informa economics

Feb. 24, 2011

Energy Comments

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1. EIA PETROLEUM REPORT: CRUDE STOCKS INCREASE; GASOLINE, DISTILLATE STOCKS DECLINE IN LATEST WEEK. The DOE-Energy Information Administration (EIA) *Weekly Petroleum Status* report for the week ending Feb. 18 released today showed that crude oil stocks increased 820,000 barrels in the latest week to 346.74 million barrels. This increase was less than pre-report trade expectations that crude oil stocks would be up 1.2 million barrels from a week ago. The increase was despite crude oil production that was down 10,000 bpd to 5.60 million bpd and crude oil imports that were down 160,000 bpd to 8.11 million bpd. However, crude oil inputs to refineries also declined, down 330,000 bpd to 13.54 million bpd as crude oil refinery utilization was down 1.80 percentage points to 79.40 percent of operable capacity. The DOE-EIA increase in crude oil stocks was less than the American Petroleum Institute (API) data released late Wednesday that showed an increase in crude oil stocks of 160,000 barrels to 345.79 million. The increase in the API crude stocks came as crude oil imports were up 1.67 million bpd to 9.50 million bpd and crude oil inputs to refineries were down 430,000 bpd to 13.74 million with refinery utilization down 2.50 percentage points to 78.10 percent of operable capacity.

Gasoline stocks in the DOE-EIA report declined 2.80 million barrels from a week ago to 238.30 million barrels. This was counter to pre-report trade expectations that gasoline stocks would be up 400,000 barrels from the week-ago level. The gasoline stocks decline came as gasoline production was down 30,000 bpd to 9.14 million bpd, gasoline imports were down 130,000 bpd to 810,000 bpd and gasoline disappearance was up 291,000 bpd to 9.10 million bpd. The DOE-EIA decrease in gasoline stocks was more than the API report that showed a 1.62-million-barrel decline in gasoline stocks. The API stocks decrease came as gasoline production was down 10,000 bpd to 9.19 million bpd and gasoline imports were down 110,000 bpd to 748,000 barrels.

Distillate stocks (including heating oil and diesel fuel) in the DOE-EIA report were down 1.33 million barrels from a week ago to 159.94 million. This was slightly more than pre-report average trade expectations that distillate stocks would be down 1.2 million barrels. The decrease came as distillate production was down 30,000 bpd to 3.98 million bpd and distillate imports were down 40,000 bpd to 170,000 bpd. However, disappearance also declined 325,000 bpd to 3.65 million bpd. The DOE-EIA stocks decrease was more than the API distillate data that showed distillate stocks down 530,000 barrels to 159.03 million barrels. The stocks decrease in the API data came as distillate production was down 70,000 bpd to 4.24 million bpd and distillate imports were down 40,000 bpd to 190,000 bpd. For more information, see *the Heating Oil, Gasoline and Crude Oil Fundamental Indicators* sections as well as the table that follows.

DOE-API COMPARISON (Million Barrels Per Day)

	DOE-EIA			API		
	02/18/11	**02/11/11**	**Change**	**02/18/11**	**02/11/11**	**Change**
Crude Oil Imports	8.11	8.27	-0.16	9.50	7.83	1.67
Crude Oil Stocks *	346.74	345.92	0.82	345.79	345.63	0.16
Input to Refineries	13.54	13.86	-0.33	13.74	14.17	-0.43
Operable Capacity	17.59	17.59	0.00	17.59	17.59	0.00
Pct Operated	79.40	81.20	-1.80	78.10	80.60	-2.50
Gasoline Production	9.14	9.17	-0.03	9.19	9.20	-0.01
Gasoline Stocks *	238.30	241.10	-2.80	239.35	240.97	-1.62
Gasoline Imports	0.81	0.94	-0.13	0.78	0.90	-0.11
Blend Comp Stocks *	165.03	167.33	-2.30	164.43	167.30	-2.87
Distillate Production	3.98	4.01	-0.03	4.24	4.31	-0.07
Distillate Stocks *	159.94	161.27	-1.33	159.03	159.56	-0.53
Distillate Imports	0.17	0.21	-0.04	0.19	0.23	-0.04
Residual Production	0.56	0.54	0.02	0.53	0.41	0.12
Residual Stocks *	37.40	39.45	-2.05	38.40	38.21	0.19

Source: DOE-EIA & API * Stocks in Million Barrels

2. EIA NATURAL GAS REPORT SHOWS NET WITHDRAWAL OF 81 BCF IN LATEST WEEK. The Energy Information Administration's (EIA) *Working Gas in Underground Storage* for the week ending Feb. 18 showed a net withdrawal of natural gas stocks from underground storage of 81 bcf. This was just slightly below the pre-report average trade expectations for a withdrawal of 85 bcf. This week's natural gas withdrawal was well below the year-ago stocks withdrawal of 171 bcf and well below the five-year average withdrawal of 178 bcf. At 1,830 bcf, natural gas stocks are 48 bcf (2.6 percent) below the year-ago level and 61 bcf (3.2 percent) below the five-year-average.

Early trade expectations for next week's natural gas report for the week ending Feb. 25 are for a withdrawal of 79 to 130 bcf. This compares with the year-ago stocks draw of 124 bcf and the five-year average draw of 131 bcf. (For further analysis, see Natural Gas *Fundamental Indicators* that follows.)

EIA WORKING GAS IN UNDERGROUND STORAGE (in bcf) SOURCE: DOE-EIA

							Change From:	
	02/18/11	**02/11/11**	**02/04/11**	**01/28/11**	**02/18/10**	**(06-10) Avg**	**Last Wk**	**Last Yr**	**5-yr. Avg**
East	880	937	1,055	1,165	949	976	-57	-69	-96
West	263	276	300	332	313	273	-13	-50	-10
Producing	687	698	789	856	616	641	-11	71	46
Total US	1,830	1,911	2,144	2,353	1,878	1,891	-81	-48	-61

3. MIDEAST, NORTH AFRICA OIL SITUATION.

- Saudi Arabia: Reports today indicated that Saudi Arabia is in talks with European refiners affected by the reduced supplies out of Libya in an effort to assure them that the kingdom will fill the void left from the disrupted supply flow from Libya. Meanwhile, King Abdullah of Saudi Arabia announced financial support measures, worth an estimated $36 billion, in a bid to avert the kind of unrest that has toppled leaders across the region. The measures include a 15 percent salary rise for public employees to offset inflation, reprieves for imprisoned debtors, and financial aid for students and the unemployed.

The package also includes announcing a $10 billion increase in welfare spending to help young people marry, buy homes and open businesses. King Abdullah recently returned to Saudi Arabia after three months abroad for medical treatment. The Saudi government has pledged to spend $400 billion by the end of 2014 to improve education, infrastructure and healthcare. Hundreds of people have signed up to a Facebook campaign calling for a "day of rage" across Saudi Arabia on Mar. 11.

- Obama comments, acts on Libya events: Calling it "imperative that the nations and peoples of the world speak with one voice," President Obama said he was dispatching Secretary of State Hillary Rodham Clinton to Geneva next Monday to meet with top diplomats on how to respond to the crisis. "The suffering and bloodshed is outrageous, and it is unacceptable," Obama said at the White House after meeting with Clinton. "These actions violate international norms and every standard of common decency. This violence must stop." Obama administration officials said they were considering sanctions to try to influence Libya's Colonel Qaddafi. The White House press secretary, Jay Carney, refused to say whether sanctions might include a no-fly zone over Libya, but Clinton, without addressing the no-fly option, said Feb. 22 that "everything will be on the table." She said the administration "will look at all the possible options to put an end to the violence, to try to influence the government."

- Libya oil production impact: Up to 1 million barrels per day of Libyan oil have been removed from world markets in recent days, and investors fear that more oil production could be disrupted if the unrest spreads to other crucial producing nations, like Algeria. Algeria is the seventh-biggest source of American oil imports. Libya produces less than 2 percent of the world's oil, and exports little to the US. If the Libya situation lasts without a resolution, European refiners, who rely on Libya oil to a much larger degree than their US counterparts, will be forced to buy sweet crude from Algeria and Nigeria, two major sources of sweet crude for the US. If supplies of sweet oil become tight, the US can release supplies from the Strategic Petroleum Reserve, but observers note that probably would have only a marginal effect on prices. More than 85 percent of Libya's exports go to Europe, with more than one-third of that going to Italy. Most of the rest goes to Asia. About 5 percent is sent to the US.

- Higher energy prices will impact US economy: Oil prices surged overnight with protests still raging in Libya. Crude oil prices spiked as the London market opened with Brent rising to near $120 and the West Texas Intermediate Crude (WTI) rising to over $103. The US consumes about 7.5 billion barrels of total petroleum products per year, so every $10 per barrel increase costs the US economy about $75 billion. Since over half of that oil is imported, the benefit flows to foreign producers. Rules of thumb: every $10 increase in the price of a barrel of oil reduces the growth of the gross domestic product by half a percentage point within two years; every one-cent increase in the pump price of gasoline takes more than $1 billion out of consumer pockets over a year. Observers note that while US oil prices are spiking on contracts for near-term delivery, prices for oil in 2013 have dropped 0.6 percent on average the last two days, suggesting buyers are not yet concerned about future supplies.

4. OIL COMPANY EXECUTIVES OFFER HARSH CRITICISM OF ALASKA'S PRODUCTION TAX.
Oil- and gas-producing companies paint a negative portrait of the industry's future in Alaska unless the state revamps an aggressive production tax that allows it to keep 80 percent or more of profits from new investments, officials from several companies told state legislators on Feb. 18. Governor Sean Parnell has introduced legislation that would modify the state tax law, called Alaska's Clear and Equitable Share (ACES). Parnell proposes capping the tax at 50 percent and making other changes, including liberalizing investment tax credits to encourage more in-field development work.

"Alaska is not winning the competition for investment. There is just insufficient upside potential" for profit, Claire Fitzpatrick, BP's chief financial officer for Alaska, told the House Resources Committee. The states ACES tax "has limited the commercial viability of new projects," Fitzpatrick said. "Since the tax law was passed in 2007, our taxes have increased to levels that I believe are unsustainable." Wendy King, a vice president at ConocoPhillips, voiced similar concerns. "If we find oil and get it on line, our upside is gone," she told state legislators. The effect of the tax change has been to basically triple the production tax on producers, the companies' officials said.

Fitzpatrick, King and others pointed to broad declines in industry activity since the tax was passed. Unless the situation is turned around, King said Alaska's production would decline to about 500,000 bpd in 2015, levels at which the Trans Alaska Pipeline System would experience operating problems. Fitzpatrick said BP's investment in activities that result in new oil being produced has dropped from about $300 million annually in 2007 to about $200 million this year.

