



ENERGY RISK MANAGEMENT

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ENERGY MARKET REPORT FOR JUNE 1, 2009

The IEA's executive director, Nobuo Tanaka said world oil demand may not have bottomed out yet but could still recover by the end of 2009 if the economy recovers. He welcomed last week's decision by OPEC not to cut its production to support oil prices. He said the rally in oil prices over the last few months was more a reflection of expectations of a recovery in demand and a weakening US dollar than a real increase in demand. He said prospects for global economic recovery may be damaged if oil prices rise too quickly. Meanwhile, the deputy executive director of the IEA, Richard Jones, said OPEC's compliance with production cuts is eroding as prices rise. He said cutting

Market Watch

The NOAA's updated outlook for June shows below normal temperatures are expected from central Montana across the Plains and Great Lakes and extending from northern Virginia through New England. California, Arizona and Alaska are expected to see above normal temperatures. From eastern Arizona eastward through the Gulf states and Florida, above normal temperatures are expected.

BNP Paribas raised its 2009 average US oil price forecast to \$52/barrel from \$45/barrel while the price of crude in 2010 will increase to \$75/barrel from \$63/barrel. It also raised its forecast for Brent crude in 2009 to \$52/barrel from \$45/barrel and for 2010 to \$76/barrel from \$63/barrel.

Consultant FACTS Global Energy said crude oil may fall to \$40/barrel during the northern hemisphere summer as US inventories increase. The head of the consultant said there may be a scenario where sometime in the summer, there will be a \$20 drop in the price of oil due to the high inventory level.

The US Commerce Department said US income levels increased in April, supported by the economic stimulus package. Personal income increased at a seasonally adjusted rate of 0.5% on the month after falling by a revised 0.2% in March. Personal consumption in April fell by 0.1% on the month following a revised 0.3% decline in March. Personal saving as a percentage of disposable personal income was 5.7% in April, up from 4.5% in March and 4.1% in February.

The US manufacturing sector contracted in May but at a slower rate. The Institute for Supply Management said its index of national factory activity increased to 42.8 from 40.1 in April. The index has been below the 50 level for 16 consecutive months.

Brokerage CLSA said its China Purchasing Managers' Index in May increased to a 10 month high of 51.2 from 50.1 in April. It is the second consecutive month that the seasonally adjusted index has been above the 50 level. Meanwhile, the official PMI, released earlier on Monday, fell to 53.1 in May from 53.5 in April.

Tokyo Electric Power Co received approval to increase its output at the 1,356 Mw No. 7 nuclear reactor at its Kashiwazaki-Kariwa plant to full capacity from 75% of capacity as part of a test run. TEPCO restarted the nuclear reactor on May 9th for the first time since it was forced shut nearly two years ago following a major earthquake.

June Calendar Averages

CL – \$68.58
HO – \$1.7765
RB – \$1.9243

production would not be justified despite high inventories. He also stated that fuel demand during the US summer driving season may prove stronger than projected as consumers recover from the economic crisis. The deputy executive director of the IEA said the IEA expects a 21% fall in 2009 oil and gas investment budgets, which could lead to sharply higher energy prices in the next three to four years.

Saudi Arabia's Information Minister Abdulaziz Khoja said the Saudi cabinet sees \$75 to \$80/barrel as a fair price for crude.

