



ENERGY RISK MANAGEMENT

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ENERGY MARKET REPORT FOR DECEMBER 17, 2010

The API reported that US crude oil demand in November increased by 6.5% on the year to 19.976 million bpd. It reported that US gasoline and diesel sales increased in November. Gasoline demand increased by 3.2% on the year while distillate fuel deliveries increased by 14% on the year. The increase in distillate demand was the 10th consecutive

Market Watch

The Conference Board's measure of leading economic indicators increased 1.1% in November, the largest increase since March and the fifth consecutive monthly increase.

Ifo think tank said German business morale increased to its strongest level since 1991 in December. Its business climate index increased to 109.9 from 109.3 in November. It was the seventh consecutive increase and surpassed expectations for a fall to 109.1.

Barclays Capital increased its crude oil price forecast to \$91/barrel from \$85/barrel for both WTI and Brent crude. It increased its forecast due to stronger fundamentals, an improving macroeconomic outlook and OPEC's indication it is comfortable with the current price range.

The American Trucking Association's advance seasonally adjusted For-Hire Truck Tonnage Index fell 0.1% in November after increasing by 0.9% in October. Year on year tonnage hauled increased to a seasonally adjusted 3.9%, down from October's 6% gain. Truck freight tonnage is expected to increase modestly during the first half of 2011 before accelerating in the latter half of the year into 2012.

month of growth and the highest year over year increase in 2010. The API also reported that the average US refinery utilization rate reached 83.2% in November as refiners took advantage of continued strong international demand for diesel fuel. Domestic crude oil production totaled 5.44 million bpd in November, up slightly from last year but down 1.3% on the month.

ICAP Shipping reported that middle distillate oil products stored in floating storage fell to 22 million barrels in the week ending December 17th from 23.7 million barrels in the week ending November 18th. ICAP Shipping also reported that crude oil stored in floating storage globally fell to 40 million barrels in the week ending December 17th from 44 million barrels in the week ending December 10th.

Refinery News

Buckeye Pipe Line Co LP's 120,000 bpd Midwest crude pipeline has been restarted. The pipeline that serves Citgo Petroleum Corp's 167,000 bpd refinery in Lemont, Illinois has been shut after a leak was found in Lockport Township, Illinois on Tuesday.

Suncor Inc reported that an equipment failure resulted in the release of emissions at its 178,000 bpd Marcus Hook, PA refinery on Wednesday.

**December
Calendar Averages**
CL – \$88.28
HO – \$2.4650
RB – \$2.3210

Valero Energy Corp said production was unaffected by a sulfur recovery unit snag at its 287,000 bpd Port Arthur, Texas refinery in Texas after it reported emissions at the refinery earlier in the day. Separately, Valero Energy Corp said that proceeds from the sale of its New Jersey refinery to PBF Energy Co were reduced by \$20 million to \$340 million to adjust for changing crude supply economics. With the sale of the 185,000 bpd refinery Valero has exited the East Coast refining market.

ExxonMobil's 115,000 bpd Fos-Sur-Mer refinery in France was completely shut down for a 5 week long maintenance program starting January 13.

Japan's Cosmo Oil Co cut its crude input at its 220,000 bpd Chiba refinery following a problem with a pipe used to connect with tankers. It also said it expects to restart its 50,000 bpd No. 5 crude distillation unit at its 125,000 bpd Yokkaichi refinery this weekend after an unplanned plant-wide shutdown on December 8th.

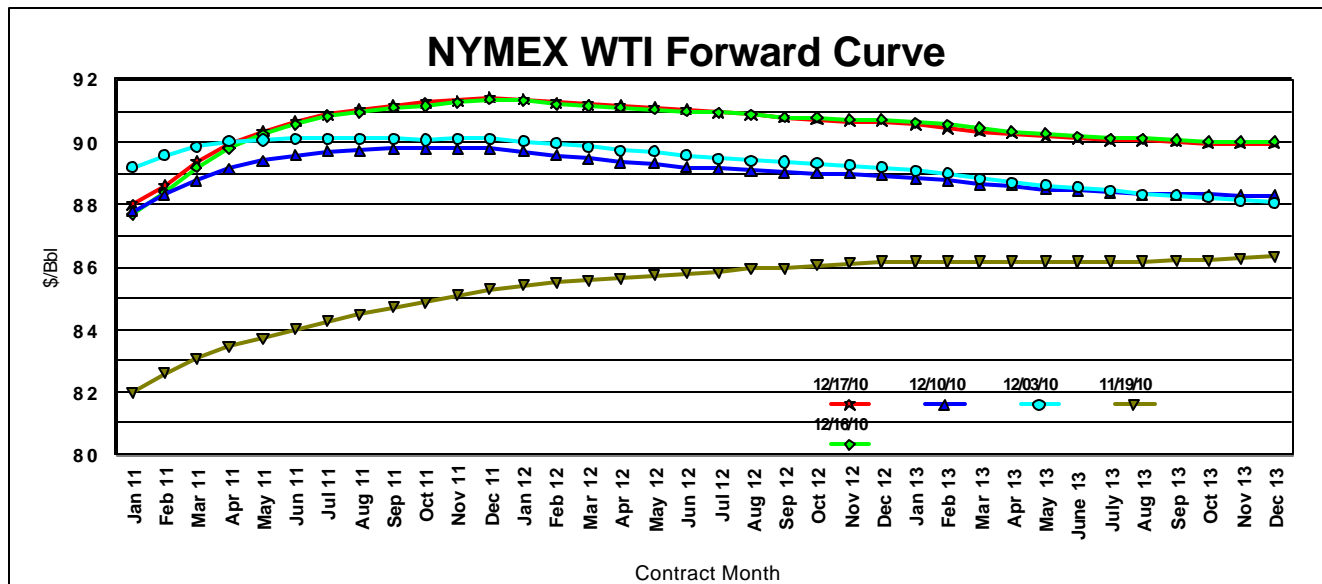
China Customs Statistics Information Centre said China imported about 150,000 tons of light diesel fuel in November, up from just over 40,000 tons in October. Diesel exports fell by about 30% on the month to 240,000 tons. It was the lowest level since January 2009. It reported that imports of liquefied natural gas fell to 730,000 tons, down 100,000 tons on the month.

