



ENERGY RISK MANAGEMENT

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ENERGY MARKET REPORT FOR JULY 22, 2008

Iran's Oil Minister Gholamhossein Nozari said there would be no need to call for a cut in OPEC's oil production when the group meets on September 9. He reiterated Iran's view that a shortage of crude was not behind high oil prices. He said the market was well supplied.

Separately, OPEC sources said OPEC is scheduled to hold an extraordinary ministerial meeting in Algeria on December 17.

DEBKAfile's military sources reported that US, UK and France launched a sea exercise on Monday, called Operational Brimstone. It reported that the penalty of withholding refined oil products from Iran would be exercised by means

Market Watch

In a testimony at a Senate hearing, T. Boone Pickens said oil prices will reach \$300/barrel in ten years if the US fails to reduce its dependence on foreign imports. He said the US currently imports about 70% of its oil added that it would increase to about 80% in ten years if it does not aggressively tap its own natural gas and renewable resources.

SemGroup LP filed for bankruptcy on Tuesday after a failed oil hedging strategy left the company short of cash. SemGroup sold NYMEX crude oil futures as a hedge against a decline in value of the oil it purchased as part of its 500,000 bpd trading business before surging prices forced it to recognize billions of dollars in losses on future positions. SemGroup was forced to recognize a \$2.4 billion loss on July 16 after it transferred its NYMEX trading account to Barclays Plc. It also incurred \$850 million in losses on July 17 when its over-the-counter hedging program was marked to market. Its trading loss amounts to \$3.2 billion. Two hedge funds took control of SGPL's general partner under the terms of a loan that they made to SemGroup. SemGroup Energy Partners LP said it will attempt to find new business to replace its bankrupt parent. The company's chief executive said it has a strong future as an independent energy transportation company. The company owns over 1,200 miles of oil pipelines, 15 million barrels of oil storage as well as an asphalt storage business.

The dollar rallied higher against the euro and yen as Federal Reserve Bank of Philadelphia President Charles Plosser warned that inflationary pressures are too high. He said prices are likely to drive the Fed to increase its fed funds rate, adding that it may need to increase the rate sooner rather than later.

According to WSI Corp, warmer sea temperatures are expected to increase the number of tropical storms in the Atlantic Basin during the 2008 hurricane season. Its newest forecast calls for 15 named storms, nine hurricanes and four Category Three or greater hurricanes. It previously forecast 14 named storms and eight hurricanes.

Bespoke Investment Group stated that from early 2004 through the middle of 2006, the price of oil and S&P 500 energy sector became more correlated. However it stated that after 2006's peak, correlation has been steadily declining.