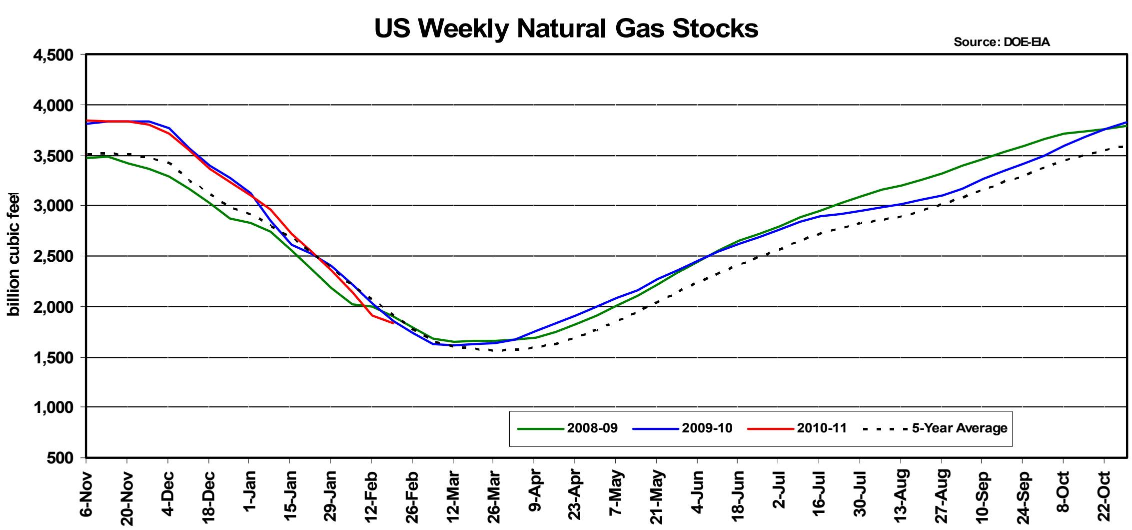
Passage of the ACES tax in 2007 has caused Alaska to slip almost to the bottom in rankings of oil and gas fiscal terms in producing regions, she said. A 2010 study by Wood MacKenzie, a consulting firm, put Alaska at a low 117 out of the 120 producing regions surveyed in terms of fiscal terms and investment attractiveness, Fitzpatrick said in her presentation. ConocoPhillips' King said the state tax caused Alaska to miss out on a US drilling and development surge caused by high oil prices. Continental US onshore oil production has increased, but Alaska's production has decreased, she said. If current trends continue, the Energy Information Agency has forecast that continental US onshore production, excluding Alaska, will increase by 26 percent by 2020. Alaska, however, will decline 30 to 40 percent over the same period to about 400,000 bpd.

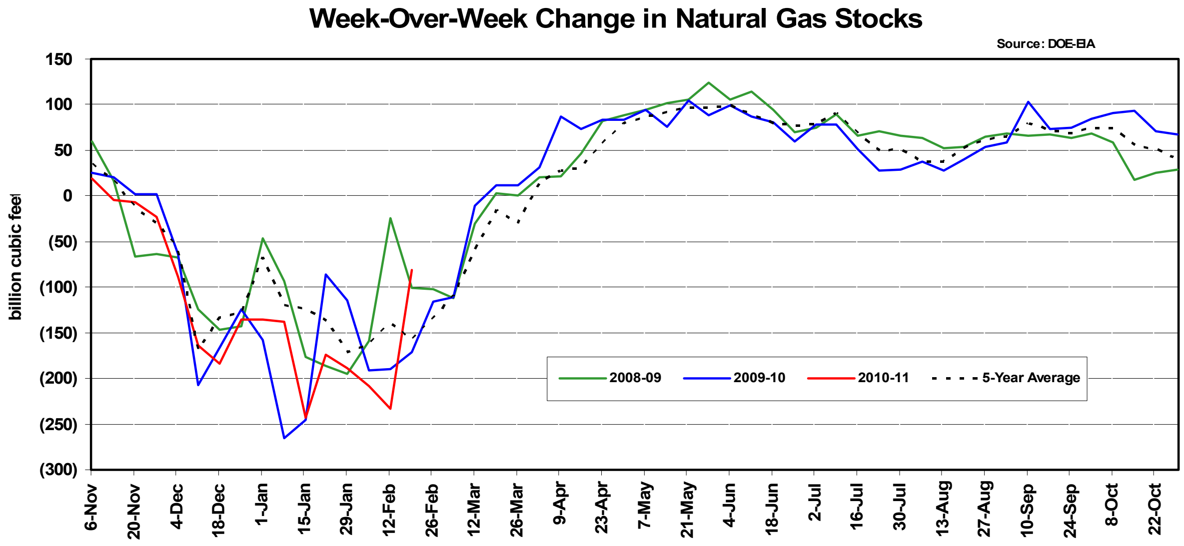
The state House is the first body to take up Parnell's bill and Republican leaders there have voiced support. The bill faces tough going in the state Senate, however, where several senators who helped write the current tax bill are in influential positions.

5. NATURAL GAS PRICE COMMENTS. NYMEX natural gas futures settled lower today with pressure from the Energy Information Administration (EIA) natural gas report that showed a net withdrawal that was slightly less than pre-report trade expectations. Also, the ongoing large production and the eventual moderating temperatures as we move into spring weighed on market sentiment. NYMEX March natural gas futures, that expired today, settled -$0.107 at $3.793. NYMEX April natural gas futures settled -$0.064 at $3.872.

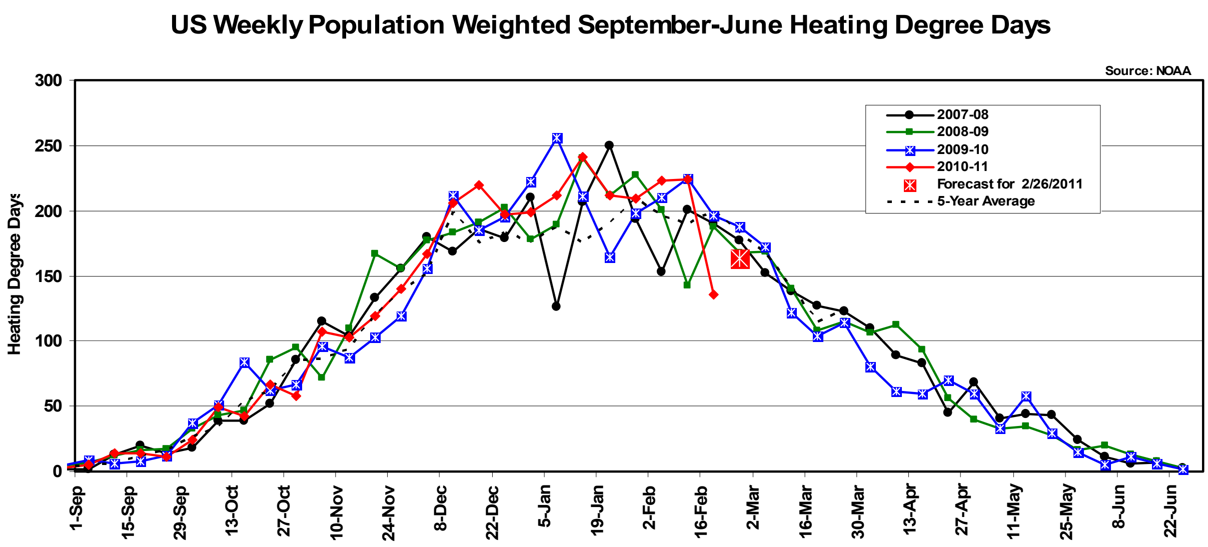
Fundamental Indicators: The Energy Information Administration (EIA) *Working Gas in Underground Storage* report for the week ending Feb. 18 showed a net withdrawal of natural gas stocks from underground storage of 81 bcf. This was just slightly below the pre-report trade expectations for a withdrawal of 85 bcf. This latest week's withdrawal was well below the year-ago draw of 174 bcf and well below the five-year average withdrawal of 148 bcf. At 1,830 bcf, stocks are 48 bcf (2.6 percent) below the year-ago level and 61 bcf (3.2 percent) below the five-year average.

In front of next week's EIA *Working Gas in Underground Storage* report for the week ending Feb. 25, trade expectations are for a withdrawal of 79 to 130 bcf. This compares with the year-ago draw of 124 bcf and the five-year average draw of 131 bcf.

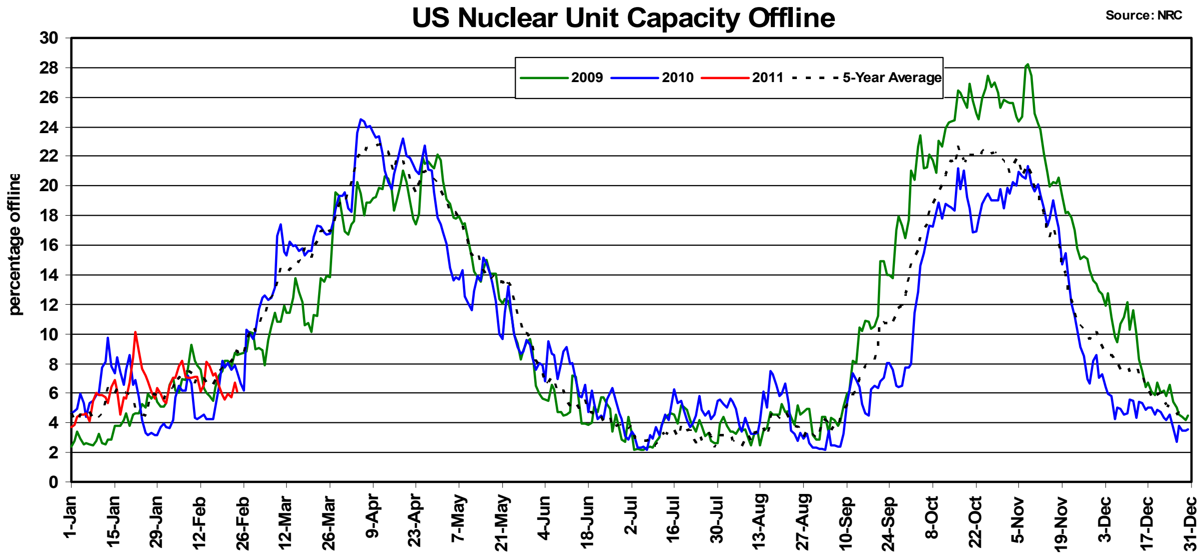




For the week ending Feb. 26, NOAA has forecast that there will be 163 heating degree days. If realized, this would be below the 188 heating degree days last year when we had a draw of 124 bcf and below the five-year average heating degree days of 183 with the five-year average draw of 131 bcf. If this amount of heating degree days is realized and given the latest week's withdrawal of 81 bcf, this suggests potential that we will see a withdrawal in next week's EIA report near 105 bcf.



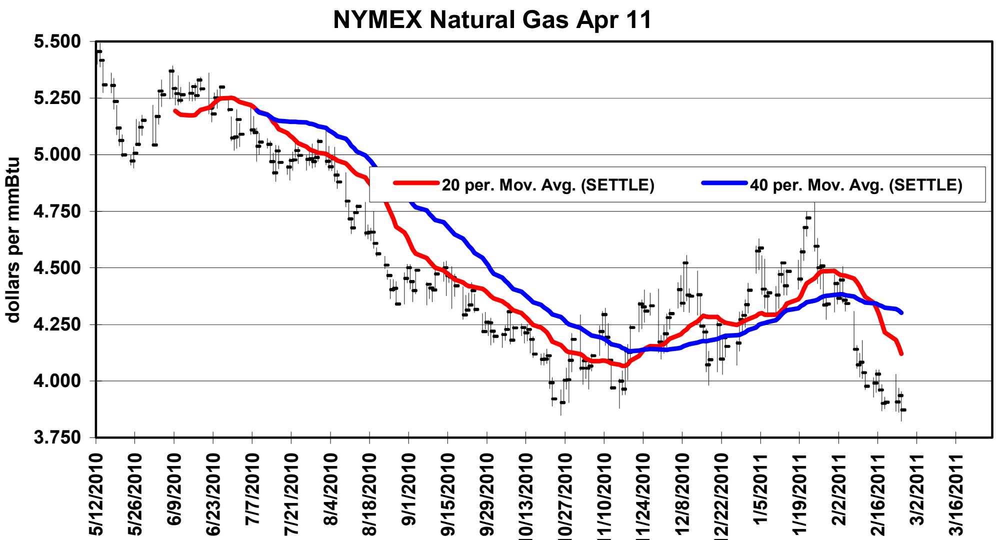
As of Feb. 24, the amount of US nuclear power capacity off line declined to 6 percent (6,056 megawatts) of the total capacity. Out of the 104 units, the number completely off line remained at 6 units: the 835-mw Calvert Cliffs 2 unit in Annapolis, Md.; the 979-mw Indian Point 3 unit in New York City, N.Y.; the 834-mw Crystal River 3 unit in Crystal River, Fla.; the 839-mw St. Lucie 2 unit in St Pierce, Fla.; the 1,111-mw La Salle 1 unit in Ottawa, Ill.; and the 858-mw Arkansas Nuclear 2 unit in Russellville, Ark. The number operating at below full capacity remained at 13 units. A year ago, 7 percent (7,356 mw) of total capacity was off line.