Repsol is seeking 280,000 barrels of low sulfur diesel from the US Gulf Coast for shipment to Argentina for the end of December to replace lost crude production resulting from labor disputes. YPF, a unit of Spain's Repsol, halted operations at several sites in the southern Patagonia region due to unrest linked to conflict over wages. Venezuela's PDVSA is also seeking 380,000 barrels a month of 500 parts per million sulfur low sulfur diesel for six months starting in February.

Production News

According to its loading program, Nigeria is scheduled to export 11 standard 950,000 barrel cargoes of Qua Iboe crude for February, down from January's 13 cargoes. Its Qua Iboe crude exports are expected to fall by about 7,000 bpd to 391,000 bpd in February. Its Bonny Light crude exports are expected to fall by 50,000 bpd in February to about 200,000 barrels. Nigeria is also scheduled to export seven Agbami, five Erha, five Escravos and two Yoho cargoes.

Canada's Suncor Energy Inc announced it plans to more than double its oil sands output to more than



1 million bpd of oil equivalent over the next decade. It aims to increase its oil sands output by 10% annually over the next decade. In early December, Suncor said its oil sands output averaged 279,000 bpd in the first 11 months of the year. Meanwhile, Total said it would form a strategic oil sands alliance with Canada's Suncor Energy Inc by sharing ownership in three projects in Canada's western Alberta region. The companies would hold joint stakes in the Suncor operated Fort Hills mining project, the Total operated Joslyn mining project and the Suncor-operated Voyageur project. Under the agreement, subject to approval from regulators, Total is expected to pay Suncor C\$1.75 billion or \$1.8 billion.

Azerbaijan's Statistics Committee said the country's oil products production increased by 8.9% in January-November to 4.5 million tons. Azerbaijan produced 2.28 million tons of diesel in the first eleven months of the year, up 6.5% on the year. The country produced 47.1 million tons of oil and condensate in January-November, up 1.5% from 46.4 million tons produced last year.

Azerbaijan's SOCAR said the country plans to reduce its oil exports via Russia to about 2 million tons in 2011 from an estimated 2.3 million tons in 2010.

Russia's Energy Minister Sergey Shmatko said Russia plans to keep its annual oil production at about 500 million tons a year over the next 10 years. In January to November, Russia's oil production totaled 462.15 million tons of crude and condensate, up 2.3% on the year. Separately, he stated that the country is not currently looking at the possibility of removing ExxonMobil Corp as operator of the Sakhalin-1 project on Russia's Pacific Coast.

Brazil's Petrobras announced that it discovered light oil in sandstones reservoirs of the post-salt section of the Espirito Santo Basin. It said additional studies will be necessary to evaluate volumes, extent and productivity of these reservoirs.

OPEC's news agency reported that OPEC's basket of crude increased by 54 cents to \$88.76/barrel on Thursday from \$88.22/barrel on Wednesday.