July Calendar Averages

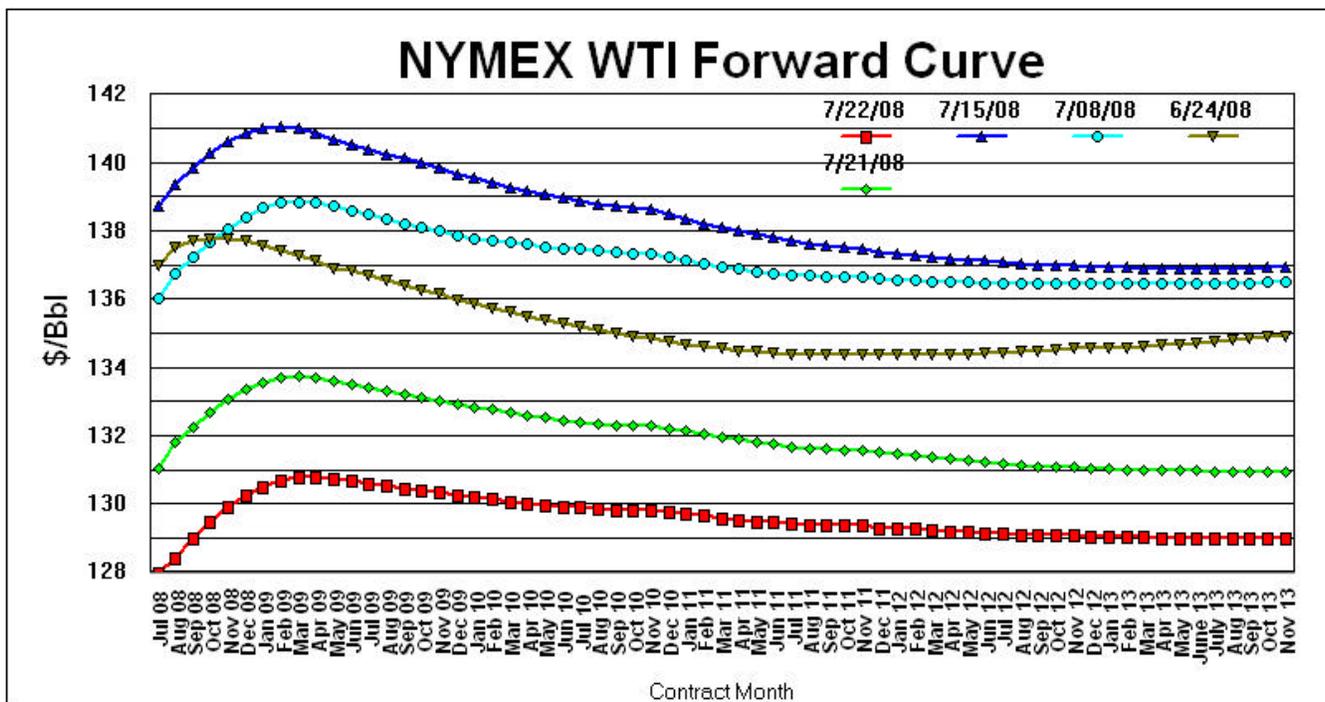
CL – 137.71
HO – 390.42
RB – 339.03

of a partial international naval blockade of its Gulf ports. More than a dozen ships were participating in the 10 day exercise, including the US carrier strike group Theodore Roosevelt and the expeditionary strike group Iwo Jima, the French submarine Amethyste and the British HMS Illustrious Carrier Strike Group and a Brazilian frigate. The exercise involving 15,000 sailors is scheduled to end July 31, two days before the US-European ultimatum to Iran expires. A partial blockade of Iran's shores, a key element of the new sanctions, would be limited to withholding from Iran supplies of benzene and other refined oil products.

A new bill that would strengthen the US Commodity Futures Trading Commission's oversight of energy future markets passed a procedural hurdle in the Senate on Tuesday. The legislation would require institutional traders to give the CFTC more details on unregulated over the counter transactions to determine if price manipulation or excessive speculation is occurring. The CFTC would also review the trading practices of swaps dealers and commodity index funds. However it is likely to face strong Republican opposition if it does not include provisions to expand domestic drilling. The White House expressed disappointment with the Senate bill, because it does not increase domestic oil production. Senate Majority Leader Harry Reid has indicated that the types of new supply proposals he may put forward next week may include calling on the administration to tap the country's SPR and accelerate lease sales on acreage not under the moratorium.

The Interagency Task Force on Commodity Markets said fundamental supply and demand factors best explain the surge in oil prices. The task force chaired by US CFTC and made up of staff from the Departments of Agriculture, Energy and the Treasury, the Federal Reserve, the Federal Trade Commission and the Securities and Exchange Commission said it continues to evaluate the commodities markets and will provide an additional report later this year.

The undersecretary at the UK Foreign Office, Peter Ricketts discussed human rights and business topics with Iran's foreign minister during a trip to Iran. However there were no detailed discussions on its nuclear program because the European Union's foreign policy chief is leading the talks with Iran.



According to MasterCard Advisors LLC, US gasoline demand increased by 1.4% on the week but fell by 2.22% on the year to 9.563 million bpd. In the latest four weeks, demand was down 3.6% on the year. It also stated that average gasoline prices increased another cent to \$4.10/gallon.

Mexico's Institutional Revolutionary Party, or PRI, plans to unveil an energy reform proposal on Wednesday that will block plans by President Felipe Calderon to open refining to private investment. The ruling National Action Party lacks enough votes in Congress to approve the president's proposal and needs votes from the centrist PRI party to revise Mexican energy legislation.

Separately, Pemex's chief executive Jesus Reyes Heróles said the company may drill for crude outside Mexico for the first time if legislators fail to allow the company to bring foreign partners into domestic offshore projects.

Refinery News

The US EPA said it will not meet the July 24 deadline that was set for deciding whether to approve the Texas request for a waiver from the federal renewable fuels standard.

The Corpus Christi ship pilots association said ships continued running through the Corpus Christi, Texas channel and added that there were no plans to stop because of Tropical Storm Dolly. The tropical storm is projected to strike the western Gulf of Mexico coast somewhere near the border between Texas and Mexico on Wednesday or Thursday as a category 1 hurricane.