Fundamental Outlook: The latest week's 81-bcf withdrawal was the lowest withdrawal for this week since 2001 when we had a withdrawal of just 76 bcf. The latest week's smaller-than-expected withdrawal narrowed the deficit to a year ago to 2.6 percent and narrowed the deficit to the five-year average to 3.2 percent. If next week's withdrawal comes in near our expectation of 105 bcf and the remaining 5 weeks of the heating season match the five-year-average of 38 bcf, this would leave stocks to end of the heating season at 1.54 tcf, which is just slightly below the five-year average of 1.57 tcf. Then, as we move into the spring, production is expected to continue running at a historically high level—mainly due to the record number of horizontal rigs in operation (with about two-thirds of the horizontal rigs used to extract natural gas from shale). The increased natural gas production as we move into spring and early summer should make for good-sized injections of natural gas into underground storage. This would be expected to temper price strength associated with increased usage due to higher cooling demand loads at that time.

Technical Indicators: April futures:
20-day mvg avg: Lower at $4.122
40-day mvg avg: Lower at $4.302
Support: Feb. 24 low of $3.822 to $3.475 then $3.160
Resistance $4.195 to $4.310 then $4.425 to Jan. 24 high of $4.800

NATURAL GAS FUTURES			February 24, 2011
Month	**Settle**	**Previous**	**Change**
Mar 11	3.793	3.900	-0.107
Apr 11	3.872	3.936	-0.064
May 11	3.940	4.005	-0.065
Jun 11	4.007	4.068	-0.061
Jul 11	4.070	4.126	-0.056
Aug 11	4.103	4.158	-0.055
Sep 11	4.117	4.172	-0.055
Oct 11	4.166	4.219	-0.053
Nov 11	4.354	4.408	-0.054
Dec 11	4.606	4.654	-0.048
Jan 12	4.744	4.787	-0.043
Feb 12	4.733	4.775	-0.042



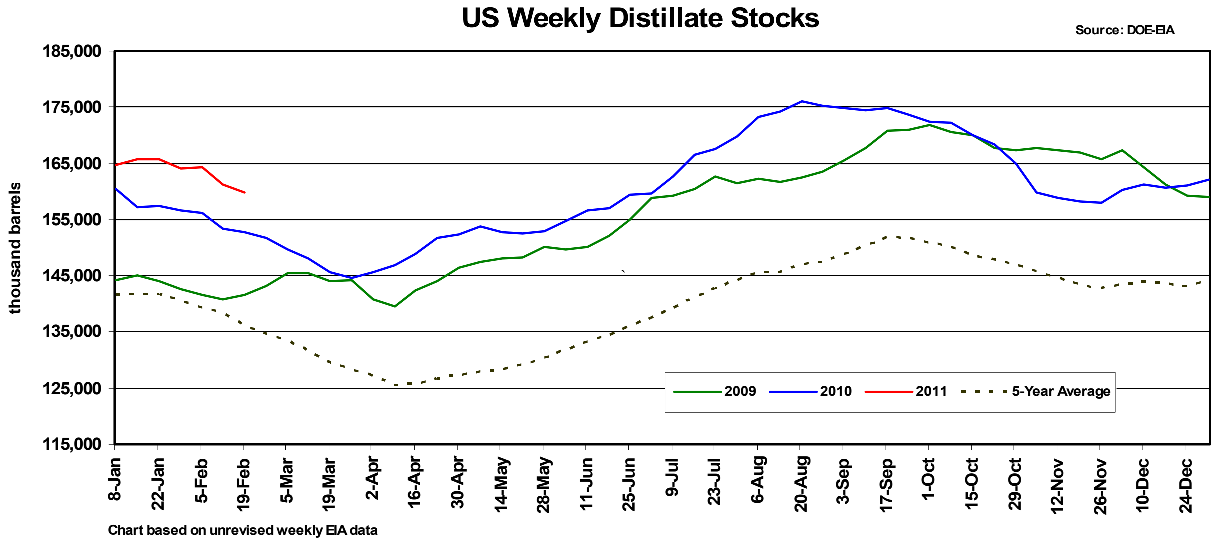
Cash Natural Gas: Spot natural gas prices were mixed today with most price points lower on milder late-week weather. The market also was pressured by the weekly natural gas report that showed a smaller-than-expected withdrawal of natural gas stocks from underground storage. Temperatures in the key consuming regions of the Northeast and Midwest are expected to be a mix of above and below normal over the next week to 10 days, with lows in Chicago expected to be mostly in the 20s while New York City experiences lows in the 30s.

Spot gas at the Henry Hub, the benchmark supply point in Louisiana, was unchanged at $3.83 per mmBtu. This compares with the year-ago Hub at $4.91 and the Hub two years ago of $4.21. The New York Citygate, the day's biggest loser, was down $3.05 to $5.25, while the Chicago Citygate was unchanged at $4.00. The Henry Hub, New York Citygate, other prices and recent history are detailed in the following table.

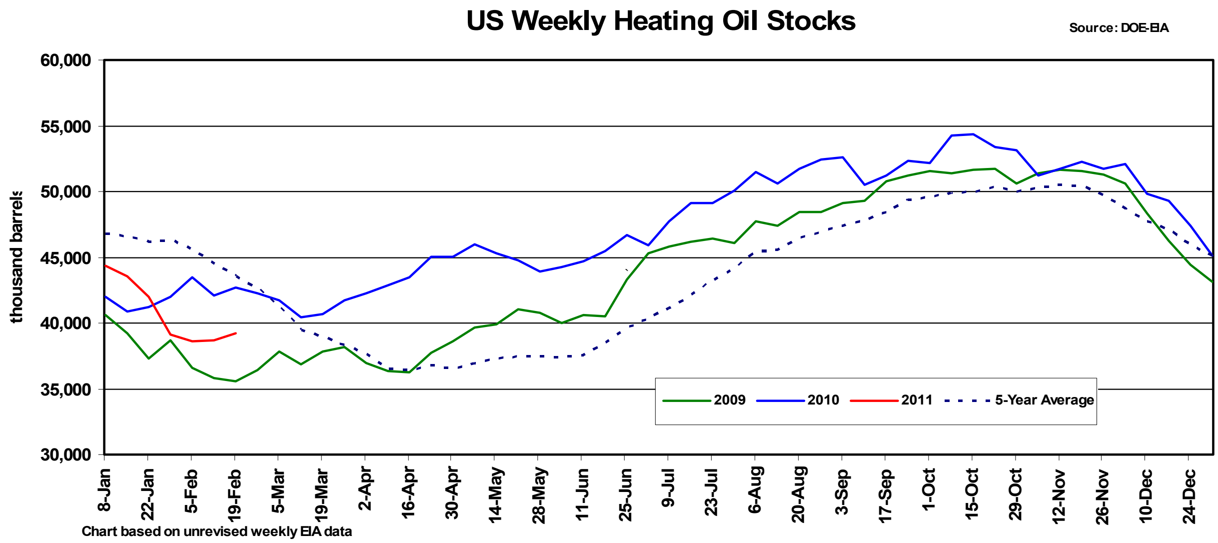
US PHYSICAL NATURAL GAS PRICES (US$/mmBtu)									
	02/14	**02/15**	**02/16**	**02/17**	**02/18**	**02/22**	**02/23**	**02/24**	**Change**
Henry Hub (La)	3.89	3.92	3.93	3.90	3.84	3.89	3.83	3.83	0.00
NY Citygate	5.65	4.80	4.64	4.47	5.06	11.35	8.30	5.25	-3.05
Chicago Citygate	4.01	4.05	4.05	4.01	4.02	4.09	4.00	4.00	0.00
Panhandle (MidC)	3.74	3.77	3.78	3.74	3.67	3.79	3.73	3.74	0.01
No. Dem (MN)	3.92	3.95	3.90	3.91	3.92	4.02	3.96	3.99	0.03
So. Cal. Border	3.85	3.89	3.93	3.92	3.86	3.97	3.91	3.90	-0.01
Katy Hub (E TX)	3.84	3.86	3.86	3.84	3.76	3.86	3.77	3.76	-0.01
Waha (W TX)	3.78	3.81	3.81	3.77	3.73	3.84	3.76	3.75	-0.01
CNG So. (Appl.)	4.03	4.03	4.02	3.98	3.98	4.04	3.95	3.95	0.00
Colombia (Appl.)	3.99	4.01	4.01	3.97	3.94	3.99	3.90	3.91	0.01

6. HEATING OIL PRICE COMMENTS. NYMEX heating oil futures settled lower today after Saudi Arabia indicated to European refiners that it would fill the void left from Libyan production that has been largely shut in due to the violence there. Also, late-session weakness stemmed from a rumor that Libyan leader Muammar Gaddafi had been shot—though US officials could not confirm this. Early in the session, futures were higher on concerns that the unrest in North Africa would spread to the other oil-producing countries in the region. In addition, the Energy Information Administration (EIA) report was supportive in that it showed a larger-than-expected decline in distillate stocks in the latest week. NYMEX March heating oil futures settled -$0.0276 at $2.8773.

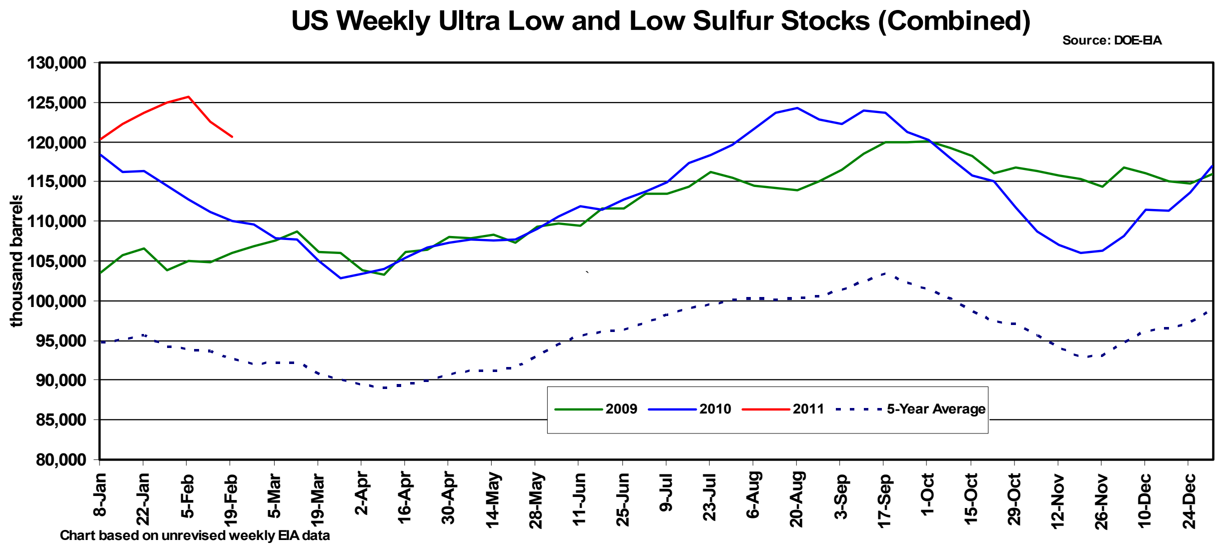
Fundamental Indicators: The Energy Information Administration (EIA) *Weekly Petroleum Status* report for the week ending Feb. 18 showed distillate stocks were down 1.33 million barrels from the previous week to 159.94 million. This was just slightly more than pre-report trade ideas that distillate stocks would be down 1.2 million barrels. But even with the stocks decrease, distillate stocks still are 7.27 million above a year ago and are above the upper boundary of the average for this time of year with distillate stocks now 23.79 million above the five-year average (see following chart).



