



## ***ENERGY RISK MANAGEMENT***

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### **ENERGY MARKET REPORT FOR JANUARY 31, 2006**

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As expected, OPEC agreed to leave its oil production ceiling unchanged at 28 million bpd on Tuesday. Saudi Arabia's Oil Minister Ali al-Naimi said the agreement was unanimous. Iran's Oil

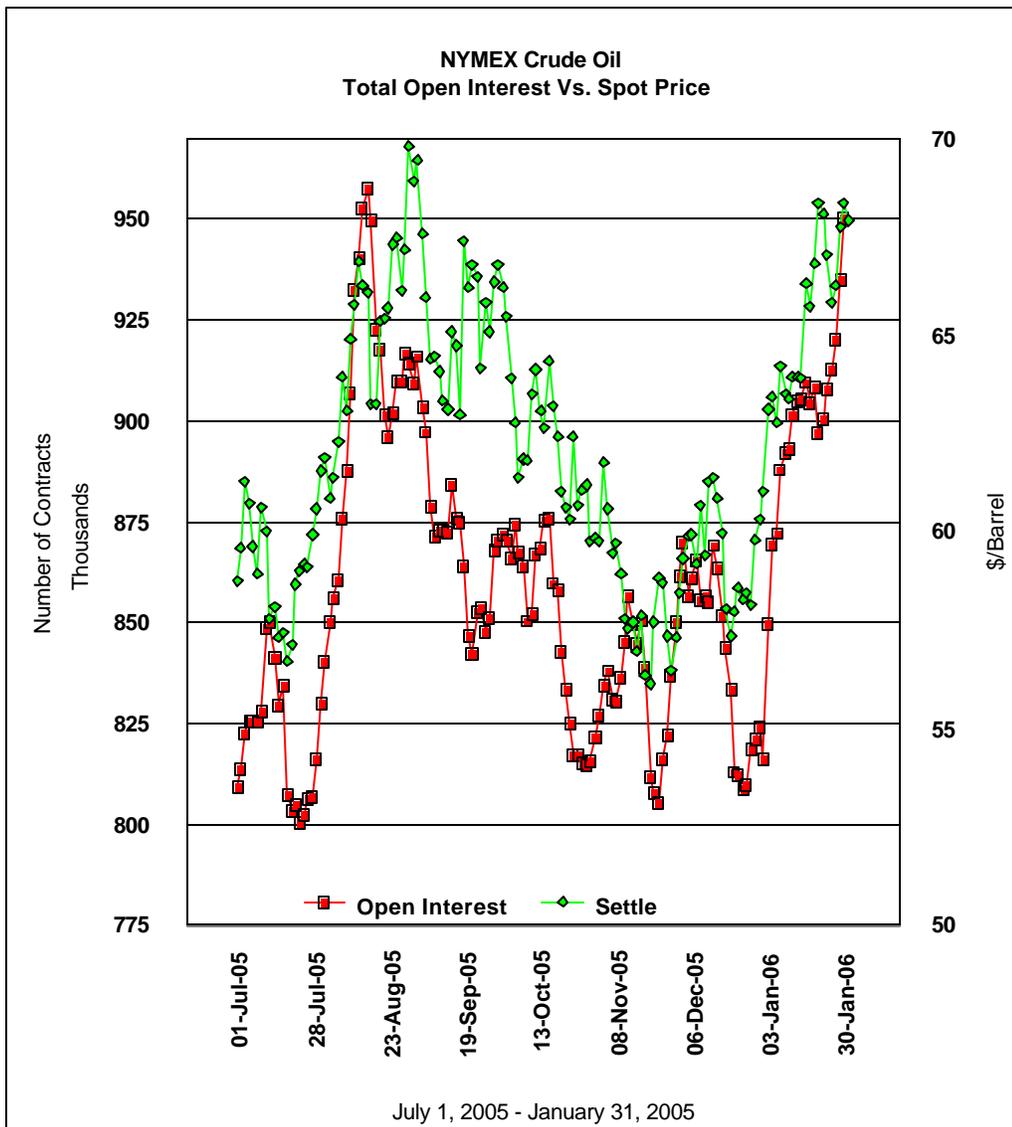
Minister Kazem Vaziri denied that he had proposed an OPEC output cut. He also stated that Iran had no plans to halt oil exports amid the escalating dispute over its nuclear program. Libya's Oil Minister Fathi bin Shatwan said OPEC is scheduled to meet again on March 8 and added that OPEC would carefully monitor the market in the run up to the meeting. Venezuela's Energy Minister Rafael Ramirez said he expects OPEC to cut its oil production by about 500,000 to 1 million bpd when it meets again in March. Separately, Venezuela's President Hugo Chavez said Venezuela and OPEC members have no need to increase production because there is enough oil supply in the market.