Alter NRG Corp said it plans to build a coal to liquids plant in Alberta to produce diesel and naphtha fuels and capture carbon dioxide. It will develop a coal mine near Fox Creek, Alberta and build a plant to convert the coal into as much as 40,000 bpd of diesel and naphtha, which blended with heavy oils so they can be shipped on pipelines. The company plans to build the project in two, 20,000 bpd phases.

The margins on asphalt have increased due to higher oil prices and declining supplies. Many refiners such as Alon USA Energy Inc have been spending billions upgrading their plants to increase supplies of high quality products such as clean burning diesel, shifting resources away from producing asphalt. Also, supplies of key ingredient bitumen are set to fall, potentially causing an increase in margins on asphalt. However the demand for asphalt could fall together with supplies as the US economy slows. While demand for asphalt is falling, supply is falling much faster and creating the wider profit margins. However the fear is that the rate of demand declines will catch up with the rate of supply declines, bringing an end to windfall profits.

Demand for Brazilian ethanol has declined as oil prices have fallen to under \$130/barrel and US gasoline prices have either stopped rising or have fallen in some states. According to Brazil's sugarcane industry consulting firm Datagro, about 90% of the 4.8 billion liters expected to be exported from the 2008-09 crop has been contracted.

Japan Energy Corp restarted its 35,500 bpd fluid catalytic cracking unit at its Kashima refinery on Tuesday. It initially shut the unit on July 10 due to a problem with a ventilator and failed in an attempt to restart the unit last week. Separately, it restarted a 52,000 bpd fluid catalytic cracking unit at its Mizushima refinery on Monday. The unit was unexpectedly shutdown on July 12.

Indonesia's Pertamina has planned a one month maintenance shutdown at Cilacap refinery's 118,000 bpd crude distillation unit. The shutdown is likely to begin at the end of July or early August but is not expected to affect domestic consumption. Pertamina is expected to import 3.9 million barrels of gasoline in August, up from 3.6 million barrels in July while it is expected to increase fuel oil imports to

2.4 million barrels in August from 1.6 million barrels in July. It is expected to cut its imports of diesel to 6.2 million barrels in August from 7.2 million barrels in July and import 420,000 barrels of jet fuel in August, unchanged on the month.

China's apparent oil demand increased by 6.5% in June to 7.75 million bpd after an increase in state-set fuel prices prompted refiners to end shortages that had stifled consumption and as energy firms stocked up ahead of the Olympics. In the first half of the year, implied demand increased by 5.3% to 7.31 million bpd. China's General Administration of Customs said China's crude oil imports increased by 3.2% in June to 14.57 million tons. It showed that Iran shipped 1.176 million tons or 286,000 bpd of crude to China in June, down 50% on the month. It reported that its diesel imports stood at 961,760 tons.

CNPC said it will extend strict controls on oil product exports in the second half of the year, in an effort to ease tight domestic supplies.

China has purchased at least 30,000 tons of gasoline for August delivery from Singapore, bringing its total volume for next month to 150,000 tons.

South Korea's oil demand fell 6.5% on the year to 57.46 million barrels or 1.92 million bpd in June, down 10.3% from May and near the low of 57 million barrels or 1.9 million bpd reported in July 2006. Diesel demand fell by 26% to 9.63 million barrels or 321,000 bpd while gasoline demand fell by 4.6% to 4.72 million barrels. South Korea's overall demand in the first half of the year fell by 4% on the year. South Korea's refiners increased its exports to 27.24 million barrels or 908,000 bpd, up 18.5% on the year due to weaker domestic demand. South Korea imported 67.71 million barrels or 2.26 million bpd of crude in June, down 4.4% on the year while refinery runs fell by 9.9% to 65.77 million barrels or 2.19 million bpd, down 12.8% on the year. Private oil stocks stood at 69.07 million barrels at the end of June, down from 80.18 million barrels a year earlier.

Traders said about 465,000 tons of Asian jet fuel was booked for Europe for loading in July/August to cover a shortage in the West and help to draw down a glut in this region.

Traders said Indonesia's Pertamina purchased 800,000 barrels of high sulfur gas oil for August and is seeking 400,000 barrels more for the month.

India's Reliance Industries Ltd is seeking oil storage globally to market the large volume of clean products from its new refinery coming online this quarter. The company's 580,000 bpd export oriented plant is expected to be commissioned in September. It has completed 94% of its construction. The company will target the European market for exports of diesel and the US, African and Middle Eastern markets for gasoline.

