



ENERGY RISK MANAGEMENT

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ENERGY MARKET REPORT FOR MAY 12, 2006

Saudi Arabia's Oil Minister Ali al-Naimi said high oil prices were making consumers wary. He said there was no lack of oil producing capacity in the world and that supplies of crude were running ahead of demand.

Venezuela's President Hugo Chavez said he did not want to cut the country's oil exports in the event of a US strike on Iran but added that he could not predict what he would ultimately do. He said world oil prices would increase to over \$100/barrel in the event of any US strike against Iran. He also stated that he did not believe Iran's nuclear program was a front for secret efforts to produce a nuclear bomb. He said the world should do everything it could to avoid such a confrontation adding that Europe has an important role to play.

Iran's President Mahmoud Ahmadinejad said that any new deal offered by the European powers aimed at halting Iran's civilian nuclear activities would be rejected. Meanwhile, Austrian Foreign Minister Ursula Plassnik, who holds the European Union presidency, said the EU was prepared to

Market Watch

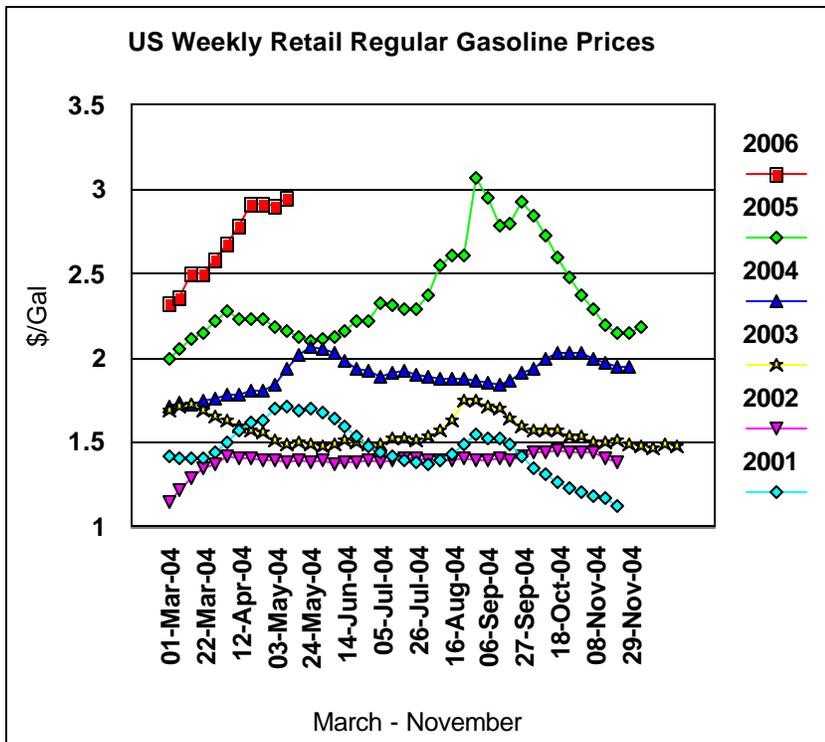
Senior employees of Mobil Producing Nigeria Unlimited threatened to embark on a strike action if the company failed to meet their demands on remuneration by the end of Tuesday next week. The proposed strike posed a threat to about 760,000 bpd of crude oil. An executive director of ExxonMobil said he was not aware of any threat of strike from senior staff, which whom management is currently engaged in wage negotiations. The president of Pengassan recently stated that oil companies that undermined workers' interest could face strike action by union members.

Venezuela's President Hugo Chavez offered to supply Britain's poor citizens with heating oil in the winter. The offer mirrored a controversial Venezuelan scheme to help low income citizens in the US. Venezuela delivered heating oil to the poor in seven US states last winter. Some of the oil was sold at a discount while some of it was donated for free to homeless shelters.

Iraqi Kurds signed a second deal with foreign firms to drill for oil in the country's north, increasing fears among Sunnis that autonomously negotiated deals may split the country. Turkey's General Enerji and Canada's Addax Petroleum signed a 25 year production sharing agreement with the Kurdish authority for the Taq Taq oilfield, which could hold reserves of 1.2 billion barrels.

Nigeria's Economic and Financial Crimes Commission launched an investigation into allegations that lawmakers have been bribed to change the constitution to allow President Olusegun Obasanjo to extend his hold on power. The probe comes days before a vote on the bill to amend the constitution in the Senate, which is likely to go against extending the presidential tenure to three terms.

