



ENERGY RISK MANAGEMENT

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ENERGY MARKET REPORT FOR JANUARY 22, 2007

An Iranian politician was quoted by Iran's ISNA new agency as saying that Iran barred 38 UN IAEA inspectors from entering the country. The move was the first step in limiting its cooperation with the IAEA, in line with a demand made by parliament after UN sanctions were imposed on Iran over its nuclear program. It was not clear whether the reported curbs on inspectors may impact the IAEA's monitoring of Iran's Natanz enrichment plant, where Iran plans to increase fuel production to industrial scale from the current experimental operation. Meanwhile, Iran's President Mahmoud Ahmadinejad said the UN resolution against Iran would not affect Iran's nuclear policies. He dismissed criticism that the country's economy has been hurt by UN sanctions.

French newspaper Le Monde said a confidential Iranian government highlighted the damaging effects of sanctions against the country if Iran continued its nuclear

Market Watch

An opposition presidential candidate said free and fair elections in Nigeria in April could bring an end to violence in the country. Former army ruler Muhammadu Buhari of the main opposition All Nigeria People's Party said any vote rigging in the polls may propel the country into crisis. Meanwhile, President Olusegun Obasanjo said preparations for the elections were going well. Elections for president and national assembly are scheduled to take place on April 21.

Iran's President Mahmoud Ahmadinejad said the government has set the price of crude oil in the proposed budget for the fiscal year starting March 21 at \$33.70/barrel to protect itself against the anticipated fluctuations in its price. He also stated that to lessen reliance on oil income, the official parity or conversion rate of the dollar to the Iranian rial has been lowered from IRR8,950 to IRR8,900 to the dollar.

Kuwait's Finance Minister Bader al-Humaidi said the country would base its 2007-08 budget revenues on \$26/barrel, down from \$36/barrel the previous year. He presented the new budget to parliament on Sunday for the fiscal year beginning April 1.

The Goldman Sachs Commodity Index fell 15% last year. It has estimated that the index would have an 8.1% return in 2007. Similar to Goldman Sachs, Deutsche Bank has not been discouraging anyone from doubling down in what increasingly looks like a bear market. In September Deutsche Bank said oil would trade between \$60 and \$70/barrel this year while Barclays Capital previously stated that oil prices would not fall below \$60/barrel. The companies stated that fall in commodities offered a chance to buy before demand from China and India cause a rebound. Societe Generale said in May that prices would fall in the fourth quarter of 2006 or the first quarter of 2007.

Libya's Prime Minister Al-Baghdadi Ali al-Mahmoud said the government planned to lay off 400,000 people or more than a third of its workforce to ease budget pressures and stimulate the private sector. He said the number of state employees had increased to more than 1 million in recent years, putting strain on the country's economy. The Prime Minister said paying the salaries cost the government 4 billion dinars or \$3.1 billion in 2006. Libya's President Muammar Gaddafi has stated that Libyans are too dependent on foreigners and has been pushing for more economic self reliance and private sector reforms to fight an unemployment rate of at least 13%.

program. The report recommended making as much political effort as possible to avoid receiving sanctions while maintaining the country's national interests and honor. Le Monde said the report had been given to Iran's President Mahmoud Ahmadinejad but the government wanted to keep it low profile. The report showed that sanctions could cost Iran \$1.5-\$2 billion in lost revenues a year.

Separately, Iran announced new tests of short range missiles. The missiles test came as the US Navy was sending a second aircraft carrier to the Persian Gulf. US officials said the USS John C. Stennis is meant to be a warning to Iran. The deployment appeared to alarm some in Iran's hard-line leadership, including a member of the cleric-run body who warned last week that the US planned to attack, possibly by striking Iran's nuclear facilities.

Traders said Iran would not dare risk popular anger by restricting imports anytime soon in light of its plans to ration gasoline. An Iranian minister said the government wanted to cut Iran's \$5 billion budget for gasoline by 50% and begin rationing in March to cut the proportion of gasoline imported. Some traders said Iran had laid out plans to increase gasoline production in the event of sanctions but could not hope to replace the 30 million liters/day of gasoline it imports.

