

FS Energy Market Update January 25, 2012

NYMEX Prices

	Close	Wk Change
Feb Crude Oil	\$ 99.40	-.99
Feb Gasoline	\$ 2.8338	+.0180
Feb Heating Oil	\$ 3.0192	-.0168
Feb Natural Gas	\$ 2.729	+.407

MARKET COMMENTS:

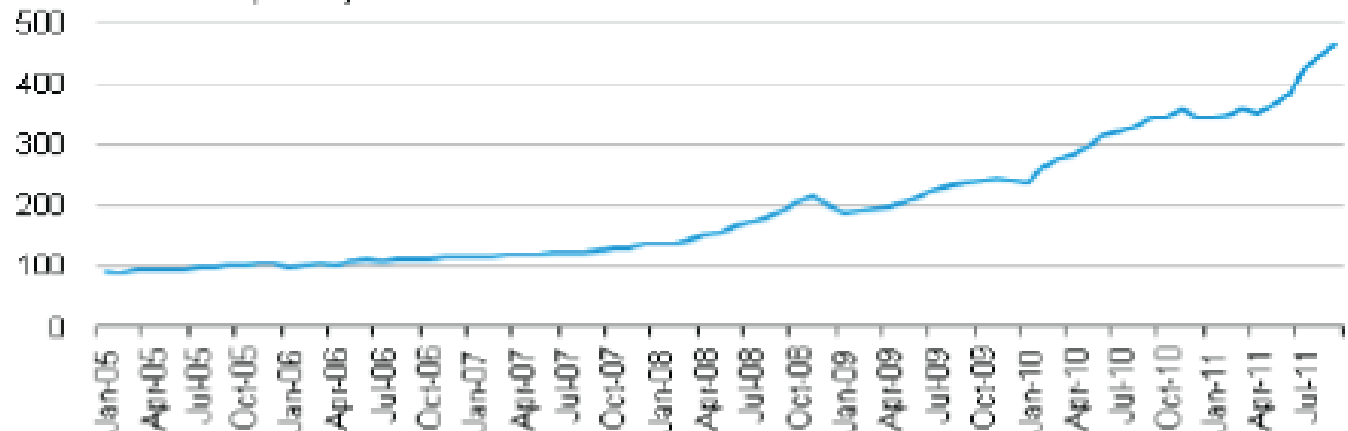
Energies continue to chop around near the end of January. Most were expecting a nice sell off at the end of this month as indicated in the seasonal patterns for the 5 year average. Unless we get something real soon it may look like the old 15 year pattern where we traded in a tight pattern though the end of February. From February to March there is still a steep increase in the pattern. The FOMC meeting provided little new information as they signaled to keep interest rates low until late 2014. In addition they did not say anything about another round of quantitative easing.

Swiss-based Petroplus Holdings AG (PPHN), the largest independent European refiner, said it plans to file for insolvency. Petroplus had about \$1 billion in credit lines frozen last month, preventing it from supplying plants with crude. It said last week it may sell three of its five European plants. “We have worked hard to avoid this outcome, but were ultimately not able to come to an agreement with our lenders to resolve these issues given the very tight and difficult European credit and refining markets,” Chief Executive Officer Jean-Paul Vettier.

North Dakota has become our fourth largest oil-producing state, behind Texas, Alaska and California. The Bakken formation occupies about 200,000 square miles and lies underneath Montana, North Dakota, and Saskatchewan. Oil was discovered there in 1951, but it was not recoverable until horizontal drilling was combined with hydraulic fracturing. Horizontal drilling accounts for almost 90% of the dramatically increased production. Production is estimated to reach 750,000 barrels/day by 2015. Total reserves are estimated at 18 billion barrels, with over 2 billion barrels recoverable with today’s technology. Much of the Bakken crude is shipped by rail.

North Dakota average monthly oil production, January 2005-September 2011

thousand barrels per day



Less refineries and the implications that may have on prices!

Last week Hess Corp. announced that they were going to close the St. Croix, U.S. Virgin Islands refinery because of the lackluster fuel demand and already tight profit margins. The St. Croix refinery produces 350,000 barrels per day. Most industry analysts agreed with the closure because of the company's losses. Moreover, there is speculation that Hess's refinery in Port Reading, New Jersey may be closing if they continue to experience losses. However, yesterday Jay Wilson V.P. of investor relations in New York stated "as long as it generates acceptable financial returns" the plant will continue to operate. They may re-tool in February for 3 weeks too. Even if this refinery does continue to operate there have been several on the east coast that have slowed or shut down in the past year. On the other hand we have several refineries being built in developing countries that will need to service any increases in world demand. Keep in mind that for them fuel demand could be both domestic and the need to export to other countries. Right now the U.S. economy is fragile but still seems to be slight growing. What if we experience the demand like we have in 2006-2008? Eventually the economy will bring strong here in the U.S. and other parts of the world. As a result there will be fewer refineries with a bigger market share. It is almost impossible to tell where prices will be then but at the very least there will be uncertainty. We all know what happens to prices when there is uncertainty!

MasterCard's spending pulse report has showed an increase in gas demand the last two weeks. U.S. gasoline consumption jumped 1.3% during the past week according to the latest report. Diesel fuel demand is still right on the 5 year average on a 4 week average. The diesel fuel demand has also set back but not like gasoline has. Below is a current chart of the Heat to Gasoline spread. Inventories and demand play a key role in these spreads, especially long term.

