



ENERGY RISK MANAGEMENT

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ENERGY MARKET REPORT FOR SEPTEMBER 25, 2008

The Energy Department said that despite the fall in US gasoline inventories, it will refrain from seeking emergency supplies from the IEA. Gasoline inventories have fallen to their lowest levels since 1967 following the production disruptions in the aftermath of Hurricanes Gustav and Ike. Meanwhile, the IEA's Executive Director Nobuo Tanaka said that even though US gasoline inventories are at the lowest level since 1967 there still is no need for IEA members to release emergency fuel supplies to the US market. He said the US Energy Department had not asked the IEA to release fuel supplies.

The DOE said it will deliver 500,000 barrels of oil from the SPR to Citgo Petroleum Corp's refinery in Lake Charles, Louisiana through the Shell pipeline system. The 500,000 barrel delivery completes the 1 million barrels Citgo requested. It previously stated that it is also delivering 150,000 barrels of oil from the reserve to Alon USA's Krotz

Market Watch

Morgan Stanley said it will apply to the US Federal Reserve for permission to continue to own and operate its commodities business after converting to a commercial bank. However the company has a grace period of 25 years during which it will be exempt from any commercial bank regulations that could restrict its activities.

European gasoline exports to the US are set to fall as the gasoline export arbitrage window to the US was closed this week following a sharp fall in US gasoline prices. This follows a large amount of gasoline that was shipped to the US after refineries closed due to Hurricanes Gustav and Ike. About 1.2 million metric tons of gasoline were fixed from Europe in the week ending Tuesday.

Russia's Energy Minister Sergei Shmatko said Russia wants to influence world oil prices through output forecasts and mothballing deposits for future development. He said Russia's policy would not involve coordinated action with OPEC members.

Venezuela's President Hugo Chavez and Russia's Prime Minister Vladimir Putin are aiming to create a consortium to invest in joint oil ventures.

Brazil's EPE said the country's ethanol biofuel consumption will nearly triple within 10 years to 53.2 billion liters by 2017, up from 20.3 billion in 2007. Consumption of all types of ethanol is expected to reach 63.9 billion liters, up 150% from current levels. It reported that ethanol exports are estimated at 8.3 billion liters in 2017, up from 4.2 billion liters this year.

September Calendar Averages

CL – \$104.17

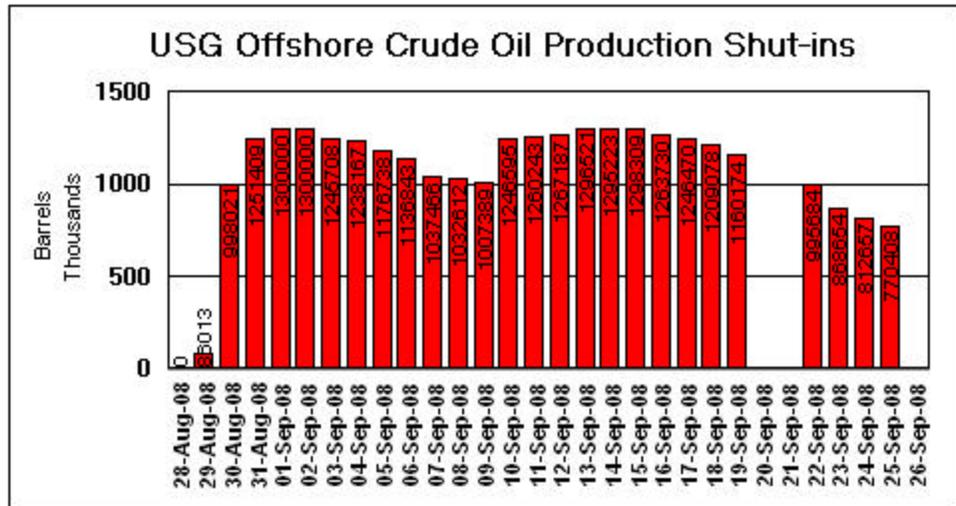
HO – \$2.9416

RB – \$2.6615

Springs, Louisiana refinery. Separately, the DOE said the third largest SPR site, in Big Hill, Texas remains closed and without power in the wake of Hurricane Ike. The site has inventory of 168.7 million barrels of oil or about 24% of the total inventory of 704 million barrels. The three other SPR sites are fully operational.

The US Minerals Management Service reported that about 42,249 bpd of oil production returned to the market as of Thursday, leaving 770,408 bpd of production still shut in.

Venezuela's Oil Minister Rafael Ramirez said the oil market is looking well supplied. He also stated that oil prices have been fluctuating over the last few weeks due to the effects of the US financial crisis, not market fundamentals.



