



ENERGY RISK MANAGEMENT

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ENERGY MARKET REPORT FOR MAY 9, 2008

Nigeria's Oil Minister Odein Ajumogobia said he would support an OPEC meeting this summer if it appears more crude is needed. However he said the market is currently well supplied. He did not indicate what level oil inventories in consuming nations might have to be at in order for OPEC to intervene.

Meanwhile, The head of Libya's National Oil Corp, Shokri Ghanem said OPEC could meet before September to consider increasing crude output in an attempt to ensure market stability. Separately, an OPEC source said OPEC may consult on whether the group needs to increase its

Market Watch

The Wall Street Journal published a report suggesting that there were closer ties between Venezuela's President Hugo Chavez and rebels attempting to over Colombia's government. It reported that it had reviewed computer files indicating offers by Venezuela's President to arm guerillas. This could heighten the chances that the US could impose sanctions on Venezuela.

China is expected to import 20% more diesel and jet fuel while it remains a net importer of gasoline in May. China is expected to import 600,000 tons or 4.4 million barrels of diesel in May, up from 500,000 tons or 3.666 million barrels in April and up from just 20,000 tons or 146,660 barrels in May last year. High Chinese demand, which saw distillate imports reaching a high of 842,000 tons in January, has been adding to a supply strain worldwide, with Europe also competing for diesel supplies. Crude runs at China's top refineries are expected to fall 3.2% in May amid maintenance outages and low refinery margins. Meanwhile, gasoline imports in May are expected to total 160,000 tons or 1.173 million barrels.

China Aviation Oil Corp resumed swaps trading in Singapore after it halted its trading for more than three years after it incurred losses of \$550 million.

The American Trucking Associations' seasonally adjusted For-Hire Truck Tonnage index decreased for the first time since October 2007, falling 3.2% in March to 113.5. The non-seasonally adjusted index stood at 113.4.

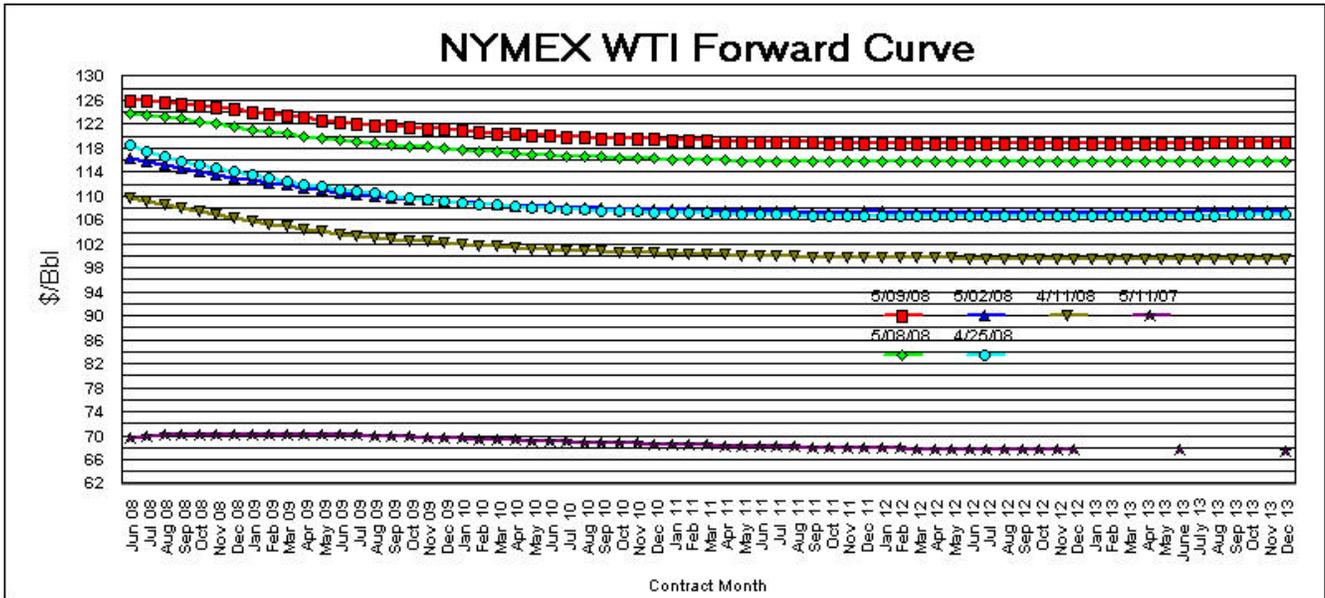
The NYMEX announced that margin requirements on its heating oil contract would increase from \$10,125 to \$10,800 for non-member customers effective at the close of May 12th. It would also increase the margin requirement for its RBOB contract from \$9,788 to \$10,125 for the spot contract and from \$9,113 to \$9,450 for the second month contract.