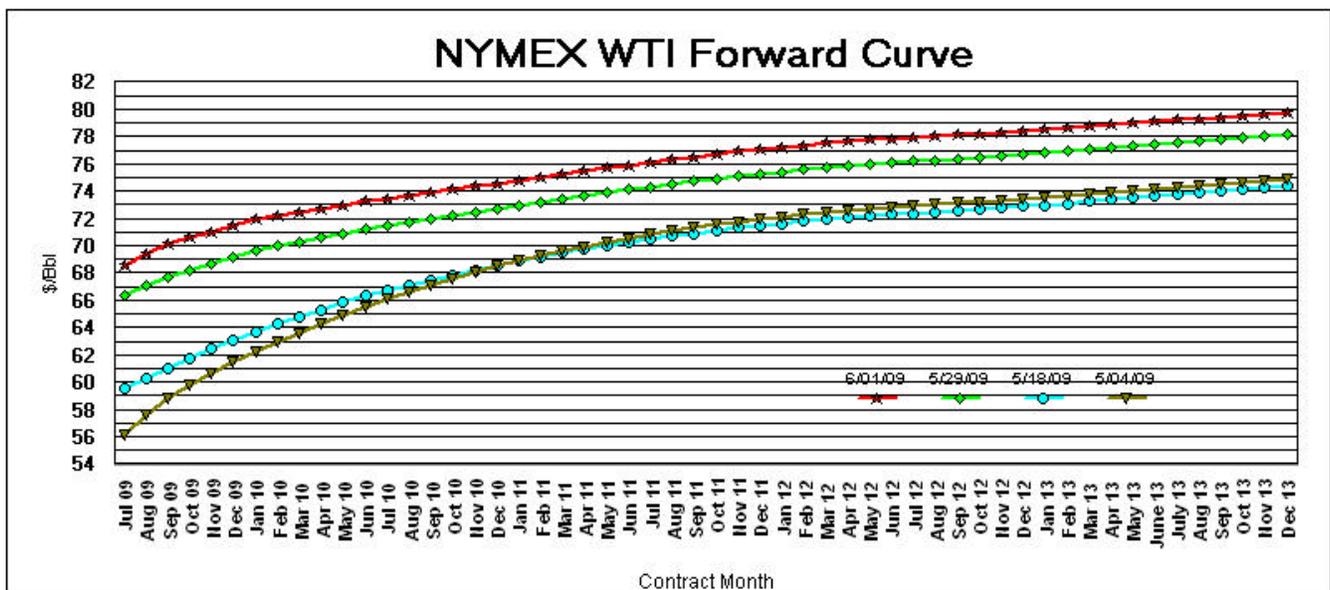
Libya's oil official, Shokri Ghanem said oil remains underpriced and will likely rally more. He said investment funds returning to the oil market have caused the rally, rather than fundamentals. Meanwhile, Oman's Oil Minister Mohammad al-Rumhy said a fair price for oil through the end of 2009 will be around \$60-\$70/barrel. Separately, Qatar's Oil Minister Abdullah al-Attiyah said exporters should not be too optimistic about the recent rise in oil prices. He added that Qatar had to put on hold some of its energy projects until demand increases. He said it is too early to predict when OPEC will start increasing its production again. He also said Qatar will generate a budget surplus if the oil price remains above \$60/barrel. Nigeria's OPEC governor, Mohammed Sanusi Barkindo said oil producers and consumers should engage in further talks to negotiate an equitable oil price, which would likely be around the \$70/barrel level.

The EIA said the US average retail price of diesel increased by 7.8 cents/gallon to \$2.352/gallon in the week ending June 1st. The EIA reported that the US retail price of gasoline increased by 8.9 cents to \$2.524/gallon on the week.

The AAA reported that the US average retail price of gasoline reached the expected summer peak of \$2.50/gallon. It said that barring a tropical storm that damages refineries or other oil infrastructure or a surge in geopolitical tensions in oil-producing regions, AAA does not expect gasoline prices rising to \$3/gallon this summer, though \$2.75 is a possibility.

