



ENERGY RISK MANAGEMENT

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ENERGY MARKET REPORT FOR OCTOBER 7, 2011

Iran's OPEC governor said today that most members of OPEC are likely to agree to keep output quotas unchanged at the group's next meeting, scheduled for December 14th in Vienna. He noted that despite the drop below \$100 a barrel earlier this week, he expects oil prices in 2011 will top \$100. But the official said that with the return of Libya as an exporting country, OPEC's output should return to its announced ceiling.

Japan's Ministry of Economy, Trade and Industry said today that it plans to begin storing gasoline, gasoil and A-fuel as part of the country's national strategic oil reserves starting as early of April 2012. Details such as storage locations and volumes have not been finalized though.

Libya's light sweet crude is moving slowly onto the global spot market. Demand from domestic refiners, production problems and an internal struggle for control of the sector means it is unlikely to increase much until well into 2012. The National Oil Corp estimated Libya is pumping 350,000 bpd and reiterated that full pre-war production was possible within 15 months. Separately, trade sources stated that a fourth cargo of Libya's crude oil has sailed to Italy.

Market Watch

The US Labor Department said US employment grew more than expected in September. It said nonfarm payrolls increased 103,000 compared with an expected increase of 60,000. The unemployment rate held steady at 9.1%. Private employment increased 137,000 in September up from 42,000 in August while government payrolls fell by 34,000 in September.

The US Commerce Department said US wholesale inventories increased less than expected in August as sales increased. It reported that wholesale inventories increased by 0.4% to a seasonally adjusted \$464.32 billion after increasing 0.8% in July. Sales of US wholesalers increased 1% to a seasonally adjusted \$401.26 billion. The gain, the largest in five months, followed a 0.3% increase in July.

A survey by PNC Financial Services of small and mid-sized businesses show that only 18% of these owners were optimistic about their company's outlook for the next six months, from 22% this spring. The construction sector remained the most pessimistic. In regards to sales the survey found that 40% of owners now expect sales to increase versus 48% thinking that back in the spring. Only 20% of the survey respondents said they expected to increase hiring vs. 48% earlier.

Venezuelan President Chavez announced his country has been granted a new \$4 billion line of credit for military and technical cooperation. In addition the countries signed an accord yesterday for Russian companies to help accelerate oil production in the Orinoco belt and to take part in offshore natural gas exploration.

Germany's economy minister said today following his meeting with his Greek counterpart that Germany stands ready to defend the euro. The Greek Finance Minister Venizelos said Greece would fully honor its bailout loans.

Refinery News

A grass fire that started outside the US crude oil storage hub in Cushing, Oklahoma Thursday morning was extinguished late Thursday.

**October
Calendar Averages**
CL - \$79.71
HO - \$2.7946
RB - \$2.5804

Citgo reported this morning the loss of a flare gas recovery compressor at its 167,000 b/d Lemont, IL refinery on Thursday. The company reported that the unit has been restarted.

Valero reported that its processing units in the East Plant section of its 142,000 bpd Corpus Christi refinery are in the process of returning to normal operation following completion of required maintenance. But the company reported early this morning that boiler trips shut several units, including a sulfur recovery unit. It said there was no material impact on production from boilers temporarily tripping offline. The company also reported that a crude distillation unit and a coker at the refinery are slated for three weeks of turnaround maintenance later this month. Separately, Valero reported a heat exchanger malfunction at its 205,000 bpd St. Charles refinery in Norco, Louisiana. It said production was not impacted due to the exchanger leak.

Motiva reported flaring during a planned shutdown at its 234,700 b/d refinery in Norco, Louisiana.

Turnaround maintenance is underway at ConocoPhillips' refinery in Ponca City, Oklahoma.

