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## ***ENERGY RISK MANAGEMENT***

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### **ENERGY MARKET REPORT FOR MARCH 26, 2009**

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Brazilian oil workers continued their strike for the fourth consecutive day after talks on Wednesday ended without an agreement. Talks between union officials and Petrobras management continued on Thursday as they attempted to negotiate an agreement. The union said the strike remains strong at all sites, although Petrobras has brought in contingency staff to operate refineries, platforms and terminals.

#### Market Watch

Industry sources said Canada's crude oil exports to the US has declined due to lower world oil prices, a severe winter and synthetic crude processor maintenance a possible cause to the fall in Cushing, Ok stocks of 2.2 million barrels reported by the EIA. Crude oil exports could fall as much as 300,000 bpd by the end of spring or about 15% of total crude exports of 2 million bpd. As much as 75,000 bpd of the fall in exports is due to maintenance work on a coker unit at Syncrude Canada Ltd. However Enbridge said its pipeline is flowing relatively full at 1.5 million bpd.

The Labor Department reported that initial claims for unemployment benefits increased by 8,000 to 652,000 in the week ending March 21<sup>st</sup>. The four week average fell for the first time in 10 week, though only by 1,000 to 649,000. The US has lost 4.4 million jobs since the recession started in December 2007. According to the report, the total number of continuing unemployment claims increased by 122,000 to a record level of 5,560,000. The unemployment rate for workers with unemployment benefits increased 0.1% to 4.2%.

The Commerce Department said the US economy was weaker at the end of 2008 than previously believed. GDP fell at a 6.3% annual rate October through December compared with its previous estimate of a fall of 6.2%. It also reported that corporate profits fell by 28.4% to \$931.2 billion in October through December from the third quarter with year over year, earnings falling by 36.3%.

An energy consultant and financier said the world financial crisis and fall in oil prices has stalled investment in oil exploration and production and are likely to lead to a sharp increase in prices. He said the underlying rate of decline of the world's ageing oilfields is as much as 20% a year and only high levels of investment can reduce that to single digits. He said many OPEC oil producers will find it difficult to increase production to previous levels once prices recover.

Under a plan introduced by Treasury Secretary Timothy Geithner, the government will regulate the market in credit default swaps and OTC derivatives for the first time. The House Agriculture Committee chairman, Collin Peterson said credit default swaps and OTC regulator is a key issue in the Obama administration's proposed overhaul of financial regulators. He believes the Federal Reserve should not be the regulator. Under the proposal, standardized OTC derivatives will go through clearinghouses and trading in non-standardized OTC derivatives will be subject to higher standards including collateral. The clearinghouses will report trading volumes and positions.

The Association of American Railroads said freight traffic across North America in the week ending March 21<sup>st</sup> fell by 13.9% on the year. It said for the first 11 weeks of the year, North American rail freight was down 16% on the year at 3.8 million carloads. US rail carloads fell by 1.2% on the week to 276,030 from 279,287 carloads the previous week.

Oil Movements reported that OPEC's crude oil exports in the four weeks ending April 11<sup>th</sup> are expected to fall by 770,000 bpd to 22.23 million barrels, its lowest level since June 2003.