Qatar's Energy Minister Abdullah bin Hamad al-Attiyah said OPEC made no agreement to hold an emergency meeting in response to a sharp fall in oil prices this year. He said OPEC should await the impact of the 500,000 bpd cut in oil supply from February 1 agreed last month before taking any further action. Last week Saudi Arabia dismissed talk of holding an emergency meeting while Venezuela's Oil Minister Rafael Ramirez also withdrew his call for a meeting and a further cut, stating that OPEC should concentrate on complying with its already agreed to cuts. However OPEC members are vulnerable to lower oil prices. Even Saudi Arabia needs US crude oil close to \$50/barrel to balance its budget. An OPEC source said if prices did not recover from its lows, many in OPEC would push for further cuts when the group meets on March 15.

Norway's Oil Minister Odd Roger Enoksen said he did not expect oil prices to fall further in the future and a sharp fall in prices in past months has not hurt activity on Norway's offshore fields. He said the government had not yet decided whether to hold a 20th licensing round later this year.

According to the Lundberg survey, the average retail price of gasoline in the US fell about 14 cents/gallon over the past two weeks to \$2.184/gallon.

The EIA reported that US ethanol imports in November fell for the third consecutive month to 1.47 million barrels, down from 1.881 million barrels in October. It reported that 16 out of 17 shipments were bound for the East Coast. Brazil exported a total of 799,000 barrels in November to the East Coast. The next largest US supplier in November was Costa Rica at 256,000 barrels, up from 127,000 barrels in October. Jamaica exported a total of 213,000 barrels in November, up from 116,000 the previous month.

The IEA has invited China and India to attend its meetings as observers. China and India could attend IEA's meetings on oil and energy policy issues, statistics and technology collaboration. The level of representation would depend on the agenda.

Traders said heating oil stocks were so high that it would need to be very cold for a long time to draw them down despite forecasts for colder than normal weather for the week ahead. The US National Weather Service forecast heating demand for the week ending January 27 to be just over 1% more than normal.

Refinery News

Unleaded gasoline in the Chicago market traded at 10.50 cents under the NYMEX reformulated gasoline contract, up from last week's 25 cent discount on talk of a refinery problem. There was talk of an outage at Marathon's 100,000 bpd refinery in Detroit.

BP Plc has delayed the restart of its ultracracker at its 460,000 bpd refinery in Texas City, Texas until the middle of February. The unit was shut on January 10 to repair a leak in one of the main heat exchangers, which was found during the start up of the unit.

Alon USA Energy Inc started shutting down an alkylation unit at its 67,000 bpd refinery in Big Spring, Texas on Monday for an overhaul. The shutdown is expected to last all day Monday.

Shell Oil Co's 340,000 bpd Deer Park, Texas refinery began restarting 20 units on Saturday that were shut earlier this month for maintenance. The sequential restart of the units including crude distillation, hydrocracking and coking units, is expected to last through February 16.

Flint Hills was forced to shut several units at its 288,000 bpd refinery in Corpus Christi, Texas due to a loss of steam on Saturday.

Gulf Coast refining margins increased by 58 cents/barrel to \$6.86/barrel in the week ending January 19. Meanwhile, margins in the Midwest fell by \$1.43/barrel to \$3.44 while margins in the Northeast fell by 58 cents to \$4.33/barrel. Along the West coast, margins fell by \$2.67/barrel to \$19.91/barrel.

A shipping source said Russia's main Black Sea port of Novorossiisk was closed due to strong winds on Monday. The source said the port may not resume normal operations until the swells calm down in two days. The port was previously closed from Thursday to Saturday due to high winds.

According to a preliminary schedule by Transneft, Russia is expected to reduce its Urals crude exports from its Black Sea port of Novorossiisk to 815,000 bpd in February, down from 926,000 bpd in January while the Baltic Sea port of Primorsk is expected to export 1.47 million bpd in February, down from 1.51 million bpd.

Lithuania's Prime Minister Gediminas Kirkilas said Lithuania hoped Russia would resume oil supplies by pipeline to the country's Mazeikiu Nafta refinery in March. Russia cut off supplies to Mazeikiu citing technical problems with the pipeline.