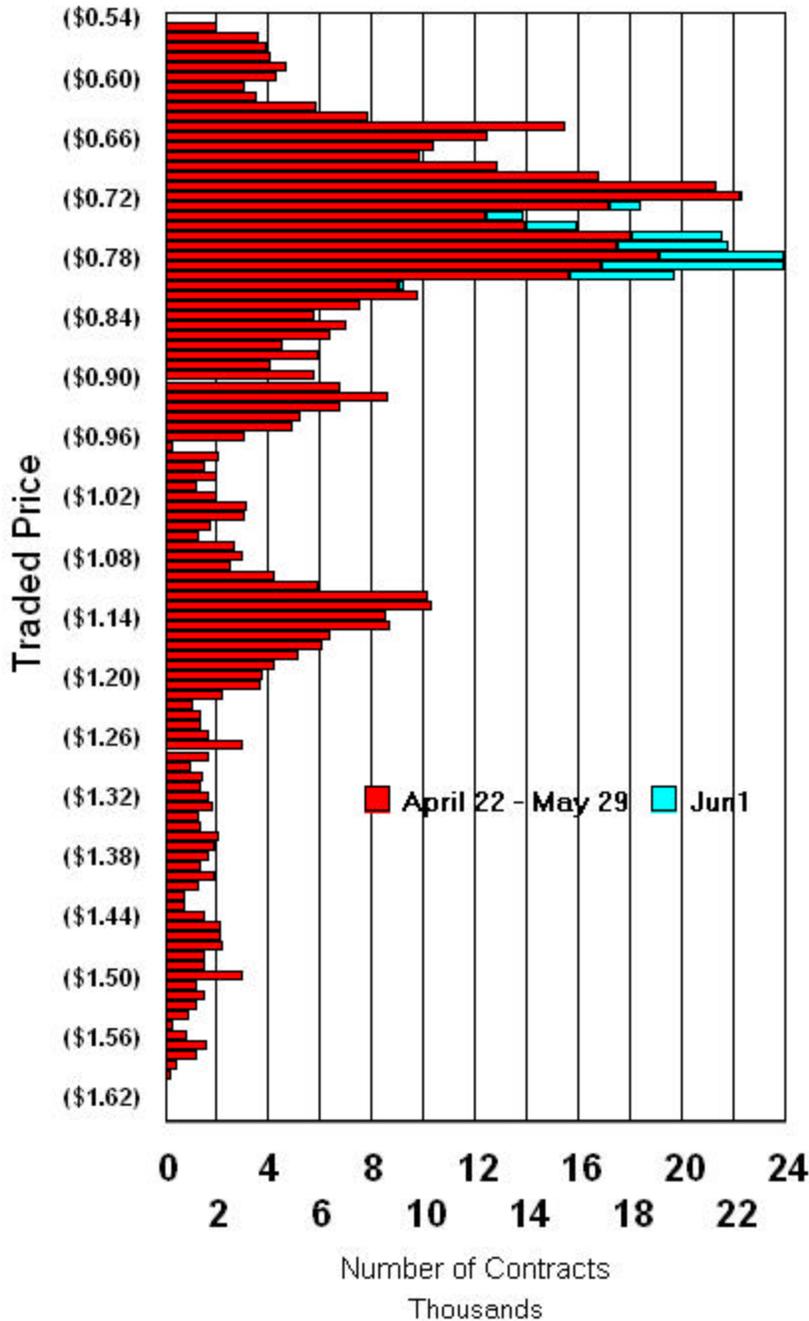
According to the Lundberg survey, the US average price of gasoline in the US increased by 19.29 cents to \$2.493/gallon in the two weeks ending May 29th.

Refinery News



NYMEX WTI: July Aug Spread Price Vs Volume for April 22 - June 1, 2009

Trade Weighted: 5/28 -0.76, 5/29 -0.79, 6/1 -0.78



Credit Suisse reported that US refining margins were mixed this past week with the Midwest showing the largest gain for the second consecutive week. Margins in the Midwest increased by \$2.37 to \$15.84/barrel last week while margins in the Northeast increased by 45 cents to \$8.56/barrel. Margins in the Gulf Coast fell \$1.50 to \$9.46/barrel while West Coast margins fell by \$1.20 to \$13.50/barrel. Meanwhile, margins in the Rockies fell by 92 cents to \$15.56/barrel.

Motiva Enterprises' 236,4000 bpd Norco, Louisiana refinery returned to planned rates by Monday morning after an unidentified unit restarted on Sunday. The unit was shut last week for unplanned maintenance.

ExxonMobil Corp reported unplanned flaring at its 150,000 bpd refinery in Torrance, California on Saturday. Notices filed with California's pollution regulators did not say why the refinery had to use its safety flare system.

Flint Hills said it will shut a coker unit for planned maintenance at its 300,000 bpd refinery in Corpus Christi, Texas on Sunday. The maintenance is expected to end on June 4th.

Delek Holdings said there is no impact to refinery operations following a brief pump outage at an alkylation unit at its 60,000 bpd refinery in Tyler, Texas.

Planned turnaround maintenance at a fluid catalytic cracking unit at BP's 410,000 bpd Whiting, Indiana refinery is expected to end in the second half of June. The work started in early April and was initially expected to end in mid-May.

Pemex said a fire in a gasoline storage tank at Mexico's Salina Cruz refinery was under control on Monday. It said operations at the refinery were not affected by the fire.

