



ENERGY RISK MANAGEMENT

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ENERGY MARKET REPORT FOR MARCH 21, 2006

The UN Security Council's five permanent members and Germany failed to reach an agreement at a meeting on Monday on how to proceed with the Iranian nuclear crisis. Top foreign policy coordinators for the US, Russia, China, France, Britain and Germany issued a joint statement that expressed deep concern that Iran had failed to respond positively to requests by the UN's IAEA to suspend its uranium enrichment activities and allow for more intrusive UN inspections of its nuclear energy program. In a meeting held by British Foreign Office political director, John Sawers, it was suggested that a blend of threats and enticements should be used. The plan would introduce incentives as a way of getting Russia and China on board and if Iran failed to modify its stance, it would push for further measures. Russia and China are still

Market Watch

Some US intelligence officials believe that the Iranian regime is hosting Al Qaeda and allowing the senior operatives freedom to communicate and help plan their operations. They suggested that recently elected President Mahmoud Ahmadinejad may be forming an alliance with Al Qaeda operatives as a way to expand Iran's influence or is looking away as Al Qaeda leaders in Iran collaborate with their counterparts elsewhere. To some US intelligence officials, what worries them the most is what they do not know. US officials said senior Al Qaeda members, including Abu Musab Zarqawi had moved in and out of Iran with the possible knowledge or complicity of Iranian officials. US officials fear that an Iranian hard line faction or even a rogue official could conspire with Al Qaeda or provide access to the country's military arsenal.

The Center for Global Energy Studies said dated Brent crude prices are likely to average about \$60/barrel in 2006 and increase further despite rising inventories. It said world oil inventories were not yet high enough to push prices down significantly. It also stated that the fall in world oil demand growth seen in 2005 appears to have ended. It noted that world demand growth of 1.5% is seen in the first quarter of the year. In addition, the CGES said the MTBE phaseout in the US and tighter sulfur limits in diesel fuel in the US, Europe and China this year are all expected to contribute to tightness in the supply of high quality transport fuels.

A Nigerian National Petroleum Co official said Nigeria has so far lost \$1 billion in oil revenues due to ongoing militant attacks on oil and gas facilities in the Niger Delta. Attacks by Nigerian militants have led to 569,000 bpd of oil being shut in.

IntercontinentalExchange Inc said it would launch a gasoline futures contract for reformulated blendstock for oxygen blending, or RBOB, and a heating oil futures contract on April 17. It also said it would launch three new contracts next month reflecting the price spreads between ICE's US crude oil futures and its gasoline and heating oil futures contracts along with the spread between its European Brent crude futures and gas oil futures contracts. The NYMEX however plans to take on ICE by offering side by side trading of its floor and its Clearport electronic trading platform as soon as April.

An analyst at Bianco Research said non-renewable energy such as crude oil is the only commodity asset capable of giving investors a sustainable profit. He said finite supply of oil justified rising prices.

According to the Labor Department, US wholesale prices fell 1.4% in February following a 0.3% increase in January. It said the core rate, which excludes food and energy, increased by 0.3% after a 0.4% increase. Energy prices fell by 4.7% in February.

seeking further diplomacy. China said the countries' objectives were to solve the issue in a peaceful way through negotiations. The UN Security Council postponed a meeting Tuesday as the Security Council members continued to search new ways to break the deadlock.

Meanwhile, Supreme leader Ayatollah Ali Khamenei said he approved of the talks between US and Iranian officials on Iraq. However he warned that the US must not try to bully Iran.

US President George W. Bush on Monday reiterated that the US was ready to use military force against Iran if necessary. In regards to Iraq, President George W. Bush said he did not believe Iraq had slipped into a civil war, despite ongoing sectarian violence. With public sentiment sagging over the war in Iraq, the White House has been in the midst of an effort to find support, including a series of speeches on the US strategy.