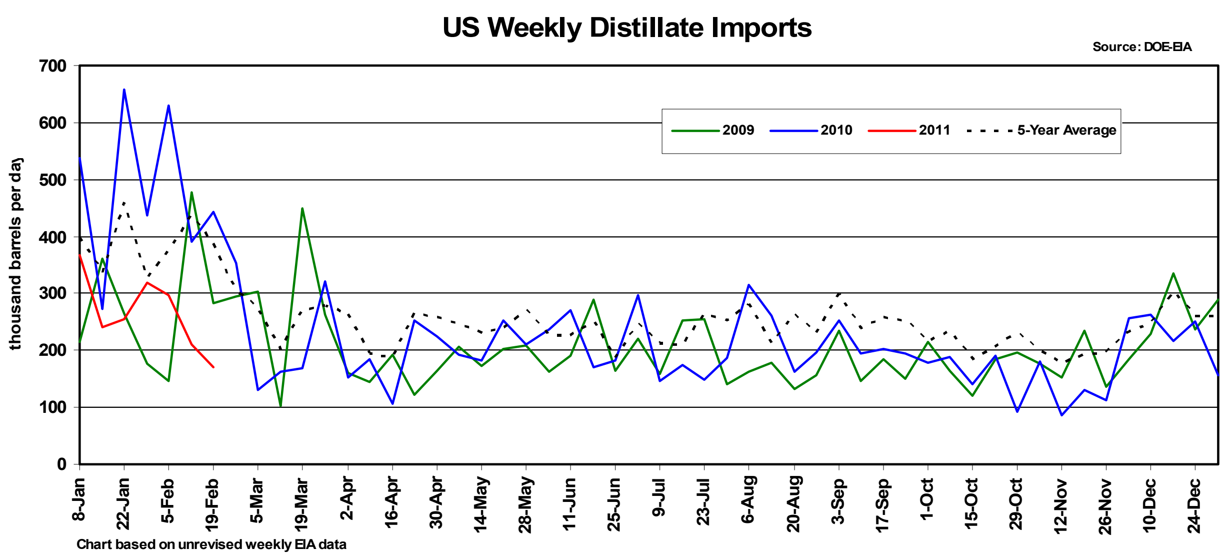
Out of the total distillate stocks, high sulfur distillate (heating oil) stocks in the latest week increased 525,000 barrels to 39.24 million barrels. Heating oil stocks now are 3.42 million barrels below a year ago and are 4.33 million barrels below the five-year average.



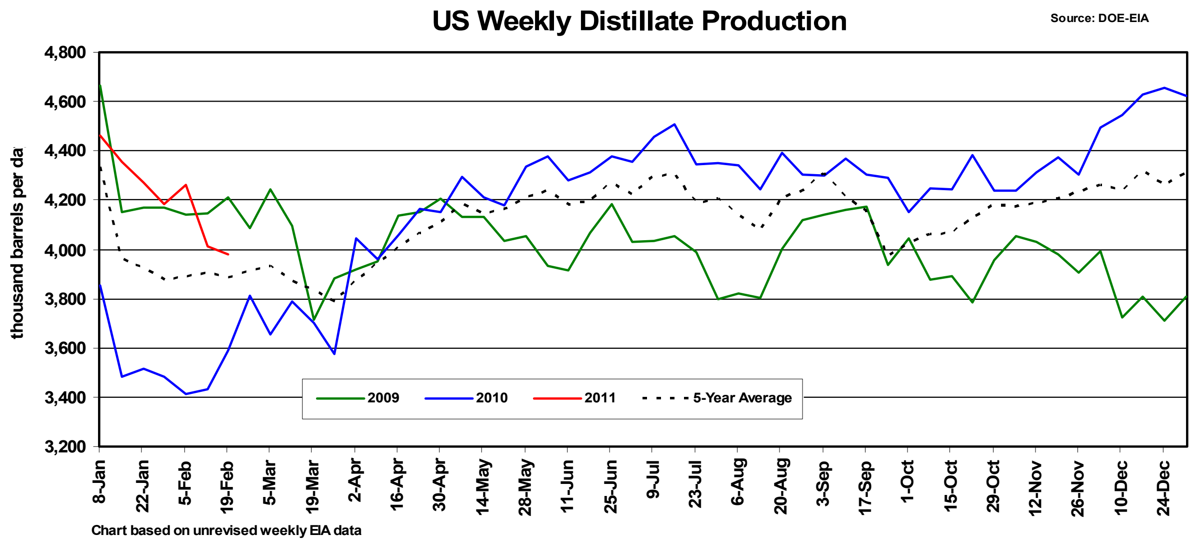
From the week-ago level, ultra low sulfur (0-15 ppm) diesel stocks, at 111.33 million barrels, were down 690,000 barrels, and low sulfur (15-500 ppm) diesel stocks, at 9.37 million, were down 1.17 million barrels. Combined ultra low and low sulfur distillate stocks at 120.70 million barrels now are 10.70 million barrels above a year ago and are 28.13 million above the five-year average.



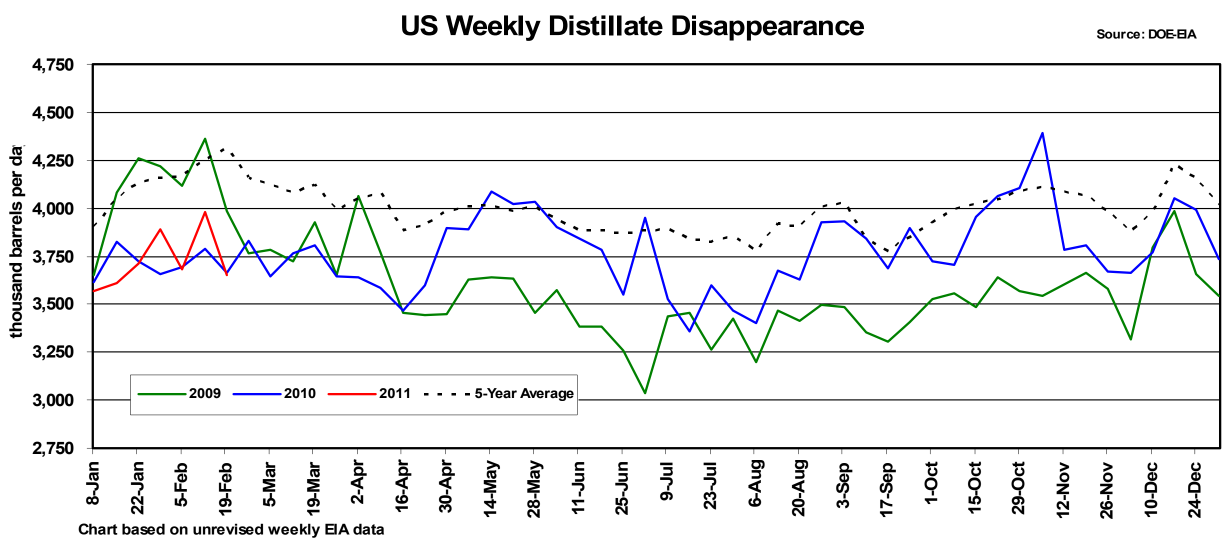
The latest week's decrease in distillate stocks came as distillate imports were down. Distillate imports fell 40,000 bpd from a week ago to 171,000 bpd, taking distillate imports 273,000 bpd below a year ago and 216,000 bpd below the five-year average (see next chart that compares weekly data).



With refinery utilization down 1.80 percentage points to 79.40 percent of operable capacity in the latest week, distillate production declined 33,000 barrels from the week-ago level to 3.98 million bpd (see following chart that shows comparisons with weekly data). Distillate production is now 388,000 bpd above a year ago and 91,000 bpd above the five-year average.



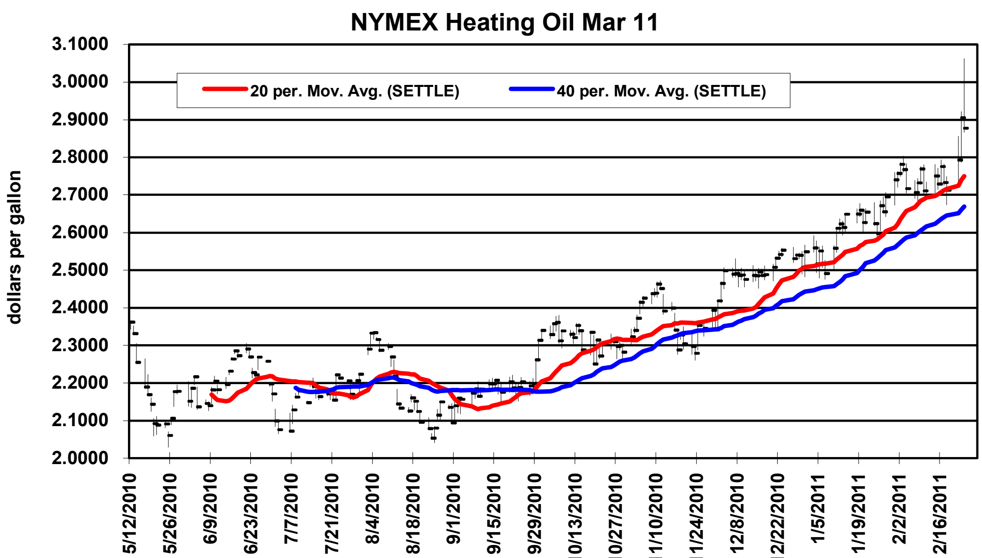
With the warmer weather last week, distillate disappearance was down 325,000 bpd in the latest week to 3.65 million bpd. Distillate disappearance is now 8,000 bpd below last year's low level and 659,000 bpd below the five-year average. Over the last four weeks, distillate disappearance has averaged 3.8 million, which puts distillate disappearance up 2.7 percentage points from the same four-week period a year ago.



