ENERGY RISK MANAGEMENT

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ENERGY MARKET REPORT FOR DECEMBER 4, 2009

Market Watch

The US Labor Department said US job losses slowed sharply in November and the unemployment rate unexpectedly declined. Nonfarm payrolls fell by just 11,000 last month, down from a downwardly revised 111,000 decline reported in October. The unemployment rate fell to 10% in November from 10.2% in October. Despite the better than expected report, the jobs market was still some way to recover. Since the start of the recession in December 2007, the number of unemployed has increased by almost 8 million. The report showed that average hourly earnings increased by 0.1% or $0.01 to $18.74.

The Commerce Department reported that US factory orders increased for the sixth time in seven months in October, posting a 0.6% gain. The US valued its October factory orders at a seasonally adjusted $360.5 billion in October. Durable goods orders fell 0.6% while orders for nondurable goods increased by 1.6%. US factory orders in September was revised to an increase of 1.6%. Inventories at US factories increased for the first time in more than a year in October. Factory stocks increased 0.4% in October.

The US Commodity Futures Trading Commission said it will start releasing more detailed data for all of the physical commodity markets in its weekly large trader report. It also announced it is also working to create a new large trader report for all of the financial markets as well. The move is the latest development in the CFTC's efforts to bring more transparency to the trading activities in the commodity markets. It said all future weekly large trader reports will contain disaggregated data for all of the physical markets.

Oil Ministers from Arab producers are comfortable with current crude oil prices and several have stated that there is no need for OPEC to change its output targets. The ministers from the core Gulf Arab producing region were gathering on Friday for a meeting of the Organization of Arab Petroleum Exporting Countries on Saturday. It is not scheduled to take output policy decisions. Saudi Arabia's Oil Minister Ali al-Naimi said oil prices in the current band of $70-$80/barrel are satisfactory. He said there is no need for members of OPEC to increase output when they meet on December 22nd. Angola's Oil Minister Chakib Khelil said he does not see OPEC changing its output when it meets in Angola later this month. Meanwhile, Qatari Oil Minister Abdullah al-Attiyah reiterated that he did not expect OPEC to alter its output targets at its upcoming meeting. He said the group's compliance with its existing targets was good. He said the oil market is very stable and demand is sufficient. He also said it is very difficult for OPEC to predict oil prices. A senior Gulf official said OPEC minister will stress greater compliance when they meet in Angola later this month but added that the group will likely keep its output unchanged for now. Libya's Shokri Ghanem said he doubts OPEC members will change their production levels at the upcoming meeting. However he said he is not happy with OPEC's compliance level.

December Calendar Average
CL – $76.73
HO – $2.0477
RB – $2.0008

An Iranian foreign ministry spokesman said Iran will not withdraw from the nuclear Non-Proliferation Treaty and will not loosen its relationship with the IAEA. Meanwhile, the official IRNA news agency said Iran will inform the UN's IAEA on progress in its 10 new uranium enrichment plants only six months ahead of injecting gas into the sites which it plans to build. An IAEA resolution, passed last Friday, condemned Iran for covertly constructing a second enrichment plant near the city of Qom, demanding a construction halt. A senior Iranian diplomat said Iran has no intention to cooperate with the agency beyond its safeguards. He said according to the safeguards, Iran is expected to inform the IAEA only 180 days ahead of injecting gas into centrifuges.

Refinery News

Colonial Pipeline extended restrictions on gasoline shipments to the Northeast as nominations continue to exceed the pipeline's capacity and the company's ability to maintain its five day lifting cycle. It has allocated shipments for cycle 70 on its main gasoline line north of Collins, Mississippi.