OPEC's Secretary General, Abdalla Salem el-Badri is scheduled to hold talks with his Russian counterpart in Moscow on October 21-24 following a high level Russian delegation's attendance at recent OPEC talks.

According to Oil Movements, OPEC's crude oil exports are expected to increase by 540,000 bpd to 24.75 million bpd in the four weeks ending October 11. Exports from the Middle East are expected to increase by 410,000 bpd to 17.73 million bpd in the four week period.

Nigeria's senior oil workers' union, Pengassan, said that Chevron must resolve outstanding labor issues before it sells its fuels marketing business in Nigeria. The president of the Pengassan union, Babatunde Ogun said his members were in negotiations with Chevron over payments to Nigerian workers ahead of the sale.

Refinery News

The DOE reported that four refineries in Texas with a total capacity of 945,500 bpd remains shut in the wake of hurricane Ike.

Restoring ExxonMobil Corp's 348,500 bpd Beaumont, Texas refinery to full production following Hurricane Ike will take weeks if not months. An ExxonMobil spokesman said a restart schedule for the refinery could not be provided and damage within the refinery does not appear to be severe. Nine of 13 Texas refineries shut by Hurricane Ike have restarted or are restarting, with the longest delays seen in the Beaumont-Port Arthur, Texas refining hub, where only one of four refineries is restarting.

Valero Energy Corp's 260,000 bpd Port Arthur, Texas refinery is in the beginning of stages of a multi-day restart following Hurricane Ike.

Shell's Motiva refinery in Port Arthur, Texas is operating at 50% of its capacity and is able to produce gasoline and other products at reduced rates. The 285,000 bpd refinery was restarted on September 21 after its was shut down as a precaution ahead of Hurricane Ike. Meanwhile, its 235,000 bpd refinery in Convent and its 242,000 bpd refinery in Norco, Louisiana are operating at planned rates. Its 329,800 bpd Deer Park refinery is operating at 70% of capacity and is expected to resume near normal rates by the weekend.

Marathon Oil Corp expects to restart its 76,000 bpd Texas City, Texas refinery during the first week of October. It was shut as a precaution ahead of Hurricane Ike, which damaged a cooling tower at the facility.

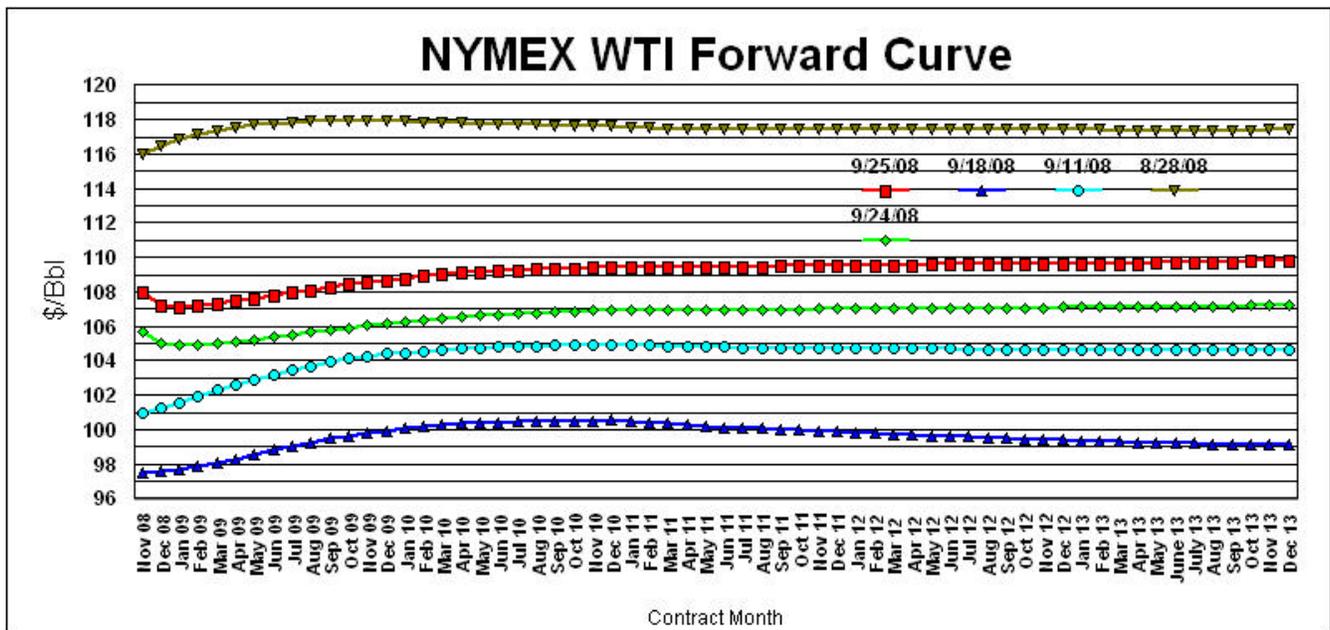
Placid Refinery Co's refinery in Port Allen, Louisiana resumed full operations early last week after it was shut for a turnaround in August and during Hurricanes Gustav and Ike.

