



# Qwest Investment Management

Henry Hub Spot NG: US\$4.83/mmBtu AECO Gas: C\$4.25/mcf Western Canada Select: C\$79.94/bbl WTI Cushing Spot Crude: US\$100.74/bbl

Sources: www.firstenergy.com (as at close June 8, 2011)

## Key Oil & Natural Gas Headlines at a Glance

June 9, 2011

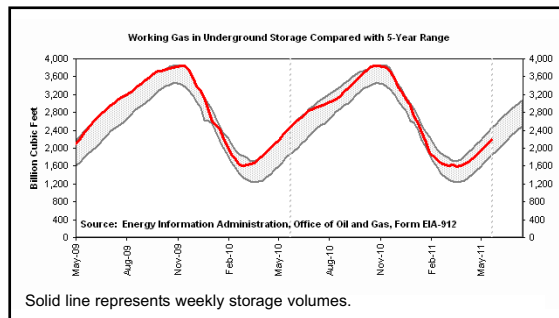
### U.S. NATURAL GAS (for the week ending Friday, June 3 as reported by the U.S. Energy Information Administration June 9, 2011)

**Net Injection/Withdrawal:** The implied net injection from working gas was 80 Bcf as of Friday, June 3.

**Storage:** Working natural gas in storage rose to 2,187 Bcf as of Friday, June 3. The 80 Bcf net build is, for the second week in a row, lower than both the 5-year average build for the week of 96 Bcf and last year's build of 98 Bcf. Stocks are now 255 Bcf below last year's level and 58 Bcf below the 5-year average.

Every region witnessed a smaller than average build. The East and West Regions continue to lag well behind previous years. The East Region is now 124 Bcf below average and 180 Bcf below last year. In fact, the region is just 24 Bcf above the 5-year minimum storage level reached in 2008 at this time.

**Temperatures:** Temperatures in the lower 48 States during the week ending June 2 were warmer than normal but slightly cooler than last year. The National Weather Service's degree-day data show that the temperature in the lower 48 States last week averaged 69.9 degrees, 3.3 degrees warmer than the 5-year average and 1.3 degrees colder than last year. Similar to the previous week, every region of the country was warmer than normal with the exception of the Mountain and Pacific Regions in the West. The Northeast was particularly hot with the New England and Middle Atlantic Regions 9.6 and 9.9 degrees hotter than normal. Cooling degree-days were 61.7 percent above normal for the country.



### U.S. CRUDE OIL (for the week ending Friday, June 3, as reported by the U.S. Energy Information Administration June 8, 2011)

**Crude Oil Inventories:** Inventories decreased by 4.8 million from the previous week. At 369 million barrels, U.S. crude oil inventories are above the upper limit of the average range for this time of year.

**Crude Oil Imports:** Averaged 8.6 million bbls per day last week, down by 918 thousand bbls per day from the previous week. Over the last 4 weeks crude oil imports have averaged nearly 9.0 million bbls per day, 707 thousand bbls per day below the same four-week period last year.

**Motor Gasoline Inventories:** Inventories increased by 2.2 million from last week and are in the upper limit of the average range.

**Motor Gasoline Product Supplied:** Over the last 4 weeks, motor gasoline product supplied has averaged about 9.2 million bbls per day, up by 0.3% from the same period last year.

**Distillate Fuel Inventories:** Inventories increased by 0.8 million barrels last week and are in the upper limit of the average range for this time of year.

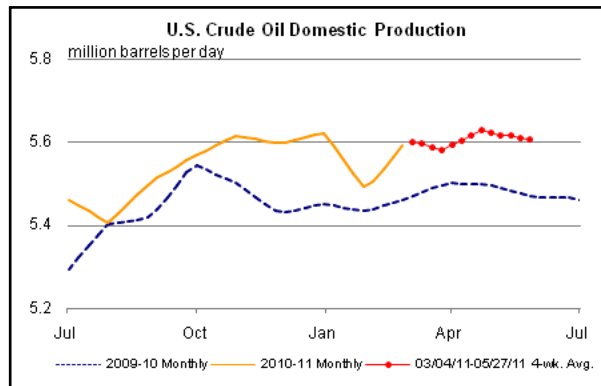
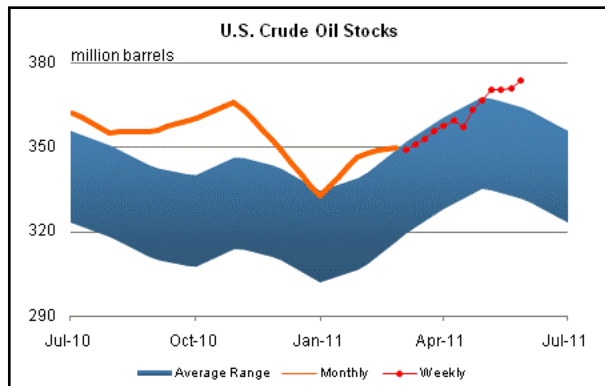
**Distillate Fuel Product Supplied:** Product supplied has averaged 3.8 million bbls per day over the last four weeks, down by 4.9% from the same period last year.