May Calendar Averages

CL – 120.55
HO – 336.99
RB – 306.57

oil production before its scheduled meeting in September. Ecuador's Oil Minister Galo Chiriboga said he does not expect OPEC to meet before its September meeting.

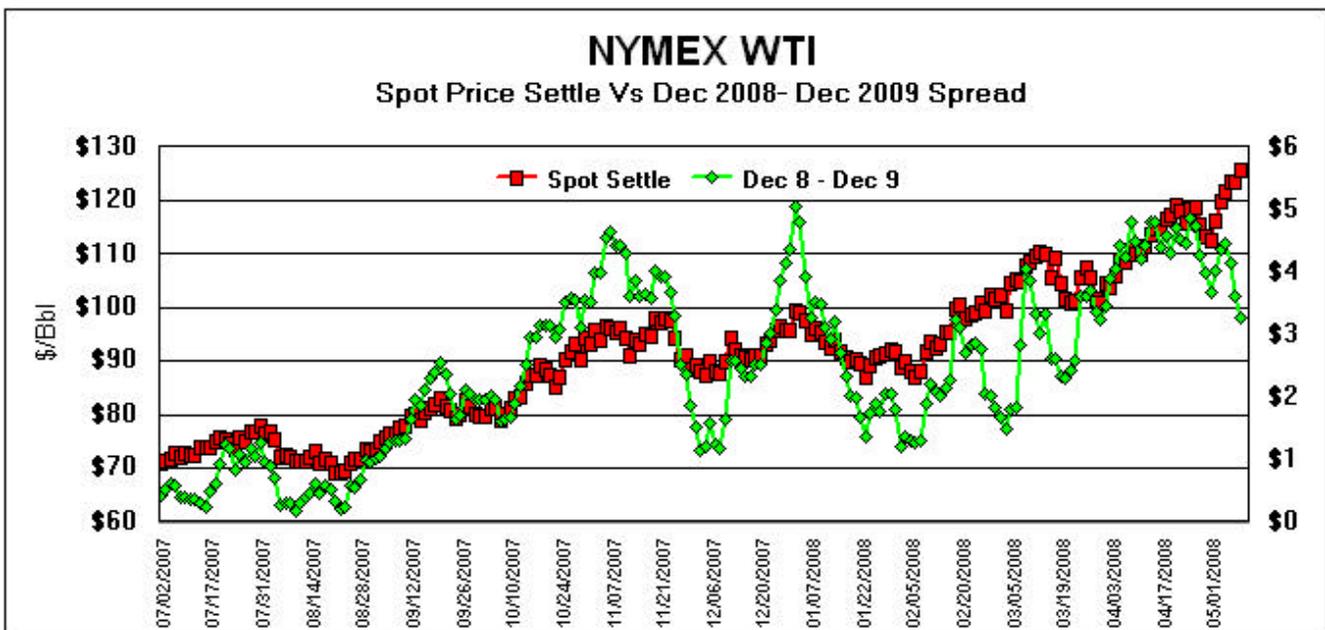
Brazil's President Luiz Inacio Lula da Silva said Brazil was seeking to



join OPEC and work towards lower oil prices.

