Oil Fundwatch

ESAI

A One-week Outlook on the Financial Factors Driving Oil Prices

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UPSIDE BIAS GROWS

IN SUMMARY:
ESAI's outlook remains bullish this week. Although ESAI expects that traders will adjust lower at some point in the future, a steep contango and continued tensions in the Middle East will keep WTI well supported. WTI is expected to move well above $92 as the March contract rolls into a steep contango. This will give WTI upside momentum. On the upside, technical resistance above $95 per barrel will temper the near-term. However, after that the next significant resistance level is not until $102.75.

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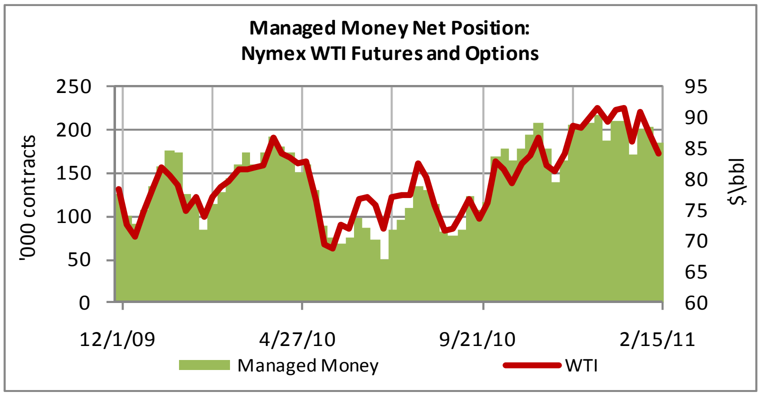
2/18/11	WTI	86.2	RBOB	2.55	#2 Oil	2.71	Euro	1.37	DJIA	12391
weekly Δ		0.62		0.09		0.02		0.0147		150

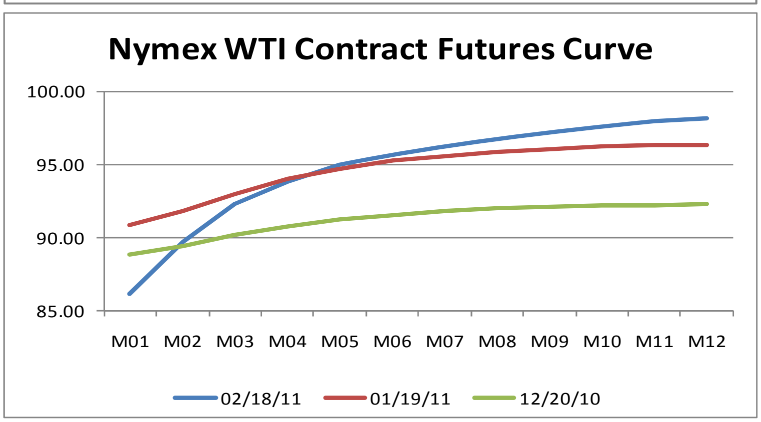
COMMITMENTS OF TRADERS & INVESTMENT ANALYSIS

COT Analysis: Supportive Investor Risk Premiums

Managed money traders continued to undermine net length the week ending February 15th, bringing it back below 200,000 lots for the first time in February. Traders continued to liquidate large long positions but unlike the previous week, they also built positions on the short side of the market. This increased bearish sentiment contributed to a more than $2 per barrel decline that week. Prices since have rallied, however, climbing back above $90 per barrel in early trading Tuesday. The spreading tensions in the Middle East were the big driver and ESAI expects that investor risk premiums will remain high, providing support for WTI. There will be some investor rationalization after the recent rally though.

The steep contango will also provide further support for WTI this week. The front-near month contango in the Nymex WTI contract remained at more than $3 per barrel Tuesday morning even as front month prices rose above $90. With the contract roll today, WTI will get even further support with April contract prices as high as $96 per barrel.