<u>Fundamental Outlook</u>: Domestic distillate inventories are plentiful at 7 million barrels above a year ago and 24 million above the five-year average. This comes largely from distillate production that continues to proceed at a good clip—running well above a year ago and the five-year average. Meanwhile, domestic distillate disappearance was down in the latest week given the warmer weather that blanketed much of the US. Distillate usage is now 8,000 bpd below last year's low level and down 660,000 bpd (15 percent) from the five-year average. At the same time, weekly distillate exports have slipped to 686,000 bpd, down nearly 150,000 bpd from last month's weekly level. However, because exports recently have been trending higher, this downturn is expected to be temporary as diesel fuel usage outside the US continues to grow. However, the caution is if the US economy does not rebound to the point that diesel fuel usage in the US either stabilizes or increases. In the meantime, Saudi Arabia is expected to move to increase output and/or the IEA has said it would release reserve petroleum stocks in an effort to keep world supply flows uninterrupted due to the unrest in North Africa. This should temper market strength. Also, such supply moves may be seen as a way to stave off the threat of a return to a global recessionary environment if higher petroleum prices restrain demand. But in the meantime, the threat that unrest in North Africa could spread to the other oil-producing countries certainly will keep the market on edge.

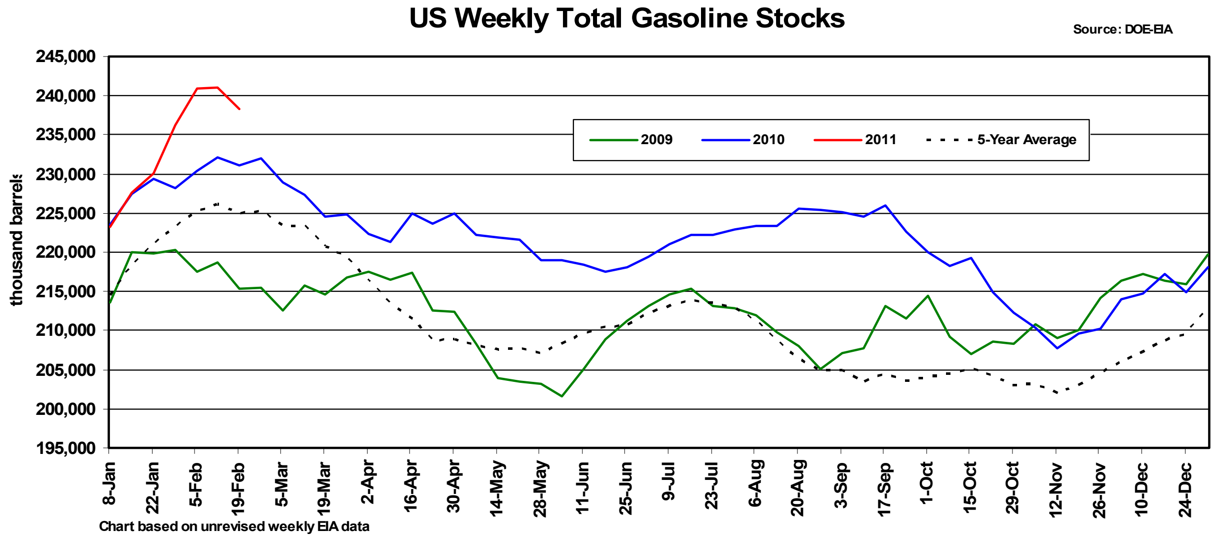
Technical Indicators: March futures:
20-day mvg avg: Higher at $2.7499
40-day mvg avg: Higher at $2.6690
Support: $2.8220 to Feb. 18 low of $2.6731 then $2.4325
Resistance: Feb. 24 high of $3.0625 to $3.0755 to $3.2125

HEATING OIL FUTURES			**February 24, 2011**
Month	**Settle**	**Previous**	**Change**
Mar 11	2.8773	2.9049	-0.0276
Apr 11	2.8932	2.9166	-0.0234
May 11	2.9081	2.9263	-0.0182
Jun 11	2.9231	2.9370	-0.0139
Jul 11	2.9397	2.9496	-0.0099
Aug 11	2.9560	2.9618	-0.0058
Sep 11	2.9818	2.9766	0.0052
Oct 11	2.9981	2.9943	0.0038
Nov 11	3.0157	3.0136	0.0021
Dec 11	3.0323	3.0314	0.0009
Jan 12	3.0474	3.0464	0.0010
Feb 12	3.0509	3.0499	0.0010

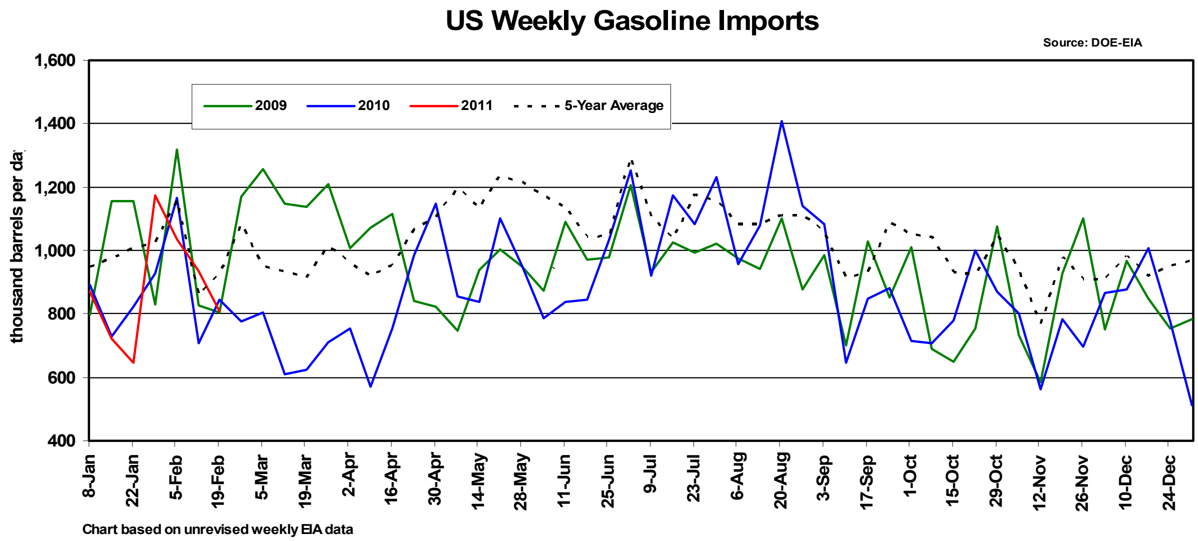


7. GASOLINE PRICE COMMENTS. NYMEX RBOB futures settled mixed today with the nearby contracts higher and deferred futures lower. Nearby futures garnered strength from the Energy Information Administration (EIA) report that showed a decline in gasoline inventories in the latest week—which was counter to pre-report trade expectations that gasoline stocks would be up in the latest week. However, gains were tempered and deferred futures settled lower on reports that Saudi Arabia has assured European refiners that it would fill the supply void left from Libya where much of its production has been shut in due to the violence there. Also, a late-session rumor that Libyan leader Muammar Gaddafi had been shot (which could not be confirmed by US officials) pushed the market to settle near the day's lows. NYMEX March RBOB futures settled +$0.0018 at $2.7167.

Fundamental Indicators: The Energy Information Administration (EIA) *Weekly Petroleum Status* report for the week ending Feb. 18 showed gasoline stocks were down 2.80 million barrels from the week prior to 238.30 million (see following chart)—falling from last week's level, which was the highest since March 1990 when stocks hit a record 251.07 million barrels. Gasoline stocks remain above the upper half of the average range. The week-over-week decrease was counter to pre-report trade ideas that stocks would be up 400,000 barrels. But even with the stocks decline, gasoline inventories still are 7.13 million above a year ago and are 13.39 million above the five-year average.

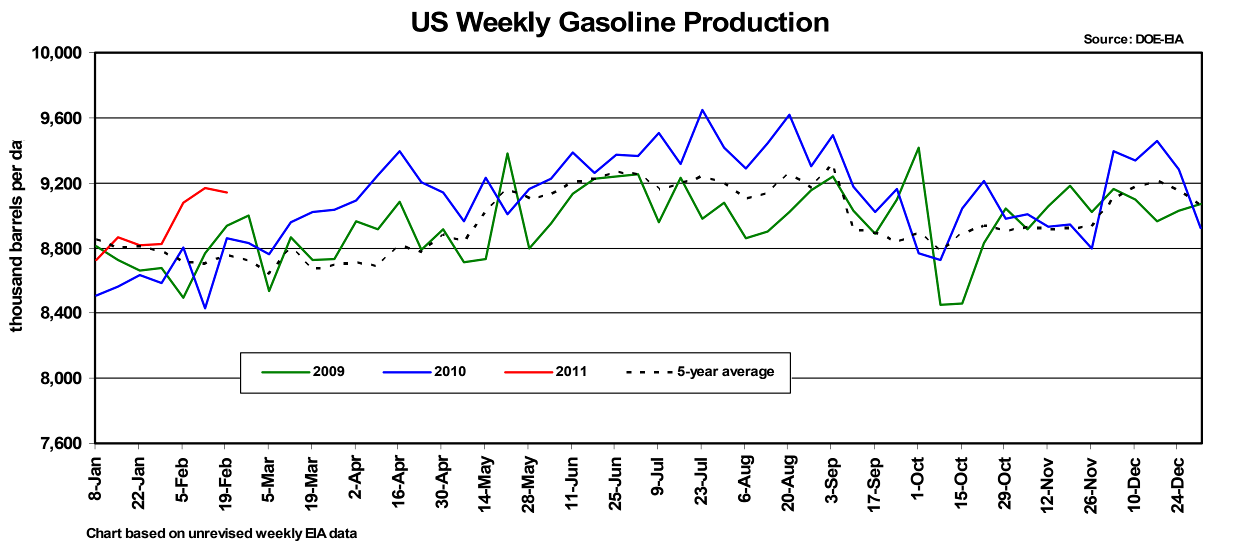


In the latest week, the ample supply of gasoline inventories subdued gasoline imports (including both finished gasoline and gasoline blending components). Gasoline imports in the latest week declined 127,000 bpd to 808,000 bpd. Gasoline imports now are 38,000 bpd below a year ago and 116,000 bpd below the five-year average of 924,000 bpd.

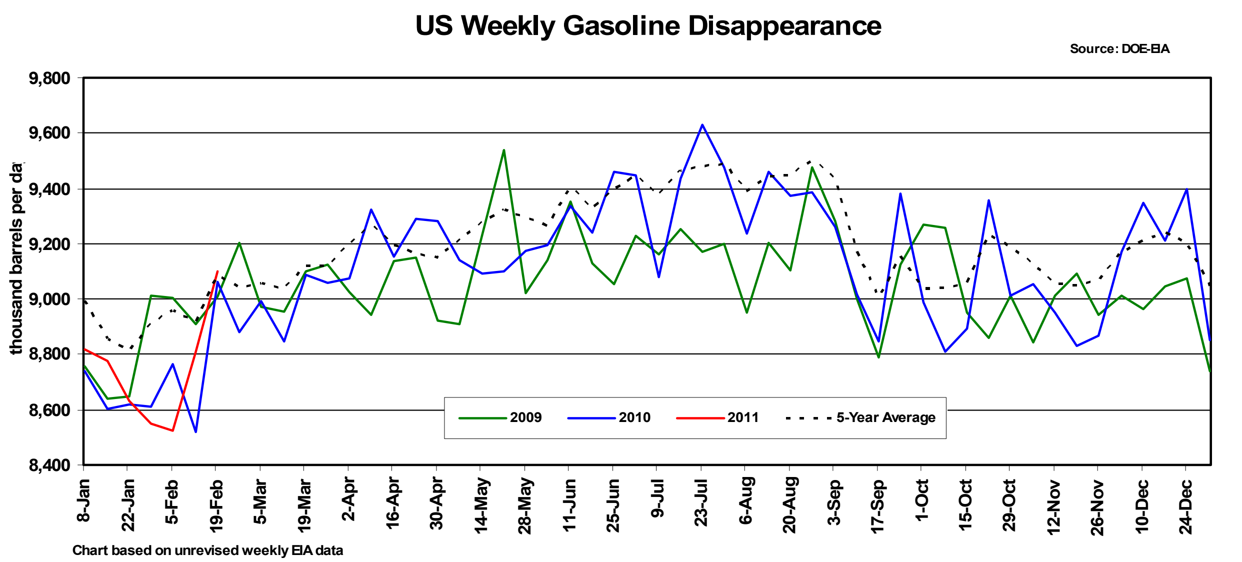


With refinery utilization down 1.80 percentage points to 79.40 percent of operable capacity, gasoline production declined in the latest week. Gasoline production was down 26,000 bpd to 9.147 million bpd.