Egypt and Saudi Arabia called on Arab foreign ministers to meet urgently to discuss Lebanon where forces of the governing coalition have been fighting with Hezbollah gunmen. Saudi Arabia is the main supporter of the Sunni-led government in Lebanon which is opposed to the movement led by Hezbollah which itself has the support of Iran and Syria. Gunmen from the Shia militant group Hezbollah have seized most of western Beirut, driving out supporters of the Western backed government. The opposition said it would maintain roadblocks around Beirut until there was a solution to the political crisis. Meanwhile, Iran accused the US and Israel of fueling the sectarian fighting in Lebanon. The US and Israel have repeatedly accused Iran of arming and financing Hezbollah in a bid to destabilize Lebanon. The US has condemned the violence in Lebanon and demanded that Hezbollah stop its destructive activities.

Libya may decide to impose sanctions that would impact Italy's Eni SpA to protest the inclusion of a minister who insulted Muslims in the newly appointed Italian government of Silvio Berlusconi. The



sanctions could include scrapping an agreement between Italy's Eni and Libya's National Oil Corp.

Turkey's President Abdullah Gul said the Turkish military's latest air strikes against Kurdish rebels in northern Iraq were among the most significant strikes yet against the militants. The Turkish military said on Saturday it killed more than 150 Kurdistan Workers Party guerillas in air strikes in the beginning of the month.

Refinery News

Shell Oil Co reported flaring at its 158,000 bpd refinery in Martinez, California on Thursday.

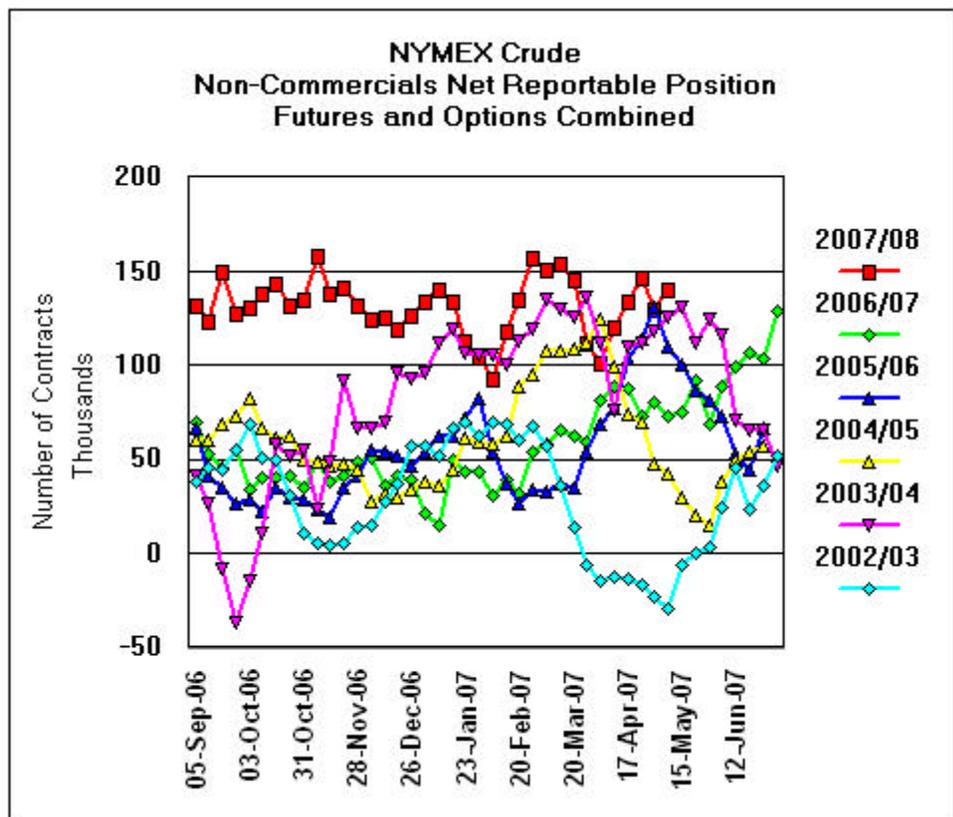
Valero Energy Corp shut a crude and vacuum unit for a two week turnaround at its 340,000 bpd Corpus Christi, Texas refinery on Friday. Meanwhile it restarted a 105,000 bpd coking unit at its Port Arthur, Texas refinery following 75 days of repairs. Valero also reported that it restarted a 50,000 bpd crude unit at its 215,000 bpd Quebec refinery in Friday. The unit was restarted following a 52 day maintenance turnaround.