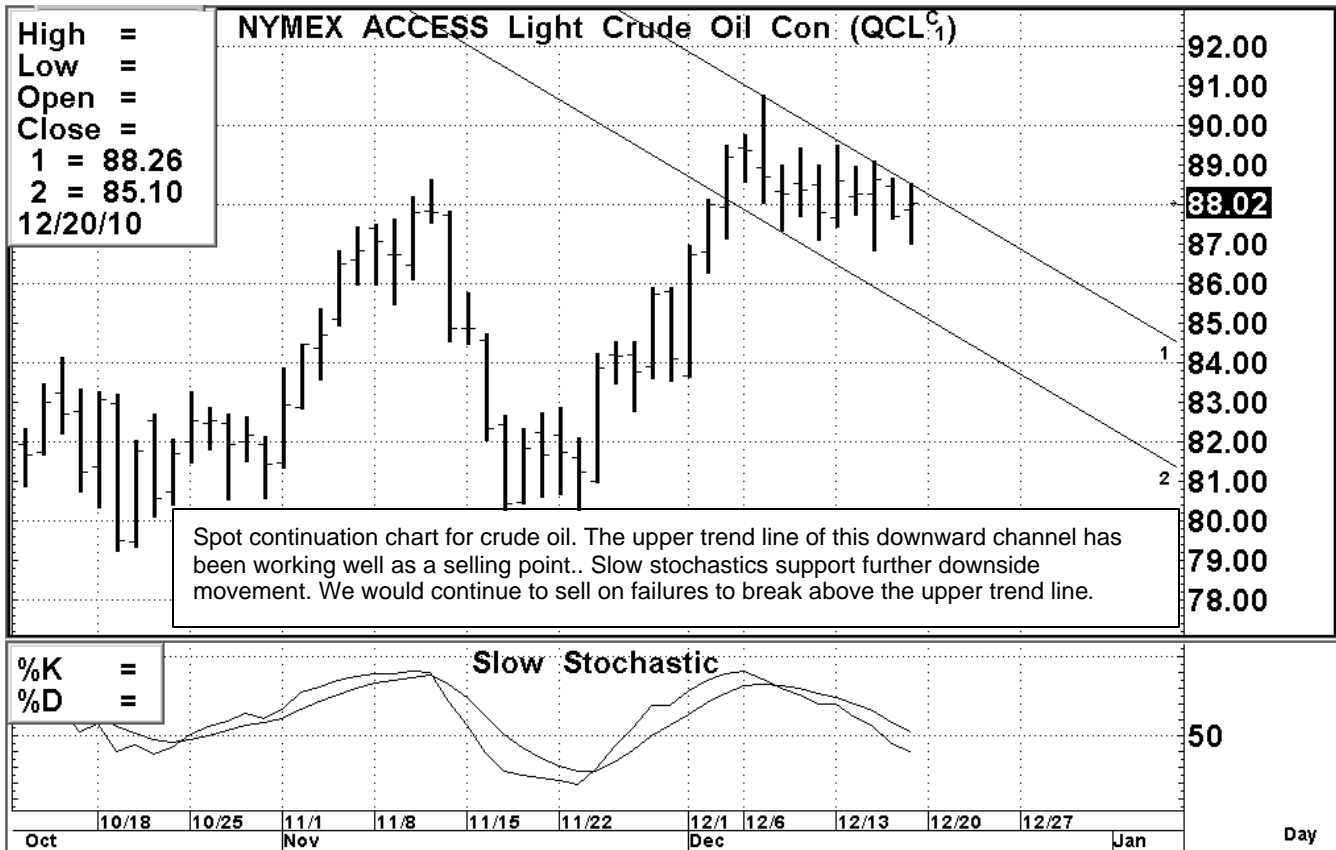
Market Commentary

Crude oil fluctuated around the \$88.00 level in a thinly traded market amidst concerns over the European debt crisis, paring earlier gains. Volume continued to be light just ahead of the Christmas – New Year holidays and the end of the quarter. Fundamentally, this market is still well supplied despite last week's 9.85 million barrel draw in inventories. As mentioned previously, this size of the draw should not be too alarming given the timing of it. It is year-end and tax savings is on the minds of refiners. Although we have been getting intermittent signs of economic recovery, there has not been steady growth. There still appears to be some book squaring taking place ahead of the New Year and an unwillingness to add to positions put on by speculators. Based on the aforementioned, we would not look for significant price moves. The January contract retreated off of resistance up at the \$88.53 trendline that can be seen on a spot continuation chart. We still like selling this market on failed attempts to trade above this trendline, which comes into tomorrow's session set at \$88.26.

The Commitment of Traders report showed that non-commercials in the crude market cut their long position by 13,772 contracts to 162,785 contracts in the week ending December 14th. The combined futures and options report also showed that the funds cut their net long position by 14,596 contracts to 208,259 contracts on the week. Meanwhile, the futures and options disaggregated report showed that managed money funds cut their net long position by 917 contracts to 205,890 contracts on the week.

Crude oil: Jan 11 62,549 –44,181 Feb 11 296,392 Mar 11 181,221 +5,773 Totals 1,370,049 –20,535
Heating oil: Jan 11 62,895 –7,028 Feb 11 70,241 +5,154 Mar 11 48,329 +769 Totals 307,032 +349
Rbob: Jan 11 52,490 –5,397 Feb 11 70,322 +4,567 Mar 11 41,438 +631 Totals 274,022 +3,761

Crude Oil		Heating Oil		Rbob	
Support	Resistance	Support	Resistance	Support	Resistance
8583	8826	23685	26712		24880
8350	9076	22960	27070	22560	27085
7993	9100	22013	29500	22050	
7900	9385	21860	30955	21600	
7871		21140		20300	
7783		20702		20130	
7671					



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