Kinder Morgan resumed limited operations at its terminal in Pasadena, Texas after it was shut on Tuesday. Meanwhile, Longhorn Pipeline said it resumed shipping oil products from its terminal at Galena Park, Texas following a fire early Wednesday at Kinder Morgan's oil products terminal in Pasadena, Texas.

A 48,000 bpd fluid catalytic cracking unit at Shell's 420,000 bpd Pernis refinery was shut due to a technical fault.

Indian refiners processed 3.172 million barrels of crude oil in August, up 2.5% on the year. India's crude oil production in August stood at 683,040 bpd, down 6.7% from a government set target.

China's apparent oil demand in August fell by 444,000 bpd or 5.6% from July's record high to 7.5 million bpd. It is well above its five year range and year ago level by 619,000 bpd or 9%. Apparent diesel demand increased by 583,000 bpd or 23.4% on the year to 3.07 million bpd while gasoline demand fell by 72,000 bpd to 1.54 million bpd. China's crude processing fell by 271,000 bpd to 7.06 million bpd in August. Despite the fall in crude runs, crude imports increased by 450,000 bpd to 3.79 million bpd. It is up 392,000 bpd or 11.5% on the year. China oil product imports fell by 235,000 bpd to 738,000 bpd, with its gasoline imports falling by 62,000 bpd to 105,000 bpd and its diesel imports increasing by 205,000 bpd on the year but fell by 21,000 bpd on the month to 213,000 bpd.



China is likely to skip its diesel imports for the second consecutive month in October, as high inventories prompt oil companies to draw down stocks amid slowing economic growth. Both PetroChina and Sinopec Corp are not scheduled to import diesel in September.

Gasoline stocks in independent storage in the Amsterdam-Rotterdam-Antwerp terminal fell by 25% on the week and by 33.96% on the year to 459,000 tons in the week ending September 25. Gas oil inventories fell by 4.52% on the week but increased by 7.94% on the year to 1.985 million tons while fuel oil stocks fell by 8.71% on the week but increased by 8.64% on the year to 503,000 tons. Naphtha stocks built by 16.47% on the week and by 15.12% on the year to 99,000 tons while jet fuel stocks fell by 9.86% on the week and by 3.09% on the year to 439,000 tons.

Singapore's International Enterprise reported that residual fuel stocks built by 1.918 million barrels to 17.179 million barrels in the week ending September 24. It also reported that the country's light distillate stocks fell by 1.16 million barrels to 7.798 million barrels while middle distillate stocks built by just 2,000 barrels to 11.67 million barrels.

The Petroleum Association of Japan reported that the country's crude oil inventories fell for the second consecutive week by 6.61 million barrels to 96.5 million barrels in the week ending September 20. Crude oil inventories fell by 6.85 million barrels on the year. It reported that gasoline stocks built by 50,000 barrels on the week and by 760,000 barrels on the year to 12.5 million barrels while kerosene stocks built by 910,000 barrels on the week but fell by 2.66 million barrels to 23.97 million barrels. Japanese refiners ran their facilities at an average 73.5% of total capacity of 4.9 million bpd last week, down 1.9% on the week and 5.8% on the year.

Meanwhile, Japan's Ministry of Finance reported that country's crude oil imports fell by 3.3% on the year in August, due in part to lower imports from the Middle East. Japan imported 20.342 million kiloliters or 4.13 million bpd of crude oil. Crude imports from the Middle East fell by 1.5% in August from a year earlier to 17.768 million kl.

Japan's Oil Information Center reported that the country's retail regular gasoline prices fell for the seventh consecutive week to 171.5 yen or \$1.62/liter or \$6.13/gallon on Monday from 173 yen the previous week.

Mitsui Chemicals Inc is scheduled to shut the larger of its two naphtha crackers in Japan for 10 days of unscheduled mechanical repairs at the end of October. The 553,000 tons/year cracker in Chiba is currently running at a reduced capacity of 80-90%.

Production News

Shell Oil said it expects its Mars, Ursa, West Delta 143, Brutus and South Timbalier 301 oilfields in the Gulf of Mexico to resume operations by the end of next week. Its Auger and Echilada fields are expected to restart by the middle of the following week. Shell is currently producing about 32,000 boe/d, down from its capacity of about 500,000 boe/d.