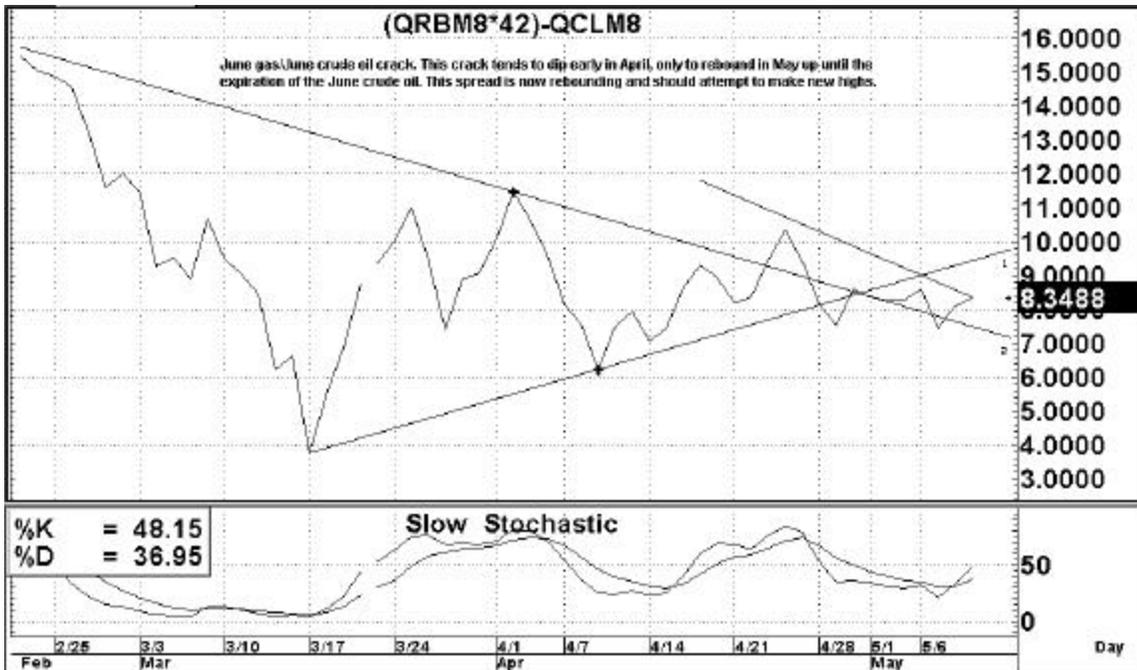
Chevron Corp said its 220,000 bpd Pembroke refinery units were in the process of restarting. Output is expected to resume later on Friday. Chevron was forced to fully halt production at the refinery on April 30 after an electrical fault occurred in its steam plant. It said it continued to meet its contractual obligations during the outage. Chevron Corp reported a cogeneration unit upset at its 243,000 bpd refinery in Richmond, California. The upset triggered the release of higher than allowed amounts of nitrogen oxide from the refinery.

Ineos stated that its 200,000 bpd Grangemouth refinery has resumed almost full production after it shutdown due to a two day strike. Ineos said it agreed to hold talks with the Unite union to resolve a dispute over pensions at its Grangemouth refinery.

Royal Dutch Shell Plc's 420,000 bpd Pernis refinery was restarting after completing planned partial maintenance. The partial turnaround, which included work on its fluid catalytic cracking unit, started in late March and reduced the refinery's output by 20%.