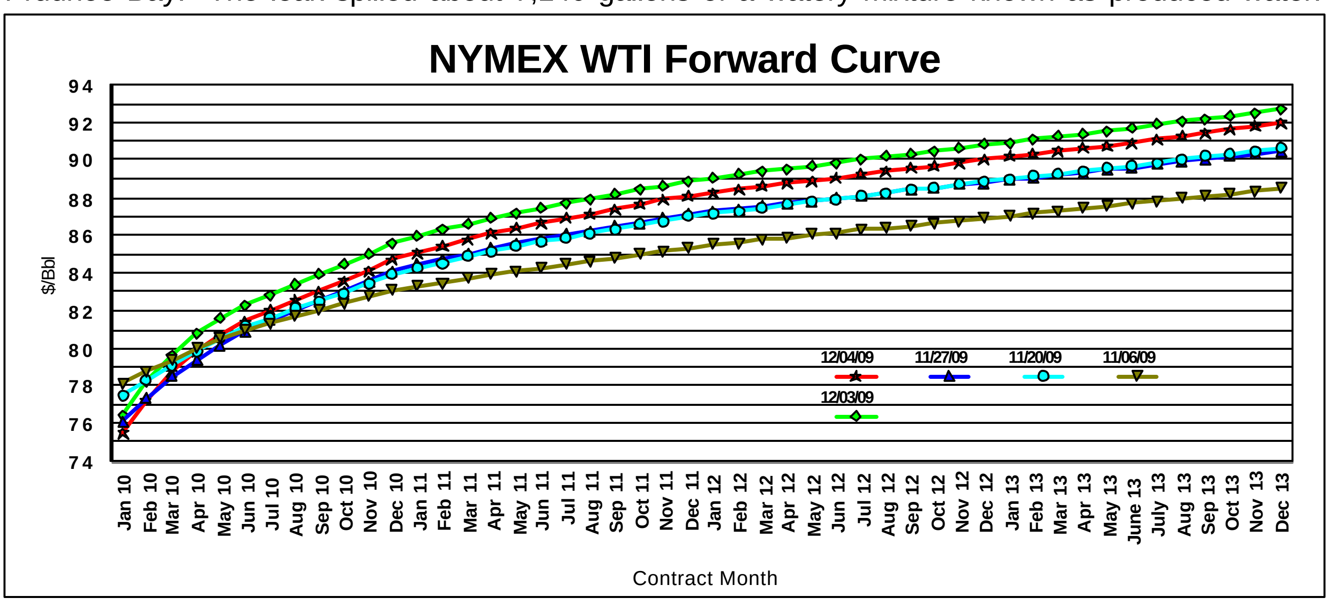
Valero Energy Corp reported flaring at its 340,000 bpd Corpus Christi, Texas refinery due to feed quality issues. Separately, Valero Energy Corp's CEO Bill Klesse said that US refining margins remain depressed but added that he sees signs of improvement early next year. He said that while he does see improvement in refining margins in the first quarter of 2010, the company's plan to shut its 195,000 bpd Paulsboro, NJ refinery remains an option and that large scale maintenance that could include a complete shutdown was still planned for the first quarter of 2011. He said Valero's system wide throughput so far in the fourth quarter is near or below 70% of total capacity compared with third quarter throughput of 79.5%.

Alon USA Energy Inc reported flaring from a diesel hydrotreater off gas compressor at its 70,000 bpd Big Spring, Texas refinery. Alon did not specify whether the incident had any impact on production at the refinery.

LyondellBasell Industries AF SCA said its 270,600 bpd Houston refinery was operating at a rate of 191,000 bpd in October due to planned work on a crude unit.

India's Reliance Industries' monthly crude imports in October increased 0.2% on the month to 1.282 million bpd and continued to widen its crude slate, making first purchase of Angolan Gimboa and Venezuelan Corocoro grades.

BP has started cleaning up a second pipeline leak at its Prudhoe Bay operations in Alaska this week after fluid spilled from a flow line on Wednesday. The incident did not impact oil production in Prudhoe Bay. The leak spilled about 7,140 gallons of a watery mixture known as produced water.



The spill was the second pipeline incident to affect BP's Alaska operations in less than a week.

