



ENERGY RISK MANAGEMENT

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ENERGY MARKET REPORT FOR JUNE 1, 2005

OPEC President Sheikh Ahmad al-Fahd al-Sabah said he expected OPEC to maintain output at current levels into the third quarter of 2005. He said OPEC is unlikely to adjust OPEC's output ceiling at its June meeting. He said he consulted with other OPEC members and added that they agreed that production should remain steady, unless there is something unexpected at the June meeting.

Shipping sources stated that Iraq exported a total of 1.38 million bpd of crude oil in May, down 50,000 bpd from April. Its exports fell due to production problems in Iraq's southern fields. Iraq's SOMO has delayed some

Market Watch

Executive director of the Offshore Operators Committee, Allen Verret, said domestic oil production will grow more vulnerable to major hurricanes as it depends on fewer pipelines connecting the US Gulf of Mexico deepwater to the US. It said in a deepwater field, when a pipeline is down, the field is shut in. Damage from Hurricane Ivan cut 45 million barrels of US oil production, making it the most devastating storm to the country's oil industry on record.

Iraq's Kirkuk has the potential to be one of Iraq's richest cities in light of the vast oil fields. However it is the most divided as it is claimed by Kurds, Arabs and Turkmen and has seen an alarming increase in violence and tension. In the past two weeks, leading figures in each of the communities have been assassinated and rival groups are trading accusations, increasing fears of further violence.

Trading sources stated that Air France KLM bought heavily on the forward jet paper market this week to hedge against higher oil prices. It purchased up to 300,000 tons of fourth quarter 2005 and calendar 2006 jet fuel paper from banks. Traders said the KLM buying was a normal volume given the time period.

A Saudi national security and intelligence consultant said Saudi Arabia plans to build five new refineries to help process a surplus of heavy sour crude. He said Saudi Arabia's refining capacity would be increased by about five new refineries with capacity of 300,000-400,000 bpd over a five to ten year period starting in 2006. The new refineries will be inside and outside the country. Saudi Arabia, which has eight refineries and refining capacity of 2.1 million bpd is also planning to upgrade its existing plants.

Venezuela's Seniat tax office is preparing the first round of tax bills to private oil firms who have allegedly been underpaying for years and is threatening them with sanctions if they refuse to pay. It said it would temporarily shut the offices of the oil firms that refuse to pay.

Rep. Frank Wolf expressed concern over the health of Venezuela's democracy and condemned pending conspiracy charges against a leading government opponent. His statement comes after US President George W. Bush met with Maria Corina Machado, director of the Sumate nonprofit group that helped to organize last year's recall against President Hugo Chavez. She is facing conspiracy charges for Sumate's use of foreign funds, particularly a contribution of \$31,000 from the Washington based National Endowment for Democracy. Venezuela's ruling party lawmakers said the endowment's contribution violates a constitutional provision that forbids citizens from receiving support from foreign countries intent on destroying Venezuela's government.

exports to early July from late June to compensate for lost production. The 10-11 day delay will allow time for the backlog of tanker loadings to clear. The daily export rate in June is expected to be similar to May.

Separately, the US State Department stated that Iraq's oil exports averaged 1.294 million barrels in the first three weeks of May, down 7% from levels reported in March and April.

IEA executive director Claude Mandil said the world markets are oversupplied and added that oil prices should fall further. However he stated that he is worried about high prices. He said OPEC has done its best in meeting increased demand.

According to a Dow Jones survey, OPEC's total crude production in May increased to 30 million bpd, up 50,000 bpd from 29.95 million bpd in April. The ten OPEC members increased their production by 100,000 bpd to 28.15 million bpd. Saudi Arabia's production remained unchanged at 9.4 million bpd. Kuwait reached its capacity of 2.7 million bpd in May while Iran increased its production by 50,000 bpd to 4.05 million bpd. Iraq's oil production fell by 50,000 bpd to 1.85 million bpd.

OPEC's news agency reported that OPEC's basket of crudes fell slightly to \$47.60/barrel on Tuesday from \$47.62/barrel on Monday.

Refinery News

In a filing with the Texas Commission for Environmental Quality, Valero said a blower malfunction resulted in flaring at a fluid catalytic cracking unit at its 96,000 bpd Three Rivers, Texas refinery. According to a company spokesman, there was no impact on production. The flaring is expected to last until Thursday morning.