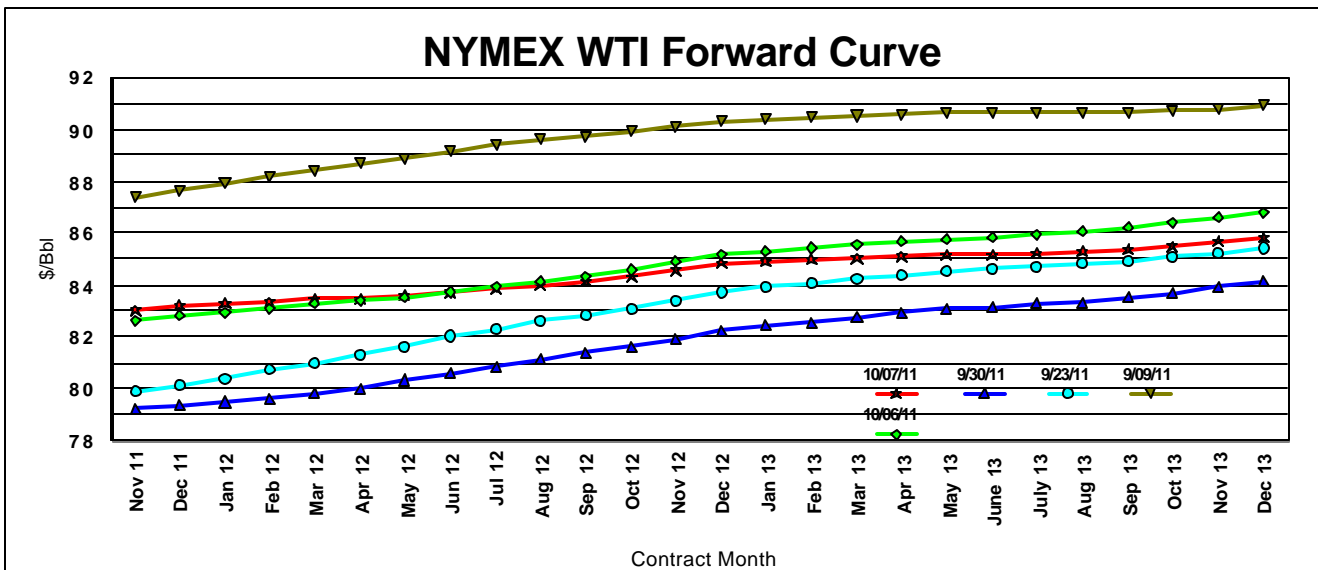
Petrobras' crude distillation unit at its 100,000 bpd Pasadena, Texas refinery was expected to be shut at least two to four weeks for repairs following a September 30 fire.

PBF Energy is considering a plan to add new units to its 182,000 bpd Delaware City refinery to increase its desulfurization capacity.

A refinery in Regina, Saskatoon is running at reduced rates Friday after an explosion and fire Thursday afternoon injured nine workers. Diesel fuel production was at 44,000 bpd before the accident and is down by 20% while gasoline production was at 40,000 bpd and is down by 10%.

India's Reliance Industries has bought an extra 600,000 barrels of crude oil from Saudi Arabia for October. The refiner normal buys about 230,000-240,000 b/d of Saudi oil. The move by the company to take in extra supplies in October may help it to cut oil processing costs as the Kingdom has raised the oil's export price for November to a record high. The purchase comes on the heels of Shell cancelling the lifting of four million barrels of Saudi Arab Light for October lifting after a fire forced the company to shut down its largest refinery.

Formosa Petrochemical Corp said it plans to shut a 180,000 b/d crude oil distillation unit and two



secondary units for planned maintenance at its 540,000 b/d refinery in Taiwan this coming December. The company just this week had restarted two RFCC units after a prolonged shutdown since mid- July when a fire knocked them out of service. The refinery is currently running at 400,000-420,000 b/d.

Russia's Lukoil said more than 600,000 bpd of Russian refining capacity will shutdown due to the next stage of oil product export duty reform, due in 2015, if refiners do not modernize their refineries. It is about 13% of refining capacity in Russia.

Two Saudi Arabia fuel oil cargoes, both for October loading, were sold at strong price levels for a second time in a week, amid severely tight supplies of on-specification cargoes.

Germany's state office BAFA said Germany's crude oil import bill increased by 30.7% for January-August 2011 to 34.9 billion euros or \$46.8 billion compared with the first eight months of 2010. The oil import volumes in January-August fell by 3% to 61.3 million tons year on year.