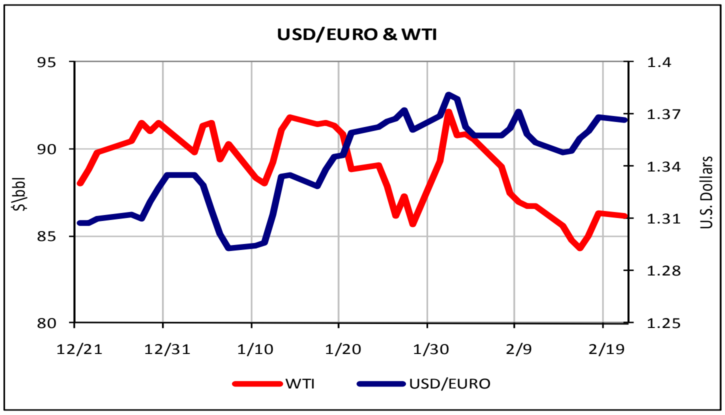


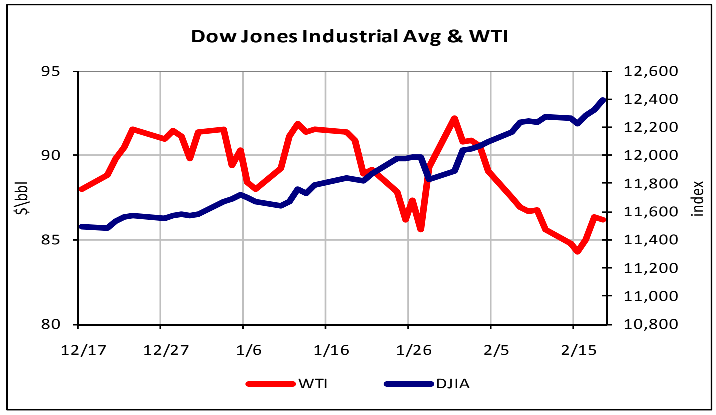


FINANCIAL MARKET PRESSURES

Contango and Risk Premiums Continue to Support Higher Prices

Financial markets remained mostly supportive this past week, but WTI continued to taking strong cues from tensions in the Middle East. The U.S. dollar fell back to $1.37 per Euro this past week. This weakness continued to provide some support for WTI. The Dow Jones Industrial Average also continued to climb last week, climbing to 12,400 points, suggesting the general investor outlook for the U.S. economy continues to improve. Both of these suggest supportive investors. With risk premiums expected to remain high on Middle East tensions, and today's contract roll with a steep contango, investors will continue to support prices this week.



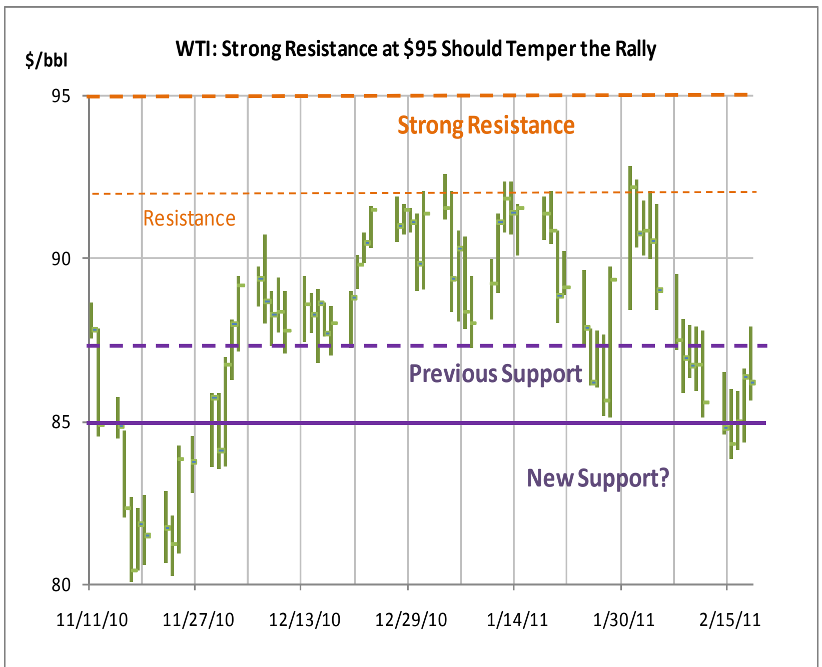


A TECHNICAL VIEW

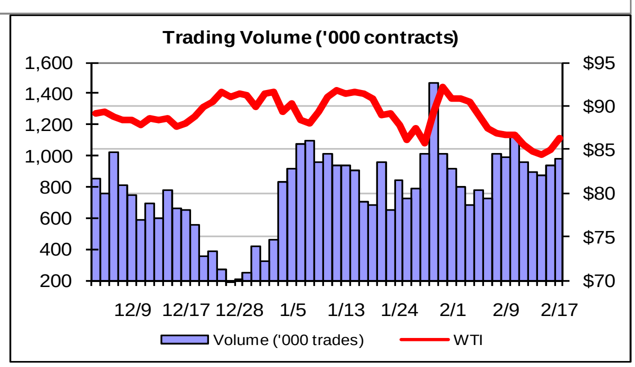
Bullish Support; New Range?