Venezuela's President Hugo Chavez defended Iran's nuclear program on Tuesday, saying that the US wanted to seize control of the country's vast petroleum reserves. Venezuela has sharply criticized the UN Security Council's involvement in concerns about Iran's nuclear program. He said he was confident that Iran was not bent on building an atomic bomb and defended Iran's right to develop nuclear power for peaceful energy uses. Separately, he stated that \$50/barrel was a fair price for Venezuela's basket of crude oil and products. According to government figures, Venezuela's basket of oil and products increased last week to \$53.55/barrel.

Senior officials from the IEA and OPEC are scheduled to hold a meeting on May 19 to discuss world oil demand over the coming years. IEA head Claude Mandil is expected to meet with OPEC Acting Secretary General Mohammed Barkindo. Meanwhile the IEA director said oil prices should fall because the market is well supplied. He also stated that IEA members would be able to manage if oil deliveries from Iran were interrupted.

Refinery News

Exxon Mobil Corp chairman and chief executive Rex Tillerson said the company has enough ethanol to replace MTBE when the new ethanol mandate takes effect in May. Exxon Mobil expects the industry wide phase out of the additive to proceed rapidly, even though logistics and distribution are a challenge. Exxon Mobil's chairman and chief executive credited the competitive marketplace for oil refiners' high performance. He said new subsidiaries, mandates, controls and taxes under consideration by the government would increase costs and reduce supplies for consumers over the long run by interfering with market demand signals crucial to determining the proper market supply response. He also stated that refinery capacity expansion would keep up with growing US demand for refined products without the need to build a new refinery.

The chief executive of ConocoPhillips, Jim Mulva, said the US needs to be more open and welcome foreign companies seeking to invest in the US' energy market. Separately, he stated that the company was in the final stages of restoring output from its Belle Chase, Louisiana refinery and expects the refinery to resume full output by the end of March.

Citgo Petroleum Corp is scheduled to shut a fluid catalytic cracking unit at its East Plant refinery in Corpus Christi, Texas late Tuesday to replace the exchanger bundle. The maintenance is expected to be completed by late Thursday.

PDVSA reported a fire at its Amuay refinery as workers carried out maintenance on a hydrogen compressor. It said the refinery's operations were not affected by the early morning incident and local and international shipments from the plant were normal.

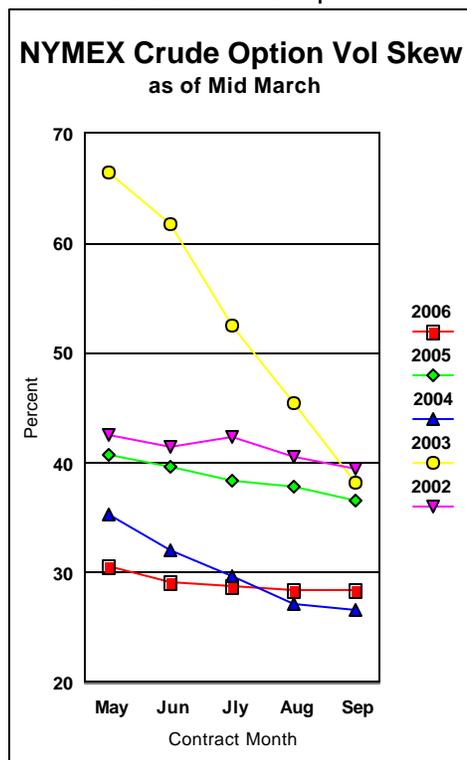
Chevron shut a reformer unit at its 210,000 bpd Pembroke refinery in Wales.

South Korea's SK Corp said it would start operating a new 30,000 bpd reformer unit at its 840,000 bpd Ulsan refinery from the middle of May, a month ahead of schedule.

India's Bharat Petroleum Corp is scheduled to shut a gasoline and LPG making unit at its Mumbai refinery in the middle of the year for maintenance.

