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ENERGY RISK MANAGEMENT

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ENERGY MARKET REPORT FOR DECEMBER 8, 2004

Saudi Arabia's Oil Minister Ali al-Naimi questioned the need for OPEC to cut its output to increase prices, saying that it would keep its crude oil production at current high levels of 9.5 million bpd as long as customers demand it. He questioned the need for a cut as its target price band remains at \$22-\$28/barrel. He said OPEC will act to ensure balance supply and demand in the oil market.

OPEC's President Purnomo Yusgiantoro said OPEC may cut its output in the second quarter of 2005 if oil prices fall further. He said OPEC will hold another meeting in March of next year to review the possibility of reducing its output. It is also likely to hold an extraordinary meeting in late January or February. He said Indonesia will propose changing the oil price band to between \$28 and \$32/barrel. Meanwhile, a senior OPEC official said that it could agree to cut its output by 750,000 to 1 million bpd at Friday's meeting.

Market Watch

Weather forecasters at Accuweather stated that an arctic cold front is forecast to enter the Eastern US next week. It said a jet stream moving south late this weekend and early next week will allow arctic air to come south from Canada into the US Great Lakes region and the Northeast.

A group of US energy experts released a broad energy strategy aimed at ending that the group's chairman described as the political and regional polarization that has prevented the US from adopting sensible approaches to the country's largest energy problems. The group called for enhancing US oil security by increasing and diversifying world oil production, while expanding the world network of strategic petroleum reserves, strengthening federal fuel economy standards no later than 2010. The report by the National Commission on Energy Policy estimates that the recommendation could cut US oil consumption in 2025 by 3 million to 5 million bpd.

Saudi Arabia's government has pledged to ensure stability in the country after the assault on the US Consulate. US defense officials also stated that a Marine Corps anti-terrorism team was being sent to assist in security at the facility.

In other news, Saudi Arabia announced a 2004 budget surplus of 98 billion riyals or \$26.1 billion and predicted it would balance its books next year with spending and revenue of 280 billion. Its 2004 GDP growth is 16.9% in current prices.

The US has notified the UN conference on global warming that it has no intention of rejoining international efforts to cut greenhouse gas emissions. The chief US negotiator at the conference said efforts to cut emissions were based on bad science. He said the US was focused on implementing President George W. Bush's plans to promote energy efficiency. He said President Bush had a 10 year program to reduce the carbon intensity of the US economy by 18% by 2012.

Tokyo Electric Power Co will shut a second nuclear power generation unit at plant in Fukushima after finding a water leak.

China's Premier Wen Jaibao said China will move gradually to a flexible exchange rate regime but will take into account the need to maintain the stability of its economy and those of its neighboring countries. The US has pressed China to make the yuan freely convertible, saying its current fixed level near 8.28 to the dollar is artificially low and make Chinese goods unfairly cheap on world markets. Meanwhile, China's central bank governor Zhou Xiaochuan warned of a possible financial crisis if the country's non-performing loans continue to increase.

Libya's Energy Minister Fathi Omar Bin Shatwan said OPEC should cut its overproduction and comply with its quota. He added that OPEC should cut their production further if oil prices continue to fall. He said OPEC should cut its output by 1 million bpd to increase oil prices. Meanwhile, Venezuela's Oil Minister Rafael Ramirez said Venezuela would support a move by OPEC to cut excess production. He said overproduction is currently about 2 million bpd.

Nigerian villagers, who have shut in 120,000 bpd of Nigerian crude production said they would shut a major pipeline carrying another 100,000 bpd of crude unless their grievances are addressed by next week. Community, government and oil company officials met briefly in Port Harcourt on Wednesday, however residents of the Kula community in the far south of the Niger Delta refused to hold talks with the government and oil companies until government officials came to the fishing village to see conditions for themselves. They stated that they would shut the Santa Barbara flow station and the manifold at the Nembe Creek. Meanwhile, Royal Dutch/Shell has stated that it has already closed the Santa Barabara flow station due to its inability to access the area. However the Nembe Creek manifold is a major pipeline junction that would force the closure of about 100,000 bpd.

Oil companies have booked several gas oil cargoes from the US Gulf to Europe as warm weather limits domestic demand and less expensive freight opens the arbitrage. Fixtures show about 200,000 tons of clean oil products for first decade December loading. European countries are seeking to stock up on low sulphur fuel ahead of the European Union switch to a limit of 50 parts per million sulphur diesel from January. The exports from the US are unlikely to meet European diesel standards in significant volumes but European refiners may desulphurize the gas oil to make 50 ppm diesel.

OPEC's news agency reported that OPEC's basket of crudes fell by \$0.68/barrel to \$34.21/barrel compared with \$34.89/barrel on Monday.

Iraqi interim Prime Minister Ayad Allawi said that his government was eager to see Russian participation in economic projects. He also stated that elections in Iraq must take place as planned on January 30.

Refinery News

ExxonMobil Corp may shut a hydrotreater at its 155,000 bpd refinery in Torrance, California.