Contract					TODAY'S	PREVIOUS	ESTIMATED	DAILY	
--	----			Strike	SETTLE	SETTLE	VOLUME	HIGH	LOW
AO	6	9	C	55.5	6.99		275	0	0
AO	4	9	C	55.5	2.61		275	0	0
AO	5	9	C	55.5	5.15		275	0	0
LC	12	9	C	85	2.69	2.48	500	0	0
LC	12	9	C	90	2.11	1.95	400	0	0
LC	12	12	P	73	13.38		350	0	0
LC	6	9	C	60	3.38	2.87	300	0	0
LC	6	9	P	55	4.72	5.55	275	0	0
LO	5	9	P	45	0.69	0.98	9992	0.85	0.67
LO	5	9	P	40	0.21	0.33	7700	0.29	0.12
LO	6	9	P	40	0.63	0.8	6682	0.75	0.66
LO	6	9	P	35	0.24	0.31	6051	0.36	0.36
LO	6	9	P	55	4.72	5.55	5077	5.2	4.98
LO	12	10	P	40	2.16	2.29	4500	0	0
LO	6	9	P	51	3.01	3.61	4051	3.3	3.3
LO	5	9	C	65	0.62	0.49	3411	0.54	0.46
LO	12	10	P	50	4.5	4.74	3100	0	0
LO	5	9	C	55	3.23	2.62	2697	3.4	2.75
LO	5	9	P	50	1.78	2.37	2640	2.1	1.77
LO	6	9	P	119	63.22	64.81	2000	0	0
LO	6	9	P	120	64.22	65.81	2000	0	0
LO	12	9	P	40	1.87	2.05	1815	1.8	1.8
LO	6	9	P	50	2.67	3.21	1623	2.94	2.71
LO	6	9	C	55	5.5	4.74	1468	5.29	5.04
LO	12	10	P	53	5.41		1350	0	0
LO	12	10	P	67.5	11.31		1350	0	0
LO	5	9	C	60	1.48	1.19	1209	1.51	1.2
LO	5	9	C	63	0.89	0.71	1161	0.87	0.75
LO	7	9	P	55	5.4	6.15	1150	0	0
LO	5	9	C	50	6.12	5.14	1122	6.2	5.41
LO	7	9	P	40	0.99	1.23	1025	0	0
LO	12	10	P	30	0.77	0.82	1000	0	0
OB	4	9	C	1.5	0.0311	0.0294	276	0.023	0.008
OB	5	9	C	1.8	0.0401	0.0375	250	0.033	0.033
OB	9	9	C	1.55	0.2426	0.2284	200	0	0
OB	9	9	P	1.55	0.2279	0.2543	200	0	0
OH	4	9	P	1.47	0	0.0339	384	0.005	0.005
OH	6	9	P	1.15	0.0253	0.0301	350	0	0
OH	6	9	P	1.25	0.0469		225	0	0
OH	6	9	P	1	0.0077	0.0099	225	0	0
WA	6	9	P	-2	0.49	0.48	550	0	0
WA	5	9	P	-2	0.58	0.56	450	0	0
WA	8	9	P	-2	0.49	0.48	400	0	0
WA	7	9	P	-2	0.51	0.57	400	0	0

Crude shipments from the Middle East are expected to total 16.04 million bpd in the four weeks ending April 11<sup>th</sup>. It said that as a result of the continuous drop in oil shipments, stock building that normally occurs in the second and third quarter will not happen. It expects the market to tighten as the stock overhang disappears.

According to the AAA, US pump prices increased above \$2/gallon for the first time since last November. Average retail gasoline prices stood at \$2.01/gallon, up 10 cents on the month.

