



ENERGY RISK MANAGEMENT

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ENERGY MARKET REPORT FOR MARCH 26, 2007

On Saturday, the UN Security Council approved the resolution imposing further sanctions against Iran for refusing to suspend its nuclear program. The sanctions would stay in place until Iran halts the enrichment of uranium. Iran has 60 days to comply or face possible new sanctions. In response, Iran's President Mahmoud Ahmadinejad said it would limit its cooperation with the UN's IAEA and promised not to halt its nuclear work. Meanwhile, a spokesman of parliament's committee on foreign policy and national security said Iran still wants to negotiate with the West over its controversial nuclear program. He said Iran was not aiming to escalate the standoff after it partially

Market Watch

According to DEBKAFfile, Middle East countries as well as the US and UK are bracing for further Iranian marine, air or terrorist operations in Iraq and other places after the UN Security Council approved a resolution imposing further sanctions on Iran. Iran also warned Saudi Arabia, Qatar and the UAE not to cooperate with the US' regional policies and to stay neutral in the US-Iran dispute. Iranian President Mahmoud Ahmadinejad's last minute cancellation of his appearance before the Security Council indicated that Iran was giving up on diplomatic maneuvers.

The Washington Times reported that US officials were questioning a series of arrests by Saudi authorities, disputing official claims that the men were involved in terrorism financing. According to the Saudi Interior Ministry, the arrests were part of an ongoing effort against terrorism and its funding. Saudi Arabia's Interior Minister Mansour al-Turki said the ten men involved in illegally collecting donations and sending them to suspected parties.

China's President Hu Jintao arrived in Russia on Monday seeking energy deals. He is also seeking to expand trade between the two countries. Their potential partnership has been stymied by both countries' desire to keep a state grip on energy deals. Meanwhile, the two leaders stressed that the stand off over Iran's nuclear ambitions should be resolved exclusively through peaceful means.

Mexico's Energy Ministry Georgina Kessel and her Norwegian counterpart Odd Roger Enoksen agreed to strengthen their cooperation in the energy sector, specifically to exchange information and expertise in areas including deepwater oil drilling.

According to the Truck Tonnage Index released by the American Trucking Associations, US trucks moved more freight in February than in January. The advanced seasonally adjusted index increased 1.6% in February after falling a revised 3.1% in January. The tonnage index increased to 113.3 in February from 111.5 in January.

suspended cooperation with the UN's IAEA. The White House called the response from Iran disappointing but reiterated that the US had no intention of going to war with Iran. Separately, the European Union's foreign policy chief, Javier Solana renewed an offer from six world powers to negotiate differences with Iran over its nuclear program in a phone conversation with Iran's top nuclear negotiator, Ali Larijani. However they came no closer to bridging the differences and agreed to continue talking.

Iran said British sailors it detained were fit and well. However it did not disclose where they were being held. Naval Revolutionary Guards units seized the 15 sailors and marines in the Gulf on Friday. British Prime Minister Tony Blair said the 15 British sailors and marines were captured in Iraqi waters and added that Iran had to understand its action was "unjustified and wrong." Britain said it has asked Russia and other countries to help in efforts to secure their release. Iraq has also urged Iran to free the 15 detained Britons, saying they were detained in Iraqi waters and not in Iranian waters. Iran said it was considering charging the Britons with illegally entering its waters. A senior Iranian Foreign Ministry official said the British personnel were being questioned to see if they had entered Iranian waters on purpose or not. Adding to the international tension, Iran's Revolutionary Guards warned the US against attacking the country.

Russia's atomic energy agency said Iran made its first payment to Russia for the construction on its Bushehr nuclear power station. It said the payment was just over half the monthly installment Iran was supposed to make. The payment delay prompted Russia to indefinitely postpone the reactor's launch set for September.

While Iran has downplayed the impact of sanctions on its economy, analysts believe that increasing international pressure was hurting business in the country. Iran has been struggling with double digit inflation and jobless rates as well as missing targets to increase its oil production capacity despite windfall gains. Analysts said the sanctions have forced Iranian industry to be more self reliant while increased pressure was also deterring Iranians from making long term investments.