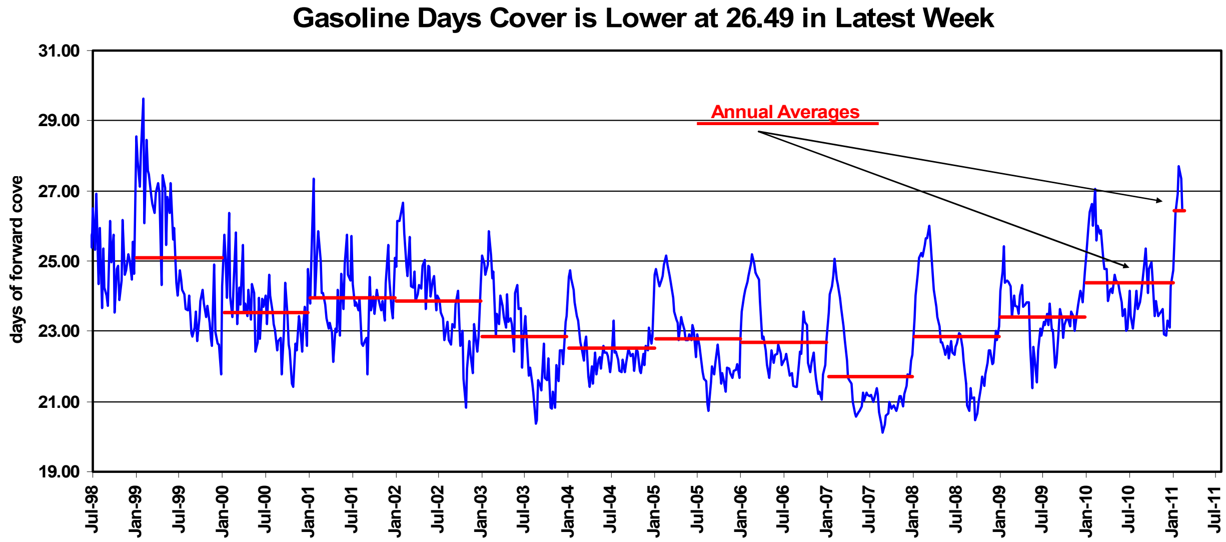
Gasoline production now is running 280,000 bpd above a year ago and 390,000 bpd above the five-year average.



The week-over-week decrease in gasoline stocks also came as gasoline disappearance (i.e., deliveries to distributors that are used as a gauge of consumer demand) rose in the latest week. For the week ending Feb. 18, gasoline disappearance was up 291,000 bpd to 9.10 million bpd (see following chart). Gasoline disappearance now is 37,000 bpd above the year-ago level but 12,000 bpd above the five-year average. In the last four weeks, the EIA estimates that gasoline disappearance has averaged about 8.7 million bpd, which is up 0.1 percentage point from the same four-week period a year ago.



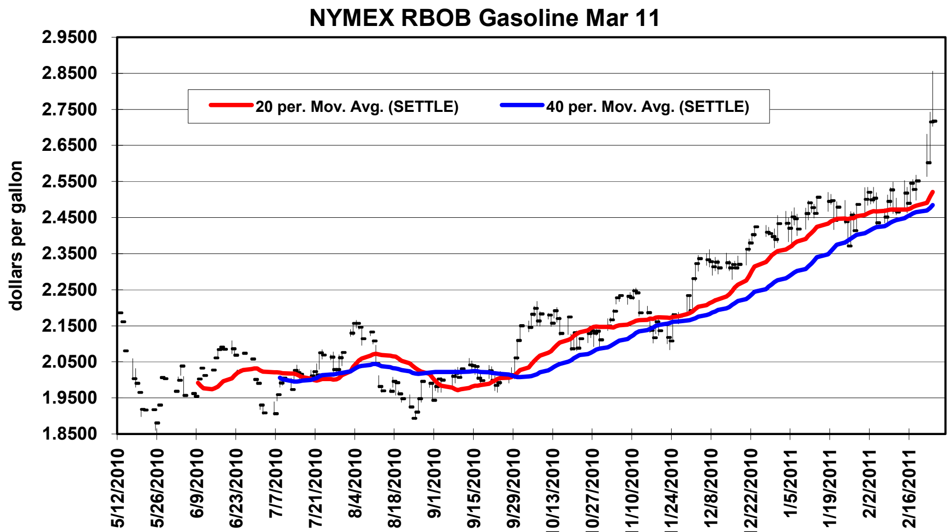
Gasoline days' forward cover declined nearly one full day in the latest week to 26.49 days of forward cover. This latest week's average days of forward cover is above the 24.88 five-year average for the latest week. Recall that the estimate of gasoline days of forward cover is the week prior's stocks (241.10 million in the week ending Feb. 11) divided by the latest week's disappearance (9.10 million for the week ending Feb. 18).



Fundamental Outlook: In the latest week, US gasoline stocks declined from previous week's peak which was the highest level of gasoline inventories in 21 years when stocks hit 251 million barrels in March 1990. The week-over-week decline came as imports slipped and gasoline production also faltered with refinery utilization down 1.80 percentage points. However, gasoline production remains at a strong 280,000 bpd above a year ago and 390,000 bpd above the five-year average. In the meantime, gasoline disappearance rose—appearing to start its seasonal trend up from now into early September. However, with retail gasoline prices already 50 cents above a year ago and looking to move higher, gasoline disappearance could struggle if the US economy is unable to sustain a recovery, particularly in the light of the rising world petroleum prices. And if Saudi Arabia moves to increase output in an effort to keep world oil supply flows uninterrupted due to the unrest in North Africa, this should temper the overall strength in the petroleum complex. But in the meantime, unease that the instability in North Africa cold spread to the other oil-producing countries in the region will keep a significant amount of risk premium in the market.

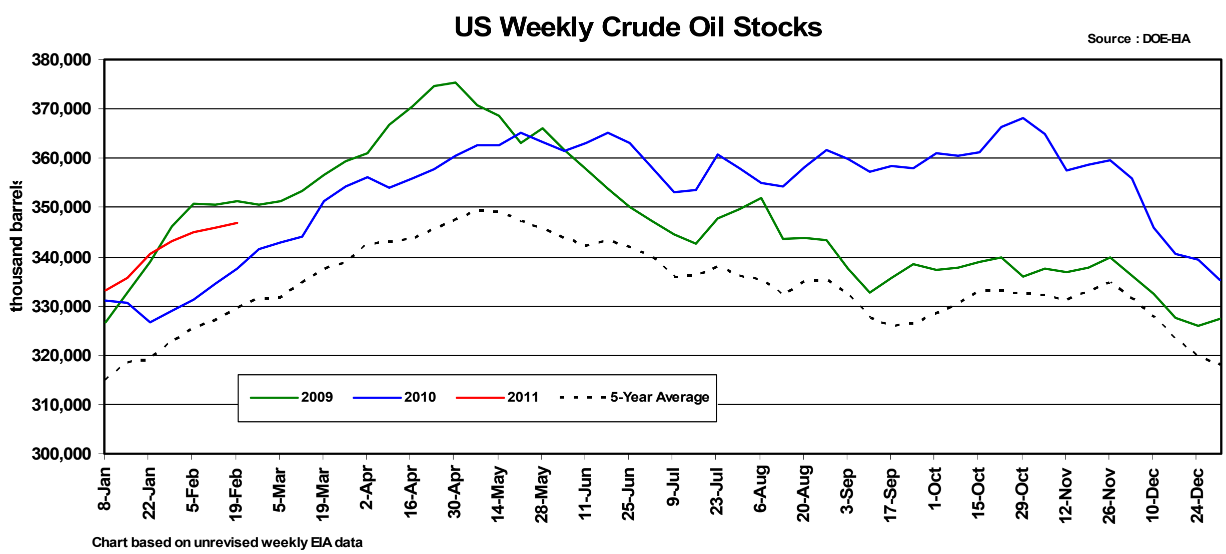
Technical Indicators: March futures:
20-day mvg avg: Higher at $2.5213
40-day mvg avg: Higher at $2.4847
Support: $2.6125 then $2.5555 to Jan. 25 low of $2.3692
Resistance: Feb. 24 high of $2.8560 then $2.9695

RBOB GASOLINE FUTURES			**February 24, 2011**
Month	**Settle**	**Previous**	**Change**
Mar 11	2.7167	2.7149	0.0018
Apr 11	2.8749	2.8677	0.0072
May 11	2.8863	2.8807	0.0056
Jun 11	2.8839	2.8816	0.0023
Jul 11	2.8762	2.8747	0.0015
Aug 11	2.8641	2.8638	0.0003
Sep 11	2.8431	2.8450	-0.0019
Oct 11	2.7232	2.7281	-0.0049
Nov 11	2.6962	2.7008	-0.0046
Dec 11	2.6815	2.6839	-0.0024
Jan 12	2.6865	2.6894	-0.0029
Feb 12	2.6970	2.7001	-0.0031

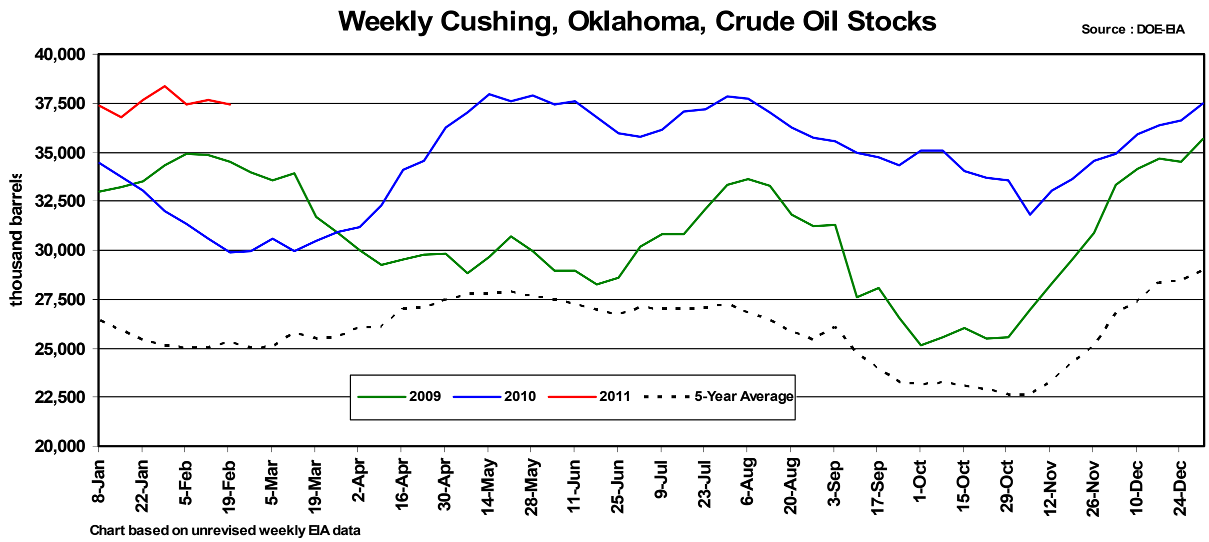


8. **CRUDE OIL PRICE COMMENTS.** NYMEX crude oil futures settled lower today, closing near the day's lows as Saudi Arabia made assurances to European refiners that it would fill the supply void from Libya. Also, rumors that Libyan leader Muammar Gaddafi had been shot pulled the market off of its highs; a US official said the US has no reason to believe the Libyan leader had been shot. Early in the session, futures shot up to 2 1/2-year highs on concerns that the unrest in Libya will spread to other oil-producing countries in the region. NYMEX April crude oil futures settled -$0.82 at $97.28.

