



ENERGY RISK MANAGEMENT

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ENERGY MARKET REPORT FOR JANUARY 26, 2007

Lloyds MIU said OPEC's crude oil exports fell to 22.8-22.9 million bpd in December from just under 24 million bpd in November. Exports in December were down about 1.9 million bpd from October's pre-cut average of 24.6 million bpd while exports in November were down 700,000 bpd from October's level. In December, Saudi Arabia cut exports by 1.1 million bpd from October levels, while cuts from other countries in the region ranged from 50,000 bpd to 450,000 bpd. It said noticeable cuts from some OPEC members remained to be seen with several members posting increases in exports in December over October's pre-cut levels.

Market Watch

Venezuela's President Hugo Chavez threatened to eject the US ambassador if he meddled in Venezuela's affairs. US ambassador William Brownfield said that Venezuela's government had to compensate companies it planned to nationalize.

Traders stated that unusual sell tender procedures were costing Venezuela's PDVSA some potential oil revenues. PDVSA has been awarding its oil product sell tenders a few days before cargo loading dates, leaving buyers little time to book a tanker. This has led oil buyers to pay more for very prompt vessel bookings, which in turn were factored into low bids in the tenders.

The Congressional Budget Office said US farmers are expected to plant 86.2 million acres of corn this year for a crop of 12.162 billion bushels. It said distillers are expected to use 3 billion bushels for ethanol production.

Venezuela softened its position on Thursday in favor of further supply cuts, saying output cuts already agreed to have started the impact the market and helped support prices. Venezuela's Energy Minister Rafael Ramirez said that Venezuela estimated the world market was oversupplied by 700,000 bpd compared with previous estimates of 1 million bpd. He also stated that there was no agreement among OPEC members to hold an emergency meeting to set further cuts.

President George W. Bush said US forces in Iraq have authority to protect themselves against Iranians attempting to launch attacks inside Iraq.

The head of the UN's IAEA, Mohamed ElBaradei said Iran expects to start install 3,000 centrifuges in an underground facility next month. However UN officials stated that Iran had not officially stated that it would embark on the assembly of what would initially be 3,000 centrifuges at Natanz. The head of the IAEA said the West and Iran should declare a timeout under which Iran's nuclear work and UN sanctions would be suspended. He added that military action against Iran's nuclear sites would be

crazy and the two sides should start talks. He said simultaneous gestures of good will were required to head off conflict.

Refinery News

Frontier Oil Corp is scheduled to shut a delayed coker unit at its refinery in Cheyenne, Wyoming for planned maintenance in April. The turnaround is expected to last about 22 days.

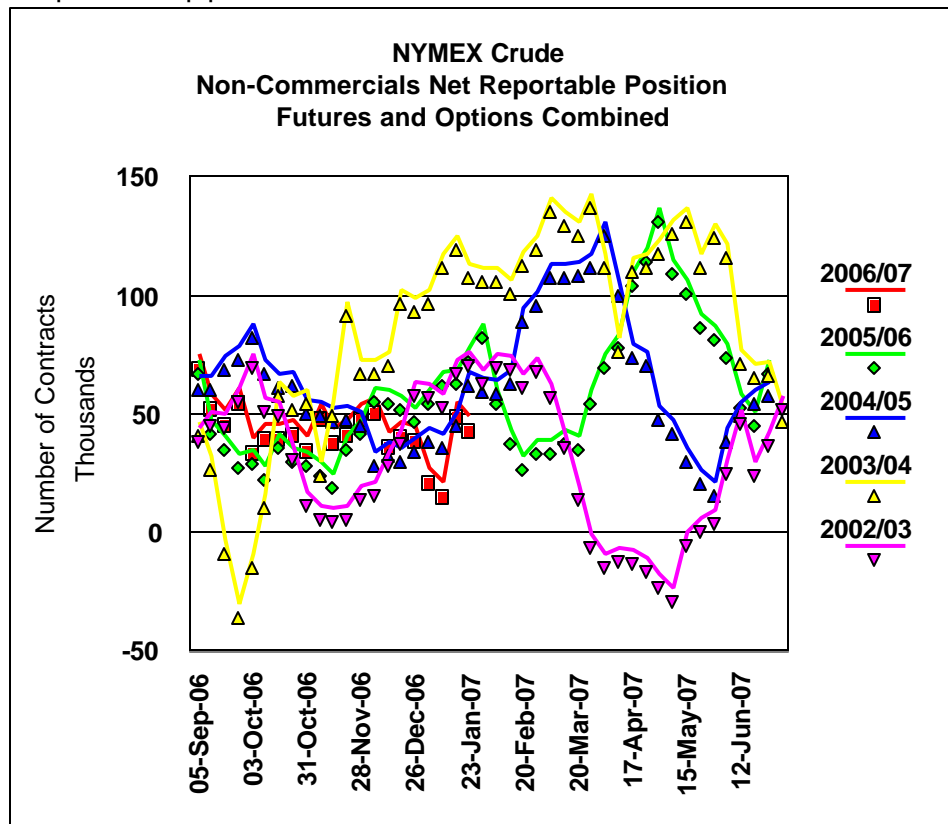
Royal Dutch Shell said its 142,000 bpd Petit Couronne refinery in France was partially shut for planned maintenance work starting on Wednesday. Shell’s spokeswoman gave no details on affected units or duration of the planned maintenance work. The turnaround coincides with a full shutdown at its 245,000 bpd Stanlow refinery in northwest England, due to last until March 8.