The governor of Saudi Arabia's Jizan, Prince Muhammad bin Nasser bin Abdulaziz said bidding for the construction of its refinery will start in December. The tender for the 250,000-400,000 bpd refinery has been delayed several times.

The head of China's National Energy Administration, Zhang Guobao said the country has approved a plan to build a second phase of the state crude reserves and construction will begin this year. China is aiming to eventually meet the OECD standard of stockpiling enough oil to cover 90 days of consumption. He said global storage constraints are limiting the ability of most countries to stockpile more oil this year. He declined to say how big the newly approved second phase reserve bases will be but said they will be larger than the 100 million barrel reserve built in the first phase. China has also launched a plan to set up a refined fuel reserve, a move which is likely aimed at preventing fuel shortages. Separately, the head of China's National Energy Administration said China's power consumption was 4% lower in the first five months of the year than in the corresponding months in 2008.

China's CNOOC sold a 1 million barrel cargo of Nigerian Akpo oil condensate for June loading to its rival, Sinopec. The Akpo field is expected to soon reach a plateau production close to its designed capacity of 185,000 bpd.

Production News

Kuwait has notified at least four customers in Asia that it will keep cuts on term crude oil supplies in July-September steady from April-June. Kuwait Petroleum Co's buyers will continue to receive 5% below contracted volumes in the third quarter.

Iraq's Oil Minister Hussain al-Shahristani said the country's oil exports in May increased to more than 1.9 million bpd on average.

Iraq's Deputy Oil Minister Ahmed al-Shamma said the country has delayed a decision on bids by Japan's Nippon Oil, Italy's Eni and Spain's Repsol to develop the Nassiriya oil field. The oil ministry was expected to make a decision on the competing bids by the end of May. Iraq's Deputy Oil Minister also said Iraq will invite select oil companies in mid-June to bid for contracts to develop the southern portion of the East Baghdad oil field. The field has the potential to produce 120,000 bpd of crude.

A senior Kurdistan Regional Government adviser, Khalid Salih said he hoped Iraq's Kurdistan region will produce 250,000 bpd by the middle of next year and increase to 1 million bpd within the next 2-3 years. Iraq started exporting oil from Kurdistan's Tawke field to Turkey's port of Ceyhan on Wednesday. The export rate from the Tawke field is starting at 60,000 bpd and another 40,000 bpd will be pumped out of the Taq Taq field. The semi-autonomous Kurdish region of Iraq is expected to get 17% of the revenue generated in the region.

Norway's StatoilHydro plans to explore three wells to search for hydrocarbons in Karama block in Indonesia in 2011. Indonesia has been offering new exploration rights and financial incentives for oil fields in a bid to stem a steady decline in production.

Brazil's Petrobras notified the National Petroleum Agency late Friday it had discovered signs of oil for a fourth time at an Espirito Santo Basin block.

Abu Dhabi National Oil Co raised its May retroactive selling price of its Murban crude by \$8/barrel to \$60.15/barrel.

Saudi Aramco has set its June contract price for propane at \$395/ton, up \$15 on the month. It also increased its June butane price by \$55 to \$455/ton.

China has increased retail diesel and gasoline prices by 6-7% from Monday, the second and largest increase this year.