South Korea's Korea National Corp said the country's crude oil imports in December increased by 5% on the month to 80.185 million barrels or 2.58 million bpd. Total stocks of oil and oil products increased by 19.2% on the year to 74.88 million barrels. Crude stocks totaled 23.7 million barrels, up 52.9% on the year. Domestic demand increased by 2.7% year on year to 76.3 million barrels or 2.46 million bpd. South Korea's five refineries processed about 2.45 million bpd of crude in December, running at 87.3% of capacity, down from 92.1% a year ago.

Production News

Mexico's Pemex said the country's oil production fell to 2.978 million bpd in December from 3.163 million bpd in November. It reported that crude exports fell to 1.525 million bpd from 1.788 million bpd in November.

Brazil's Mines and Energy Minister, Silas Rondeau said Brazil would invest \$8.18 billion in renewable fuels over the next four years, which is expected to increase the country's ethanol production by 40%. Brazil's ethanol production would increase to 23.3 billion liters from the current 16.7 billion liters by 2010 while biodiesel production would increase to 3.3 billion liters from about 800 million liters.

NYMEX Petroleum Options Most Active Strikes for January 22, 2007

Symbol	Month	Year	Call/Put	Strike	Exp Date	Settle	Volume	IV
LO	5	7	P	50	04/17/2007	1.76	4,309	35.37
LO	4	7	C	55	03/15/2007	2.3	4,266	36.80
LO	3	7	C	55	02/14/2007	1.16	2,872	40.20
LO	3	7	C	70	02/14/2007	0.01	2,523	43.99
LO	4	7	C	60	03/15/2007	0.92	2,106	37.14
LO	4	7	C	61	03/15/2007	0.75	2,101	37.16
LO	3	7	P	51	02/14/2007	1.4	1,947	40.58
LO	3	7	C	65	02/14/2007	0.05	1,880	41.94
LO	6	7	C	70	05/17/2007	0.55	1,805	33.66
LO	3	7	P	50	02/14/2007	1.05	1,644	40.87
LO	4	7	C	72.5	03/15/2007	0.07	1,492	39.42
LO	4	7	P	53	03/15/2007	2.67	1,450	36.91
LO	3	7	C	58	02/14/2007	0.49	1,428	40.30
LO	6	7	C	65	05/17/2007	1.1	1,345	33.16
LO	6	7	C	60	05/17/2007	2.13	1,300	32.73
LO	12	7	P	50	11/13/2007	2.59	1,300	30.54
LO	12	7	C	70	11/13/2007	1.88	1,300	27.62
LO	12	7	C	60	11/13/2007	4.68	1,202	28.45
LO	4	7	C	70	03/15/2007	0.12	1,185	39.00
LO	6	7	P	50	05/17/2007	1.93	1,150	34.13
LO	6	7	C	75	05/17/2007	0.27	1,125	34.18
LO	5	7	P	64	04/17/2007	10.45	1,120	36.39
LO	3	7	C	60	02/14/2007	0.26	1,073	40.53
LO	4	7	C	80	03/15/2007	0.01	1,019	39.34
LO	4	7	P	55	03/15/2007	3.76	1,015	36.88
LO	3	7	C	53	02/14/2007	1.91	1,009	40.18
LO	4	7	P	51	03/15/2007	1.83	1,000	37.45
OB	3	7	C	1.52	02/23/2007	0.0327	354	42.84
OB	3	7	P	1.4	02/23/2007	0.0621	177	41.76
OB	4	7	C	1.7	03/27/2007	0.0522	175	39.84
OB	9	7	C	1.76	08/28/2007	0.0982	100	31.86
OB	3	7	P	1.45	02/23/2007	0.09	50	42.22
OB	3	7	P	1.34	02/23/2007	0.0373	50	42.07
OH	3	7	C	1.63	02/23/2007	0.0311	350	38.76
OH	2	7	C	1.49	01/26/2007	0.0402	225	48.14
OH	4	7	C	1.62	03/27/2007	0.0614	225	36.99
OH	2	7	P	1.5	01/26/2007	0.0262	179	48.14
OH	3	7	C	1.7	02/23/2007	0.0176	171	39.45
OH	3	7	C	1.8	02/23/2007	0.0074	151	40.45
OH	3	7	C	2	02/23/2007	0.0012	150	42.45
OH	5	7	C	1.64	04/25/2007	0.074	150	36.07
OH	3	7	C	1.6	02/23/2007	0.0392	149	38.45
OH	3	7	P	1.48	02/23/2007	0.0469	125	37.88
OH	3	7	P	1.43	02/23/2007	0.0294	125	38.07
OH	2	7	P	1.7	01/26/2007	0.1919	102	52.91
OH	3	7	P	1.65	02/23/2007	0.1516	102	39.26
OH	2	7	C	1.67	01/26/2007	0.0008	100	49.83
OH	3	7	C	1.57	02/23/2007	0.049	100	38.18
OH	4	7	C	1.72	03/27/2007	0.0358	100	37.68