According to Treasury and State officials, more than 40 major international banks and financial institutions have either cut off or cut back business with the Iranian government or private sector as a result of a campaign launched by the Treasury and State Department. It has cut Iran's ability to finance petroleum industry projects and to pay for imports. It has also limited Iran's use of international financial system to help fund allies and extremist militias in the Middle East. Both the Iranian government and the private sector have tried to persuade financial institutions to keep the name of Iran or the originating bank in Iran off transactions so they are not traced to Iran. In a related effort, the Bush administration has warned relevant companies and countries about the risks of investing in Iran's oil and gas sector.

The head of the IEA, Claude Mandil said oil prices were too high and added that OPEC should increase its output.

According to the Lundberg survey, US average retail gasoline prices increased to \$2.61/gallon in the two weeks ending March 23, up 5.6 cents/gallon.

Refinery News

BP stated that its cat feed hydrotreater at its 410,000 bpd Whiting, Indiana refinery suffered a fire on Thursday night. It was forced to reduce its processing rates on its crude distillation units and one of two fluid catalytic cracking units, with a capacity of 175,000 bpd, as a result. Planned maintenance on the smaller of two crude units was also being moved up following the fire. The 175,000 bpd crude unit,

which was scheduled to undergo maintenance starting in May, is expected to be shut for about 4 to 6 weeks of work.

Shell said units at its 334,000 bpd refinery in Deer Park, Texas, which were shutdown by an external power outage last week, resumed normal operations. The refinery's hydrocracker, which was down for repairs when the power went out, was expected to get feed on Tuesday and return to normal by the end of the week.

An alkylation unit at BP's Texas City, Texas refinery was still down on Monday as work to repair the feed line to the unit continued. As a result, its fluid catalytic cracking unit has been operating at reduced rates.

Valero Energy Corp said it has started maintenance at its Corpus Christi, Texas refinery. The scheduled maintenance is expected to end on April 13.

According to Reuters, the fall in gasoline stocks and the rally in gasoline futures helped drive the gasoline premium to crude oil as high as \$27/barrel last week, the highest level since July last year and up from about \$7/barrel at the beginning of February. US Gulf Coast refineries cracking light Texas crude saw profit margins increase to \$14.81/barrel last week, up \$2.23 from the previous week and more than double the February level of \$6.76/barrel. US refineries cracking Brent crude increased profit margins to \$9.87/barrel, up \$1.59/barrel on the week and up from last year's level of \$7.90/barrel. Meanwhile, refinery margins in Europe fell \$1.15/barrel to \$3.14/barrel.

Total said the ongoing strike at the Fos-Lavera terminal has forced it to cut its operations by a third at its 119,000 bpd Feyzin refinery in France. Production at its 155,000 bpd refinery in La Mede was not impacted by the strike. The strike has blocked 49 ships, including 26 oil tankers and six gas tankers from entering the terminal. Meanwhile, striking workers and port authorities drew up a draft agreement on Monday to end a 13 day strike at the Fos-Lavera terminal. The draft agreement is expected to be submitted for a vote on Tuesday.

Diesel barge loadings at BP/Chevron's 400,000 bpd Nerefco refinery in Rotterdam have been halted since the middle of last week due to computer problems.

Japan Energy Corp said it would increase its crude oil processing volumes for the second quarter by 6% on the year due to lighter maintenance shutdown schedules. It is expected to refine 4.76 million kiloliters or 329,000 bpd of crude during the April-June period. During the third quarter, Japan Energy plans to refine 5.5 million kl of crude.

Saudi Aramco, ExxonMobil and China's Sinopec are scheduled on Friday to sign a deal to triple the capacity of China's Fujian refinery. The project would triple the refinery's capacity to 240,000 bpd. The expanded refinery would start up in early 2009. The refinery would process Aramco's heavy crude. Saudi Aramco, ExxonMobil and Sinopec would also set up a fuel marketing venture that would manage 750 service stations and a network of terminals in Fujian province.

Kazakhstan's KazMunaiGaz said it would join a \$4.9 billion project to build a 300,000 bpd refinery in the Turkish port of Ceyhan.

Production News

Royal Dutch Shell resumed pumping oil through a 187,000 bpd pipeline that was closed on March 4 due to a spill. Repairs to the pipeline that feeds the Bonny export terminal were completed last Thursday and output from the flow stations feeding the trunk line was increasing steadily.