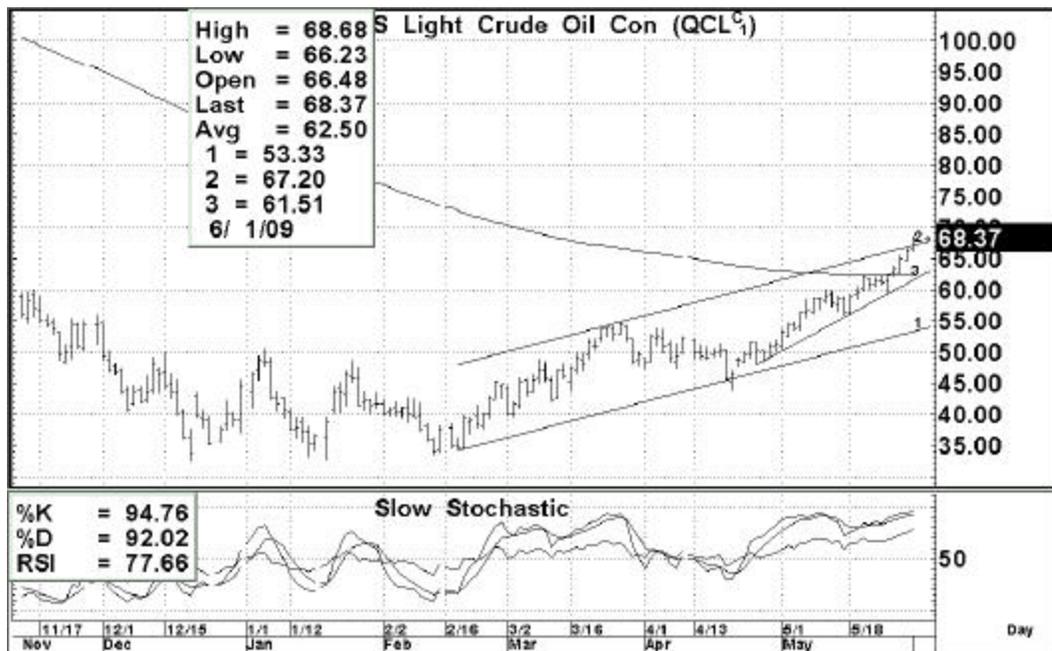
Russia's Finance Ministry reported that the country's two oil wealth funds fell to 5.911 trillion rubles or \$192.3 billion in May from 6.42 trillion rubles in April.

Market Commentary

A falling dollar and rising stock market gave strength to crude oil today, pushing it to its highest level in almost seven months. The July contract topped over \$68.00 today despite U.S. inventories running at near record levels and demand set below year-ago levels. Adding support to today's higher prices was China's approval of a plan to build a second phase of crude oil reserves with construction expected to begin this year. Separately, China's manufacturing in May, posted modest gains and U.S. manufacturing, while still contracting, did so at a slower pace for the month of May. Investors, hopeful that the economy is beginning to stabilize, placed their bets in commodities. After gapping higher on the day, heating oil posted unseasonable gains, at one point trading 10 cents higher on the day. While this run-up in prices doesn't make sense on the surface, investors who were long the gasoline and short the heating oil and crude oil were unwinding positions, as an influx of new money entered the market and we near the end of the second quarter. China, one of the main catalysts behind last year's unseasonable higher prices, is showing signs of growth again. Open interest for heating increased on Friday, despite June's expiration. This is an indication that new length entered the market.

Crude Oil JUL.09 347,339 +707 AUG.09 116,690 +6,084 SEP.09 74,171 -1,459 OCT.09 41,419 -448
 Totals: 1,163,773 +15,565 N.Y. Heating Oil (HO) JUL.09 68,435 +2,380 AUG.09 27,816 +1,716
 SEP.09 22,703 +1,764 OCT.09 15,985 +428 Totals: 263,261 +1,169 NEW YORK HARBOR RBOB
 (RB) JUN.09 789 -7,353 JUL.09 94,714 +651 AUG.09 37,533 +1,100 SEP.09 26,455 +575 OCT.09
 15,655 +291 Totals: 210,878 -3,727

Spot continuation chart for crude oil. The July contract broke out of and settled above the ascending channel. The projected upside objective based upon this break out is \$81.07. Slow stochastics although in over bought territory, support further upside movement. The 200 - day moving average for the July contract is \$65.41 and now serves as a support number. Based upon a spot continuation chart the 200 - day moving average is \$62.50, which is now key support for crude oil.



Spot crude oil spread. The front month spread has been trading within the range of $-\$0.43$ to $-\$3.11$ since the beginning of February. Dating back to 2006, the $-\$0.43$ as proven to be a key pivotal area for the front spread. Failures to strengthen above this number should be viewed as selling opportunities, with successful penetrations, buying opportunities.



Crude Support	Crude Resistance
July 200 day MA 65.41, spot 200 day MA 62.50, 60.50 , 59.85, 58.90, 56.75, 55.45, 54.49,	71.80, 74.50, 76.10
Heat Support	Heat resistance
1.2715, 1.2300, 1.1359, 1.1095, 1.0520	1.785, 1.83000, 1.9090
Gasoline support	Gasoline resistance
1.5370, 1.5260, 1.3560, 1.3400, 131.80, 1.2700, 1.2625 1.1680, 1.0128, .9590	2.0000, 2.0650, 2.1600

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