



## ***ENERGY RISK MANAGEMENT***

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### **ENERGY MARKET REPORT FOR FEBRUARY 8, 2006**

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OPEC's President Edmund Daukoru said he saw a downward trend in the price of oil. He said OPEC was unlikely to decide any change in production levels at its next meeting, scheduled for March 8.

The EIA's head Guy Caruso said world spare production capacity of crude oil would increase to 3 million to 5 million bpd by 2010 from the current level of 1 million to 2 million bpd. He said the increase would put downward pressure on prices. OPEC is expected to add between 4 million and 5 million bpd of new capacity in conventional oil by 2010 while non-OPEC countries provide about 2.5 million bpd.

The DOE reported that US inventories of propane totaled 47.325 million barrels in the week ending February 3, down 963,000 barrels on the week. It reported that inventories in the East Coast increased by 714,000 barrels to 4.504 million barrels while inventories in the Midwest

fell by 779,000 barrels to 15.281 million barrels and inventories in the Gulf Coast fell by 1.02 million barrels to 26.092 million barrels on the week.

#### **DOE Stocks**

**Crude** – down 300,000 barrels  
**Distillate** – down 300,000 barrels  
**Gasoline** – up 4.3 million barrels  
**Refinery runs** – down 1.38%, at 85.8%

#### **Market Watch**

The Bush administration is still considering whether to create emergency stockpiles of refined oil products and natural gas that could counter future US supply disruptions. The administration is still reviewing plans to establish the stockpile.

According to a forecast from Cambridge Energy Research Associates, a combination of political risk and new fuel specifications should keep benchmark crude futures above \$60/barrel during 2006. It estimates that the price of oil will average \$62 on an annual basis. Beyond 2006, CERA said there is potential for production capacity growth through 2010. However the growing concentration of energy production is in fewer countries, many of which are politically unstable. As a result, CERA does not see a return to the lower price environment of 1986-2004.

According to the Financial Times, the commander of Nigeria's military operation in the Niger Delta warned of more unrest there ahead of its national elections next year. The heightened ethnic and politic tensions ahead of next month's national census and the 2007 elections are a concern for both multinational oil companies and Nigeria. However Nigeria's President Olusegun Obasanjo has dismissed concerns that unrest could affect oil investment.

A senior Canadian official said finance ministers from the Group of Eight leading nations will send a signal that they want to see a properly functioning world energy market. They are expected to focus on the economic impact caused by high energy prices during its meeting this weekend.

#### **Refinery News**

According to the Texas Commission on Environmental Quality, a fluid catalytic cracking unit at ConocoPhillips' Borger, Texas refinery is scheduled to undergo maintenance over the next nine days. Work on the electrostatic precipitator associated with the catcracker is scheduled to take place on February 8-17.

### **Production News**

The US MMS reported that the recovery of US oil and natural gas production from the Gulf of Mexico has made little progress over the past two weeks. It said about 364,195 bpd or 24.27% of the Gulf's 1.5 million bpd crude production remained shut.

Royal Dutch Shell said it restored about 76% of its Gulf of Mexico oil and natural gas output following Hurricanes Katrina and Rita. It said Gulf of Mexico production was now 340,000 bpd of oil equivalent, up from 200,000 bpd of oil equivalent in the third quarter of 2005 and down from 450,000 bpd of oil equivalent ahead of the storms.

Petroecuador resumed pumping oil through its 380,000 bpd SOTE pipeline early Wednesday. It is also expected to lift the force majeure on its exports later on Wednesday. A company spokesman said the protesters that stormed into a pumping station on Tuesday left after they struck a deal with soldiers sent to evict them.

Iraq's Oil Ministry said the country's crude exports in January remained at 1.1 million bpd for the second consecutive month.

The Shetland Island Council reported that Brent crude liftings from Sullom Voe totaled 342,996 tons in the week ending February 7, down from 394,788 tons the previous week.

The North Sea loading program for Brent, Forties and Oseberg totaled 1.09 million bpd in March, up 60,000 bpd from February. The North Sea Forties crude system is scheduled to load 569,000 bpd in March, up 8,000 bpd on the month. The March loading program for North Sea Forties crude scheduled the loading of 17.65 million barrels, up from 16.3 million barrels in February. The North Sea Oseberg system is scheduled to load 269,000 bpd in March, up from 253,000 bpd in February.

Saudi Arabia started pumping ahead of schedule from its Haradh oilfield, which is expected to add 300,000 bpd of Arab Light crude by the second quarter of the year.

Georgia's Black Sea port of Batumi increased its shipments of crude oil and refined products to 9.699 million tons in 2005 from 6.732 million tons the previous year. Meanwhile, volumes in January increased to 866,500 tons from 467,900 tons a year ago.

