

ENERGY RISK MANAGEMENT

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ENERGY MARKET REPORT FOR FEBRUARY 20, 2008

Libya's oil chief Shokri Ghanem said OPEC would wait to see if oil prices hold around record highs of \$100/barrel before making any decision on whether or not to cut production. He said OPEC should keep its oil output ceiling in place when it meets on March 5 if crude prices remain near record levels. An official at the National Iranian Oil Co., Hojjatollah Ghanimifard, said Iran saw no need for OPEC action to curb surging prices because there was no shortage of crude supply in the market

and the main cause for rising prices was speculation. Meanwhile, Iraq's Oil Minister Hussain al-Shahristani said OPEC was ready to take any measures, including a review of output levels, to stabilize the market in the wake of record oil prices.

The IEA urged OPEC to keep its oil production unchanged at its next meeting to rebuild low crude stocks. An IEA analyst said it would welcome any rise in crude oil production but understood the downside risks for OPEC at a time when the world economy was weakening and potentially curbing oil demand.

Feb Calendar Averages

CL – 92.75

HO – 257.31

RB – 238.75

Market Watch

According to UBS economists, the US economy is in recession as a weakening consumer sector has compounded the ongoing problems in the housing and credit markets.

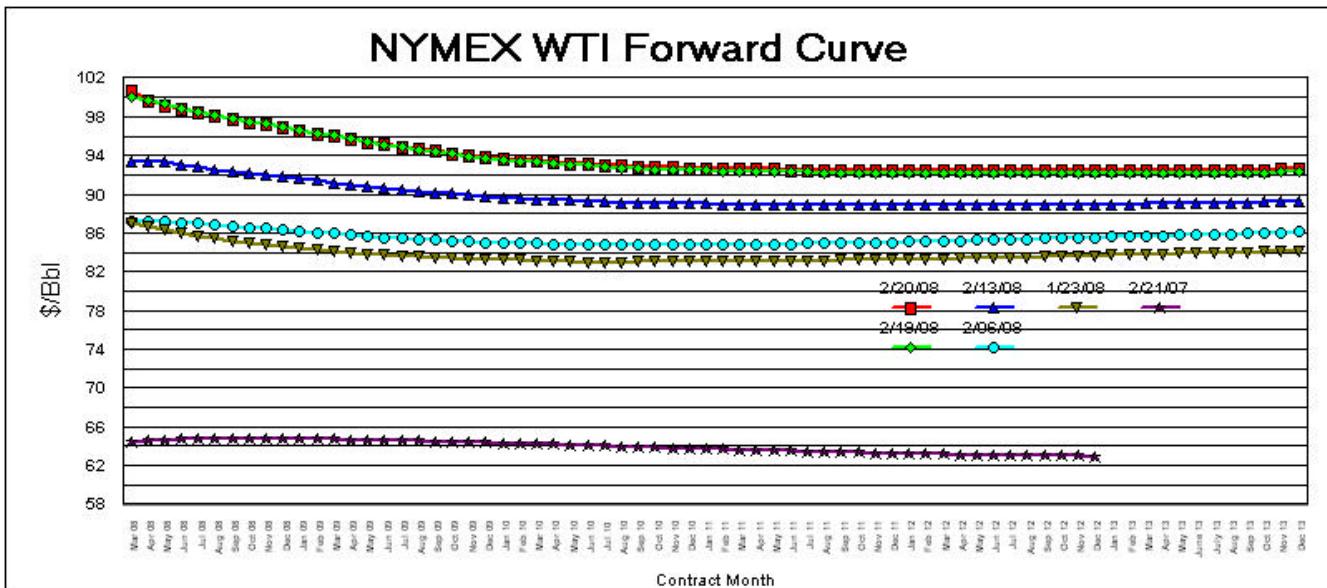
Lehman Brothers Holdings said it would revise its first quarter New York crude oil price forecast of \$86/barrel. It said it would revise it upwards. Lehman Brother's chief economist, Edward Morse said OPEC is unlikely to reduce its production at its March 5 meeting with prices at current levels.

ICAP Energy AS said NYMEX Holdings Inc and Intercontinental Exchange Inc may increase their interest in European energy trading platforms.

The director general of climate change at the National Development and Reform Commission, Gao Guangsheng said China expects local capital to fund 90% of the infrastructure and other investment needed to meet its goal to get 15% of its energy from renewable sources by 2020.

Southern China's Guandong has implemented a temporary hike to electricity tarrifs paid to oil-fired power producers in the province to encourage the group to lift production amid a worsening power shortage caused by a recent snow storm. The electricity rate of all oil-fired power plants in Guandong was raised to Yuan 1/kwh or 14 cents/kwh.