As ESAI expected, WTI found support below $85 per barrel this past week. This support helped push WTI prices higher late last week. However, the tension in Libya has significantly altered WTI's short-term technical outlook. WTI has risen back above $92 per barrel Tuesday and the April roll will take that even higher. Moving above this resistance that has kept a lid on prices since mid-December, is a bullish development and it will likely lift WTI into a new trading range. $95 per barrel will offer strong resistance, however.

Open interest and volume moderated late last week, but ESAI expects that with events in Libya over the weekend, traders have come back into the market. This activity, however, may be short-lived as ESAI expects that investors will adjust their positions after the initial rally.



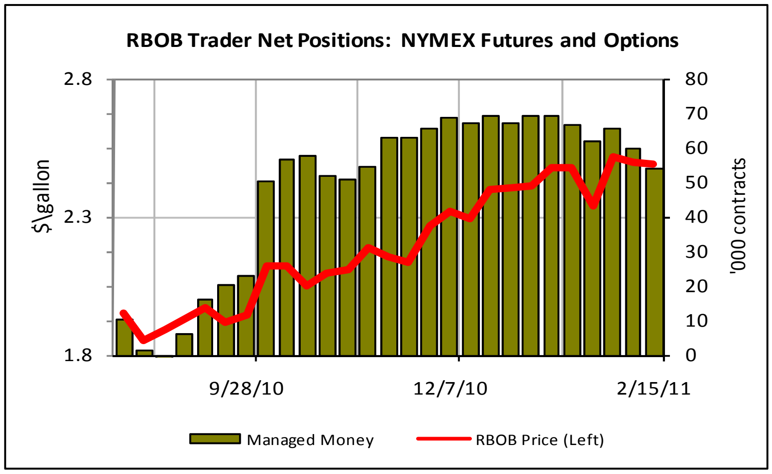
Total Crude Market Liquidity						
	Futures Only*					
	Nymex OI	ICE OI	Total OI	Change	Price	Change
18-Feb-11	1,531,205	572,999	2,104,204	*(37,417)*	$86.20	**$1.88**
15-Feb-11	1,559,669	581,952	2,141,621	*21,465*	$84.32	**($2.62)**
8-Feb-11	1,536,606	583,550	2,120,156	*(1,763)*	$86.94	**($3.83)**
1-Feb-11	1,531,942	589,977	2,121,919	*59,582*	$90.77	**$4.58**



COMMITMENTS OF TRADERS ANALYSIS: PRODUCT MARKETS

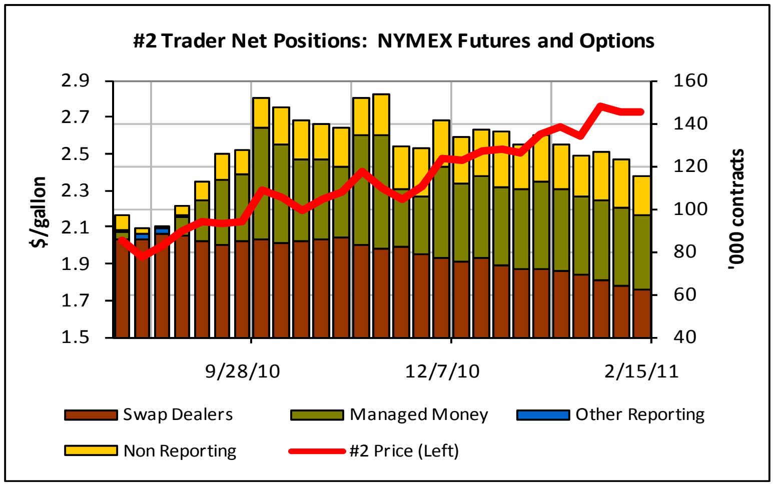
U.S. RBOB Gasoline

As ESAI expected, RBOB managed money net length followed WTI lower, falling under 55,000 lots for the first time since early November as bearish traders reduced net length by more than 6,000 lots that week. They continued to liquidate longs while doubling their short positions. Prices since have continued to rise back above $2.60 per gallon as tensions in Libya rise. This rapid rise has undoubtedly been accompanied by a swift move to the long side of the market as well. Continued tensions in the Middle East will keep investors long for now.