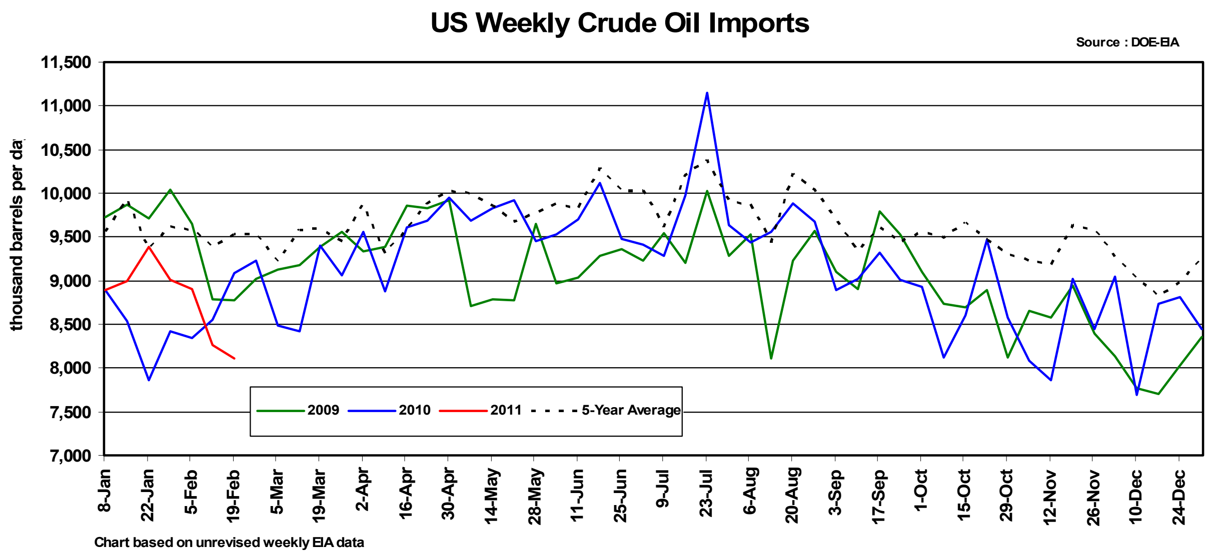
Fundamental Indicators: The Energy Information Administration (EIA) *Weekly Petroleum Status* report for the week ending Feb. 18 showed crude oil stocks increased 822,000 barrels to 346.74 million barrels. The increase was less than pre-report trade expectations that crude oil stocks would be up 1.2 million. With the week-over-week stock increase, crude stocks still are above the upper bounds of the average for this time of year. However, the surplus to a year ago narrowed to 9.20 million and the surplus to the five-year average also narrowed to 17.05 million barrels (see next chart that compares weekly data).



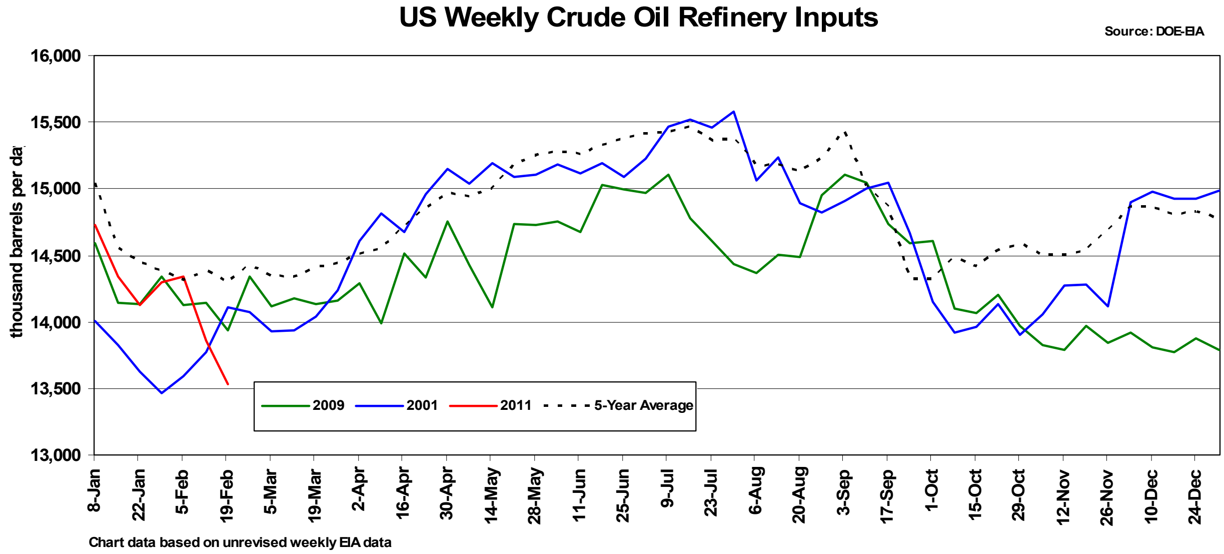
Weekly stocks at Cushing, Okla., the delivery point for NYMEX-traded West Texas Intermediate crude futures, declined 217,000 barrels to 37.44 million barrels. This put stocks at the futures delivery point at 7.54 million above a year ago and 12.14 million above the five-year average. According to NYMEX, storage capacity at Cushing is near 47.5 million with the facility able to utilize 38 to 42.8 million while still maintaining safe operational levels (i.e., managing oil flow between pipelines and/or reserved for specific crude blends). Cushing stocks at the current level are below the lower limit of that which is seen as manageable and do not pose any problem for delivery capacity.



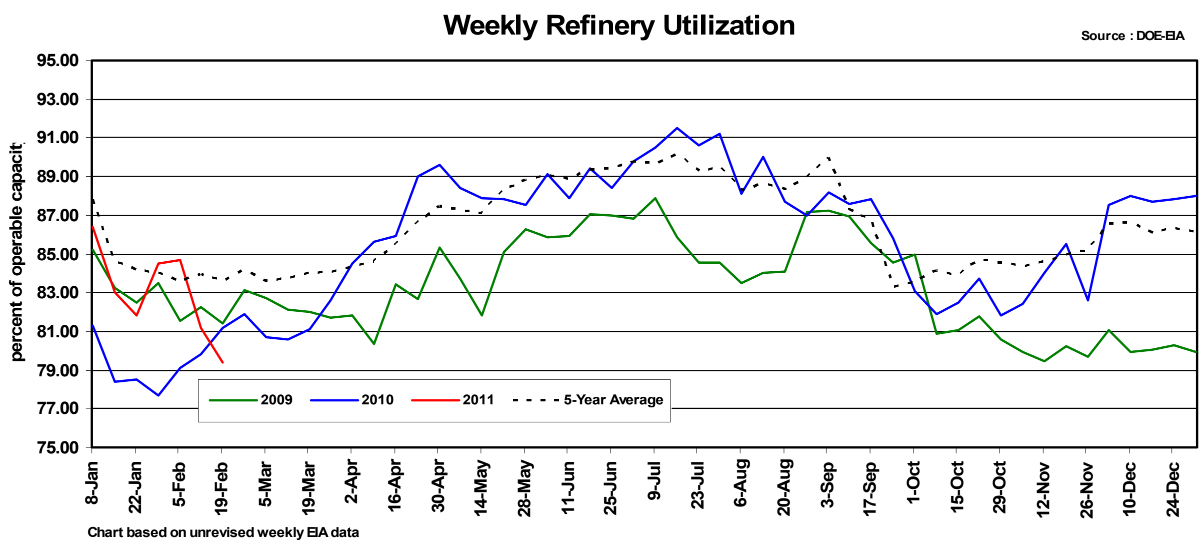
With domestic crude oil stocks ample, this continued to discourage crude oil imports in the latest week. Crude oil imports were down 160,000 bpd to 8.11 million bpd. Crude oil imports now are 978,000 bpd below the year-ago level and are 1.43 million bpd below the five-year average of 9.53 million bpd (see next chart that compares weekly data).



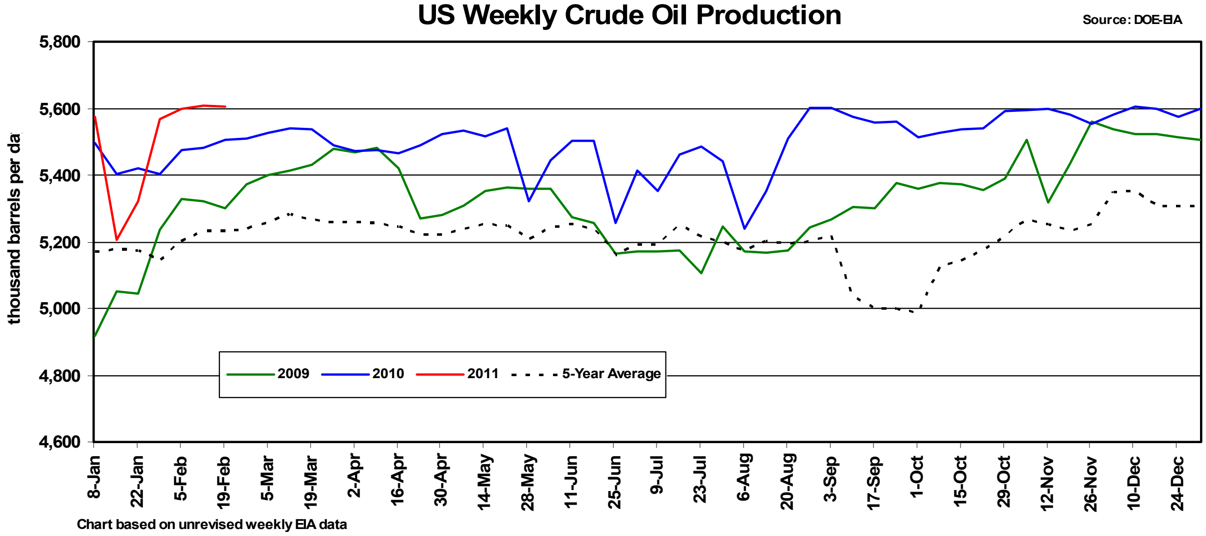
The week-over-week increase in crude oil stocks came as crude oil inputs to refineries were down 328,000 bpd to 13.54 million. Crude oil refinery inputs are 572,000 barrels below the year-ago level and are 761,000 bpd below the five-year average of 14.30 million. (Crude oil refinery inputs are the total of crude oil [domestic plus foreign] inputs put into crude distillation units and other refinery processing units.)