NYMEX Petroleum Options Most Active Strikes for March 26, 2007

Symbol	Month	Year	Call/Put	Strike	Exp Date	Settle	Volume	IV
LO	6	7	P	58	05/17/2007	0.72	8,752	31.39
LO	6	7	P	60	05/17/2007	1.12	8,404	30.31
LO	5	7	P	60	04/17/2007	0.6	6,195	27.75
LO	6	7	P	64	05/17/2007	2.54	4,552	29.17
LO	6	7	P	63	05/17/2007	2.09	4,200	29.27
LO	8	7	C	65	07/17/2007	4.75	2,980	28.97
LO	6	7	C	64.5	05/17/2007	2.81	2,147	29.17
LO	10	7	C	85	09/17/2007	0.77	2,000	28.13
LO	6	7	P	64.5	05/17/2007	2.79	1,525	29.17
LO	7	7	P	63	06/15/2007	2.37	1,475	29.38
LO	5	7	P	59	04/17/2007	0.41	1,455	28.43
LO	5	7	P	63	04/17/2007	1.76	1,453	27.95
LO	5	7	C	63	04/17/2007	1.67	1,364	27.94
LO	12	7	C	90	11/13/2007	0.69	1,350	27.07
LO	5	7	P	52	04/17/2007	0.02	1,317	34.38
LO	9	7	C	65	08/16/2007	5.48	1,300	28.86
LO	7	7	P	56	06/15/2007	0.6	1,300	30.67
LO	6	7	C	75	05/17/2007	0.28	1,233	28.72
LO	10	7	C	67	09/17/2007	5.13	1,225	28.53
LO	10	7	P	67	09/17/2007	5.02	1,225	28.50
OB	9	7	P	1.8	08/28/2007	0.0878	400	31.13
OB	8	7	P	1.8	07/26/2007	0.0682	400	31.72
OB	4	7	C	1.96	03/27/2007	0.1093	350	63.98
OB	12	7	P	1.6	11/27/2007	0.0926	300	30.82
OB	6	7	C	2.04	05/25/2007	0.0975	200	37.49
OB	7	7	P	1.8	06/26/2007	0.0537	200	32.74
OB	12	7	P	1.74	11/27/2007	0.1508	180	30.36
OB	6	7	P	1.96	05/25/2007	0.1027	175	37.14
OB	7	7	C	1.88	06/26/2007	0.1765	167	32.65
OB	8	7	C	2.13	07/26/2007	0.0827	151	32.47
OB	8	7	C	2.07	07/26/2007	0.0995	151	31.92
OB	7	7	C	1.94	06/26/2007	0.1425	128	32.22
OB	12	7	C	1.6	11/27/2007	0.2592	125	31.84
OB	12	7	P	1.2	11/27/2007	0.0119	120	32.53
OB	7	7	C	2.12	06/26/2007	0.0749	112	33.26
OB	6	7	P	1.75	05/25/2007	0.0322	111	38.11
OB	4	7	C	2.1	03/27/2007	0.0146	102	63.98
OB	6	7	P	1.85	05/25/2007	0.059	102	37.64
OB	12	7	C	1.94	11/27/2007	0.1146	100	32.03
OB	12	7	P	1.94	11/27/2007	0.2798	100	32.93
OB	5	7	P	1.88	04/25/2007	0.0359	100	39.38
OH	10	7	P	1.65	09/25/2007	0.0523	200	29.05
OH	12	7	P	1.65	11/27/2007	0.0518	200	27.88
OH	9	7	P	1.65	08/28/2007	0.0502	200	28.84
OH	4	7	P	1.75	03/27/2007	0.0086	132	51.06
OH	4	7	C	1.75	03/27/2007	0.0347	122	51.06
OH	12	7	P	1.86	11/27/2007	0.119	115	27.05

Algeria's oil ports of Skikda and Bejaia reopened after bad weather forced them to close for most of last week. Last week, the two ports as well as the ports of Arzew and Bethouia were forced to close due to heavy swell and strong winds.

Australia's Woodside Petroleum Ltd said it temporarily shut its 100,000 bpd Cossack Pioneer oilfield due to the approach of cyclone Kara. The nearby 7,000 bpd Legendre field was also shut in. Meanwhile, Santos Ltd said it shut in production at its 55,000 bpd Mutineer-Exeter oilfield since Sunday.

The Aberdeen Petroleum Report stated that the UK's oil production in January totaled 1.485 million bpd, down 1% on the month.

The Rhine River was closed to shipping near Cologne following an accident involving a container ship over the weekend. The river could remain closed for several days, possibly until Friday.