Ukraine's Deputy Prime Minister Stanislav Stashevsky said extremely cold weather has forced Ukraine to take a larger than usual share of Russian gas going to Europe over the past 24 hours.

Russia's Economy Ministry may ask the government to increase export duties on gas oil and gasoline to protect local markets after domestic prices increased in January. Gas oil prices increased by 9% since the start of the year while gasoline prices increased by 11%.

Venezuela is expected to ship 300,000 bpd of oil to China by the end of 2006, up from 160,000 bpd. Venezuela currently supplies China National Petroleum with 100,000 bpd of crude oil and 60,000 bpd of fuel oil.

According to the Petroleum Association of Japan, the country's commercial crude oil stocks fell further as refiners ran at high rates to meet strong heating demand. It reported that commercial crude oil stocks fell by 6.4% to 13.96 million kiloliters or 87.81 million barrels in the week ending February 4. It reported that the average operating rate of Japanese oil refineries was 93.3% on the week compared with 93.6% the previous week. Meanwhile kerosene stocks fell by 1.4% to 2.79 million kl or 17.55 million barrels while gasoline stocks also fell to 2.17 million kl or 13.65 million barrels from the previous week's 2.26 million kl.

South Korea's Energy Ministry reported that the country has increased taxes levied on oil imports by 14% to 16 won/liter from 14 won/liter starting February 7. The additional revenue would be used to fund overseas upstream projects and alternative energy projects.

OPEC's news agency reported that OPEC's basket of crudes fell by 99 cents/barrel to \$58.35/barrel on Tuesday, down from \$59.34/barrel on Monday.

Petroecuador's oil export revenues totaled \$270.09 million in January, up 93.5% on the year. It exported a total of 5.64 million barrels of crude in January, up 18% on the year.

**Market Commentary**

The oil market gapped lower once again from 63.00 to 62.70 following Tuesday's sharp sell off ahead of the close. The market posted a low of 62.30 early in the session following the release of the weekly petroleum stock reports, despite the unexpected draw in crude stocks. The markets were pressured amid the larger than expected builds in gasoline stocks. The oil market, which retraced almost 62% of its move from a low of 57.95 to a high of 69.15, bounced off its low and retraced its losses as it traded to a high of 63.49. The market however held good resistance at that level before it retraced its gains once again. It traded back towards the 62.50 level and settled down 54 cents at 62.55. Volume in the crude market was good with 298,000 lots booked on the day. Open interest in the crude market fell by a total of 6,701 contracts. Open interest in the March contract fell by 24,190 contracts while open interest in the April contract built by 12,602 contracts. The heating oil market also ended the session in negative territory once again as the markets took profits ahead of the close. The heating oil market opened relatively unchanged and traded to a low of 167.25 early in the session. The market later bounced off that level and rallied to a high of 170.90 following the release of the DOE and API reports, which showed larger than expected draws. However the market erased its gains and posted a low of 166.25 ahead of the close. It settled down 2.62 cents at 166.56. The gasoline market gapped slightly lower from 158.60 to 158.55 and quickly backfilled the gap as it traded to a high of 158.80. The market however sold off to 155.00 following the release of the DOE and API reports, which showed larger than

expected builds in gasoline stocks. The market later erased its gains and sold off to a low of 154.50 amid the profit taking ahead of the close. The gasoline market

Technical Analysis		
	Levels	Explanation
CL 62.55, down 54 cents	<b>Resistance</b> 64.45 to 64.90 62.85, 63.49	Remaining gap (February 7th) Wednesday's high
	<b>Support</b> 62.30 to 62.00 61.70, 60.40	Remaining gap Basis trendline, Previous low
HO 166.56, down 2.62 cents	<b>Resistance</b> 174.50 to 175.80 168.20, 170.90	Remaining gap Wednesday's high
	<b>Support</b> 166.25 164.50, 161.83	Wednesday's low Basis trendline
HU 154.81, down 4.59 cents	<b>Resistance</b> 162.50 to 164.10 156.50, 158.80	Remaining gap Wednesday's high
	<b>Support</b> 154.50 153.00	Wednesday's low Previous low

settled down 4.59 cents at 154.81. Volumes in the product markets were good with 73,000 lots booked in the heating oil market and 68,000 lots booked in the gasoline market.

The crude market on Thursday is seen finding some support following its sharp sell off in recent days. Its daily stochastics are beginning to look oversold. The market may also take some direction from the natural gas market amid the release of the natural storage report on Thursday. The crude market is seen finding support at 62.30 to 62.00 followed by 61.70 and 60.40. Meanwhile, resistance is seen at 62.85 followed by 63.49 and its gap from 64.45 to 64.90.