ExxonMobil stated that no units were shut at its 538,000 bpd Baytown, Texas refinery as a result of an electrical power failure on Monday. A spokeswoman was however unable to comment on whether the incident had an impact on production. The power outage occurred at one of the refinery's substations, resulting in flaring on the plant's West Loop Station.

Shell said it is restarting two reformer units at its 340,000 bpd joint venture refinery in Deer Park, Texas after they were shut on Monday due to a propane pipeline leak. The units are expected to return to normal operation by Thursday.

Delek US shut a sulfur recovery unit and is cutting rates on a fluid catalytic cracking unit for about 10 hours at its Tyler, Texas refinery in order to repair leaks. To reduce emissions during the unit shutdown, the refinery will reduce the fluid catalytic cracker charge to 13,000 bpd, the diesel hydrotreater will be reduced from 12,000 bpd to 8,000 bpd and the naphtha hydrotreater will be reduced from 20,000 bpd to 15,000 bpd.

In a filing with the Texas Commission on Environmental Quality, ExxonMobil Corp said it discovered a crack in a drum on a coking unit at its 348,000 bpd refinery in Beaumont, Texas. Feed was cut to the No. 7 coking drum after the crack was discovered.

Alon USA gave a ten day advance to state regulators that flaring will result from the shutdown of a vent gas recovery unit at its 61,000 bpd Big Spring, Texas refinery. Repair work on the unit is expected to last one day.

Suncor Energy Inc's US subsidiary has acquired a 30,000 bpd Valero Energy Corp refinery adjacent to Suncor's refinery in Commerce City, Colorado. Suncor said it intends to integrate the two operations, providing a combined refining capacity of about 90,000 bpd.

Qatar Petroleum has restarted part of its 137,000 bpd Umm Said refinery after regular maintenance due to unspecified problems. A company source said it was hoping to restart all its units as soon as possible. Some traders stated that the refinery cancelled some export cargoes of gas oil, fuel oil, jet fuel and gasoline as a result of the delay. It typically exports about 50,000 tons per month of gas oil and jet fuel that flows to Europe as well as fuel oil that is used regionally in the bunkers market.

Nippon Oil Corp said it restarted the 127,000 bpd crude distillation unit at its Marifu refinery as planned. The unit had been shut since April 16 for regular maintenance.

China's Maoming Petrochemical Corp plans to operate at full capacity in June, processing 1.15 million tons of crude. Its crude runs are expected to be at 279,800 bpd, up from 270,800 bpd in May. Meanwhile, China's Qilu refinery has increased its crude processing rates in June by 46% to 217,000 bpd following a maintenance turnaround. It operated at 186,000 bpd or 89% of its 210,000 bpd capacity in May. Sources stated that diesel demand in the power generation sector is expected to surge this summer. China is expecting severe power shortages of up to 30 gigawatts this summer. Separately, China's Gaoqiao refinery has increased its June crude processing rates by 8% from May to 208,000 bpd in anticipation of stronger demand this summer.

Production News

According to the Shetland Island Council, Brent crude liftings from Sullom Voe increased by 186,326 to 362,865 tons in the week ending May 31st. It said about 79,371 tons are headed to the UK while 283,494 tons are headed to the US Gulf Coast.

Norway's Statoil said its Sincor partnership in Venezuela complied with the production rules set for the heavy oil development. It said it has not been contacted by the Venezuelan authorities despite the statements by Venezuela's Energy Minister Rafael Ramirez that Sincor owed the government about \$1 billion in royalties for exceeding agreed output levels. Separately, Statoil said it decided to temporarily halt drilling on the Ballena 1-X well in block 4 of the Plataforma Deltana off Venezuela for safety reasons. Statoil said it will take the necessary steps to resume operations as soon as possible.

Sibneft's chief operating officer Alexander Korsik said Russia's oil production will grow at a steady 3-4% a year. He said existing Russian subsoil laws do not provide an incentive to increase exploration because holders of exploration licenses do not automatically get the right to develop the reserves. Russia's government has also not been auctioning off licenses for large new oil blocs.

Russia's Yukos said it anticipates a 20% decline in production this year as it cannot invest in new capacity because the government continues to tap most of its excess cash. A 20% drop would bring Yukos' daily production to a level of about 550,000 bpd.