Japan’s Taiyo Oil Co said it would refine about 110,000 bpd of crude in February, mostly steady from estimated levels this month.

South Korea’s S-Oil Corp is expected to keep its crude oil processing rate for February at 550,000 bpd, steady from January levels. Separately, South Korea’s Hyundai Oilbank Corp is expected to reduce its crude oil processing rate for February to 310,000 bpd from January’s 330,000 bpd due to poor refining margins.

Russia’s main Black Sea port of Novorossiisk was reopened after it was closed for about an hour on Friday due to high winds. The port has been closed several times this past week due to persistent gales.

Russia’s technical standards agency, RosTekhNadzor said an inspection of the Chevron led Caspian Pipeline Consortium was complete and that no legal breaches had been found, easing the pressure on the private oil pipeline.



Production News

A source at Royal Dutch Shell said six Chinese oil workers who were missing following an armed attack in Nigeria are believed to have been abducted, increasing the number of hostages from that assault to 9. There are 38 foreign workers being held by four different armed groups.

Canada’s Hibernia oilfield may defer some cargoes due to load into March amid operational problems at the 180,000 bpd field. The field usually loads eight 675,000 barrel cargoes of oil a month, however production problems are expected to

cut seven cargoes from the 24 expected in the first quarter.

Five oil companies led by Chevron Corp made a significant oil discovery at Block 14 in deep water offshore Angola. A partner in the consortium said they would conduct further appraisal drilling in addition to geological and engineering studies to appraise the field and assess its potential reserves.

Royal Dutch Shell said it would continue to seek new opportunities in Russia, where it had to cede part of its Sakhalin-2 project to Gazprom. Russia has been tightening its grip on the country's energy industry.

Belarus President Alexander Lukashenko threatened new duties on transit of Russian oil across the country's territory. He said Russian oil companies delivered oil to Belarussian oil refineries at higher prices than on world markets and said those companies would be subject to additional duties.

OPEC's news agency reported that OPEC's basket of crudes increased by 41 cents/barrel to \$51.25/barrel on Thursday.

Market Commentary

The oil market, which posted an inside trading day, opened 62 cents higher at 54.85 in follow through buying seen in overnight trading as it retraced some of Thursday's losses. The market was supported by forecasts showing that a moderation in the weather this weekend would be replaced by another cold snap at the start of next week. The market was also supported by a Lloyds report stating that OPEC cut its exports to about 23 million bpd in December from 24 million bpd in November. The market erased some of its opening gains as it posted a low of 54.70. However the market bounced off that level and traded back above the 55.00 level. It settled in a sideways trading range before further buying ahead of the weekend pushed the market to a high of 55.52 on short covering. It settled up \$1.19 at 55.42. Volume in the crude market was light today with 169,993 lots booked on Globex during the open outcry session. The heating oil market also posted an inside trading day as it failed to breach Thursday's trading range. The market traded to 158.50 on the weather forecast before it erased its gains and sold off to a low of 157.00. However the market later traded off its low and extended its gains to over 4.49 cents as it traded to a high of 159.40 on the close. It settled up 4.23 cents at 159.14. The RBOB market also settled up 3.93 cents at 148.34 after it posted an inside trading day. The market, which posted a low of 145.30 bounced off that level and rallied to a high of 148.50 ahead of the close. Volumes in the product markets were light with 32,119 lots booked in the heating oil market and 29,290 lots booked in the RBOB market on Globex.

The Commitment of Traders report showed that non-commercials in the crude market increased their net short positions by 6,467 contracts to

Technical levels		
	Levels	Explanation
CL	Resistance	55.95, 57.05
		55.52, 55.90
	Support	54.70, 54.10
		53.70, 53.55, 53.00, 52.15
HO	Resistance	162.00 to 164.00
		159.40, 160.00
	Support	157.00, 154.70
		154.20, 153.00
RB	Resistance	152.70
		148.50, 150.00
	Support	145.30, 143.10
		141.00, 140.10, 137.10
		Previous highs
		Friday's high, Thursday's high
		Friday's low, Thursday's low and 38% (51.20 and 55.90)
		Previous low, 50%, 62% retracements, Previous low
		Remaining gap (January 3)
		Friday's high, Thursday's high
		Friday's low, Thursday's low
		Previous lows
		Previous high
		Friday's high, Thursday's high
		Friday's low, Thursday's low
		Previous lows

a net short position of 8,499 contracts in the week ending January 23. Non-commercials cut their total long position by 4,931 contracts. The combined futures and options report also showed that non-commercials cut their net long positions by 6,533 contracts to 42,979 contracts on the week. However given the market's move in recent days, non-commercials have likely cut some of their net short position. Non-commercials in the heating oil market increased their net short position by 3,364 contracts to 14,201 contracts while non-commercials in the RBOB market cut their net long position by 1,656 contracts to 7,484 contracts on the week.

The oil markets will remain headline drive over the weekend amid the conflicting reports of OPEC's output cut compliance. The markets will also remain driven by the weather forecasts. However the longer term forecasts are likely to limit the markets' gains as forecasts show more seasonal temperatures during the remainder of the winter. Technically, the crude market is seen finding resistance at its highs of 55.52, 55.90 and 55.95 with more distant resistance seen at 57.05. Meanwhile support is seen at its low of 54.70 followed by 54.10, 53.70, 53.55 and 53.00. More distant support is seen at 52.15.