



ENERGY RISK MANAGEMENT

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ENERGY MARKET REPORT FOR MARCH 31, 2008

Oil export flows at Iraq's Basra oil terminal fell briefly on Monday after an electrical fault but returned to normal at a pumping rate of 1.44 million bpd. A shipping agent said there were no reports of tanker loading delays or congestion at the terminal immediately following the feeder pipeline blast last week or in the days since the sabotage. However an Iraqi oil official said Iraq's southern oil production and exports fell by 100,000 bpd. He said Iraq aimed to restore fully the flow of oil from the south on Tuesday. A problem at a pumping station from the Bazargan oilfield caused the disruption.

Iraqi lawmakers said Iranian officials helped broker a cease fire agreement

Market Watch

The National Weather Service forecast that US heating demand would be 7.7% below normal this week. Demand for heating oil is expected to be less than 1% below normal this week. Heating oil cash prices fell about 6 cents/gallon in the New York Harbor amid the fall in heating demand.

The Russian Finance Ministry unveiled a series of tax break proposals for oil and gas industries as part of its fiscal policy strategy for 2009-2011. The draft document, included proposals to cut the mineral extraction tax, change excise duties on high quality oil products and introduce tax breaks for exploration on the continental shelf.

Brazil's Petrobras said late Friday it created a joint venture with Mitsui & Co Ltd and Brazilian builder Camargo Correa SA to build the world's first ethanol only pipeline. The pipeline would transport the biofuel from the town of Senador Canedo to the Atlantic coast harbor of Sao Sebastiao in Sao Paulo state. The pipeline would have the capacity to transport 12 million cubic meters of ethanol a year.

The Green Exchange announced that Goldman, Sachs & Co agreed to work towards building The Green Exchange venture as a founding member. The new exchange would offer a comprehensive range of environmental futures, options and swap contracts for markets focused on solutions to climate change, renewable energy and other environmental challenges. The first slate of products were introduced on March 17.

The head of the CFTC, Walt Lukken said a proposed merger of the CFTC and the Securities and Exchange Commission could bring some efficiencies but it should be weighed against harming the competitive advantage of US futures markets.

The Independent Drivers Association said some independent US truckers were planning to stop hauling freight on Monday and Tuesday in protest of record high diesel prices that were cutting into profit margins.

The NYMEX announced that it would increase its margins on its spot RBOB contract to \$9,113 from \$8,775 for non-member customers effective at the close of April 1. Margins on the second month would increase to \$8,438 from \$8,100 while margins on the third month would increase to \$8,100 from \$6,750. The NYMEX also reported that margins on its spot month heating oil contract fell to \$9,788 from \$10,125. The margin requirement on the second month was unchanged at \$9,450 while margins on the third month was increased to \$8,438 from \$7,425.

March Calendar Averages**CL** – 105.42**HO** – 300.98**RB** – 265.88

Sunday between Iraq's government and radical Shi'ite cleric Moqtada al-Sadr. After six days of fighting, the radical Shi'ite cleric ordered his forces off the streets of Iraq on Sunday. Iraqi Prime Minister Nouri al-Maliki hailed al-Sadr's action as step in the right direction. It was not clear whether the deal would completely end the clashes between

Iraqi forces and Shi'ite militias.

The EIA reported that the US average retail price of gasoline increased by 3.1 cents/gallon to \$3.29/gallon in the week ending March 31. It also reported that the US average retail price of diesel fell by 2.5 cents/gallon to \$3.964/gallon on the week.

Refinery News

The first phase of maintenance turnaround at Sunoco Inc's Point Breeze refinery in Philadelphia is expected to end this week. A fluid catalytic cracking unit and crude unit resumed operations. The refinery is expected to shut a reformer unit for maintenance.

The return to normal operations at ConocoPhillips' Bayway refinery in Linden, NJ has been delayed by a pump problem. It is not clear how long the pump repairs would last. The 250,000 bpd refinery was expected to be at normal operating rates by April 4.