Venezuela's Sincor synthetic crude project has completed 48 days of planned maintenance on its upgrading unit. Exports from the unit, which upgrades 200,000 bpd of extra Orinoco crude into 180,000 bpd of lighter synthetic crude, are expected to resume around December 18.

Louis Dreyfus is considering whether to sell its 250,000 bpd oil refinery at Wilhelmshaven in Germany.

Production News

Saudi Arabia has booked the Atlantic Liberty and the Front Commodore to carry 280,000 tons apiece to the US Gulf loading on January 2. Saudi Arabia has booked nine VLCCs or 18.4 million barrels of crude to the US in December for arrival in January.

The Shetland Islands Council reported that Brent crude liftings from Sullom Voe fell to 271,674 tons in the week ending December 7 from 277,976 tons in the previous week. It said 133,889 tons were bound to the US Gulf.

Danish Underground Consortium's oil production increased by 3.2% year on year in November to 312,700 bpd.

Russia's main Black Sea port of Novorossiisk reopened on Tuesday after storms shut it earlier in the day.

Fuel oil shipments from Baltic ports increased to 1.92 million tons in November, up 7.9% from 1.78 million tons in the previous month. Exports from Black Sea ports increased to 1.142 million tons, up from 1.136 million tons in October.

Russia's Gazprom's board of directors has approved its participation in an auction of Yukos' main unit, Yuganskneftegaz.

India's refining capacity is expected to increase to 140 million tons a year or about 2.8 million bpd in 2007 from 125 million tons.

ExxonMobil Corp said it would invest \$10 billion in Nigerian exploration and production over the next five years. It said investment would be mostly in the deepwater and ultra-deepwater regions.

According to the Petroleum Association of Japan, commercial stocks of kerosene fell by 0.5% in the week ending December 4 to 4.733 million kiloliters. It stated that total product stocks stood at 13.703 million kl, up 267,367 kl on the week. Japan's total oil product production increased by 297,443 kl to 4.098 million kl. It reported that Japan's gasoil exports increased to 105,249 kl. In the latest week, refiners processed a combined 4.76 million kl of crude oil, slightly down from 4.78 million kl in the previous week. Japan's crude runs total was 4.765 million kl, down 18,583 kl.

Market Commentary

The oil market gapped lower once again as it opened down 76 cents at 40.70 in follow through selling seen in overnight trading. The market fell sharply lower on Access following the comments made by Saudi Arabia's Oil Minister that OPEC may not need to cut its output at its upcoming meeting on Friday as crude prices are still above the OPEC target price band of \$22-\$28/barrel. His comments were contrary to those made by several other ministers ahead of the meeting. The oil market which opened at its low bounced off that level and started to backfill its opening gap from 40.70 to 41.38. The market quickly rallied to a high of 42.50 on good volume following the release of the weekly petroleum stock reports. The crude market followed in the heating oil market's footsteps as it rallied to its high following the release of the API report showing an unexpected draw in distillate stocks. The January crude contract however gradually erased its gains and traded back towards the 41.00 level in afternoon trading. It held good support at that level and traded towards the 42.00 level ahead of the close. It settled up 48

cents at 41.94.

Volume in the crude was good with over 256,000 lots booked on the day, of which 128,000 lots traded via spreads. Meanwhile, the heating

Technical Analysis		
	Levels	Explanation
CL	Resistance 41.94, up 48 cents	43.60 42.50, 42.65 to 42.73
	Support	41.05, 40.70 39.42
HO	Resistance 125.99, up 3.63 cents	130.50 to 132.20 128.00
	Support	123.50, 120.15 118.00, 117.90
HU	Resistance 108.75, up 8 points	111.80 to 112.65 110.70
	Support	107.50, 106.50 106.20, 103.70

oil market, which lent support to the complex, settled up 3.63 cents at 125.99. The market opened at its low of 120.15 and quickly bounced off that level following the release of the stock reports. The market extended its gains to over 5.6 cents as it traded to a high of 128.00. However it erased some of its gains but remained well off its opening low as it traded back towards the 127.00 level ahead of the close. Similar to the crude, the gasoline market gapped lower from 108.50 to 107.30. It traded to its low of 106.50 before it quickly rallied to its high of 110.70 amid the strength in the heating oil market. However it too erased some of its gains later in the session. It settled up just 8 points at 108.75. Volumes in the product markets were good with over 62,000 lots booked in the heating oil and 53,000 lots booked in the gasoline market.

The crude market, which is technically oversold, will continue to be driven by headlines ahead of the OPEC meeting on Friday. Even though Saudi Arabia has questioned the need for a cut, most of the OPEC ministers have stated the need to cut at least the overproduction and comply with their 27 million bpd quota. The crude market will also remain concerned over the oil production in the North Sea that remains shut in as well as the problems in Nigeria. The crude market is seen holding support at 41.05 followed by its low of 40.70. However resistance is seen at 42.50 followed by 42.65 to 42.73. More distant resistance is seen at 43.60.