#### Market Watch

Citgo has so far sold 45 million gallons of heating oil at a discount to the poor in the US. It has stated that it plans to provide 55 million gallons of heating oil at a discount this winter to low income communities. The company completed its latest shipment of 5 million gallons to poor families in Philadelphia on Saturday.

Britain, China, France, Russia and the US, in addition to Germany and the EU agreed that the UN's IAEA should report to the council on Thursday on what Iran must do to cooperate with the agency. However with Russia and China opposed to hasty action, the agreement delayed any decision on formal referral of Iran to the council, until after a scheduled IAEA meeting on March 6. In response, Iran said the move to report it to the UN Security Council would close diplomatic avenues to a solution of its nuclear standoff. Iran's Foreign Minister Manouchehr Mottaki met China's Foreign Minister and called for Thursday's IAEA meeting to be cancelled. Meanwhile, Iran's nuclear negotiator said Iran would resume suspended nuclear activities and bar surprise UN inspections of facilities if it was referred to the UN Security Council. Russian Foreign Minister Sergei Lavrov said Russian and Chinese diplomats would visit Iran shortly to urge the country to answer outstanding IAEA concerns.

The head of the IEA, Claude Mandil, said demand for oil in the second quarter should remain strong as buyers look to build up stocks before consumption increases later in the year. He said OPEC made the right decision in leaving output unchanged at its meeting in Vienna on Tuesday. He also stated that the IEA would be ready to coordinate an emergency release of oil stocks if there were any major disruptions in supplies. Meanwhile, the IEA's Deputy Executive Director William Ramsey said if Iran stopped exporting oil for any reason, IEA strategic crude stocks could easily make up the shortfall. He said IEA stocks would cover any shortfall from Iran for about a year. However he downplayed the idea that Iran would stop exporting because of international pressure over its nuclear program, noting the country needs oil exports to keep revenue flowing. He also praised OPEC's decision to keep its output ceiling unchanged at 28 million bpd.



### Refinery News

A fluid catalytic cracking unit at Valero Energy Corp's Delaware City refinery restarted this week following repairs that started in December.

Separately, Valero said the sharply higher cost of low sulfur crude prompted it to cut production at its Lima, Ohio refinery to about 70% of capacity. The plant was running at about 120,000 bpd.

Valero Energy Corp expects a loss in sales of about 100,000 bpd of diesel fuel when new federal environmental regulations become effective in June. It expects a very tight market for on-road diesel during the second half of the year. It said by the

end of the year, ultra low sulfur diesel projects at its St. Charles, Louisiana and Houston refineries would be on line, helping stem the shortfall. There is no indication that the US EPA would relax rules requiring at least 80% of on-road diesel contain no more than 15 parts per million of sulfur by June 1. Meanwhile, Valero's CEO, Bill Klesse said he saw transportation fuel supplies remaining tight in 2006 partly because of heavier than usual refinery maintenance during the first quarter. It expects about 6% of US refining capacity to be down over the January-April period.

During February and March, an average of 285,000 bpd of Europe's crude distillation capacity will be shut for maintenance, accounting for 1.75% of an estimated 16.3 million bpd of total capacity. The turnaround program is less extensive than a year ago, when 550,000 bpd or 3.5% of European capacity was down during March. Europe's relatively light turnaround program could make more of its structural gasoline surpluses available for export in the period running up to the late May to early September US driving season.

### Production News

Nigeria's Oil Minister Edmund Daukoru said the country's oil production that was shut in by militant attacks should resume by the end of February. At their peak, the attacks shut about 220,000 bpd of production from Nigeria's Royal Dutch Shell unit, including production from the EA field and the Forcados pipeline. Shell restarted production at the EA field on Monday and resume normal operations on Tuesday.

Iraq's Deputy Prime Minister Ahmad Chalabi said Iraq is implementing new security measures as it battles to meet a commitment to export 1.57 million bpd. Iraq's exports fell to about 1.1 million bpd in December. An Iraqi oil official said he expected shipments to remain at 1.1 million bpd for January. |

A PDVSA tanker ran aground late Monday in eastern Venezuela. The tanker, which had 1 million barrels of heavy and medium grade crudes, is expected to be removed later on Tuesday after its cargo is transferred to another tanker. A port official said that loading operations at the Jose port were normal despite the tanker incident.