**Total Products Supplied:** Over the last four weeks has averaged 18.9 million bbls per day, down by 3.9% compared to a similar period last year.

**Refineries:** Operated at 86% of their operable capacity last week.

### World Crude Oil Price:

The average world crude oil price on June 3rd was \$111.45 per barrel, \$2.97 more than last week's price and \$40.48 above a year ago.



## Oil & Natural Gas Headlines (June 3 - June 9)



- ◆ **World Oil Demand To Grow More Than Expected** - *Reuters (June 9)* - The U.S. government on Tuesday raised its world oil demand forecast for 2011 on expectations Japan and other countries will need more crude to generate electricity, a surprise move that adds pressure on **OPEC** to boost production. The U.S. **Energy Information Administration** projected world oil consumption would rise by 1.7 million bbls per day to 88.43 million bbls a day this year, upping the monthly forecast by 300,000 bbls per day from its estimate in May. It marked the biggest revision yet by the **EIA** to its 2011 oil demand forecast.
- ◆ **China World's Biggest Energy Consumer** - *Reuters (June 9)* - China's carbon dioxide emissions rose 10.4 per cent in 2010 compared to the previous year as it surpassed the United States as the world's biggest energy consumer, data released by **BP** on Wednesday showed. China's emissions from energy use totalled 8.33 billion tonnes last year, while global carbon dioxide emissions grew 5.8 per cent year-on-year to 33.16 billion tonnes, energy major BP's annual Statistical Review of World Energy showed. BP said in its report that global energy consumption grew by 5.6 per cent in 2010, its largest increase in percentage terms since 1973. Chinese energy consumption grew by 11.2 per cent and China surpassed the U.S. as the world's largest energy consumer.
- ◆ **OPEC Oil Talks Collapse, No Output Deal** - *Reuters (June 8)* – **OPEC** talks broke down in acrimony on Wednesday without an agreement to raise oil output after Saudi Arabia failed to convince the cartel to lift production. "We were unable to reach an agreement -- this is one of the worst meetings we have ever had," said **Ali al-Naimi**, oil minister for Saudi Arabia, **OPEC**'s biggest producer. Naimi said **OPEC**'s four Gulf Arab countries proposed the 12-member group increase output by 1.5 million barrels a day to 30.3 million barrels a day, including Iraq which is not bound by an **OPEC** quota. Seven -- Libya, Algeria, Angola, Ecuador, Venezuela, Iraq and Iran -- were opposed, he said, wanting to keep production unchanged. The failure to do a deal will be a blow for industrialized consumer countries hoping **OPEC** would take action to stem fuel inflation. **Brent** crude rose more than \$1 a barrel to above \$118.
- ◆ **Gas Demand To Surpass Coal By 2025** - *Reuters (June 7)* - The prospect of new, unconventional gas resources across the globe will push world gas demand past coal just after 2025 and come close to oil around 2035, the **International Energy Agency** said Monday. "The **IEA** expects global gas demand to overtake coal just after 2025, and come close to oil around 2035," the agency said in a report published in London on Monday. The **IEA** also said that the steep increase expected in gas demand would end the current gas glut by 2015, by when demand would begin to outstrip supply.