The decrease in crude oil refinery inputs came as refinery utilization of operable capacity was down in the latest week. Refinery utilization declined 1.80 percentage points to 79.40 percent of operable capacity. Refinery utilization now is 1.80 percentage points below the year-ago level and 4.19 percentage points below the five-year average of 83.59 percent of operable capacity (see following chart showing comparisons with weekly data).



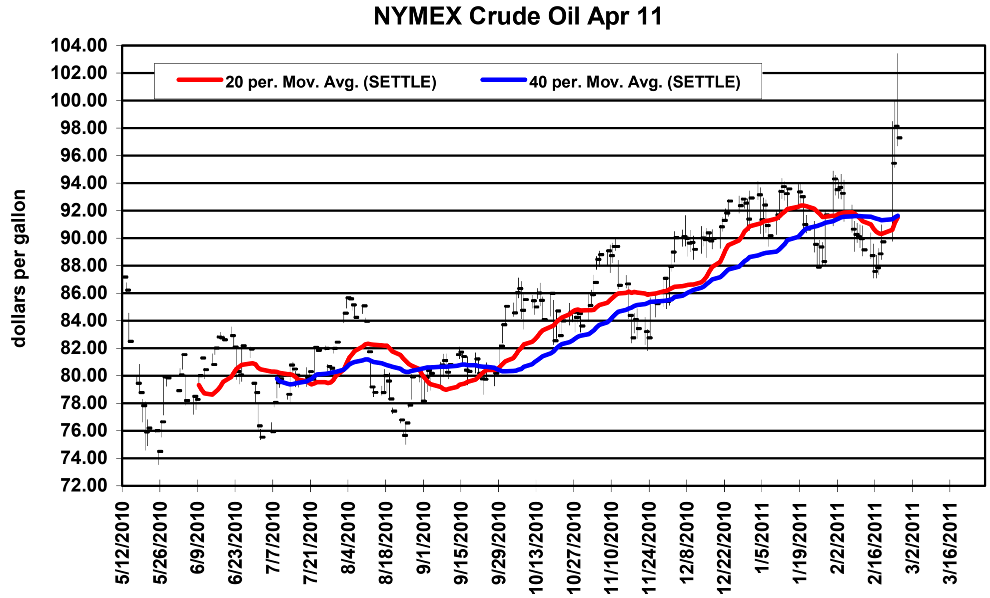
Meanwhile, crude oil production in the latest week was down a slight 6,000 bpd to 5.60 million bpd. US crude production now is 99,000 bpd above a year ago and 372,000 bpd above the five-year average (see following chart).



Fundamental Outlook: Total crude oil and petroleum product stocks (excluding stocks in the SPR) fell 12 million barrels in the latest week, with every petroleum product stock level declining. But, at the same time, total domestic petroleum product disappearance also was down—falling 225,000 bpd in the latest week as the 325,000-bpd drop in distillate disappearance and 350,000-bpd decline in propane/propylene demand more than offset the increased usage for the other petroleum products. Total domestic petroleum product disappearance now is 563,000 bpd above last year's low level but 744,000 barrels below the five-year average. High petroleum prices could threaten the economic recovery in the US. In addition, if the unease in North Africa hinders oil supply flows, Saudi Arabia would be expected to boost output in an effort to maintain a level of uninterrupted supplies. Also, the potential risk for a return to a global economic recessionary environment would be expected to encourage OPEC and non-OPEC members to boost output—which would keep price gains in check. But in the meantime, a significant amount of risk p0remium is expected to remain in the market given the unease about the instability in North Africa and the potential for it to spread to other oil-producing countries in the region.

Technical Indicators: April futures:
20-day mvg avg: Higher at $91.50
40-day mvg avg: Higher at $91.63
Support: $95.25 to $93.35 then Feb. 16 low of $87.09
Resistance: Feb. 24 high of $103.41 then $107.50 to $109.55

CRUDE OIL FUTURES			**February 24, 2011**
Month	**Settle**	**Previous**	**Change**
Apr 11	97.28	98.10	-0.82
May 11	98.74	99.82	-1.08
Jun 11	99.44	100.64	-1.20
Jul 11	100.05	101.22	-1.17
Aug 11	100.44	101.51	-1.07
Sep 11	100.67	101.66	-0.99
Oct 11	100.81	101.79	-0.98
Nov 11	100.93	101.92	-0.99
Dec 11	100.99	101.98	-0.99
Jan 12	100.97	101.96	-0.99
Feb 12	100.85	101.84	-0.99
Mar 12	100.70	101.68	-0.98

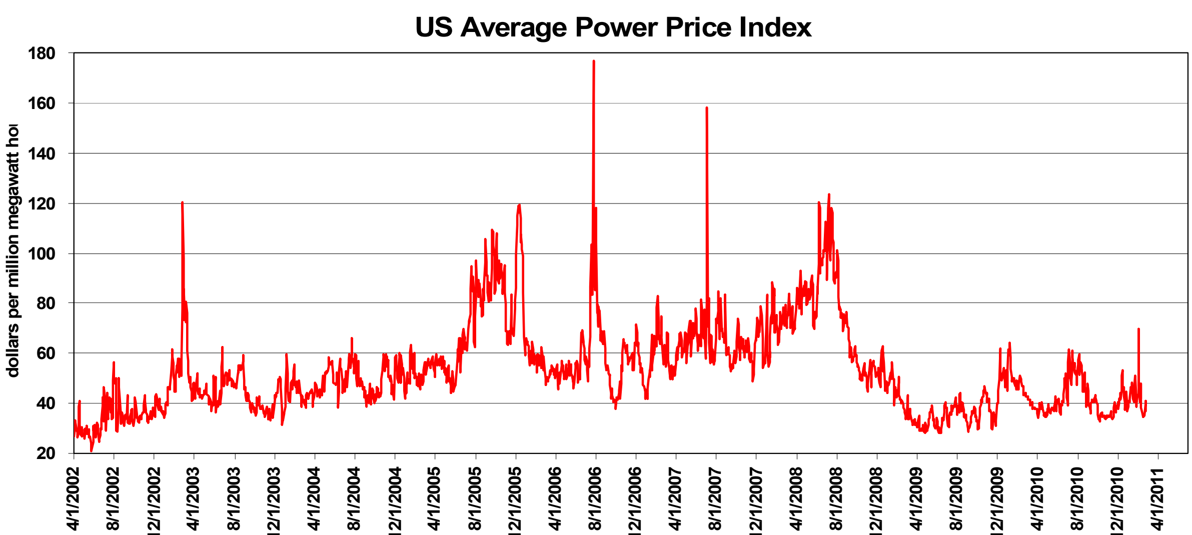


9. POWER PRICE COMMENTS. The average US cash power price was lower today. In the East, the Nepool was down $33.33 at $52.48 and the PJM West was unchanged at $52.00. In the Midwest, prices were lower with the largest decrease in the Northern Illinois, which was down $3.00 at $32.00; the ERCOT was down $0.25 at $31.76. In the West, prices were lower with the largest decrease in the COB, which was down $2.96 at $35.04; the Mid-C in the Pacific Northwest was down $0.93 at $33.81.

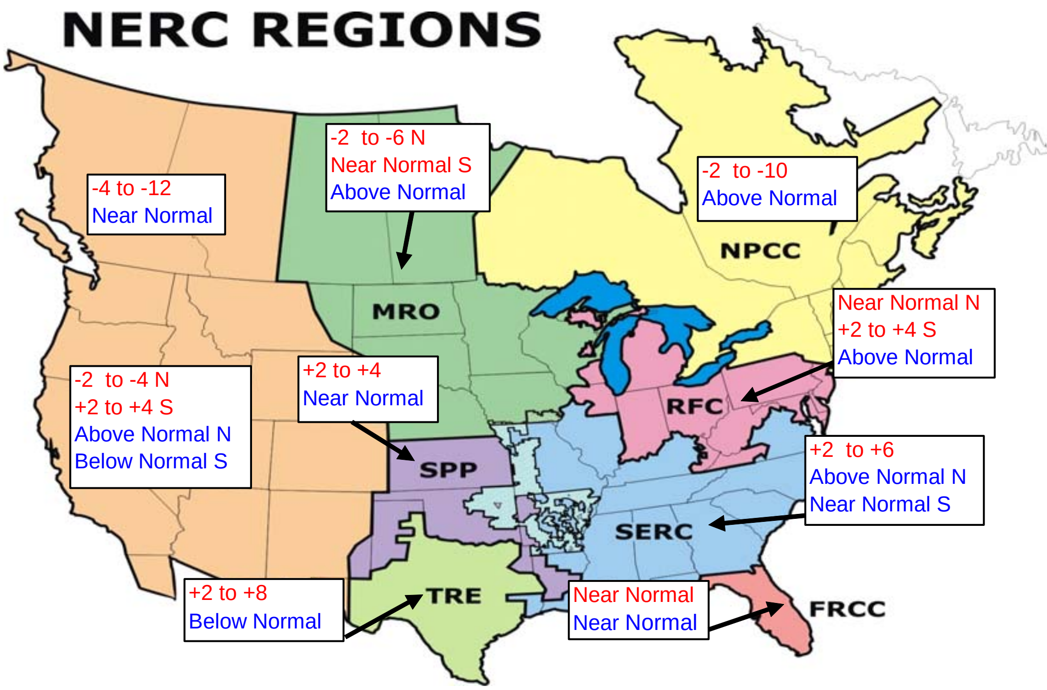
CASH POWER QUOTES FOR DELIVERY THE FOLLOWING DAY (dollars per mwh)

Region	02/16	02/17	02/18	02/22	02/23	02/24	Change
East	36.25	33.80	39.46	57.35	57.86	46.45	-11.41
Midwest	35.80	35.12	34.17	35.40	35.75	35.22	-0.53
West	34.20	34.09	33.67	35.34	36.13	33.82	-2.31
US	35.20	34.74	35.18	40.22	40.76	36.93	-3.84

Individual prices sourced from the Intercontinental Exchange daily indices; totals may not add due to rounding.



10. WEATHER OUTLOOK. NERC Energy Region 6- to 10-Day Weather Outlook: Mar. 1 to Mar. 5.
North to have near to below-normal temps; South is near to above normal through late next week.
(deviations from normal: temperatures in red, precipitation in blue)



Informa Economics' Long-Term Weather Outlook: Temperatures in March are forecast to be above normal for the TRE, SPP, much of the west and south SERC, and FRCC. Below-normal temperatures are forecast for the west and north WECC, north MRO and west NPCC. Near normal temperatures are forecast elsewhere. The outlook for April shows above-normal temperatures for the southeast WECC, TRE, SPP, the southwest SERC, the north FRCC and the central and east NPCC. Below-normal temperatures are forecast for the west-central and northwest WECC and north MRO. Near normal temperatures are forecast elsewhere. For May, the oulook is for above-normal temperatures for the southeast WECC, the TRE, SPP, southwest SERC, and east NPCC. Below-normal temperatures are forecast for the central and north WECC, the MRO and west RFC. Near normal conditions are forecast elsewhere.

NOAA's Long-Term Outlook: NOAA's March outlook on Feb. 17 called for below-normal temperatures in the southwest, central and north WECC, the MRO, and the far west NPCC. Above-normal temperatures are expected for the southeast WECC, the SPP, the TRE, and the southwest SERC. Elsewhere, there are equal chances for below-, near-, or above-normal temperatures.