



## ***ENERGY RISK MANAGEMENT***

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### **ENERGY MARKET REPORT FOR NOVEMBER 3, 2009**

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Iran's supreme leader Ayatollah Khamenei said Tuesday that Iran will reject any dialogue if it results is pre-determined by the U.S., thus raising the probability that a proposed nuclear fuel deal has again been derailed.

#### **Refinery News**

The Colonial Pipeline said Monday that it was allocating shipments of gasoline for cycle 64 on Line #1, north of Collins, Mississippi as demand has exceeded capacity.

PetroChina shut down a 50,000 b/d crude oil unit from mid-October at its Lanzhou refinery because of construction of a new 110,000 b/d crude oil unit. As a result the refinery's crude processing will fall to around 193,500 b/d in November down 1% from October's levels and off 8.7% from September. The new crude unit is expected to be on line by the end of the year.

ConocoPhillips reported that compressors to the flare gas recovery system at its Sweeny, Texas refinery have been tripping off line in recent occasions and as a result will need to shut down the

#### **Market Watch**

MasterCard SpendingPulse reported today that U.S retail gasoline demand last week rose 3.3% versus year ago levels. The group estimated gasoline demand averaged 9.311 mbd, down 0.4% from the previous week. Retail prices for gasoline rose 8 cents to a national average of \$2.68 per gallon, some 4.7% higher than a year ago.

Morgan Stanley released their latest crude oil price forecast and it looks for oil prices to be in a range of \$70-\$80 per barrels through the end of the year. They feel oil prices are reflecting what is happening in outside markets, specifically in the dollar and equities markets.

Petrochina reportedly will merge its oil trading books with Singapore Petroleum by the start of next year. The company had completed a \$1 billion acquisition of a 45.51% stake in the Singaporean firm back on October 16<sup>th</sup>.

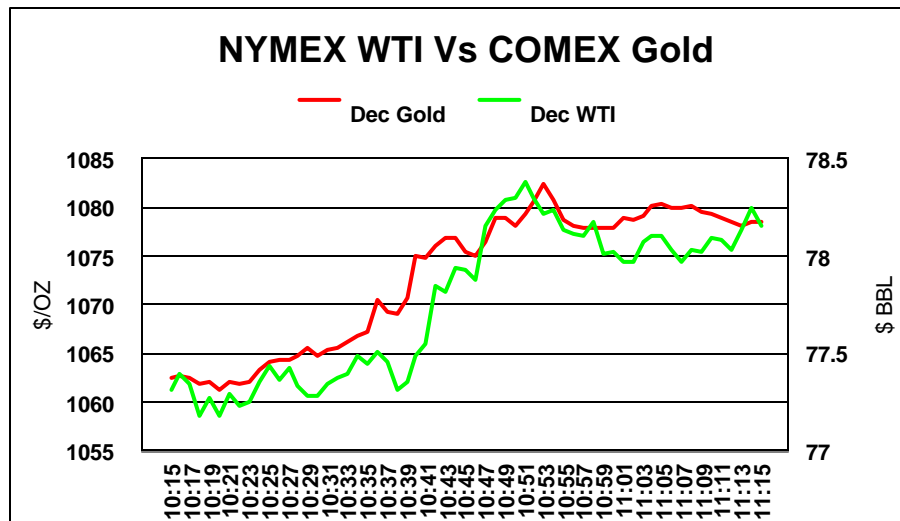
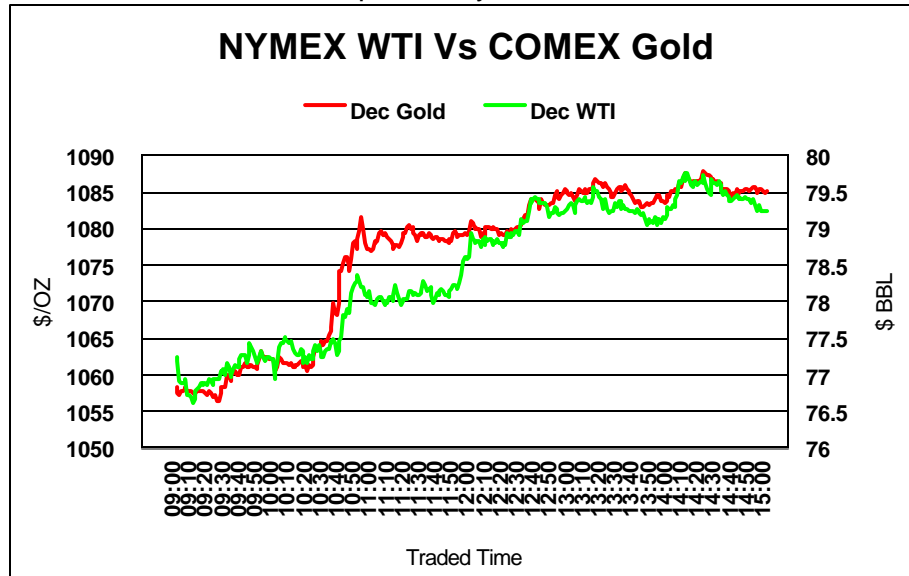
The managing director of Trayport, a software trading firm estimates that confidence in the energy and commodity OTC market has been reviving following last year's financial crisis. Last November the firm estimated that the OTC market and electronic trading volumes had fallen to almost parity, but now there is proportionately more OTC trading versus exchange trading across the energy and commodities arena as confidence has returned with central clearing arrangements.