Indonesia's Pertamina has shut an 83,000 bpd residual fluid catalytic cracking unit at its 125,000 bpd Balongan refinery due technical problems. The unit is expected to resume operations in less than a week. Pertamina said it was seeking 1 million barrels of extra gasoline





and 400,000 barrels of extra diesel oil for May delivery due to the shutdown of the gasoline unit. Pertamina is expected to import 11.58 million barrels of oil in June.

Royal Dutch Shell is expected

to shut a 115,000 bpd crude distillation unit at its 500,000 bpd Singapore refinery in early June for routine maintenance seen lasting about three weeks. It is also expected to perform turnaround on a hydrotreater starting June 24 for a month.

The average profits for distilling US ethanol has declined as corn prices increased past \$6/bushel and high oil prices have failed to pull up prices for the fuel. Average ethanol margins fell about 15 cents to 5-15 cents/gallon from mid-April on higher prices for corn.

France's port of Marseille reported that a rolling strike at the port blocked 8 crude oil tankers. Port authorities at Fos-Lavera said a 24 hour strike at the port has impacted a total of 14 ships, including the eight crude tankers, five refined oil tankers and a gas tanker.

The Petroleum Association of Japan reported that crude oil inventories fell by 3.28 million barrels to 91.03 million barrels in the week ending May 3 but were up 8.3% on the year as refiners are expected to undertake a lighter maintenance schedule than last year. The fall in stocks came despite a decrease in the average refinery operation rate to 82.4% from 82.8% the previous week. It reported that gasoline stocks fell by 1.2 million barrels to 13.63 million barrels amid an increase in gasoline demand ahead of the reintroduction of a gasoline tax of 25.1 yen/liter. It also reported that kerosene stocks fell by 20,000 barrels to 10.56 million barrels while naphtha stocks fell by 840,000 barrels to 11.11 million barrels on the week.

Japan's Oil Information Center reported that Japan's retail regular gasoline prices increased to 159.6 yen/liter or \$5.83/gallon on Wednesday from a previous record of 159.2 yen on Monday. Retail gasoline prices have increased since May 1, when Japan's government reimposed a tax of 25.1 yen/liter on petrol.

India's Mangalore Refineries and Petrochemicals Ltd has confirmed supply of about 250,000 tons of diesel to Iran at a premium of about \$4.40 to Middle East quotes.

Production News

The North Sea loading plans for the North Sea Brent, Forties, Oseberg and Ekofisk crude systems showed loadings of 1.34 million bpd for June, down from 1.39 million bpd in May. The June loading program for North Sea Brent blend crude oil scheduled the loading of 161,000 bpd in June down from 178,000 bpd in May. The June program lists a total of 4.839 million barrels, down from 5.53 million barrels set for loading in May. Norway's Forties crude system scheduled the loading of 18.6 million barrels, down from 19.2 million barrels in May. Norway's Oseberg crude system is scheduled to load 200,000 bpd in June, up from 193,500 bpd in May. The June loading program for North Sea Ekofisk crude oil scheduled the loading of 10.8 million barrels, down from 12.31 million barrels in May.

Norway's North Sea Gullfaks crude system is scheduled to load about 199,500 bpd in June, down from 289,000 bpd in May. Norway's North Sea Statfjord crude system is scheduled to load about 256,500 bpd in June, up from 248,000 bpd in May. The total June program is scheduled to load a total of 7.7 million barrels.

Norway's Petroleum and Energy Ministry said Norway would offer 18 new prospective offshore blocks for oil and gas exploration in a licensing round for mature parts of the Norwegian continental shelf. The deadline for submitting applications is October 3 and awarding of the licenses is expected to take place in late 2008 or early 2009.

Royal Dutch Shell said it was making progress in bringing back its shut in production in Nigeria. However a force majeure on exports remained in place.

Total SA said it has resumed production at its 125,000 bpd Amenam offshore oil and gas development in Nigeria following a maintenance operation.

Nigerian oil exports are expected to increase to 1.98 million bpd in June, including Bonny Light, from 1.63 million bpd in May.