Production News

Saudi Arabia booked two more Very Large Crude Carriers, increasing spot oil exports to the US in April to at least 12.6 million barrels. Vela International Marine has booked a VLCC to carry 285,000 tons of crude to the US Gulf on April 23. It also booked another VLCC to carry 280,000 tons of crude to the Red Sea in mid-April.



Euroilstock reported that total petroleum production in February increased by 1.5% on the month and by 2.8% on the year to 13.2 million bpd. It reported that gasoline production increased by 3.6% on the month but fell by 0.8% on the year to 3.373 million bpd while distillate production increased by 1.1% on the month and by 2.6% on the year to 6.11 million bpd. It reported that capacity utilization stood at 91.91% in February, down from 92.27% in January.

An Iraqi oil official said Iraq's crude oil exports during the first 20 days of March increased by 6% on the month to 1.52 million bpd.

Abu Dhabi is expected to cut exports of its Murban crude by 100,000 bpd in May, possibly due to field maintenance. It would supply 1.3 million bpd, instead of the 1.4 million bpd initially forecast.

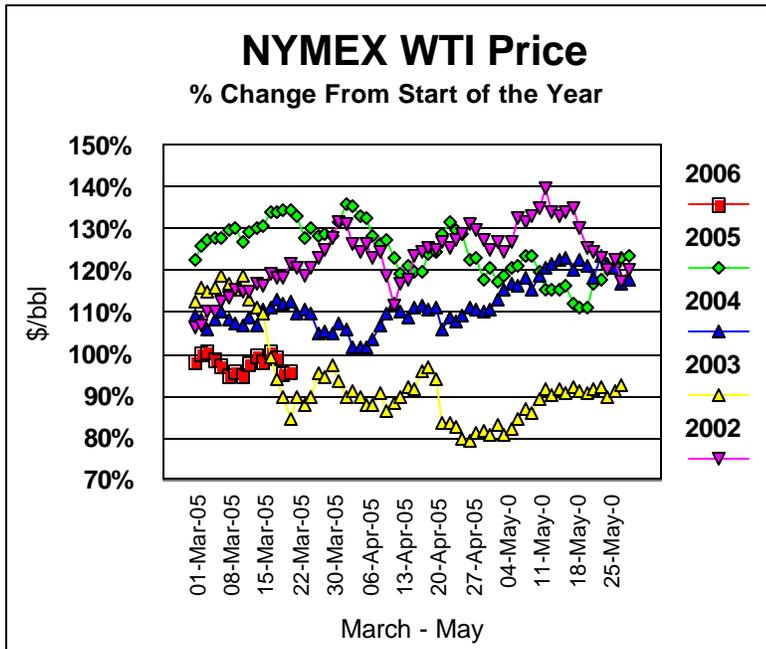
Russia's Oil Minister Viktor Khristenko said a feasibility study was needed before proceeding with its plan to build an oil pipeline from Russia to China. Separately, China National Petroleum Corp plans to set up a refining and distribution joint

venture in China with Russia's Rosneft under a broad energy cooperation program between the two countries. The joint venture is expected to engage in the construction of a refinery to process 10 million tons of crude a year. It is also expected to engage in downstream operations.

China's Finance Ministry reported that China would start charging a consumption tax on fuel oil, jet fuel, naphtha and lubricants from April 1 to encourage energy efficiency. The taxes would be set at 0.2 yuan/liter for naphtha and lubricants while the tax for fuel oil and jet fuel would be set at 0.1 yuan/liter.

Royal Dutch Shell PLC unit, Shell Exploration & Production Americas said it secured parcels of land leases to explore for heavy oil in Canada's Alberta for C\$465 million or \$400 million. It had established a company to evaluate and potentially develop heavy oil resources secured in an oil sands tender organized by the Alberta Department of Energy on February 8. The company said appraisal wells were currently being planned for this year.

Brazil's Petrobras won exploration rights for 10 blocks in the US part of the Gulf of Mexico. Petrobras America is prospecting in the area for oil and natural gas and plans to invest a total of \$305 billion this year with total planned spending until 2010 at \$1.5 billion.