### Refinery News

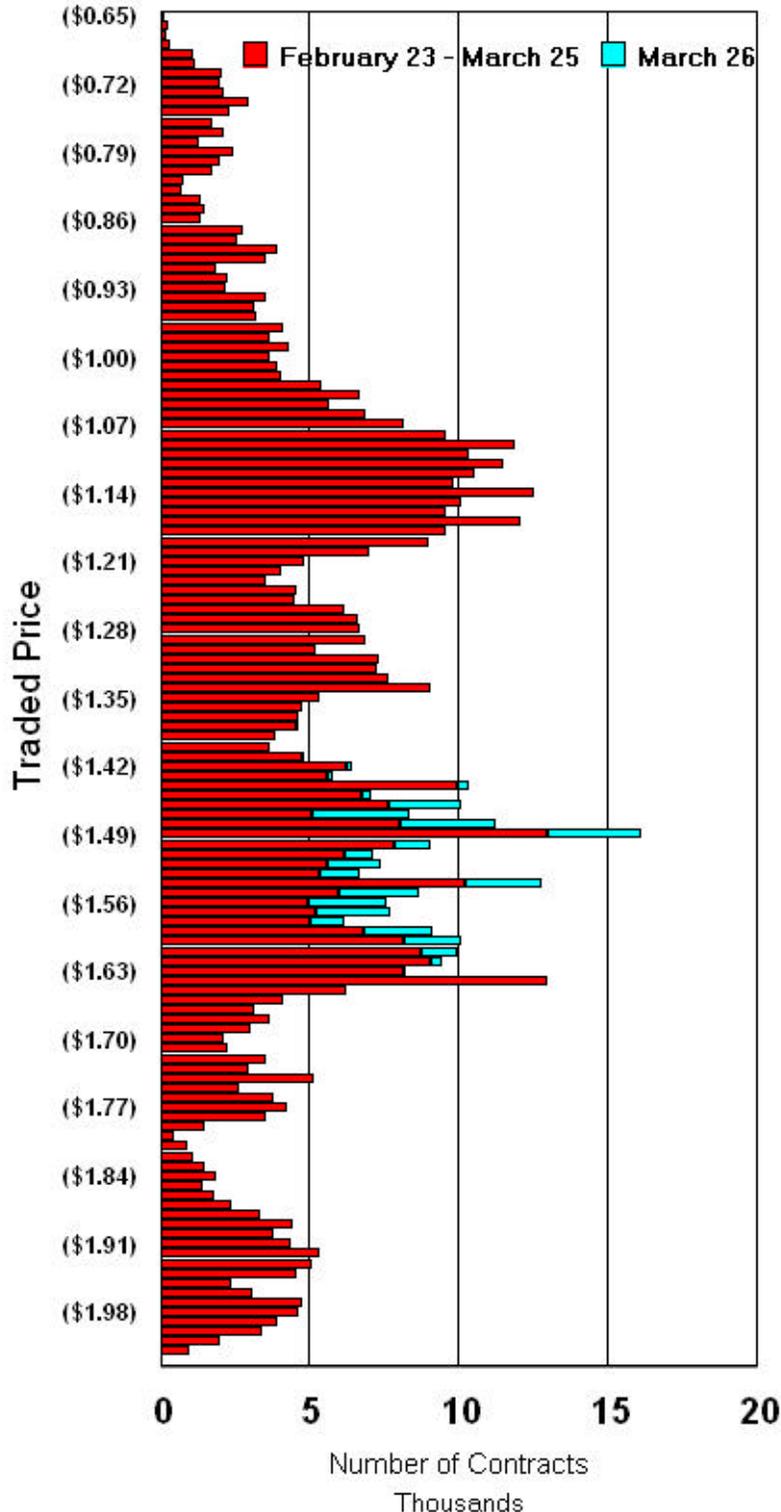
Colonial Pipeline said cycle 19 nominations for its main distillates line, Line 02, will be allocated as demand for space exceed capacity.

Motiva Enterprises LLC's 285,000 bpd Port Arthur, Texas refinery suffered a power outage due to a lightning storm Wednesday, causing a hydrocracker and hydrotreater unit to shutdown. During the shutdown, two small fires inside units were reported.

## NYMEX WTI: May June Spread

Price Vs Volume for February 23 - March 26, 2009

Trade Weighted Avg 3/24 -1.81, 3/25 -1.47, 3/26 -1.49



Flint Hills Resources LP cut rates to a fluid catalytic cracking unit at its 288,000 bpd Corpus Christi, Texas refinery due to a boiler snag late Wednesday.

Venezuela will complete a turnaround of its fluid catalytic cracking unit at its 300,000 bpd Cardon refinery by April. It will increase its gasoline production by about 15% as well increase the quality of the gasoline. PDVSA is currently performing maintenance on its fluid cracking unit at its 135,000 bpd El Palito refinery.