Valero Energy Corp said that a hydrocracker at its 230,000 bpd refinery in Port Arthur, Texas was increasing to planned rates after a brief power outage last week. The coker unit has not reached full rates as planned work continues on the coker drum. Separately, Valero Energy stated that it started planned work on a coker unit at its Delaware City, Delaware refinery. The unit was shut late last week and is expected to remain shut for 37 days.

Murphy Oil Corp said it completed planned work on the 32,000 bpd catalytic reformer at its 120,000 bpd Meraux, Louisiana refinery. Work on the unit started in February and was recently completed.

A 62,000 bpd crude unit and 46,000 bpd coker unit at Tesoro Corp's 172,000 bpd Martinez, California refinery is expected to restart in three weeks.

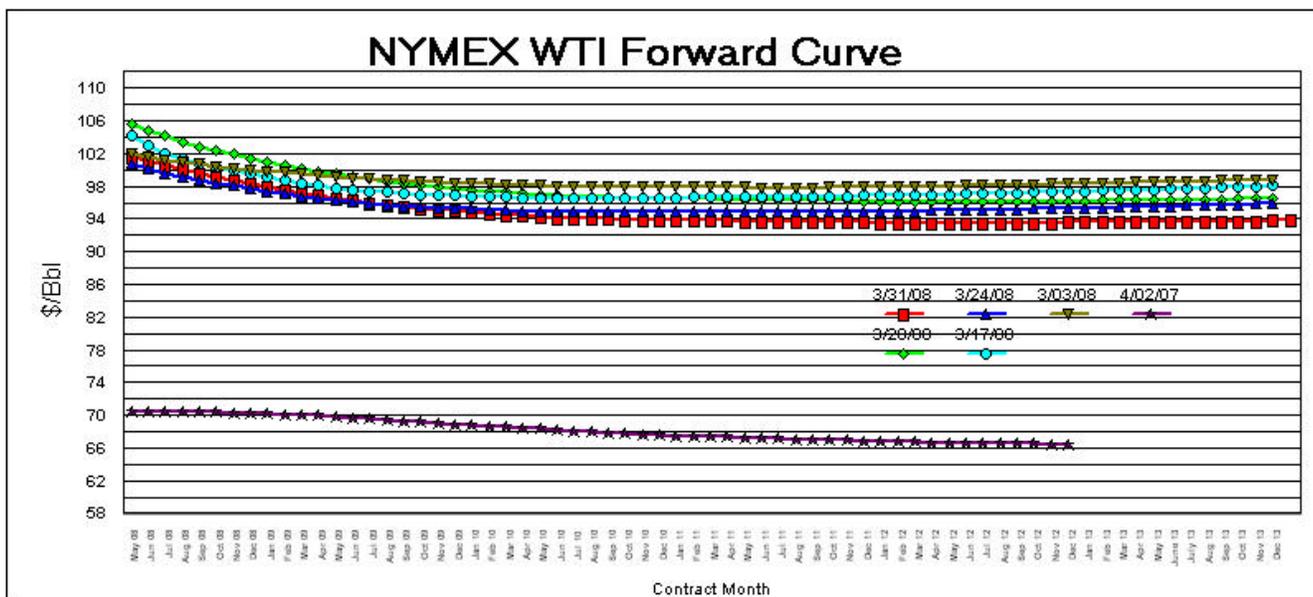
According to Credit Suisse, US refining margins increased sharply in the week ending March 28. Margins on the West Coast increased by \$4.19 to \$22/barrel while margins on the Gulf Coast increased by \$3.47/barrel to \$11.95/barrel and margins the Midwest increased by \$3.38/barrel to \$14.72/barrel. Margins in the Northeast increased by \$2.12/barrel to \$9.08/barrel.

BP is scheduled to perform maintenance on its 271,000 bpd Gelsenkirchen refinery in northwest Germany in April.

A consortium of Indian and foreign oil companies is likely to decide after April whether to go ahead with a proposed 300,000 bpd refinery in southern India.

Libya's National Oil Co has issued a tender to sell 80,000 tons of April loading light sweet Essider crude.

Asian refiners increased crude oil shipments from West Africa by 28% in April as China increased its imports to a record. Asian imports increased to 1.6 million bpd, up 350,000 bpd on the month. China's oil imports increased by 41% to 1.2 million bpd while India's imports increased by 59% to 350,000 bpd. Asian refiners bought more West African crude for April loading even as the arbitrage economics were less favorable.