The U.S. Commerce Department reported this morning that orders for U.S. manufactured goods climbed to a seasonally adjusted 0.9% in September. This was slightly better than market expectations. This was the fifth time out of the last six months that growth was recorded.

ICE said today that it would launch a crude oil futures contract based on a new pricing benchmark developed by Argus on the sour crude market. NYMEX said last week that it was targeting launching its own new contract based on the index by late January 2010. The Argus index combines prices for three oil blends produced in the Gulf of Mexico

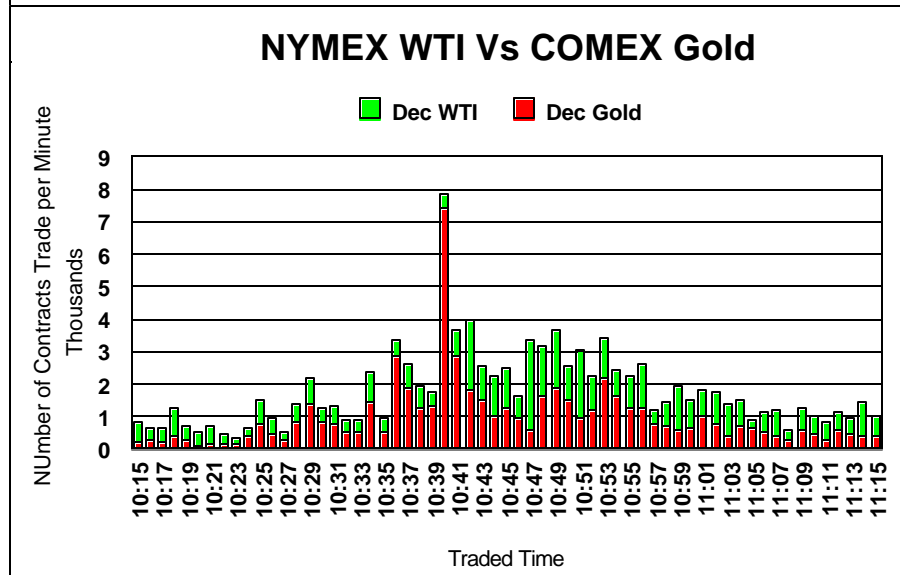
unit to fix the problem. The work is scheduled to take place anytime between November 3<sup>rd</sup> and November 17<sup>th</sup>.

The Russian Energy Ministry reported that exports of gas oil and fuel oil in October fell versus September, while gasoline exports rose. Supplies of gas oil for domestic consumption in October fell by 9.3% versus September and were some 14.9% lower than a year ago. Domestic fuel oil supplies were down by 3.1% on a month-to-month basis and off 33.1% versus October 2008.



Reuters reported that according to ship brokers, distillate volumes in floating storage which had been estimated at a massive 76 million barrels is expected to increase by at least another 7.5 million barrels over the next week or two which are expected to be loaded in Asia and placed in floating storage off of the UK and ARA region.

India reported that its domestic oil sales in September rose 0.8% to 10.7 million tones from a year ago. Diesel sales were up 4.6% from a year ago.



Russian oil refining runs fell by 4.1% on a daily basis in September from August and was some 1% lower than the same time a year ago. Russian refineries processed 4.71 million barrels per day in September.

Gasoline production from August fell by 4.6%, while fuel oil and jet production was off 1.5% and 9.2% respectively. Year on year gasoline production was

unchanged from a year ago with fuel oil production up 1.5% and jet production off 11.2%.

## **Production News**

Reuters reported that Georgia's Black Sea port of Batumi shipped 13% more crude and oil products in October compared to September. Its shipments rose 31% on an annual rate, due to the restriction last year from the brief conflict between the two nations.

Energy Security Analysis said it sees exports from Russia, Kazakhstan and Azerbaijan to countries outside of the CIS will rise by about 300,000 b/d this winter from third quarter levels in part due to the start up of the new ESPO pipeline.