Japan's Cosmo Oil Co plans to cut its crude oil processing volume for April-June by 9.3% or 640,000 kiloliters on the year due to declining demand. It said it may consider further reductions for May, depending on the outlook for domestic demand.

Taiwan's Formosa Petrochemical Corp restarted a 180,000 bpd crude unit at its Mailiao refinery on Thursday after a two week planned maintenance period. The crude distillation unit was shut down from March 10-25 in line with a scheduled turnaround of an 80,000 bpd desulphurizer unit. The desulphurizer unit is expected to resume operations around mid-April.

Pemex said a decision on the location of its new 300,000 bpd refinery will be made in April, while approval for another two new refineries is expected within two years. Following the final location decision, Pemex will begin engineering design of the new refinery, which is expected to take up seven years to build. Separately, Pemex said Mexico is importing less gasoline this year for the first time since 2003 as motorists have cut their consumption and gasoline output at the country's refineries has temporarily reduced the country's reliance on imports. Mexico's

gasoline imports fell in February to 272,000 bpd, the lowest since September 2007. The country increased its gasoline production by 11% on the year in the first two months of 2009 to an average of 503,800 bpd.

**March Calendar Averages**

**CL – \$47.73**

**HO – \$1.2796**

**RB – \$1.3833**

Kuwait will possibly face a second setback on a major oil refining project before the end of the month with a Chinese joint venture facing high environmental hurdles and a wary central government. An environmental impact assessment report on the refinery Kuwait Petroleum Corp and Sinopec Corp are seeking to build in the Guangdong province is due at the end of the month. Environmentalists object the proposed site is close to state protected wetlands and the densely populated and already polluted Pearl River Delta region.

India's domestic oil product sales in February increased to 11.36 million tons, up 0.1% on the year, its weakest pace since October as demand declined due to the slowing economy, with domestic diesel sales increasing by 4.5% on the year to 4.3 million tons. Its kerosene sales fell by 1.28% on the year to 770,000 tons while fuel oil sales fell by 6.05% on the year to 1.05 million tons. India imported 43.9% less oil products in February than a year earlier, with imports totaling 1.19 million tons while crude oil imports fell by 5.4% on the year to 9.43 million tons. Crude oil imports by private firms increased by 3% to 3.35 million tons.

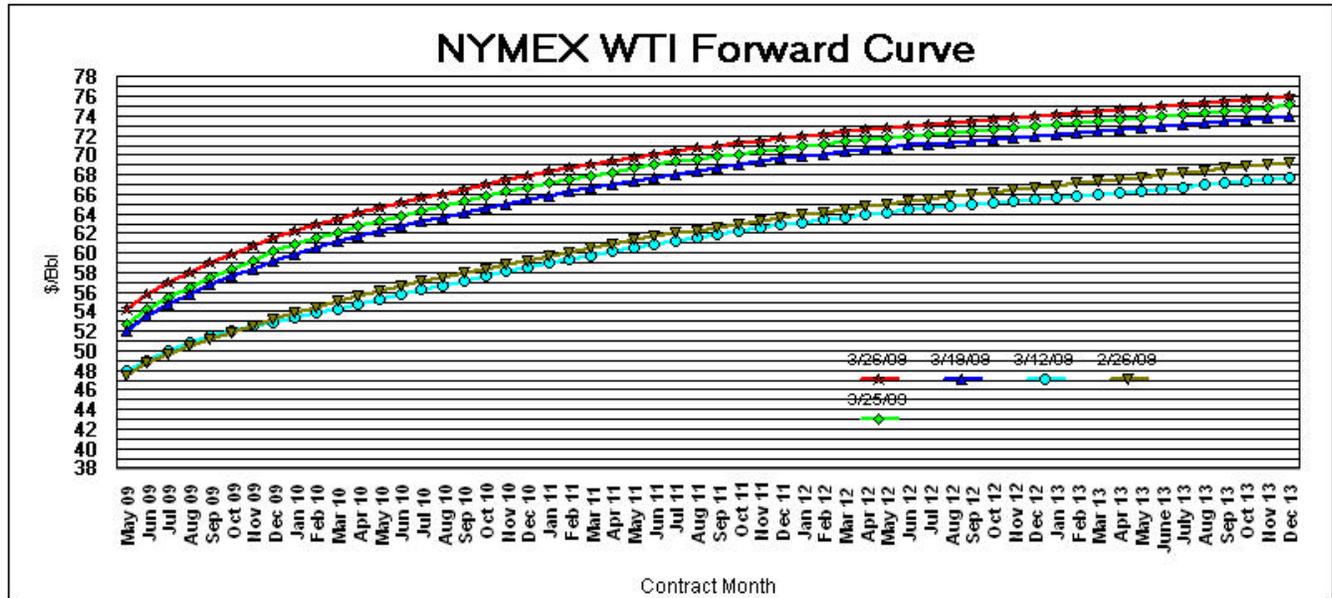
China has completed plans for a second phase of its strategic crude oil reserve with capacity of 26.8 million cubic meters or 170 million barrels after filling its first four storage tanks. The first phase of the strategic crude reserve has a capacity of 16.2 million cubic meters or 102 million barrels. The country plans to build eight strategic oil stockpile bases in the second phase but it has not disclosed the location, investment or progress of the projects.