The Movement for the Emancipation of the Niger Delta demanded on Wednesday that lawyers, relatives and the Red Cross be allowed to see



their detained leader, Henry Okah to confirm he was alive. Nigeria's government on Tuesday denied late on Tuesday a report that the leader had been shot dead in detention in northern Nigeria. Uncertainty over his fate since he was handed over to Nigeria from Angola last Thursday has been raising tensions in the Niger Delta. Separately, Eni SpA said it was cooperating with Nigerian authorities after the kidnap of one of its workers earlier in the day. The company did not say who kidnapped the worker, who was snatched from his car close to the Nigerian Port Authority offices.

An exiled Iranian opposition group said Iran has accelerated its alleged nuclear weapons program. A representative of the National Council of Resistance of Iran said the country entered a new phase in its nuclear project. He said he provided the latest information to the IAEA on Tuesday and urged them to investigate more sites in Iran and interview more scientists. Separately, the IAEA said it was aware of claims by an exiled Iranian opposition group that Iran had an operational nuclear warhead development site.

Iranian UN Ambassador Mohammad Khazee urged the UN Security Council on Wednesday to condemn Israel and demand that it immediately stop threatening to use military force against the country' nuclear program. He was referring to Israeli Prime Minister Ehud Olmert's warning on January 14 that all options are on the table when it comes to keeping Iran from obtaining nuclear weapons.

DEBKAfile reported that the statements made by top Iranian officials since the death of Imad Mughnayeh earlier this month are seen as an indication of serious intent. Israel's chief of staff Lt. General Gaby Ashkenazi said that he could not rule out possible "tough ordeal" in the near future.

Refinery News

Marathon Oil said a leak in a crude pipeline feeding its 222,000 bpd refinery in Catlettsburg, Kentucky was repaired over the weekend. Operations at the refinery were cut last week following the leak in the pipeline.

A sulfur recovery unit at ConocoPhillips 247,000 bpd refinery in Sweeny, Texas was shutdown on Tuesday after a leak was discovered. Ultra-low sulfur diesel in the Gulf Coast rallied 5 cents to 18 cents over the March heating oil futures.

Tesoro Corp said it expects to return its 95,000 bpd Kapolei, Hawaii refinery units to operation by the weekend. The refinery was shut due to a power outage and fire on Saturday night.

Citgo is planning extensive maintenance work on the main process units at its 156,000 bpd Corpus Christi, Texas refinery starting March 1. Its 156,000 bpd crude unit, 44,500 bpd delayed coking unit and its 82,800 bpd fluid catalytic cracking unit would undergo a six week turnaround starting March 1. Its distillate hydrotreater and reformer units would also be shut for work during the time.

Venezuela's Deputy oil minister Bernard Mommer said the country needs permission from ExxonMobil to sell its stake in the Chalmette refinery. He said Venezuela's stake in the refinery was worth enough to compensate Exxon for the 2007 takeover of an oil project in the Orinoco heavy crude belt. Venezuela's Oil Minister Rafael Ramirez said Venezuela could pull out of the refinery over the dispute.

Germany's PCK Schwedt GmbH refinery said it received less Russian crude via the Druzhba pipeline in February but has offset the decline in supplies with other sources. The decline in supplies equals about 25% of the refinery's capacity of 220,000 bpd.

Russia's Lukoil said it planned to transport Russian oil to German oil refineries by sea if a pricing dispute with its German counterpart remains unresolved. A disagreement with Sunimex resulted in it suspending Russian oil supplied to German refineries via the Druzhba pipeline in February. Lukoil said the prices agreed in August are outdated and is seeking to renegotiate. Lukoil said it would deliver oil to Germany through the Russian Baltic Sea port of Vysotsk to Rotterdam or German Baltic ports while the dispute with Sunimex continues. Meanwhile, Germany's Economics Minister Michael Glos said the current halt in oil supply to Germany by Lukoil was not a cause for concern nor for doubting Russia's reliability when it comes to supply.

Negotiations over a labor agreement for workers at Royal Dutch Shell's Pernis refinery and Moerdijk refinery are set to resume on March 4. The director of the workers' union, Egbert Schellenberg, said he was fairly confident of achieving an agreement with the oil major at the meeting in March after previous offers from the company were rejected by the union.

The Petroleum Association of Japan reported that the country's crude stocks fell by 1.02 million barrels to 90.52 million barrels in the week ending February 16. The continued decline in crude stocks comes as Japanese refiners including Nippon Oil, Taiyo Oil and Japan Energy cut production. Crude runs fell by 30,000 bpd to 4.24 million bpd on the week with refinery utilization down .70% at 86.6%. It reported that Japan's gasoline stocks built by 130,000 barrels to 13.85 million barrels while kerosene stocks fell by 1.91 million barrels to 16.41 million barrels on the week. The PAJ also reported that Japan's naphtha stocks fell by 330,000 barrels to 10.87 million barrels.