U.S. #2 Oil

Heating oil managed money traders also reduced net length the week ending February 15th. Traders shed more than 1,500 lots that week, but all of it was from the long side of the market, continuing to suggest that heating oil traders remain more bullish than their counterparts at the moment. Heating oil prices have also continued to rise faster, with heating oil prices climbing above $2.80 per gallon in Tuesday trading. These more bullish indications continue to suggest to ESAI that heating oil traders remain supportive. This support will continue to temper heating oil's downside this week.



Glossary

Physical Hedgers – are the traditional commercial players with physical exposure to oil markets like an oil producer. Trader in this category represent entities that predominantly engage in the production, use or handling of a physical commodity and use the futures markets to manage or hedge risks associated with those activities.

Swap Dealers – are entities that deal primarily in swap transactions and use the futures markets to manage risks related to those transactions. The counter parties to swap dealers in these transactions may be speculative traders or traditional commercial clients. Many of the large U.S. and foreign banks such as Goldman Sachs and Morgan Stanley are examples of entities that fulfill this role in the market. These entities are included in the commercial category in the traditional COT reports.

Managed Money – is a trader that is engaged in managing and conducting organized futures trading on behalf of clients. This would include hedge funds and other money managers such as State Street Global Advisors that manage client investment in the futures markets.

Other Reporting – is a catch all category that captures all traders that reported trades to the CFTC that didn't fall into one of the above categories. This category would also capture the trading activity of some smaller traders that are not required to report but do so anyway.

Non-reporting – this category is designed to capture traders that are not required to report positions to the CFTC. The main example of this trader group are traders with positions too small to meet reporting requirements.

Spreading – This refers to a computed amount equal to the number of offsetting long and short positions held by an individual trader. These can be offsetting futures positions in different calendar months or offsetting futures and options positions in the same or different calendar months.

COT DATA TABLES

WTI Commitment of Trader Detail Analysis

Futures & Options

	Long	Short	Net	Change	Spread	Change	Open Interest
NYMEX							
Physical Hedgers							
2/15/2011	407,890	616,840	(208,950)	(14,480)			512,365
2/8/2011	424,615	619,085	(194,470)	(9,323)			521,850
2/1/2011	414,905	600,052	(185,147)	(22,133)			507,479
Swaps Dealers							
2/15/2011	230,508	308,872	(78,364)	21,701	743,894	11,011	1,013,584
2/8/2011	226,588	326,653	(100,065)	(22,790)	732,883	(13,496)	1,009,504
2/1/2011	231,762	309,037	(77,275)	9,577	746,379	34,165	1,016,779
Managed Money							
2/15/2011	229,569	44,333	185,236	(17,147)	305,824	(5,056)	442,775
2/8/2011	241,623	39,240	202,383	442	310,880	8,597	451,312
2/1/2011	251,759	49,818	201,941	29,928	302,283	19,232	453,072
Other Reporting							
2/15/2011	112,918	68,558	44,360	11,009	643,919	29,004	734,657
2/8/2011	102,477	69,126	33,351	18,300	614,915	(6,229)	700,717
2/1/2011	90,976	75,925	15,051	(14,109)	621,144	48,215	704,595
Non-Reporting							
2/15/2011	128,896	71,178	57,718	(1,083)			100,037
2/8/2011	125,189	66,388	58,801	13,372			95,789
2/1/2011	115,532	70,103	45,429	(3,265)			92,818