The Port of Rotterdam Authority said the volume of oil products transferred directly between vessels in the Port of Rotterdam is expected to increase with the opening of a new ship to ship transfer facility in April.

Mexico's Energy Ministry reported that the country's Cantarell oil field produced an average of 1.567 million bpd of crude in February, down 1.5% on the month.

Russia's Economic Development and Trade Ministry stated that primary crude oil refining in Russia increased by 7% on the year in January-February to 37.2 million tons. It reported that sales of diesel fuel in Russia fell 0.8% on the year to 5.3 million tons in January-February while sales of heating oil fell 22.6% to 4.3 million tons. Russia's gasoline sales increased by 3.2% on the year to 4.6 million tons.

South China's fuel oil imports are expected to increase 19% on the month to 931,100 tons in March. In total, traders estimated china would import about 2 million tons this month compared to about 1.41 million tons last month.

China National Petroleum Corp said it would double its spending on an ageing Iranian oilfield and aims to start drilling this year. It recently renegotiated terms with the National Iranian Oil Co and raised its investment to about \$150 million to produce oil from the Masjed-I-Suleiman field. Under the deal, CNPC is expected to produce up to 25,000 bpd from the field.

Separately, China National Petroleum Corp is expected to sign a preliminary deal to take a 40% stake in a Venezuelan heavy crude project. The two countries were also working on plans to build three refineries in China and would consider joint construction of a tanker fleet. Venezuela's President said the three proposed refineries in China would process 800,000 bpd of Venezuelan crude.

Brazil's Globo newspaper reported that Petrobras may confirm the discovery of a field of light grade crude under the Campos Basin. The field, if economically recoverable reserves are confirmed, would be one of the largest of its type in the world.

OPEC's news agency reported that OPEC's basket of crudes increased to \$58.92/barrel on Friday from \$57.78/barrel on Thursday. It reported that OPEC's basket of crudes increased by 19 cents/barrel to \$57.31/barrel in the week ending March 23.

Market Commentary

Bulls once again were able to trample all over any bears left in the ring. Teased by the problems at BP's Whiting, Indiana 400,000 bpd refinery, bulls ran the May crude contract up over the 63.00 area, halting at 63.30. With the Iranian situation looming in the background and the May contract's ability to hold its strength, we would look for a test of the 63.70 key resistance number. Tomorrow's pivot is 62.78 with

resistance set at 63.11, 63.63 and 63.96 while support is seen at 62.26, 61.93 and 61.41. As for the May/June spread, it never looked back once it bounced off

Technical levels		
	Levels	Explanation
CL 62.91, up 63 cents	Resistance 63.38, 63.63, 63.75, 63.96 63.11, 63.30	Previous high, basis trendline Monday's high
	Support 62.34 62.26, 61.93, 61.41	Monday's low
	Resistance 178.70, 179.57 177.78	Previous highs Monday's high
HO 177.61, up 6.5 cents	Support 174.75, 171.10 170.50	Monday's low Previous low
	Resistance 210.88 207.20	Basis trendline Monday's high
	Support 206.00, 204.00, 199.15 194.78	Monday's low Previous low

its support at 1.25 and could possibly test the levels of 2.50 and 3.00. Meanwhile, the product markets were also well supported by the refinery news. The RBOB market drew support from the reports stating that BP cut operations on a fluid catalytic cracking unit at the Whiting, Indiana refinery. The market extended its gains to over 7.3 cents as it rallied to a high of 207.20 late in the session after it bounced off a low of 199.15 and never looked back. The May RBOB crack spread continued to rally as it settled at 21.70. Similarly, the heating oil market also bounced off a low of 171.10 and rallied higher amid the strength in the rest of the complex. The market extended its gains to over 6.6 cents as it posted a high of 177.78 and traded mostly sideways ahead of the close. The heating oil crack held its support just above the 10.00 level and settled just above 11.50. Volumes were better with 315,041 lots booked in the crude market, 52,220 lots booked in the RBOB market and 49,470 lots booked in the heating oil market. The energy complex, which may retrace some of its sharp gains early Tuesday, will continue to hold its support levels amid the growing tension over Iran's nuclear ambition. The markets are also seen remaining supported as traders position themselves ahead of Wednesday's release of the weekly petroleum stock reports. The reports are expected to show draws in product stocks. The ongoing refinery problems will also continue to support the crack spreads.