Russia's Lukoil has plans to increase oil supplies to Siberian refineries to 70,000-80,000 tons per month starting in July. Currently Lukoil's supplies to Serbian refineries amount to 50,000 tons of oil per month.

Azerbaijan's SOCAR tendered to sell an 82,000 tons or 602,000 barrel cargo of Urals crude for loading at Russia's Black Sea port of Novorossisk on June 29-30.

The Petroleum Association of Japan reported that the country's commercial crude oil stocks increased by 7.1% in the week ending May 28 to 19.68 million kl or 123.8 million barrels, up from 18.37 million kl in the previous week. It reported that gasoline stocks fell by 1.2% to 2.3 million kl as the average operating rate of Japanese refineries fell to 70.8% from 76.2% in the previous week. Japan's gasoline production fell by 2,695 kl to 1.091 million kl.

Market Commentary

The oil complex posted a rally that left most at a loss for words, with the crude market posting a \$2.45 trading range on the day. This was amid the strength in the heating oil market, which surprisingly led the complex higher. The oil markets rallied despite the lack of any news, with the exception of refinery glitches. Valero reported a malfunction of a blower that caused flaring at a catcracker at its Three Rivers, Texas refinery while ExxonMobil reported that no units were shut as a result of the power failure on Monday. Delek US also shut a sulfur recovery unit and was cutting rates on a fluid catalytic cracking unit for about 10 hours at its Tyler, Texas refinery in order to repair leaks. The markets' move however was exaggerated as the heating oil market settled up 9.05 cents at 154.00. It gapped higher this morning from 146.00 to 146.30 in follow through strength seen in overnight trading. It partially backfilled its gap as it immediately posted a low of 146.10. However the market bounced off that level and never looked back. The July heating oil contract breached its previous highs as it rallied to a high of 154.90 ahead of the close on good fund buying. Volume in the heating oil market was good with 55,00 lots booked on the day. The crude market gapped higher this morning from 52.05 to 52.25 and continued to trend higher amid the strength in the heating oil market. The market gradually traded higher as it breached several resistance levels throughout the session. The July crude contract seemed to have found some early resistance at 52.50 but quickly breached that level as it traded above the 53.00 level and later the 54.00 level in a surprising rally. The market posted an intraday high of 54.70 before settling up \$2.63 at 54.60. Volume in the crude was excellent with over 223,000 lots booked during the session. The gasoline market also settled sharply higher at 154.42, up 7.72 cents. It opened at 147.30 and quickly posted an intraday low of 147.05. However the market bounced off that level and never looked back as it breached its resistance levels on good buying following the reports of refinery glitches. The market rallied to a high of 154.70 on further buying ahead of the close. Volume in the gasoline market was good with over 44,000 lots booked on the day.

The oil market will likely retrace some its sharp gains as the market seemed to have exaggerated its move to the upside during today's session. It will also seek further direction from the weekly petroleum stock reports which are expected to show builds across the board. The market is expecting to see small

builds of less than 500,000 barrels in crude stocks, a build of about 1.5 million barrels in distillate stocks and a build of about 500,000 barrels in

Technical Analysis		
	Levels	Explanation
CL 54.60, up \$2.63	Resistance 55.45, 55.80 54.70	Previous highs Wednesday's high
	Support 54.00, 53.00, 52.50 52.25-52.05, 50.90, 50.65	Opening gap (June 1st), Previous lows
HO 154.00, up 9.05 cents	Resistance 157.20 154.90	Previous high Wednesday's high
	Support 147.00, 146.10 to 146.00 141.80	38% retracement(134.30 and 154.90), Opening gap Previous low
HU 154.42, up 7.72 cents	Resistance 156.40 154.70	Previous high Wednesday's high
	Support 148.51, 147.05 146.60, 144.69	38% retracement (138.50 and 154.70), Wednesday's low 50% & 62% retracement levels

gasoline stocks. If the market does see the expected builds, the oil market is seen retracing its gains. The market is seen finding some support at 54.00, 53.00 and 52.50 followed by its gap from 52.25 to 52.05. More distant support is seen at 50.90 and 50.65. Meanwhile resistance is seen at 54.70 followed by more distant resistance at 55.45 and 55.80.