South Korea's Korea National Oil Corp said the country's crude oil imports in January increased by 14% on the year to 82.64 million barrels or 2.67 million bpd. Crude refining rates by the refiners increased by 1.5% on the year to 77.94 million barrels or 2.51 million bpd but were down 1.3% on the month. Stocks by the end of January fell by 3.8% on the year to 68.93 million barrels. Domestic oil products demand in January fell 2.5% on the year to 70.94 million barrels or 2.29 million bpd.

Angola is expected to export 1.79 million bpd of crude in April, down 20,000 bpd on the month. Angola's production is estimated at 1.85 million bpd for April.

Low water cargo surcharges have been imposed for freight shipping on parts of the Rhine River following a fall in water levels. Water levels near Koblenz, Mainz and other southern sections of the river have fallen below the minimum that vessels needed to sail fully loaded.

Production News

Alaska's Gov. Sarah Palin said the state could revoke leases at oil fields, including the Prudhoe Bay, if ExxonMobil, BP Plc and ConocoPhillips, which control the state's natural gas reserves, refuse to participate in a government gas pipeline plan. The oil companies have been seeking a long term deal on taxes before participating in the pipeline.

Brazil's National Petroleum Agency stated that Brazil at the end of 2007 had 12.623 billion barrels in proven oil reserves.

Kazakhstan's Environmental Protection Ministry has kept its pressure on a Chevron-led oil venture, urging the company to come up with a plan to utilize its sulfur stocks. The authorities have accused the project of making slow progress in removing open air sulfur stocks at the Tengiz oilfield.

OPEC's news agency reported that OPEC's basket of crudes increased sharply to \$92.64/barrel on Tuesday from Monday's \$91.38/barrel.

Market Commentary

Global demand, fears of OPEC output cuts and signs of inflation ran the expiring March contract up to a high of \$101.32. The rest of the complex failed to realize these gains. While Europe and the US are showing signs of a slowing economy, other parts of the world such as China and India are experiencing a rise in their middle class. Demand is expected to grow in 2008 by at least 1.4 million barrels per day for crude oil, with 1 million barrels of that growth coming from developing nations. The question now for OPEC, is to cut or not to cut? With prices at this level, it is hard to believe that OPEC would want to impose cuts on its members and that the members would be willing to adhere to such cuts. In the meantime, investors will continue to look for other avenues than the stock market, in which to invest their capital. The commodities market is sure to be one of those avenues, with crude oil being at the top of their list. A close eye will be kept on the API/DOE report due out Thursday, which is calling for an increase in crude oil of 2.3 million, gasoline up 600,000 and distillates down 2 million barrels. At this point in time we would have to go with the flow and buy and sell against the listed support and resistance numbers. Open interest in crude oil is 1,355,135 up 1,727, March08 33,268, down 37,818 and April08 344,161 up 26,283. Meanwhile, the product markets failed to follow in the crude market's footsteps as they settled in negative territory. The heating oil market bounced off an early low of 271.54 and rallied to a high of 276.78 in afternoon trading amid the continued strength in the crude market. However the heating oil market failed to sustain its gains and retraced some its gains ahead of the close. The market settled down 68 points at 275.46. The RBOB market, which posted an

inside

trading day,

settled down

1.79 cents at

258.52. The

market

bounced off

an early low

of 254.85

and rallied to

a high of

261.00.

However as

it failed to

			Explanation
CL 99.70, unchanged	Resistance 101.38, 102.10, 103.53 100.86 April settle		Basis trendlines Wednesday's high
	Support 99.15, 98.55, 97.99 97.65, 95.12		Wednesday's low Previous low
HO 275.46, down 68 points	Resistance 288.70 276.78		Basis trendline Wednesday's high
	Support 273.35, 271.54 270.52, 264.50, 262.88, 262.61, 261.86		Wednesday's low Basis trendline, low, 38% (240.42 & 276.78), lows
RB 258.52, down 1.79 cents	Resistance 261.69, 267.38 258.60, 261.00		Previous high, Basis trendline Wednesday's high
	Support 257.55, 255.95, 254.85 252.45, 249.30, 246.74, 246.50, 242.12, 239.13		Wednesday's low Previous low, Basis trendline, 38% (222.55 & 261.69), low, 50%, low

test its previous high, the market retraced close to 50% of its earlier move ahead of the close. The markets will be driven by the weekly petroleum stock reports. In the heating oil, support is seen at 273.35, 271.54, 270.52, 264.50, 262.88, 262.61 and 261.86 while resistance is seen at 276.78 and 288.70. In the RBOB market, support is seen at 257.55, 255.95, 254.85 followed by 252.45, 249.30, 246.74 and 246.50. Resistance is seen at 258.60, 261.00, 261.69 and 267.38.

Trade Tracker

Trade	Date	Entry level	Current	Profit/Loss
-Jun/+Dec/-Dec9 fly	2/20/08	-.63	-1.20	+.57