Russia's Lukoil said it was in talks to refine oil from Venezuela at Lukoil's new Italian refining venture as it seeks more projects with the South American country. Separately, BP's TNK-BP will sign its first deal with Venezuela on Tuesday after months of dispute between BP and its Russian partners over its expansion abroad.

Production News

Gulf of Mexico producers shutdown a small amount of oil and natural gas production from offshore platforms on Tuesday ahead of Hurricane Dolly, which is forecast to make landfall early Wednesday. The Minerals Management Service reported that a total of 60,621 bpd of oil equivalent production is shut in. ExxonMobil Corp said it shut 10,000 bpd of oil production and 40 million cubic feet/day in natural gas production. Anadarko Petroleum Corp said it restored 10,000 bpd of oil equivalent

production out of the 30,000 bpd of oil production it shut in earlier on Tuesday in the western Gulf of Mexico. Apache Corp said it had evacuated 80 non-essential workers and 140 operation workers in the western Gulf and shut in 56 million cubic feet/day of natural gas and a small amount of oil. BP Plc, Chevron Corp and Shell Oil Co said they were evacuating workers from offshore platforms, however output was not shut. Valero Energy Corp and Citgo Petroleum Corp said they were monitoring the storm and readying the refineries.

All of Mexico's Gulf coast oil and commercial ports were open on Tuesday as Tropical Storm Dolly caused moderate winds along the coast. The oil exporting port of Cayo Arcas on Mexico's Gulf Coast reopened to shipping on Tuesday after it was closed on Monday.

The US Interior Department published proposed regulations to establish a commercial oil shale program that could result in up to 800 billion barrels of recoverable oil from lands in the western US. The oil, which would not reach the US market until the middle of next decade, would provide enough long term supplies to meet current oil needs for 110 years and help reduce US reliance on foreign suppliers. It said that commercial leases would not be issued until at least 2012 and then it would be three more years until there was significant production of oil.

Forties North Sea crude rallied to its highest level in five weeks relative to Dated Brent after shipments were delayed by as much as two days while companies including Royal Dutch Shell Plc and StatoilHydro ASA bid for cargoes. Forties' discount to Dated Brent narrowed to 41 cents/barrel from 58 cents/barrel yesterday. Daily shipments of Forties crude are scheduled to fall 20% in August from this month as fields including Buzzard, Elgin and Franklin close for maintenance.

Alberta's Energy Resources Conservation Board said it lifted limits on output from Suncor Energy Inc's Firebag oil sands operations. Last November, it imposed restrictions after it determined that venting, flaring and H2S emissions did not comply with regulations.

According to OPEC's Monthly Oil Report, Venezuela produced 2.309 million bpd in June, down from 2.36 million bpd in May. It estimated that Venezuela's oil production stood at 2.34 million bpd of crude during the second quarter of the year. It stated that Venezuela became China's top oil supplier in May. Venezuela managed to supply 23% of China's fuel oil demand. China imports an average of 626,000 bpd of fuel oil. OPEC countries supplied 68.9% of China's crude oil imports and 29% of its total product imports in May.

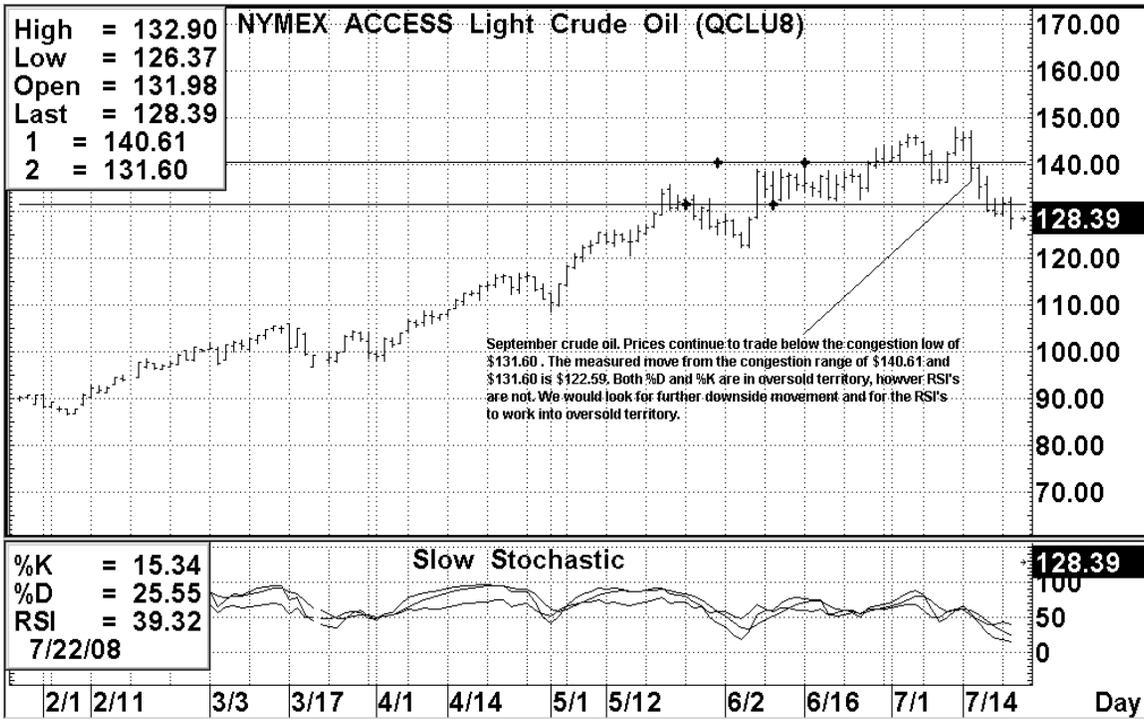
An oil official said Oman's oil output increased about 3.6% on the year to an average of 739,000 bpd in the first five months of the year. The official said its exports fell due to rising domestic demand.