Product Commitment of Trader Detail Analysis

Futures & Options

	Net	Change	Spread	Open Interest	Net	Change	Spread	Open Interest
	RBOB				**#2 Heating Oil**			
Physical Hedgers								
2/15/2011	(105,238)	4,956		122,684	(108,887)	7,691		167,871
2/8/2011	(110,194)	5,937		123,199	(116,578)	6,654		158,534
Swaps Dealers								
2/15/2011	32,177	669	20,056	37,338	62,447	(1,360)	32,482	66,524
2/8/2011	31,508	(993)	17,553	36,434	63,807	(3,029)	27,162	64,648
Managed Money								
2/15/2011	53,714	(6,199)	14,360	30,185	34,874	(1,569)	27,812	47,001
2/8/2011	59,913	(5,418)	14,848	33,556	36,443	(894)	26,470	49,248
Other Reporting								
2/15/2011	8,919	606	20,111	30,878	(6,394)	(287)	54,488	52,088
2/8/2011	8,313	1,510	19,783	30,208	(6,107)	(2,995)	52,346	49,901
Non-Reporting								
2/15/2011	10,428	(31)		13,926	17,959	(4,476)		36,327
2/8/2011	10,459	(1,037)		12,697	22,435	264		34,625

ESAI

Petroleum Product Guide 2010

Publications		Quote Request Place "X"
Oil Fundwatch (Weekly)	*Analysis presenting a 1-week view on prices based on technical indicators, futures and options trading, and financial market developments.*	
Fundamentals (Weekly)	*Analysis of US DOE report with implications for crude, gasoline and heating oil prices.*	
Fuel Oil Watch (Biweekly)	*Analysis and outlook on the global fuel oil market.*	
Intelligence Briefing (Biweekly)	*Review of military and political policies that may directly impact worldwide energy markets.*	
Specification Review (Ad hoc)	*Analysis of developments in fuel specifications around the world and their impact on fuel markets.*	
Latin America Watch (Monthly)	*Monthly review of supply/demand developments in Latin America with implications for Atlantic Basin crude and product markets.*	
CIS Watch (Monthly)	*Review of supply/demand developments in the countries of the Former Soviet Union with implications for global crude and product markets.*	
China Watch (Monthly)	*Review of supply/demand developments in China with implications for Asia-pacific crude and product markets.*	
Europe Watch (Monthly)	*Immediate analysis of the monthly Euroilstock inventory report.*	
Occasional Memos (Ad hoc)	*Timely analysis of current developments in the energy markets.*	
Global Refining (Monthly) Coming Soon	*Monthly analysis of the developments in the global refining industry with a six month outlook on refining margins in Europe, North America and Asia.*	
East of Suez PetroChemicals Outlook (Monthly)	*Analysis of Middle Eastern and Asia Pacific petrochemicals markets with a 6-month outlook.*	
Middle East Watch (Monthly) Coming Soon	*Analysis of key issues guiding the progression of product markets in the Middle East. Includes supply/demand data and forecasts for petroleum products in the region.*	
Global Crude Oil Outlook (Monthly)	*Analysis of worldwide crude oil markets with a 6-month outlook on crude oil prices.*	
Atlantic Basin Stockwatch Marketview (Monthly)	*Analysis of North American and European product markets with 6-month outlook on petroleum product prices and refining margins.*	
Pacific Basin Stockwatch Marketview (Monthly)	*Analysis of Asia-Pacific product markets with a 6-month outlook on petroleum product prices and refining margins.*	
Alternatives & Petroleum Quarterly NEW	*Quarterly analysis of the impact of alternative fuels and vehicle technology markets on demand for oil and conventional petroleum products. Includes a long-term outlook on alternative fuel supply, demand, and price.*	
Stockwatch Quarterly Review: Two Year Outlook	*Quarterly analysis of global crude and product markets, including assessment of refining margins and political and macroeconomic developments. The Quarterly presents a 2-year outlook on crude oil prices, petroleum product prices and refining margins. (2)*	
Stockwatch Quarterly Review: Five Year Outlook	*Quarterly analysis of global crude and product markets, including assessment of refining margins and political and macroeconomic developments. The Quarterly presents a 5-year outlook on crude oil prices, petroleum product prices and refining margins. (1)*	
Stockwatch Quarterly Review: Long Term Outlook (1)	*Annual analysis of global crude oil markets with a 25-year outlook on crude oil prices. (1)*	
Review: Long Term Outlook (1)	*Annual analysis of global crude oil markets with a 25-year outlook on crude oil prices. (1)*	

Client Servicing

Access to Experts	*Questions about reports, interpreting key trends and market developments, data requests*	X
Customized Data	*describe here*	
Conference Calls	*Tailored monthly/quarterly gathering with your team to discuss relevant information*	

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