China's Central Bank reported that the country's annual M2 money supply growth in April increased to 18.9% from 18.8% in March. On a seasonally adjusted basis, M2 increased at an annualized rate of 18.2% in April from March.



work on a cooperation package and support Iran's development of a proliferation proof civilian nuclear program.

The White House on Sunday dismissed calls for direct talks with Iran to resolve the dispute over its nuclear program, saying the UN was the best forum for the discussions.

The DOE reported that the US average retail price of gasoline increased by 3.8 cents/gallon to \$2.947/gallon in the week ending May 15th. It also reported that the US retail average price of diesel increased by 2.3 cents/gallon to \$2.92/gallon on the week.

Refinery News

Alon USA Energy said its gasoline

making fluid catalytic cracking unit at its 70,000 bpd refinery in Big Spring, Texas was operating at reduced rates following turnaround. It said the unit was producing gasoil, which will be stockpiled and then run to make gasoline once a heater is installed.

PDVSA is restarting its 200,000 bpd Puerto La Cruz refinery after a fire on Sunday morning at an electrical station cut power supplies to the plant. PDVSA said all of its units should be operational by Monday night. The incident had not affected product exports or local gasoline distribution.

Deer Park Refining LP cut rates at two of its olefins units at its Deer Park, Texas refinery.

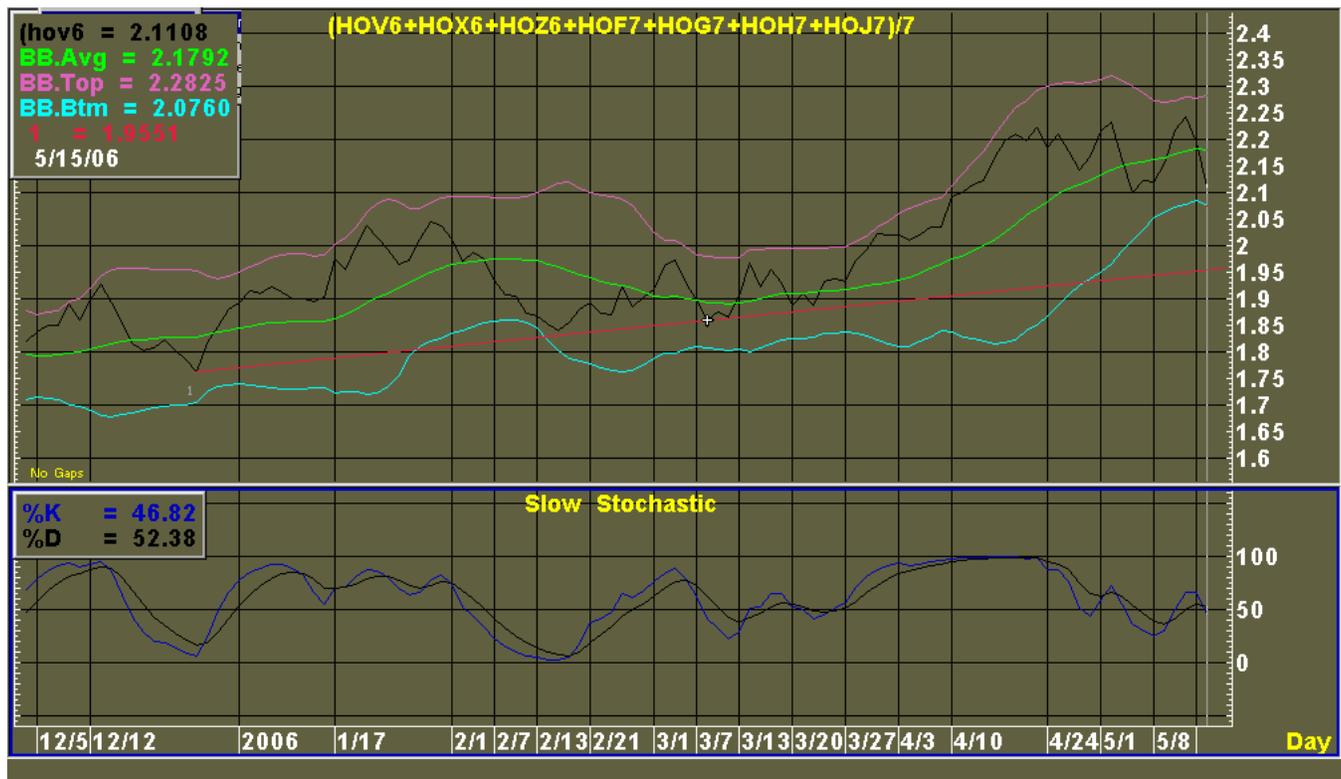
Kuwait's KNPC said it was considering making an initial public offering of a 20% stake in a new \$6 billion refinery project to local private investors. The chairman and managing director of Kuwait National Petroleum Co said it may allow international companies to take a stake in the 615,000 bpd refining complex to be built by 2010.