- ◆ **Natural Gas Entering 'Golden Age'** - *The Wall Street Journal (June 6)* - The increasing abundance of cheap natural gas, coupled with rising demand for the fuel from China and the fall-out from the Fukushima nuclear disaster in Japan, may have set the stage for a "golden age of gas," the **International Energy Agency** said Monday. Under a scenario set out by the **IEA**, global consumption of natural gas could rise by more than 50% over the next 25 years, with it accounting for more than a quarter of global energy demand by 2035, up from 21% now.
- ◆ **OPEC Overshadowed by Qaddafi in Most-Hostile Meeting Since 1990 Gulf War** - *Bloomberg (June 6)* - **OPEC**'s decision on production quotas this week may be complicated by hostilities in Libya as members meeting in Vienna find themselves supporting opposing camps of a military conflict for the first time in 21 years. Not since **Saddam Hussein** invaded Kuwait in 1990 has the producer group gathered with some nations giving financial and military support to a movement seeking to topple the government of a fellow member. While Libyan leader **Muammar Qaddafi** is trying to quash a rebellion in a country that holds Africa's largest crude reserves, Qatar, Kuwait and the United Arab Emirates are backing the insurgents. The conflict underlines the difficulties the 50-year-old organization, which accounts for about 40 percent of the world's oil, may have in deciding production levels.
- ◆ **Global Gas Glut Drying Up Fast** - *Reuters (June 3)* - The global gas glut will soon vanish because of rising opposition to nuclear power in the aftermath of Fukushima crisis and a dearth of new supply, according to analysts at **Bank of America Merrill Lynch**. The **International Energy Agency** forecast late last year that global gas supply capacity was set to rise above 200 billion cubic metres in 2011 and that capacity should exceed demand for a decade. But the shutdown of some Japanese nuclear power plants after Fukushima has turned the global gas market around, with supplies looking like getting much scarcer sooner. "The global LNG market is tightening rapidly. In our view, the global gas glut is set to disappear quickly," the investment bank said. "Rising Japanese LNG demand is accelerating a progressive market tightening that had already been ongoing due to the strength in emerging market demand growth." **BoAML** expects Japan's imports of liquefied natural gas for 2011 to rise 8.5 million tonnes above the 70 million tonnes it consumed last year, mopping up large quantities of LNG at a time when new big consumers like India are snapping up supplies that might have swelled European supplies.
- ◆ **ONGC Plans Joint Bids for Overseas Energy Assets to Fend off China Rivals** - *Bloomberg (June 3)* - **Oil & Natural Gas Corp.** and **Oil India Ltd. (OINL)** plan to bid jointly with other Indian state-run explorers and refiners to acquire assets overseas to compete with Chinese rivals as rising oil prices increase valuations. "Oil assets around the world are getting expensive as crude prices increase and for us it makes sense to pool in money," **A.K. Hazarika**, chairman of **ONGC**, India's biggest energy explorer, said. "Bidding jointly helps us distribute risks and increases our chances of winning." State-run explorers and refiners had 381 billion rupees (\$8.5 billion) of cash and reserves that they can pool and bid for assets from Russia to Canada. Chinese companies have announced about \$44 billion of oil and gas acquisitions overseas since January 2010, compared with \$6.6 billion by Indians.