Production News

Baker Hughes reported that the number of rigs searching for oil and natural gas in the week ending December 4th increased by 4 to 1,141. It said the number of rigs searching for oil increased by 4 to 383 while the number of rigs searching for gas was unchanged at 748 on the week.

A shipping source said oil is still flowing through the Kirkuk pipeline from northern Iraq to the Turkish port of Ceyhan since its resumption earlier this week following a halt late last month. The source said the current pumping rate was about 500,000 bpd. About 3 million barrels of crude is in storage, with one vessel loading and 2 waiting at anchorage.

Nigeria has repaired a pipeline connecting Chevron's Escravos oil and gas fields to two domestic refineries. A source said the two refineries, Warri's 125,000 bpd refinery and Kaduna's 110,000 bpd refinery, could soon resume operations after tests are completed at the Chanomi Creek pipeline. A lull in violence in the Niger Delta has enable workers to begin repairs on the pipeline.
Saudi Arabia has delayed the tentative completion date of the last oilfield on its expansion schedule by at least two years. It has been developing its 900,000 bpd heavy crude Moneefa project since 2006 with an anticipated completion date of 2013 after delays this year had already pushed back the start date from September 2011.

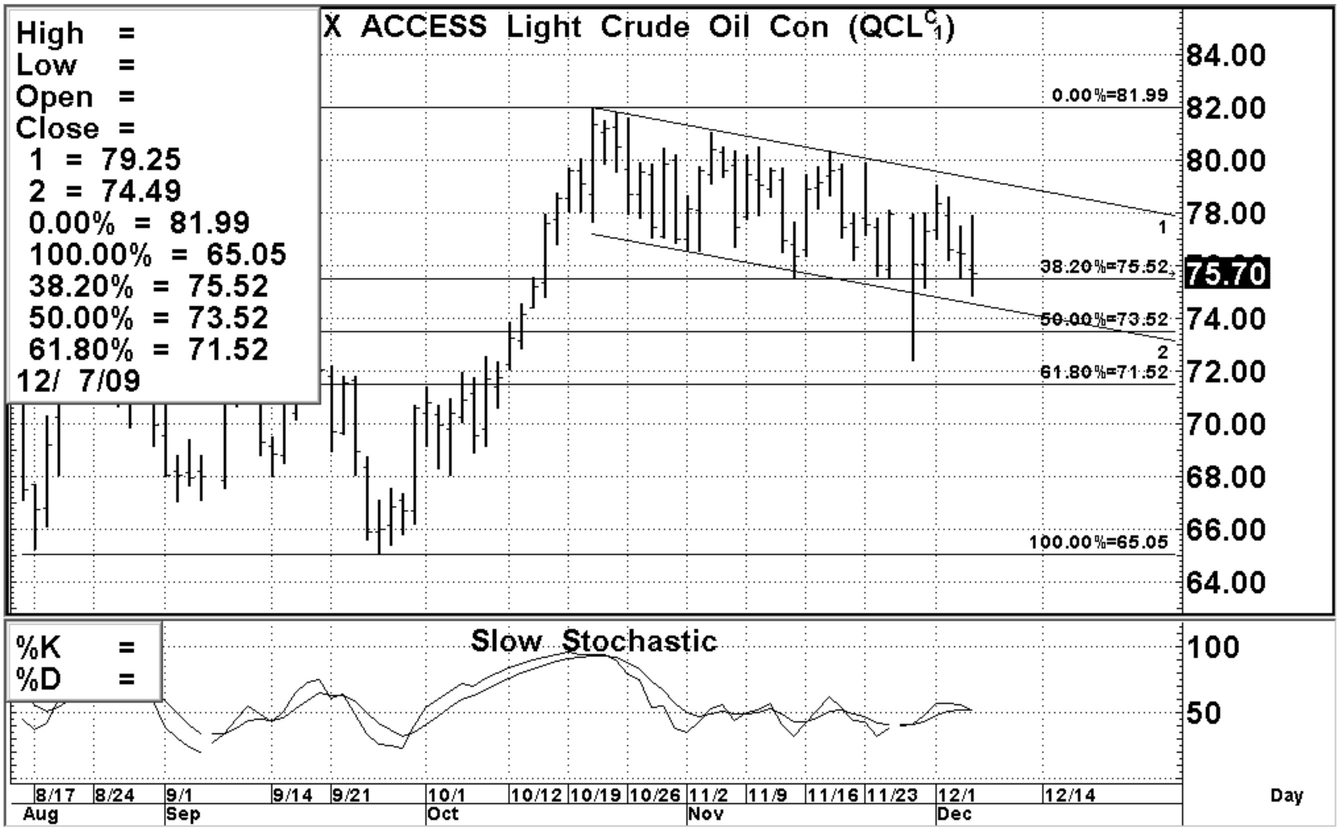
OPEC's news agency reported that OPEC's basket of crudes was relatively unchanged at $77.32/barrel on Thursday, up from $77.31/barrel on Wednesday.