The heating oil market has remained strong as the gasoline market has driven the energy complex to near record prices. The gasoline market has been supported by the switch over to ethanol based gasoline from MTBE and the subsequent fracturing of the futures market. The heating oil market has also remained strong despite the fact that inventories at 114.7 million barrels in the week ending May 5 were 10.7 million barrels above year ago levels. High gasoline prices have not only pulled heating oil and crude prices higher but have also pushed gasoline crack spreads higher, which potentially could cause distillate inventories to fall as refiners maximize gasoline production.

Production News

Syria's Oil Minister Sufian al-Allaw said Syria was importing 10,000 bpd of crude oil and 7,000 tons of fuel oil from Iraq. He said in return Syria supplied Iraq with oil products, mainly gasoline. He said Syria's crude oil production stood at 400,000 bpd.

German consumer stocks of heating oil fell to 44% of capacity as of May 1, down from 45% last month as increasing prices and warmer weather prompted buyers to delay replenishing storage tanks.



Kazakhstan's State Statistics Committee reported that the country's crude oil exports fell to 12.1 million tons in the first quarter of 2006, down 10.2% on the year.

The Nigerian government plans to offer 16 oil blocks for bidding on Friday. Each winner is expected to invest at least \$2 billion in Nigeria's refining capacity or power generation, in addition to the development of the blocks they are bidding for.

Market Commentary

The oil market gapped sharply lower this morning from 71.65 to 69.80 in follow through selling seen in overnight trading. The market continued to trade lower as traders feared the recent rally may slow economic growth. The market's sharp sell off was also sparked in part by China's move to let its current appreciate more rapidly against the dollar, which could reduce Chinese imports of commodities. The crude market traded to 69.80 before it partially backfilled its gap as it posted a high of 70.40. However the market later erased its gains and sold off once again. It extended its losses to over \$2.70 as it sold off to a low of 69.30. The crude market settled down \$2.63 at 69.41. Volume in the crude market was good with over 231,000 lots booked on the day. The product markets also tumbled amid the broad commodity sell off. The gasoline market settled down 12.45 cents at 205.40 after it sold off to a low of 205.00. The market gapped lower from 216.75 to 210.50 on the opening and partially backfilled it as it posted a high of 213.00. The market however erased its gains and continued to sell off throughout the session. The market retraced more than 62% of its move from a low of 196.50 to a high of 222.50 as it traded to its low. The heating oil market also gapped lower from 204.25 to 198.00, which it partially backfilled as it traded to a high of 199.55. The market later continued to sell off. The market extended its losses to over 10.6 cents as it traded to a low of 194.00

ahead of the close. It settled down 10.17 cents at 194.50. Volumes in the product markets were good with 41,000 lots booked in the gasoline market and 58,000 lots booked in the heating oil market.

Barring any news, the oil market will remain pressured following today's sharp sell off as it settled near its lows. The market, which may retrace some of its losses, is seen finding support at 69.30 followed by 68.88, 68.25, 67.90 and 67.35. Resistance is however seen at 70.00 and its gap from 70.40 to 71.65. It is interesting to note that the heating oil winter strip is trading lower. If the market continues to sell off, the

market should see a buying opportunity as the strip trades below 2.00.

Technical Analysis		
	Levels	Explanation
CL 69.41, down \$2.63	Resistance 70.40 to 71.65	Gap (May 15th)
	Support 70.00	
HO 194.50, down 10.17 cents	69.30	Monday's low
	68.88, 68.25, 67.90, 67.35	50% retracement(62.40 and 75.35), Previous lows, 62% retracement
HO 194.50, down 10.17 cents	Resistance 199.55 to 204.25	Gap (May 15th)
	Support 196.50, 197.50	
HU 205.40, down 12.45 cents	194.00	Monday's low
	191.50, 190.80 to 190.30	Previous low, Remaining gap (April 10th)
HU 205.40, down 12.45 cents	Resistance 213.00 to 216.75	Gap (May 15th)
	Support 209.00, 210.50	
HU 205.40, down 12.45 cents	205.00	Monday's low
	201.60, 199.30, 196.50	Previous lows