Gasoline stocks held in the Amsterdam-Rotterdam-Antwerp independent tanks in the week ending March 26<sup>th</sup> fell by 13.93% on the week and by 3.68% on the year to 723,000 tons due to run cuts across Europe. In March about 1 million bpd of crude oil distillation capacity was taken offline by runs cuts and planned maintenance. While refiners are planning lighter refinery maintenance in April, runs cuts are expected to remain in effect through the month, keeping a similar amount of capacity offline. Exports of gasoline from the ARA independent tanks were shipped to Canada, Iran, Mexico and Saudi Arabia, with limited exports to the US. Imports came from France, the Mediterranean, Russia and the UK. Gas oil stocks also fell by 2.18% on the week but increased by 70.74% on the year to 2.153 million tons while fuel oil stocks increased by 3.85% on the week and by 6.34% on the year to 621,000 tons. Naphtha stocks increased by 61.2% on the week and by 54.9% on the year to 79,000 tons while jet fuel stocks fell by 3.5% on the week but increased by 283.51% on the year to 744,000 tons.

Singapore's International Enterprise reported that the country's residual fuel stocks fell by 264,000 barrels to 21.668 million barrels in the week ending March 25<sup>th</sup>. It also reported that the country's light distillate stocks fell by 48,000 barrels to 8.611 million barrels while middle distillate stocks fell by 817,000 barrels to 11.148 million barrels on the week.

## Production News

The UK's Department of Energy and Climate Change said total UK oil and natural gas liquids production in 2008 fell by 6% on the year to 1.45 million bpd due to a decline in output from mature



fields. Natural gas production fell 3.4% on the year to 219 million cubic meters/day.

Nigeria's exports of crude oil will increase to more than 1.85 million bpd in May, up from about 1.7 million bpd in April.

Colombia's Ecopetrol SA will increase its production to 531,000 bpd of oil equivalent in 2009, up from an average 447,000 bpd of oil equivalent in 2008. It will increase its production due to an increase in its existing fields and the acquisition of producing operations in Colombia and Peru in the past months.

A senior Iraqi oil official said Petrobras may compete for a contract to develop Iraq's Nahr Bin Umar oil field. Earlier in the week, an Iraqi oil official said Iraq invited a consortium of Total SA and Chevron Corp to compete against StatoilHydro ASA and fourth company which was not named. The field has reserves of about 6.6 billion barrels and a potential production capacity of 440,000 bpd. Separately, the official said Iraq may invite a number of international oil companies to develop Rattawi and Tuba oil fields in southern Iraq. The Rattawi field has the potential to produce up to 250,000 bpd if developed while the Tuba field has a capacity of 100,000 bpd.