Turkey's state pipeline operator Botas ordered the restart of loading from Ceyhan on Tuesday after halting the flow since Monday pending the payment of a \$100 million debt. It said Iraq paid half the debt. The pipeline flowed at about 430,000 bpd over the weekend ahead of the stoppage. The flow has been interrupted several times in the past three weeks due to glitches. Iraqi oil in storage at the terminal stood at 1.3 million barrels.

Iran has discovered an oilfield with about 500 million barrels of in-place reserves in a major production area in the southwest. The new field is called Arvand. It follows announcements in July of another find in the same region of a field holding 1.1 billion barrels of in-place reserves and one further south with 525 million barrels.

Market Commentary

In response to news that Hurricane Dolly wouldn't have an impact on oil production, energy prices fell to their lowest level since June 6th. Aiding the lower move was a strong U.S. dollar and possible fund liquidation in response to the U.S. senate pushing for better monitoring of speculative play in the market. The September 08 crude oil contract has retreated from the \$132.90 level the past three trading sessions, and fell over \$20.00 since last week. Based on the forward curve, contango market conditions continue to move down the curve, stretching out to March09/April09, with the front end dragging the deferred lower. Stochastics, basis the daily chart is in oversold territory, with RSI's set above the oversold level of 30.00. We would look for the RSI to work into oversold territory and for this market to work lower, reaching the projected congestion low of \$122.59. With August08 off the board, September is now the spot month, making September/October the front month spread. With U.S. demand continuing to slide, we would look for this spread to come under pressure, surpassing the -\$1.00 low that the August/September traded at today. The products came under pressure as well and did not make the retracements we had thought they would. According to MasterCard's gasoline consumption survey, demand fell 2.2% below year-ago levels. Although a slight draw is expected in gasoline stocks, we would expect demand to be down, thereby adding further pressure to this market. Like the technical indicators for crude oil, stochastics for gasoline are in oversold territory, with RSI's set above. We would look for gasoline to work towards the projected congestion target of \$3.0315, based on the range of \$3.5679 and \$3.2997. Heating oil should follow the rest of the complex lower, resting initially at the \$3.5650 support level and make an attempt to test \$3.38.49, projected congestion support. Open interest for crude oil is 1,233,701 down 33,551, August08 235941 down 39,517, September08 316,982 up 3,605 and December 08 102,569, up 3,442. Total open interest for heating oil is 223,974 down 1,022, August08, 28,748 down 4,312 and September 08, 60,507 up 3,022. Total open interest for gasoline is, 236,933 down 1,933, August08 32,094, down 3,477 and September, 74,288 up 2,402.



Crude Support	Crude Resistance
122.60, 108.40, 85.40	132.90, 134.85, 140.60, 144.00, 147.90,
Heat support	Heat resistance
3.6800 3.5450 3.5100 3.3500 3.1680 3.0980	3.8215, 4.0210, 4.0765, 4.1200, 4.3614
Gasoline support	Gasoline resistance
309.20 3.0730 3.0400 3.0250 2.9255	3.1760, 3.6021, 3.755, 34655