Azeri Light crude oil exports from the Turkish port of Ceyhan is expected to fall to 17.35 million barrels in November from 19.85 million barrels in October.

Production News

Statoil said Friday that oil production at the Grane field in the North Sea has been temporarily reduced due to a technical problem. The company had been starting up the field after scheduled maintenance and modification stop, but a problem then occurred on the injection compressor. The company expects production at the field to remain running at a reduced rate for three to six weeks. The field has a normal capacity of 135,000 b/d. Separately, Statoil said oil and gas production at its North Sea Visund platform will return to normal Friday evening after a shutdown for testing on Thursday was extended while rescue crews searched for a missing platform worker. Visund is expected to produce about 22,000 bpd of oil and 940 million standard cubic meters/day of gas in 2011.

Britain's Elgin-Franklin oil and gas field in the North Sea is increasing its production following an unplanned outage on Thursday.

Brazilian oil company OGX Petroleo e Gas Participacoes said yesterday that it has agreed to sell 1.2 million barrels of oil to Shell Western Supply and trading for processing in a Shell refinery. The oil which has an API grade of 20 degrees, will be produced at OGX's first oil field, Waimea, in the Campos Basin. Production at the field is expected by the end of this year, some two months later than recently expected.

A cargo from the North Sea Flotta crude oil stream has been dropped from the original October loading program. The cargo was due to load between October 28 and October 30 and it was not immediately clear why the dates had changed. The stream was originally set to load 63,000 bpd in October.

The November loading program for North Sea Brent Blend is scheduled to fall to 135,484 b/d from the 154,839 scheduled for October.

Baker Hughes reported today that its international September 2011 rig count reached 1,174, down 9 from the prior month. The company reported that the international offshore rig count stood at 304.

Malaysia expects its crude oil production to rise by 3.3% in 2012, reversing a decline this year of 6%. Production in 2012 is forecast to increase to 620,000 b/d. The increase in production is seen coming from the four recently discovered fields, at Spaoh and Saratok off Sarawak on the island of Borneo and Tambuku and Menggatal off Sabah this year.

OPEC's news agency reported that OPEC's basket of crudes increased to \$101.63/barrel on Thursday from \$99.90/barrel on Wednesday.

Market Commentary

The economy has been the prominent catalyst behind price movement, helping crude oil reach its biggest weekly gain in seven months. The November crude oil contract finished the week up 5.3 percent, settling at \$82.98. Prices have been consistently trading in lockstep with the S&P and the euro, as they too struggle with the global economic crisis. Gasoline and heating settled lower on the day as news came that any refinery snags or turnovers would not impair supplies. Coming into next week, crude oil should start the week making attempts to trade at the weekly trendline of \$85.95. The major trend is still to the downside, with the minor trending supporting moves to \$90.60. As long as crude oil remains below this number, the major trend will remain in effect.

The Commitment of Traders report showed that non-commercials in the crude oil cut their net long position by 29,522 contracts to 108,164 contracts in the week ending October 4th. The combined futures and options report showed that the funds cut their net long position was cut by 16,757 contracts to 181,238 contracts on the week. The disaggregated futures and options report showed that the managed money funds cut their net long position for the third consecutive week by 8,550 contracts to 146,304 contracts in the latest week.

Crude oil: Nov 11 270,703 –13,433 Dec 11 252,869 +10,729 Jan 12 130,178 +5,358 Totals 1,438,871 +9,326 Heating oil: Nov 11 89,217 –5,261 Dec 11 63,741 –2,712 Jan 12 40,611 -115 Totals 320,872 –7,084 Rbob: Nov 11 78,967 –3,993 Dec 11 54,552 –2,884 Jan 12 30,410 +2,234 Totals 268,604 –2,120

Crude Oil		Heating Oil		Rbob	
Support	Resistance	Support	Resistance	Support	Resistance
7570		26975	32777	24670	33369
7487	8500	26680	33370	24240	35915
7365	8817	27375	33510	23631	36310
6970	9060	23685		23414	
6423	9122	22960			
6394	9726				
	9872				
	10071				
50-day MA	85.31				
200-day MA	94.95				

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