



ENERGY RISK MANAGEMENT

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ENERGY MARKET REPORT FOR OCTOBER 1, 2010

Federal regulators today unveiled a series of proposed governance rules for derivatives clearinghouses and trading platforms. The CFTC proposed a 20% cap for voting stakes for members of clearinghouses exchanges and swap execution facilities. Banks, non-bank financial firms, swap dealers and major swap participants would not be allowed to collectively own more than 40% of a clearing house. The CFTC though did not limit ownership of non-voting shares of swaps trading and clearing venues by banks, which currently dominate trade. The CFTC also proposed clearinghouses have a financial cushion in case of a major default by a clearing member. Those clearinghouses deemed to be “systemically important” must be able to handle the default of its two largest clearing members, as well as other financial requirements. The CFTC commissioners voted to

Market Watch

The U.S. Commerce Department reported that U.S. construction spending rose unexpectedly in August as public construction rebounded, but investment in private projects fell to its lowest level in more than 12 years. Overall construction spending rode 0.4% to an annual rate of \$811.8 billion. July’s construction outlays were revised to show a bigger 1.4% drop instead of the previously reported 1% decline. The Commerce Department also report this morning that U.S. personal spending was up 0.4% in August versus market expectations of a 0.3% gain. Personal income was estimated as showing a 0.5% increase while expectations had been for a 0.3% gain.

The Thomson Reuters/University of Michigan U.S. Consumer Sentiment Index was revised higher for September to 68.2, up from 66.6 reported earlier in the month and stronger than a market expectation of 67.

The Chinese Purchasing Managers Index rose to 53.8 in September from 51.7 in August, well above market expectations of 52.0. This marked the 19 consecutive month has shown expansion.

The UK Manufacturing Index for September was estimated at 53.4, its lowest level since November. Export orders index stood at 49.3, the lowest level since July 2009.

India’s manufacturing sector continued to expand but at a slower pace in September. The HSBC Market Purchasing Managers Index slid to 55.1 in September, its lowest reading since November 2009. Analysts noted that capacity constraints might be partly responsible for the slowdown as well as fading fiscal stimulus.

The president of the New York Federal Reserve Bank said today the “current situation is wholly unsatisfactory” and “both the current levels of unemployment and inflation and the timeframe over which they are likely to return to levels consistent with our mandate are unacceptable”. He further noted the Fed has the tools to provide additional stimulus at costs that are not unreasonable.

The Institute of Supply Management said its index of national factory activity slipped to 54.4 last month from 56.3 recorded in August. Market expectations had been for a reading of 54.5. A reading above 50 indicates expansion. The index’s new orders component fell for the fourth straight month to 51.1.

accept an interim final rule on reporting of swaps done before the Dodd-Frank law, but will still accept comments on the rule for 30 days.

Meanwhile the CFTC and SEC released their report on the “flash crash” from back on May 6, 2010. It noted that market makers had sent most retail orders to public exchanges. The report says algorithmic trading can quickly erode liquidity and result in disorderly markets. It noted firms trading pauses can lead to breakdown of fair price discovery. The 104-page report can be found at <http://www.cftc.gov/ucm/groups/public/@otherif/documents/ifdocs/staff-findings050610.pdf>. But what was interesting the cascading events were triggered by a mutual fund seeking to hedge their position by the selling of 75,000 emini contracts. They decided to enter these trades via an automated execution algorithm that was programmed to feed orders into the June 2010 E-Mini market to target an execution rate set to 9% of the trading volume calculated over the previous minute, but without regard to price or time. The report though did note it found no evidence of “quote stuffing” an alleged practice of using computerized trading programs to flood the market with orders and then quickly cancel them was not seen as a major factor in the flash crash.

The IEA said today that it anticipated upward pressure on oil prices in the second half of 2011 due to a projected decline in oil inventories. The agency also noted that the recent round of sanctions on Iran by Western powers was leading to significant delays in Iran’s oil and gas development projects. The IEA warned that if the global economy grows at an annual rate of more than 4% in the first half of 2011 as projected by the IMF, oil supplies could start to be squeezed.

The Obama administration is looking at proposing vehicle fuel economy be increased to between 47-62 mpg by 2025. It is seeking industry and public comment before making a formal proposal later.

Refinery News

Striking workers in France continued to block land access to the French Fos-Lavera oil port. The sea blockade has prevented at least 37 tankers from discharging cargo. The strikes are expected to continue till at least Sunday blocking land access to the port and sea access may remain blocked until at least Monday. Workers are not expected to meet with management again until Monday. Strikes were reported to be spreading to other ports around France today as the union in Fos called for a three day national port strike to begin Friday.

Hovensa LLC’s 145,000 b/d FCC unit at its 500,000 b/d St. Croix refinery has been restarted and is expected to be back on line later Friday. The unit is expected to be operated at a reduced rate for approximately two weeks while repairs are completed. The unit reportedly went down on Thursday.

Tesoro reportedly has taken a FCC unit offline on Thursday for repairs at its 166,000 b/d San Francisco Bay area refinery. The unit is expected to be off line for one week.

The State of California reported that sales of diesel in June rose to the highest level since September 2008, reaching 199,410 b/d. This is some 3.8% above year ago levels. These higher standards could result in a reduction in GHG of 3-6% a year over the years of 2017 to 2025. Industry and environmentalists are interested in how the government would treat electric vehicles, given that coal fired generation can account for nearly half of the nation’s power production.

