and accounted for the majority production ahead of the conflict, could be more difficult to revive.

Azerbaijan cut its expectations for production of its oil by over 100,000 bpd this year. SOCAR said the country will produce at least 46 million tons of Azeri Light oil in 2011 or 930,000 bpd, down from an initial forecast of 51.5 million tons and 50.83 million tons produced in 2010.

Ecuador's Minister of Nonrenewable Natural Resources Wilson Pastor said the country expects to produce about 520,000 bpd of crude next year. It is 3.6% higher than the production target of 502,000 bpd for this year. Ecuador is expected to produce 567,000 bpd by 2013. According to official data, Ecuador's average oil production between January and June was 501,000 bpd.

Brazil's Petrobras said that crude oil and natural gas production fell for a second consecutive month in August due to maintenance work at several offshore platforms. Petrobras produced an average of 2.555 million bpd of oil equivalent in August, down 0.5% from 2.568 million bpd of oil equivalent in July. The company's domestic oil output was 0.3% lower on the month at an average of 1.963 million bpd, down from 1.968 million bpd in July.

Pacific Rubiales will end on Thursday its force majeure declaration on its oil-supply contracts as workers agreed to end the protests that forced the company to halt production earlier this week in two of Colombia's largest oil fields. The company will resume oil production immediately, although it may take as much as three days for it to return to full output.

China's Ministry of Finance said the country is expected to reinstate a consumption tax on naphtha and fuel oil from October 1st and instead offer tax rebates to producers that buy the two products to make petrochemicals. The move is designed to encourage production of ethylene and aromatics.

Market Commentary

The oil complex traded sharply lower today as a combination of signals increased concerns about the global economy and the strength in the US dollar further pressured the markets. The market tumbled in tandem with a sell off seen in the equities. The crude market continued to trade lower in overnight trading after the US Federal Reserve on Wednesday said the US faced significant downside risks. The market was also pressured by a slowdown in China and the worst euro zone private sector growth in over two years. China's manufacturing sector contracted for a third consecutive month in September while Euro zone industrial orders fell by more than expected in July. Meanwhile consumer confidence in the Euro zone fell in September to -18.9 from -16.5 in August. The crude market sold off more than $6 as it posted a low of $79.66 in afternoon trading, a low not seen since mid-August. The market settled down $5.41 at $80.51. The product markets also settled sharply lower, with the heating oil market settling down 8.57 cents at $2.8485 and the RBOB market settling down 10.56 cents at $2.56. The oil market on Friday is seen retracing some of today's sharp losses ahead of the weekend. However its gains will be limited by the concerns over the global economy. The market is seen finding support at its low of $79.66 followed by $79.76 and more distant support at $76.61. Resistance is seen at $80.90, $82.00 followed by its high of $85.00. More distant resistance is seen at a previous high of $87.99.

Crude oil: Nov 11 318,968 -3,197 Dec 11 195,843 +3,629 Jan 12 103,295 +2,657 Totals 1,367,134 +1,937 Heating oil: Oct 11 49,321 –7,782 Nov 11 79,302 +1,508 Dec 11 55,784 +1,079 Totals 323,615 –4,025 Rbob: Oct 11 46,384 –5,343 Nov 11 77,415 +4,522 Dec 11 50,963 +989 Totals 277,422 +1,326.