PetroChina said China will adjust domestic fuel prices when the international oil prices increase or fall over 4% within 22 days, a first glimpse of the government's pricing scheme introduced in December. China has previously never disclosed how it sets fuel prices. China raised its gasoline prices by 4.6% and diesel by 3.2% on Wednesday. It was the first increase in domestic fuel prices since its fuel pricing system implementation in December.

OPEC's news agency reported that OPEC's basket of crudes fell to \$50.14/barrel on Wednesday from \$50.44/barrel on Tuesday.

## Market Commentary

The oil market rallied higher, posting a new high not seen since late November 2008 as the strength in the equities market spilled over to the commodities markets. The crude market was well supported despite the bearish fundamentals, including the recent builds in crude stocks reported by the DOE.

The market, which opened lower and posted a low of 52.76 in overnight trading, retraced its losses and rallied to a high of 54.66 early in the morning amid the strength in the equities markets. The market erased some of its gains by mid-day as it traded back below the 53.50 level, finding support at 53.17. In a yo-yo pattern, the crude market bounced off that level and once again retraced its losses ahead of the close. The market settled up \$1.57 at \$54.34, its highest settlement since November 28, 2008 when the market settled at \$54.43. While the strength in the equities market may continue to underpin the oil complex, the bearish fundamentals are likely to keep those gains limited. The market, which settled within its upward trend channel, is seen finding resistance at \$54.57 followed by its high of \$54.66, \$57.26, \$58.90 and \$61.47. Initial support is seen at \$53.50 followed by \$52.76, \$51.86 and \$51.00. The product market also traded higher amid the strength in the oil market. Similar to the crude market, the RBOB market rallied to a high of \$1.5372, a level not seen since October 30, 2008. However it too retraced its gains and posted a low of \$1.492 in afternoon trading before it traded back towards its high ahead of the close. It settled up 3.61 cents at \$1.5311 still remaining within its upward trend channel from \$1.1317 to \$1.5338. Meanwhile the heating oil, which has been leading the product markets, today was lagging behind the RBOB market. The market rallied to a high of \$1.505, a new high since mid-January, amid the strength in the rest of the energy complex. The market however sold off and posted a low of \$1.4612 in afternoon trading. Unlike the rest of the complex, the heating oil failed to trade back up towards its high and settled up 1.66 cents at \$1.4813. The RBOB-HO spread, which settled at 4.98 is seen widening to 6.81.

(CL) MAY.09 300,102 -5,104 JUN.09 198,422 +8,240 JUL.09 88,196 -985 AUG.09 32,386 +305  
 Totals: 1,186,564 +26,324 Heating oil APR.09 20,592 -3,812 MAY.09 59,497 +1,588 JUN.09 39,509  
 +990 Totals: 265,532 -599 NEW YORK HARBOR RBOB APR.09 18,738 -2,292 MAY.09 78,214  
 +2,621 JUN.09 33,796 +349 Totals: 211,414 +1,124.

<b>Crude Support</b>	<b>Crude Resistance</b>
53.50, 52.76, 51.86, 51.00, 49.55, 47.21, 45.71, 44.72, 41.75, 40.00	54.57, 54.66, 54.75, 55.20, 55.98, 57.20, 58.31, 58.90, 61.47
<b>Heat Support</b>	<b>Heat resistance</b>
1.4612, 1.4469, 1.3855, 1.3400, 1.3057, 1.2795, 1.1900, 1.143	1.482, 1.505, 1.5285, 1.5520, 160.24, 166.05, 168.43
<b>Gasoline support</b>	<b>Gasoline resistance</b>
151.40, 1.492, 1.4617, 1.4533, 1.4000, 1.375, 1.3356, 1.3060	1.5338, 1.5372, 1.5800

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