Russia's Vedomosti business daily said Russia would equally split all new offshore oil and gas fields between Rosneft and Gazprom, further limiting foreign and private access to its energy. It said the decision was made during a meeting between President Vladimir Putin and government officials last week and would be formalized through amendments to the law on suboil use and the offshore law. However analysts questioned whether it would help launch the fields more quickly. An analyst said Gazprom and Rosneft did not have the necessary technologies or expertise to develop offshore fields.

Indonesia's BPMIGAS said oil production from the Cepu oil and gas project in Indonesia would be delayed again and is now expected to start in 2010, instead of the first quarter of 2009. Cepu is estimated to have recoverable reserves of up to 600 million barrels and is expected to produce up to 180,000 bpd at its peak.

OPEC's news agency reported that OPEC's basket of crudes stood at \$48.20/barrel on Friday from \$48.22/barrel on Thursday. It also reported that basket of crudes fell by \$1.82/barrel to \$48.45/barrel in the week ending January 19.

Canada's Conservative Party government was moving to rebuild environmental programs that it dismantled last year due to strong public demand for action on climate change. Two minister for Prime Minister Stephen Harper's government announced the allocation of \$26 million previously pledged to help preserve the Great Bear Rainforest in British Columbia and unveiled a program to encourage homeowners and businesses to make their building more energy efficient. Other announced programs include plans to offer incentives to producers of renewable energy, promote research and try to clean up carbon released in power production.

Market Commentary

The oil market gapped higher from 52.05 to 52.55 as it extended Friday's gains. The market was supported by weather forecasts calling for colder weather later this week. The market rallied to a high of 53.40 early in the session and settled in a sideways trading pattern as it held some support at 52.90. However the February crude contract later breached its support as it failed to sustain its gains and backfilled its gap as it sold off to a low of 50.80. The market retraced some of its losses ahead of its expiration at the close and settled down 86 cents at 51.13. The March crude contract also gapped higher from 53.45 to 53.70 in follow through buying. The market rallied to a high of 54.65 early in the session. It later erased its gains and sold off to a low of 52.15 ahead of the close. It settled down 82 cents at 52.58. Volumes in the crude market were better with 287,992

Technical levels			
	Levels	Explanation	
CL 52.58, down 82 cents	Resistance	55.35	Previous high
		53.00, 54.00, 54.65	Monday's high
	Support	52.15	Monday's low
		51.20	Previous low
HO 150.84, down 51 points	Resistance	156.80	Previous high
		152.00, 155.90	Monday's high
	Support	149.50	Monday's low
		149.00, 145.30	Previous lows
RB 137.54, down 2.26 cents	Resistance	144.00, 145.80	Previous highs
		140.00, 143.00	Monday's high
	Support	137.10	Monday's low
		136.60, 133.60	Previous lows

contracts traded on Globex during the open outcry session. The heating oil market also gapped higher from 151.70 to 152.90 on the weather forecasts. The market rallied to a high of 155.90. However the market also failed to sustain its technical rally and sold off sharply. It posted a low of 149.50 late in the session and settled down 51 points at 150.84. The RBOB market also settled down 2.26 cents at 137.54 after the market erased its early gains and sold off to a low of 137.10 ahead of the close. Volumes in the product markets were light with 40,782 contracts traded in the heating oil market and 26,139 lots traded in the RBOB market.

The crude market, which failed to sustain its early gains, is seen testing its previous lows as the market continues its downward trend. Even though the market may be supported by the weather forecasts, the market is still seen trading lower. The market is seen testing its support at its low of 52.15. More distant support is seen at its low of 51.20 followed by the 50.00 level. The market is however seen finding resistance at 53.00, 54.00 and its high of 54.65. More distant resistance is seen at 55.35.