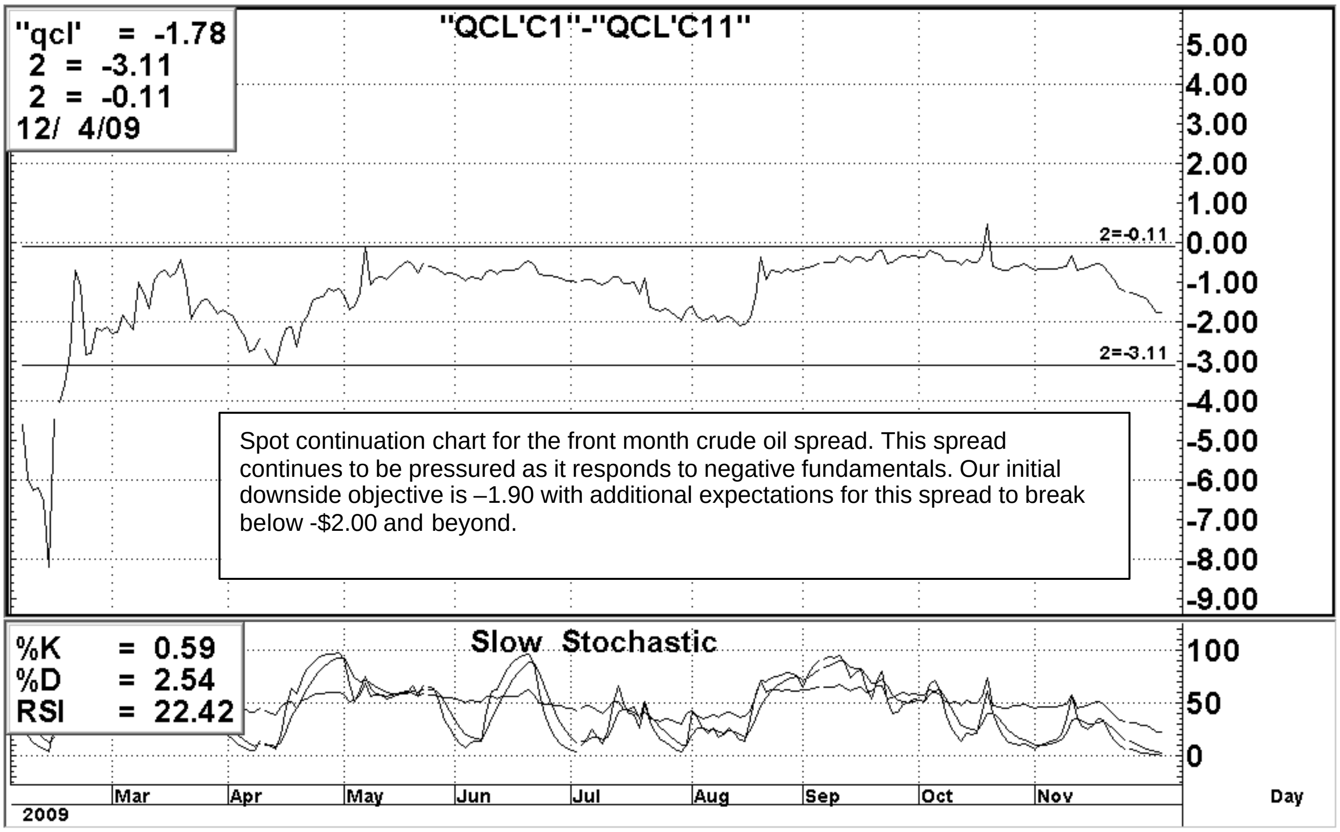
Market Commentary

Crude oil worked lower today in a see–saw fashion as it reacted to a strong dollar and lower than expected jobless claims. Early in the session prices advanced after the release of U.S. unemployment figures, which indicated that the U.S. unemployment rate fell to 10 percent in November. Market participants viewed this news as optimistic for demand. This run–up in prices was short lived as the dollar strengthened and investors shied away from commodities. There is still ample supply in this market, with enough inventory to meet current fuel demand. It is expected that the upcoming December 22 OPEC meeting will leave output unchanged. The front end of the forward curve continues to pull away from the deferred as the true underlying fundamentals of this market weigh on prices. The January/February spread is approaching our initial target of –1.91 and appears to have enough pressure on it to weaken further. The January crude oil traded in an outside trading fashion, posting a higher high and a lower low than that of the previous session. The 38.2% Fibonacci retracement number of $75.52 was also breached, with a settlement below this level. Coming into next week, we would look for additional moves to the downside.

The latest Commitment of Traders report showed that non-commercials in the crude market increased their net long position by 900 contracts to 76,393 contracts in the week ending December 1st. The combined futures and options report showed that the funds increased their net long position by 6,082 contracts to 149,524 contracts on the week. The non-commercials increased their