- ◆ **U.S. And IEA Eye Strategic Oil Stocks If Saudi Arabia Production Falls Short** - *Reuters (June 9)* - Oil consuming nations said they stood ready to tap into emergency stocks if Saudi Arabia didn't quickly pump more oil, responding with dismay to **OPEC**'s failure to agree an increase in output on Wednesday. Unusually blunt references from both the **White House** and the **International Energy Agency** to

drawing down the industrialized world's 1.5 billion bbls in government-controlled oil inventories follows the shocking breakdown in talks of the **Organization of the Petroleum Exporting Countries** in Vienna. With OPEC failing to reach agreement for even a modest increase in production, consumers put their hope in the group's top producer Saudi Arabia, which insisted it would pump more unilaterally to ensure that a shortage of oil didn't cause another crippling price spike. "If Saudi cannot fill the whole gap ... we have to move by releasing oil stocks," **Nobuo Tanaka**, the executive director of the Paris-based **IEA**, the industrialized world's energy watchdog, said at an oil conference in Washington. He said the IEA would know in a few weeks if the kingdom had ramped up output. "We are ready to move," he said.

- ◆ **U.S. Midwest May Reach Limit Of Oilsands Processing Capacity By 2015** - *Nickle's Daily Oil Bulletin (June 7)* - The U.S. Midwest won't be able to take any additional volumes of Canadian oilsands production as early as 2015 - five years earlier than estimated by a U.S. government department - due to limited refinery capacity in that region, says **IHS CERA** in a report released Monday. The U.S. department of State estimated in its draft environmental impact statement on the proposed **Keystone** pipeline expansion that Canadian oilsands production won't be affected until 2020 should the Keystone pipeline not proceed but it based that conclusion on when oilsands production would fill current pipeline capacity, not refinery capacity in the Midwest region. Considering the potential for oilsands production to double in the next decade, "by 2015, oilsands dilbit exports will likely exceed the Midwest refiners' ability to process the heavy crude," the report says.
- ◆ **Baker Hughes Sees Much Better 2nd Half In U.S. Gulf** - *Reuters (June 7)* - **Baker Hughes Inc.**, the world's third-largest oilfield services company, expects the second half of 2011 to be "much better" in the U.S. Gulf of Mexico as work resumes on several deepwater wells. Chief Executive **Chad Deaton** said drilling had started on only about half of the dozen deepwater wells permitted in the U.S. Gulf so far, with 11 more permits pending where customers had awarded service contracts.



- ◆ **Over 55 Per Cent Of May Permits Are For Horizontal Holes** - *Nickle's Daily Oil Bulletin (June 8)* - Operators licensed 1,236 new wells last month, up 19.5 per cent or 202 wells from a year earlier, and over 55 per cent of the May permits were for horizontal wells. Over the first five months of 2011, the well permit count stands at 7,660, 22 per cent more than last year and the highest since 2008 when 9,222 new wells were approved for drilling by governments across Canada. A record 3,683 of the permits issued to the end of May this year were for horizontal wells, 48 per cent of the total. In 2008, about 15 per cent of the 9,222 well authorizations were for horizontal holes.
- ◆ **Keystone XL Pipeline Would Accelerate U.S. Addiction to Canadian Oil** - *Post Media News (June 3)* - A controversial \$13-billion pipeline project originating in Hardisty, Alta., will accelerate U.S. addiction to Canadian oil, says a newly-released report from **Natural Resources Canada**. "The **Keystone XL** project is seen as both furthering U.S. dependence on oil, and enabling more oilsands crude to enter the U.S. market," said the document. "Although the Keystone XL pipeline was certificated in Canada in late April 2010, the company continues to wait for approvals in the U.S. before it can begin construction," said the report. "This has been caused by U.S. opposition to imports of 'dirty' Canadian crude oil from the 'tar sands.'" If approved, the 90-centimetre pipeline proposed by **TransCanada**, an Alberta-based energy company, would connect the oilsands region with the U.S. Midwest through to Texas along a 2,700 kilometre route.
- ◆ **Petronas Purchases \$1.1B Stake in BC Shale Assets** - *Rigzone (June 3)* - **Progress Energy Resources Corp.** has executed a binding framework agreement to create a strategic partnership with the Malaysian national oil company, **Petronas**, to develop a portion of Progress' Montney shale assets in the Foothills of northeast British Columbia. Progress will sell 50 percent of its working interest in its Altares, Lily and Kahta properties (the "North Montney Joint Venture") to Petronas for \$1.1B (CDN \$1.07 billion). The agreement also reflects the desire by both parties to explore additional opportunities to develop liquefied natural gas (LNG) export capacity in British Columbia. "This is a breakthrough transaction for Progress: the partnership we are launching will enable us to accelerate our growth strategy," said **Michael Culbert**, President and Chief Executive Officer of Progress. "We are very pleased to form this long-term partnership with Petronas."

---

**For more information on the oil & gas industry please visit our website at: [www.qwestfunds.com](http://www.qwestfunds.com)**

*This report is made available by Qwest Investment Management Corp. ("Qwest") for information purposes only. This information is not intended to be, and should not be construed, as investment advice. In addition, this information is not to be construed as an offer to sell, or solicitation for, or an offer to buy, any securities. The information is intended for residents of Canada only. Qwest has taken steps to ensure that the contents have been compiled or derived from sources believed reliable and contain information and opinions, which are accurate and complete. However, Qwest makes no representation or warranty, express or implied, in respect thereof, takes no responsibility for any errors and omissions which may be contained herein and accepts no liability whatsoever for any loss arising from any use of or reliance on this information. Qwest is under no obligation to update or keep current the information contained herein.*