Algeria's Sonatrach did not award a tender to sell a cargo of light, sweet Saharan Blend crude for loading at the end of April.

Production News

Shell managed to perform some maintenance work at its facilities in Gabon on Monday while union officials threatened to extend the protest to the country's entire oil sector. Shell's 60,000 bpd production has been shut in for 11 days by the strike over working conditions at its Gamba site. Shell officials were however able to run small volumes of oil through its facilities on Monday to prevent any blockages. About 30,000 bpd of oil production from Total and Perenco, which passes through the Gamba terminal has also been affected. The National Organization of Petroleum Workers has threatened to call a nationwide strike if a deal is not reached with Shell on workers' bonuses and holidays. An ONEP delegation is due to meet President Omar Bongo on Tuesday to discuss the situation.

Iraq and five oil companies are unlikely to sign service deals to increase production from some of the country's largest fields before June after a slowdown in negotiations. Iraqi officials had hoped to sign the agreements this month or early April but talks have slowed over payment and the major's desire to link the short term contracts with long term oilfield development.

Russia's crude oil production is expected to recover slightly early this year after a recent fall but is expected to plateau after that. According to a Russian brokerage, Russia's overall crude output in 2008 is expected to increase by 0.5% on year.

Nigeria's Oil Minister Odein Ajumogobia said the country could succeed in increasing its oil production to 4 million bpd by 2010.

Libya is expected to produce 2 million bpd of oil by 2010, up from its current production of 1.6-1.7 million bpd.

OPEC's news agency reported that OPEC's basket of crudes fell by \$1.16/barrel to \$98.24/barrel in the week ending March 28, down from \$99.40/barrel in the previous week.

Market Commentary

The energy markets collapsed under pressure from another dismal economic outlook. There are expectations for crude oil stocks to build as much as 2 million barrels per day, while demand for products look weak. These two factors were joined by unconfirmed reports of hedge fund liquidation. The May crude oil contract lost as much as \$5.37 today, only to rebound at the NYMEX floor traded session's close. All of the aforementioned were combined with what was most likely end of the quarter profit taking and product expiration. Basis the May crude oil contract, \$101.17 proves to be a pivotal area, any penetration to the downside should be sold and penetrations to the upside should be bought. Should this contract settle below this pivotal area, we would look for a test of \$98.34, the 50% retracement number between the range of \$110.35 and \$86.33. Both the gasoline and heating oil contracts came under pressure as well, with the April contract expiring today for both. Demand for gasoline is running 2.2% lower than the same four-week period last year and isn't showing any signs of recovering. This week's release of the Supply Management's national manufacturing survey due out tomorrow is expected to show the lowest fall in five years and unemployment figures for the U.S. are also due out this week and are expected to fall for the third month in a row. This will not be promising for demand and will surely impact prices for both gasoline and heating oil. Having said this, we still have faith in the desire for travel and would look for demand to pick up. With this in mind, we would like to buy the gasoline and sell the heating oil contract looking to place a position in the July contract. This spread is running -23.40, heating oil premium. Total open interest for crude oil is 1,401,804 down 13,073,

May08
361,614 down
13,834,
June08
170,979 down
2,104 and
Dec08
203,237 down
818.

		Explanation	
CL	Resistance	107.63, 108.22, 108.90, 110.35, 111.80, 112.58	Previous highs
	Support	103.60, 105.70, 106.60, 106.78	Monday's high
		101.25, 101.19, 100.25	Basis trendline, Monday's low
		98.35, 95.51	50%retracement(86.33 and 101.86), 62%
HO	Resistance	305.56, 305.63, 308.00, 308.74, 310.93	Previous highs
	Support	293.15, 297.15, 300.90, 305.39	Monday's high
		289.35	Monday's low
		283.75, 279.23, 275.08, 273.27, 269.05	Previous lows
RB	Resistance	276.72	Previous highs
	Support	263.25, 264.15, 270.00, 275.84	Monday's high
		259.08	Monday's low
		257.98, 251.94, 249.35	Basis trendline, Previous lows