Statoil ASA's Uranus exploration well in the Barents Sea did not find any commercially exploitable petroleum, according to sources. If confirmed by Statoil and the Norwegian Petroleum Directorate, it would be the third day exploration well in Norway's Barents Sea in the past 18 months.

Oman is in the final stages of talks with foreign oil companies on deals for the development of 7 oil blocks. The seven blocks include five sites held by Petroleum Development Oman in an area with proven oil reserves of 16.5 billion barrels.

Algeria's Sonatrach cut the official selling price for April cargoes of its Saharan Blend crude to dated BFO plus 45 cents. The price is 16 cents below the March official selling price of Dated Brent plus 61 cents.

OPEC's news agency reported that OPEC's basket of crudes fell to \$57.32/barrel on Monday, down from \$58.47/barrel on Friday.

Market Commentary

The oil market gapped lower once again from 60.25 to 59.75 after the market ended the session near its low on Monday. The market was pressured amid the expectations that Wednesday's DOE report would show a build of over 2 million barrels in crude stocks. The market was also pressured as talks continued between the permanent members of the Security Council over Iran's nuclear program. Russia and China were still seeking further diplomacy. The April crude contract sold off to a low of 59.60,

where it held good support. The market backfilled its gap and attempted to test its low once again. However as the market failed to do so, it retraced its losses and

Technical Analysis			
		Levels	Explanation
CL	Resistance	63.80 to 64.10	Remaining gap (March 20th)
	62.34, up 38 cents	62.70	Tuesday's high
	Support	62.00, 61.25	Tuesday's low
		61.00, 60.40, 60.25	Previous lows
HO	Resistance	181.60, 181.80, 183.10	Previous highs
	177.22, up 3.05 cents	178.30	Tuesday's high
	Support	177.00, 176.00, 173.50	
		172.50, 168.60	Tuesday's low, Previous low
HU	Resistance	187.50, 188.00, 188.30	Previous highs
	183.95, up 94 points	186.90	Tuesday's high
	Support	183.00, 182.00	
		179.50, 177.00 to 175.00	Tuesday's low, Remaining gap (March 16th)

rallied to a high of 61.00 ahead of the close. The market erased some of its gains and went off the board, up 15 cents at 60.57. The May crude contract settled up 38 cents at 62.34 after it rallied to a high of 62.70 late in the session. It gapped lower from 61.70 to 61.25, its intraday low, in follow through selling seen in overnight trading. The market later bounced off its low and backfilled its gap. The May crude contract continued to trend higher and posted a high of 62.70 ahead of the close. Volume in the crude market was good with 203,000 lots booked on the day. The gasoline market also gapped lower from 180.80 to 180.00 but quickly backfilled its gap as it traded to 184.00 early in the session. The market retraced its gains and sold off to a low of 179.50. The gasoline market however bounced off its low and extended its gains to over 3.8 cents as it rallied to a high of 186.90. It later retraced some of its gain and settled up 94 points at 183.95. Similarly, the heating oil market gapped lower from 173.50 to 172.50. The market quickly backfilled its gap and never looked back. It rallied to a high of 178.30 late in the session. It settled up 3.05 cents at 177.22. Volumes in the product markets were good with 39,000 lots booked in the gasoline market and 35,000 lots booked in the heating oil market.

The oil market will be driven by the DOE report, which is expected to show builds in crude stocks of 2.5 million barrels, draws in gasoline stocks of about 1 million barrels and draws in distillate stocks of 2.2 million barrels. If the market does see another build in crude stocks, the market is seen breaching its recent support levels. Technically, the market also still has room to the downside. The market is seen testing its support at 61.25 followed by its previous lows of 61.00, 60.40 and 60.25. Resistance is however seen at 62.70 followed by more distant resistance at its gap from 63.80 to 64.10.