total long position by 4,687 contracts to 252,116 contracts on the week. Given the market's move during the past few trading sessions, non-commercials have likely cut their net long position. Meanwhile, the disaggregated combined futures and option report showed that producers/merchants cut their net short position by 1,604 contracts to 213,385 contracts while swap dealers increased their net long position by 4,319 contracts to 43,211 contracts on the week. The report also showed that managed money funds increased their net long position by 9,891 contracts to 126,556 contracts while other reportable cut their net long position by 3,810 contracts to 22,967 contracts on the week. Non-commercials in the product markets also increased their net long positions according to the combined futures and options report. Funds in the heating oil market increased their net long position by 2,142 contracts to 26,610 contracts while funds in the RBOB market increased their net long position by 1,139 contracts to 57,548 contracts on the week.

Crude Jan. 10 318,192 –2,518 FEB.10 118,374 +1,769 MAR.10 102,064 +6,182 Totals: 1,216,932 +13,646 Heating oil Jan.10 88,824 –1,520. FEB 10 44,133 +1,730 MAR.10 38,475 Totals: 314,712 +2,545 Gasoline JAN.10 97,122 –7,119 FEB.10 38,183 +1,455 MAR. 10 32,985 +457 Totals: 249,798 –3,844.





Crude Support	Crude Resistance
74.49, 73.52, 71.52, 65.05, 64.70, 63.38, 62.70, 61.61, 60.95	75.85, 76.15, 80.50, 84.83, 85.40, 86.60, 88.80
Heat Support	**Heat resistance**
1.9500, 1.9175, 1.8570, 1.7670	2.1580, 2.2110, 2.2575, 2.4200
Gasoline support	**Gasoline resistance**
1.9060, 1.8840, 1.8480, 1.7900	2.1100, 2.1600, 2.3350