Pemex said Mexico is temporarily cutting its oil production by 250,000 bpd or 9% to 2.834 million bpd due to damage to US refineries caused by Hurricane Ike. It said it hoped to resume normal operations by the end of the week. Pemex said its storage facilities were becoming saturated after some shipments were canceled by US refineries in Texas and Louisiana. Several oil tankers are scheduled to leave port in the days ahead, which should free up storage space and allow normal production to resume.

Gulfport Energy has partially restored its production at its West Cote Blanche Bay and Hackberry fields. Production at the Hackberry field is shut in pending repairs to a bridge leading into the field and the restoration of electric service. It said its coastal Louisiana facilities sustained no major structural damage.

Norway's DNO International ASA said its oil production fell by more than 60% in August as test production from its oil field in northern Iraq was temporarily halted. DNO said its net entitlement production fell to 4,818 bpd in August from 12,873 bpd in July. Over the first eight months, it produced an average of 12,397 bpd.

Chevron Corp said its consortium in Kazakhstan reach full production at the Tengiz field, which will increase its oil output capacity to 540,000 bpd.

Indonesia's BPMIGAS said the country's oil production is expected to fall slightly in September to 862,200 bpd from 862,600 bpd in August. The country's condensate production is expected to fall to 122,000 bpd in September from 125,000 bpd in August.

Nigeria's Minister of state for finance, Remi Babalola said Nigeria has projected oil production of 2.3 million bpd for its 2009 budget. It is down from the 2.45 million bpd estimated for the 2008 budget.

Petrobras confirmed a large discovery of natural gas and oil at the Jupiter field in the Santos Basin late Wednesday. Separately, the president of the Brazilian Petroleum Geologists Association said a series of recent oil discoveries in Brazil's deepwater subsalt region could quadruple the country's oil reserves to 55 billion barrels of oil equivalent.

Turkey's TPAO and ExxonMobil are close to a deal on exploring for oil in the Black Sea. TPAO aims to start production in 2015-2016 if drilling is carried out by 2010.

OPEC's news agency reported that OPEC's basket of crudes fell to \$98.88/barrel on Wednesday, down from Tuesday's \$99.00/barrel.

Market Commentary

As speculation circulated that Congress will approve a rescue plan for the U.S. economy and a report showing that the nation's gasoline supplies dropped to the lowest in 41 years was released, crude oil and gasoline prices rose. Interruptions to supplies of crude and products increased today as Royal Dutch Shell Plc shut a gasoline-making unit at Europe's largest oil refinery and Chevron Corp. faced renewed strike action in Nigeria. This is the fourth day in a row that the November crude oil contract has held above the descending trendline on a daily bar chart, however the \$111.35 level, the 200-day moving average, remains intact. With tomorrow being Friday and expectations for a vote on the \$700 billion dollar rescue plan, we would not look for a sell-off, but instead for an attempt to reach \$111.35. Economists are viewing an approval of this plan as positive for the economy, therefore supporting demand growth for energies. We would look for the November/December spread to remain firm up until refineries are up and running again and the shortage of products is relieved. This spread should hold support at 0.40 and any bounce off of this level should be considered a buying opportunity. Gasoline reacted strongly to the aforementioned drop in supplies, settling up .1025 on the day. Prices have been contained within the descending channel that has been forming since the beginning of July. This channel is set at \$2.3182 and \$2.8227. We would look for a test at the top of this channel and an attempt to reach the 200-day moving average of \$2.8556. Heating oil continues to trade above the downward trendline on a spot continuation chart and upon examination of technical indicators, prices should hold above this trendline, working towards resistance set at \$3.2965. We would expect that supplies would suffer short-term shortage as heating oil season approaches due to the inability of refiners in the Gulf of Mexico to run product.

Open interest for crude oil NOV.08 289,239 -3,851, DEC.08 189,592 +3,256. Totals: 1,107,168 -6268.
Open interest for heating oil; is OCT.08 18,905 -2,144 NOV.08 51,934 +634 DEC.08 26,451 +181

Totals: 212,439 -1,486. Open interest for gasoline is, OCT.08 29,407 -4,358 NOV.08 71,980 +2,888
 DEC.08 30,616 +772, Totals: 200,178 -956.

Crude Support	Crude Resistance
99.60, 95.50, 93.65, 87.10, 85.40 , 78.35, 68.63	111.35 (November 200 day MA), 118.60, 122.45, 132.75, 140.30, 144.00, 147.90,
Heat support	Heat resistance
2.6712, 2.4040	3.1050, 3.3684, 3.4574. 3798, 3.6135, 3.8215
Gasoline support	Gasoline resistance
2.3385	2.8521, 2.9600, 2.9989, 3.1050, 3.1460, 3.1840, 80003.2620