Venezuela's PDVSA said its Petrolera Sinovensa oil project would increase its output to 110,000 bpd from 65,000 bpd within three months. Petrolera Sinovensa is a joint venture between PDVSA and China National Petroleum Corp that produces tar like crude from the Orinoco belt that is mixed with lighter oil and sold as a crude blend.

India's Petroleum Secretary M.S. Srinivasan said the country's government should consider measures to tackle record high oil prices



including an increase in subsidized prices. India's state run oil companies have been facing revenue losses for selling gasoline, diesel, kerosene and cooking gas at government mandated prices.

OPEC's news agency reported that OPEC's basket of crudes increased further to \$116.93/barrel on Thursday from \$116.03/barrel on Wednesday.

BP reported that up to 400,000 b/d of its oil production was shut down at Prudhoe Bay early Friday due to a power outage. Production though was expected to be restarted either late Friday or early Saturday.

Market Commentary:

Reacting to both fundamentals and technicals today, the energy markets rallied to record highs once again. According to reports, China has contracted to import 4.4 million more barrels of diesel this month in comparison to the same period last year. A weak dollar and heightened tensions in Beirut also contributed to today's increase in price. The June crude oil contract penetrated and settled above the \$125.35 resistance level, peaking at \$126.25. This penetration sets up for June to test \$131.07. The forward curve continues to dip on the front end, being aided by spreads that got crushed today. The June/July spread has managed to trade in negative territory, making a rebound late in the session. This spread has not met our objective of minus .45 cents but still has time to do so. Should the June/July break above .63 cents, further strength may be seen in the June, but we still remain bearish. After testing and retreating from the top of the ascending channel on a spot continuation chart, gasoline finally settled above the channel. The projected move off of this breakout is \$346.55. In between this move there is resistance at \$328.55 and \$337.55. The June gasoline crack appears to be making its seasonal climb and should encounter resistance at \$8.61. We would expect a penetration of that level and an attempt at new highs prior to the June crude oil going off the board. June heating oil extended its gains today, working towards the projected target of \$3.8420. With diesel demand in China estimated to be 4.4 millions barrels more than the same period last year and demand from other economically expanding countries growing as well, we would anticipate the aforementioned level to be achieved. According to some industry sources, heating oil customers are already stocking

up for next winter in hopes of beating more increases in prices. If this is the case and demand from China dips prior to and after the Olympics, there could be glut in heating oil stocks come



heating oil season. Based on this we would look for this spread to peak and then sell the December 08

and buy the June 09 contract, looking for this spread to collapse. Total open interest for crude oil 1,444,721 up 15,658, June08 280,224 down 22,449, July08 244,050 up 31,689 and December 08 215,690 up 478. Total open interest for heating oil 234,279 up 5,385, June 74,518 down 2,878 and July 45,317 up 4,862. Total open interest for gasoline, 256,837 down 4,616, June 77,041 down 5,431 and July 60,838 up 2,218.

The Commitment of Traders report showed that non-commercials in the crude market reversed the previous cut in their net long position and increased their position by 9,907 contracts to 63,218 contracts in the week ending May 6. The funds increased their total long position by 16,506 contracts to 257,908 contracts on the week. The combined futures and options report also showed that non-commercials increased their net long position by 11,198 contracts to 140,706 contracts amid the market's continuing rally. The funds have continued to add to their net long position as prices continue to climb and open interest builds. Meanwhile, non-commercials in the RBOB market increased by 404 contracts to 60,007 contracts on the week while non-commercials in the heating oil market continued cut their net long position by 4,123 contracts to 18,144 contracts. However given the market's sharp rally in recent days, the funds have likely reversed their previous moves and added to their net longs.

June Crude Support	June Crude Resistance
120.55,116.05,110.30, 85.40	130.25
Heating oil support	Heating oil resistance
3.5100,3.3500,3.1680,3.1070	3.8535,3.7400
Gasoline support	Gasoline resistance
3.1955,3.0400,2.9255	3.2855,3.3755,3.4655