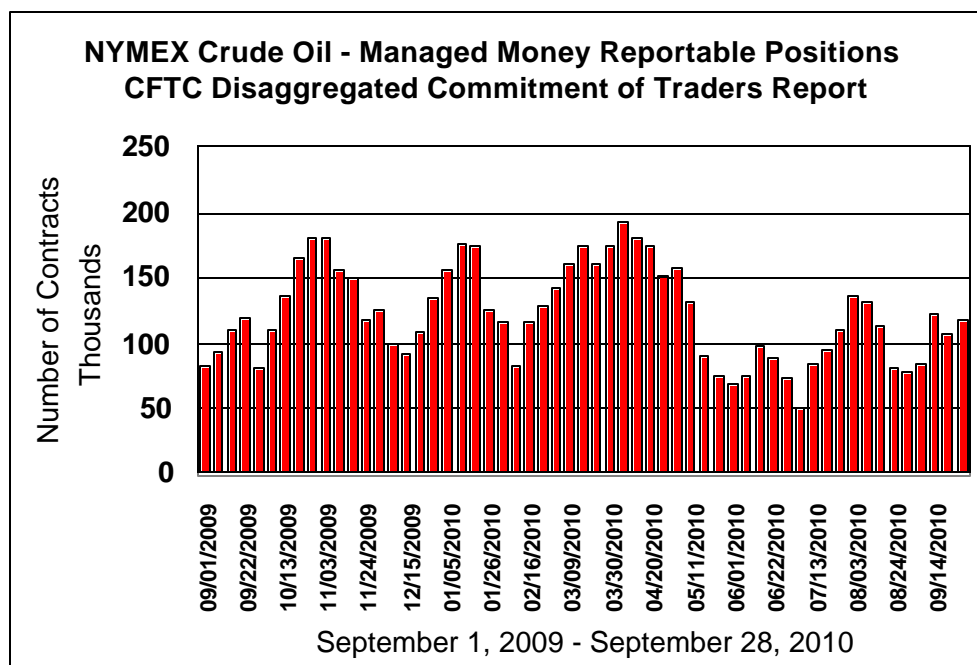
Exxon Mobil said that it is considering closing some refineries in addition to selling off gasoline stations in Japan as demand continues to weaken. The company has 4100 affiliated gas stations across Japan, controlling 17% of total sales. The company is considering reducing its Japanese refining capacity by about 20%.

Production News

Nigerian militants from the Emancipation of the Niger Delta (MEND) issued a statement Friday that explosive devices had been placed at the venue of celebrations marking the nation's 50th anniversary of Nigerian independence. Several explosions were reported an hour after the militant group issued their warning. At least seven people were reported killed and 21 injured. The attacks occurred in Abuja, the capital, far from the oil pipelines and production facilities

Indonesia's daily oil production may fall by 100,000 b/d or by 10% as a result of a gas pipeline leakage in Sumatra which was impacting Chevron oil production. The leak may take three days to repair.

A team of scientists reported today that they have found traces of oil from the ruptured BP well in the Gulf of Mexico up to 300 miles away from the ruptured well and at depths of 3200 feet. The scientists are speculating that given the current level of dissolved oxygen in the water would suggest that oil has not disappeared as some have suggested and that 3-4 million barrels of crude oil have still not been accounted for at this time. Greenpeace's research director thus noted the oil's impact from the spill is not over.



Dow Jones estimated OPEC oil production in September fell 0.55% compared to August, marking the second monthly decline in production and the lowest rate since November 2009, mostly due to a decline in Angolan production. Total production was pegged at 29.157 mbd.

Market Commentary

Crude oil rose 2 percent, gaining momentum from positive economic data out of the U.S. and China.

China's purchasing managers index increased from 51.7 to 53.8 in September and U.S. consumer spending increased more than forecast in August. These two factors combined with a week dollar helped to bolster prices. Heating oil crack spreads based upon the spot month contract increased \$13.18 per barrel, the highest level since February 2009. ICE gasoil futures also rose, achieving a five-month high. The advances in both these markets coincide with strikes in France, where striking dockworkers have halted shipments at Marseille, France's biggest oil terminal. The strike has entered its fifth day and is expected to last up until at least Monday. Coming into next into next week, crude oil should continue its advances working towards the projected upside objective of \$84.61. With the overall underlying fundamentals of this market remaining virtually unchanged, we remain cautious in regards to the market and its ability to hold on to gains.

Crude oil: Nov 10 341,496 -1,192 Dec 10 235,263 +6,650 Jan 11 107,175 +2,528 Totals 1,370,514 +26,006 Heating oil: Nov 10 108,826 +5,922 Dec 10 77,945 +1,327 Jan 11 44,270 -986 Totals 334,902 +436 Rbob: Nov 10 101,107 +2,625 Dec 10 45,934 -11 Jan 11 28,670 +4,019 Totals 240,552 +3,523

Crude Oil		Heating Oil		Rbob	
Support	Resistance	Support	Resistance	Support	Resistance
7945		19236	22965	18240	
7865		18965	23775	16010	22345
7727	8461	18920			24880
7367					27085
7307					

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