Oil flow through the Kirkuk pipeline has rebounded to 450,000 b/d and within three days operators hope to have flows back to 500,000 b/d. The line suffered its first stoppage since April back on October 26<sup>th</sup> after a bomb damaged the line near Mosul.

### **API Stats**

**Crude Oil Stocks Down 3.276 million**

**Distillate Stocks Up 1.789 million**

**Gasoline Stocks Up 501,000**

**Refinery Runds Down 1.3% at 80.5%**

Iraq's SOMO reported today that Iraq's oil exports fell in October to 1.868 million b/d in October, down from the 2 million b/d shipped in September.

Port sources reported that oil liftings and berthing operations have resumed at the Novorossiisk export hub today after being closed for the prior three days due to gale force winds. Exports from the port this month are expected to reach 3.84 million tones up 18% from October levels.

PTTEP said Tuesday it had stopped an oil leak and doused the main fire on the Montara and West Atlas oilrig in the Timor Sea.

The China Petroleum Daily reported that China has started building a crude oil port in Myanmar on October 31<sup>st</sup>, approximately a month behind schedule. The port is part of a pipeline project that would deliver crude to China and thus reduce transit times due congestion in the Malacca Strait.

Venezuela's Energy Minister Ramirez said Tuesday that OPEC should not increase oil production, since instability still remains in the oil markets. He is targeting \$70 per barrel for oil prices at the end of the year, He also noted that Venezuela was actively reviewing whether to move away from WTI as a crude benchmark-pricing tool and towards Argus five month old Sour Crude Index. Meanwhile OPEC's research director said signs of a global economic rebound should be viewed with skepticism since it appears speculators are "factoring in economic growth that is higher than credit markets can support." He expected demand for OPEC oil to decline in 2010 for the third straight year.

The Mexican government today said the oil exporting ports of Dos Bocas and Coatzacoalcos had reopened following bad weather which had kept the ports closed since the weekend.

Talisman Energy said today that as a result of two appraisal wells drilled, its previously announced discovery in the U.K. North Sea may hold more than 100 million barrels of oil.

## **Market Commentary**

Despite a weak dollar, the energy markets rebounded today after a report in the U.S. indicated that factory orders rose 0.9 percent in the month of September. Prices also increased after the Reserve Bank of India bought 200 metric tons of gold from the International Monetary Fund. This brought about, yet again, hopes that the economy is recovering and demand will pick up. After reaching a two – week low and having a lack of follow-through, the December crude oil contract rallied back as technical traders pegged this as a failure to the downside. Investors continue to disregard high inventories and falling demand as they turn to commodities as a financial hedge. Crude oil appears to have taken its cue from the gold market as financial investors flocked to both of these markets as a

financial hedge. Volume in the December gold contract picked up around 10:36 and continued up until 10:45 in the morning. In between this time frame gold traded 23,233 contracts, with 7413 taking place at 10:40 time. In the mean time, December crude oil during the same period traded 9314 contracts. Lagging by several minutes, volume in the crude oil market picked up as traders, clued in by the rise in gold, rushed to crude oil to hedge their inflation bets. We would look for this pattern to continue with the crude oil market experiencing intermittent pullbacks in reaction to the true underlying fundamentals of this market. A failure for gold to trade above the \$85.00 level should bring about a rash of selling.

Crude DEC.09 3142546 -20,202 JAN.10 166,786 +5,366 FEB.10 70,117 -1,851 MAR.10 56,946 +4,543 APR.10 21,112 -443 Totals: 1,194,475 -12,248. Heating DEC.09 91,169 +1,924 Jan.10 56,816 +1,924 FEB.10 29,534 +480 MAR.10 21,304 +1,627 Totals: 315,494 +7,600 Gasoline DEC.09 99,839 -1,113 JAN.10 55,428 +3,049 FEB.10 22,632 -193 MAR.10 22,062 +1,544 Totals: 245,351 +4,087.

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|--|------------------------------|
| <b>Crude Support</b>   | <b>Crude Resistance</b>      |
| 76.24, 75.52, 73.52, 71.52, 64.70, 63.38, 62.70, 61.61, 60.95, | , 84.83, 85.40, 86.60, 88.80 |
| <b>Heat Support</b>  | <b>Heat resistance</b>       |
| 1.9700, 1.8570, 1.7670,  | 2.2110, 2.2575, 2.4200       |
| <b>Gasoline support</b>  | <b>Gasoline resistance</b>   |
| 1.9210, 1.9065, 1.8840, 1.8480, 1.7900                         | 2.1100, 2.1600, 2.3350       |

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