The head of Norway's Union for Administrative, Leaders and Technical Personnel said it reached an agreement with the Norwegian oil Industry Association and would call off its strike threat. Earlier, the union gave the association six days to negotiate a favorable agreement before calling a strike. The union threatened to stop work at Hydro's Oseberg Field Center, potentially shutting in up to 500,000 barrels of oil equivalent/day.

According to Kazakhstan's shipping firm Kazmortransflot, crude oil shipments across the Caspian Sea increased by 16% to 4.7 million tons in 2005. However shipments this year are expected to fall to 4.3 million tons.

Japan's Ministry of Economy, Trade and Industry reported that the country's crude oil imports increased by 0.7% in 2005 to 245.2 million kiloliters or 4.23 million bpd. In December, Japan imported 22.05 million kiloliters of crude, up 7.6% from a year earlier. It also reported that Japan's crude oil stocks totaled 16.67 million kl at the end of December, down 10.8% on the year while its kerosene inventories fell by 32.4% to 3.28 million kl. Crude oil throughput at Japanese refineries in December was up 2% at 21.85 million kl.

Ecuador's Energy Ministry reported that the country's average oil production last year increased by 1% to 531,951 bpd from 526,890 bpd in 2004.

### **Market Commentary**

The oil market retraced some of Monday's late gains and opened 35 cents lower at 68.00 amid the expected news that OPEC decided to maintain its output ceiling unchanged at 28 million bpd. Early in the session, the crude market traded to 68.20, where it found some resistance. The market settled in a sideways trading pattern from 68.20 to 67.65 for most of the session before further selling pressure pushed the market to a low of 67.35. The oil market, which posted an inside trading day, later retraced some of its losses and settled down 43 cents at 67.92. The market remained pressured amid the expectations that the DOE report would show a build in crude stocks. Volume in the crude was good with 182,000 lots booked on the day. Open interest in the crude market continued to build, with a total build of 15,241 contracts. The NYMEX reported that while open interest in the March contract fell by 568 contracts, open interest in the April contract increased by 8,204 contracts amid new longs coming into the market. Open interest in the May and June contracts also increased by 1,601 contracts and 2,199 contracts, respectively. Meanwhile, the product markets ended the session sharply lower ahead of expiration at the close, with the February heating oil contract settling down 3.19 cents at 180.19 and the gasoline contract settling down 4.91 cents at 172.58. The February heating oil contract opened at its intraday high of 183.00 but continued to retrace its recent gains. The market sold off to a low of

179.30 ahead of its expiration. The market was also pressured amid expectations that the weekly petroleum stock reports would show builds in distillate stocks. The March heating oil contract also settled down 1.88 cents at 184.79 after it posted an inside trading day. The expiring February gasoline contract also opened at its high and gradually sold off to a low of 171.00 amid expectations of builds in gasoline stocks. The market later retraced some of its losses ahead of the close. The March gasoline contract also settled down 3.7 cents at 180.51. Volumes in the product markets were good with 47,000 lots booked in the heating oil and 45,000 lots booked in the gasoline market.

The crude market on Wednesday will be driven by the weekly petroleum stock reports. The reports are expected to show builds of up to 1 million barrels in crude stocks, builds of about 500,000 barrels in distillate stocks and builds of about 1 million barrels in gasoline stocks. The market, which will trade lower amid the expected builds, may however bounce off its initial sell off following the reports. The market may be supported by the weather forecasts which are still showing below normal temperatures in the eastern half of the country in the next 8-14 days. The crude market is seen finding support at its low of 67.35 followed by 67.25 and 66.95 to 66.90. More distant support is seen at 65.55 and 65.45.

Meanwhile, resistance is seen at 68.20, 68.45, 68.65 and 69.15.

Technical Analysis		
	Levels	Explanation
<b>CL</b> 67.92, down 43 cents	<b>Resistance</b> 68.45, 68.65, 69.15	Previous highs
	<b>Support</b> 68.20	Tuesday's high
	67.35	Tuesday's low
	67.25, 66.95	Monday's low, Previous low
<b>HO</b> 184.79, down 1.88 cents	<b>Resistance</b> 188.50, 190.00, 192.00	Previous highs
	<b>Support</b> 185.50, 187.00	Tuesday's high
	183.40	Tuesday's low
	183.00, 182.00, 179.45	Previous lows
<b>HU</b> 180.51, down 3.70 cents	<b>Resistance</b> 185.50, 186.50	Previous highs
	<b>Support</b> 182.00, 183.80	Tuesday's high
	178.55	Tuesday's low
	177.50, 173.35	Previous lows