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ENERGY RISK MANAGEMENT

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ENERGY MARKET REPORT FOR FEBRUARY 8, 2005

Saudi Arabia's Oil Minister Ali al-Naimi said he was more concerned about current volatility in the world oil market than the outright price of crude. He stated that Saudi Arabia will continue to pump 9 million bpd of crude oil until further notice to ensure sufficient supply to the world oil markets. He however declined to comment on whether OPEC may take action in the run up to its mid-March meeting. Saudi Arabia aims to increase its production capacity to 12.5 million bpd over the next four years in anticipation of rising world demand. He also reiterated that it will maintain a crude oil capacity cushion of up to 2 million bpd. He is confident that any terror attack against its energy network would fail to disrupt its oil exports. He stated that Saudi Arabia has spent substantial amounts of money securing its oil installations and it would be difficult if not impossible for terrorists to attack them. He said even if oil installations were attacked, the impact on the country's oil production and exports would be negligible.

Market Watch

Despite assurances that they will stay out of politics, Iraq's Shi'ite clergy will likely is likely to influence the new Iraqi government. Final results from the January 30 vote are not expected before the end of the week. However partial returns show the Shi'ite dominated ticket, endorsed by Iraq's most revered Shi'ite Grand Ayatollah Ali al-Sistani, is poised to take more than half of the 275 seats in the National Assembly. Al-Sistani's spokesman said the grand ayatollah insists that the permanent constitution should respect the Islamic cultural identity of the Iraqi people and will leave the details to the elected representatives of the Iraqi people in the National Assembly. However al-Sistani has played a major role in guiding the Shiite political establishment in a manner that suggests he will be more than a casual and occasional adviser.

Russia's Yukos has asked Finance Minister Alexei Kudrin to investigate the situation surrounding the sale of its main subsidiary, Yuganskneftegaz. Yukos has not received any documents from the Tax Ministry, the Industry and Energy Ministry or the Federal Property Fund confirming the sale of the unit. In addition, money from the sale has not been transferred to the Treasury accounts or to the federal budgets which give Yukos grounds to believe the auction never took place.

Separately, Group Menatep, the largest shareholder of Yukos has demanded the new owners of Yuganskneftegaz to make an early repayment of $900 million in loans. The demand came a week after a consortium of western banks led by Societe Generale called in a $540 million loan to Yukos, credits that were guaranteed by Yuganskeneftegaz. Meanwhile the Financial Times reported that Group Menatep has launched a $28.3 billion claim for compensation from the Russian government for alleged expropriation of its investment. The move underlines its determination to hold the Russian authorities accountable.

OPEC's President Sheikh Ahmad al-Fahd al-Sabah said OPEC members currently have no need to consult on whether production cuts are needed before OPEC's meeting in March. He said OPEC will cut its output if there is a need.

According to the EIA's Short Term Energy Outlook, world petroleum demand growth for the 2004-2006 period is estimated to average about 2 million bpd, a level that exceeds expected growth in non-OPEC supply and world refinery capacity. It is down from 3.4% demand growth or 2.6 million bpd in 2004. Lower world oil demand is attributed to several factors, including the impact of high world oil prices and slower projected Chinese oil demand growth. World petroleum demand in 2005 is estimated at 84.5 million bpd while demand in 2006 is estimated at 86.5 million bpd, unchanged from its previous estimate. It also left total world demand unchanged for the first quarter of 2005 at 84.5 million bpd while demand for the second quarter was cut by 0.12% to 82.7 million bpd. Meanwhile, US petroleum demand in 2004 averaged an estimated 20.51 million bpd, up 2.4% on the year. It estimated US petroleum demand in 2005 at 20.83 million bpd, down 0.29% from its previous estimate of 20.89 million bpd while its estimate for 2006 stood at 21.22 million bpd, down 0.33% from its previous estimate of 21.29 million bpd. It cut its forecast for demand in the first quarter by 90,000 bpd to 20.79 million bpd while its second quarter estimate was cut by 70,000 bpd to 20.88 million bpd. Distillate demand in 2005 is expected to total 4.13 million bpd, down from its previous estimate of 4.18 million bpd. Gasoline demand in 2005 is estimated at 9.22 million bpd, also down from its previous estimate of 9.24 million bpd. Meanwhile, distillate stocks in 2005 are estimated at 131 million barrels, up from its previous estimate of 126 million barrels while distillate stocks in the first quarter is estimated at 103 million barrels, up from its previous estimate of 97 million barrels and stocks in the second quarter is seen at 115,000 barrels, up from 109,000 barrels. The EIA reported that gasoline stocks in 2005 is estimated to total 211 million barrels with gasoline stocks in the first quarter expected to total 208 million bpd, down from its previous estimate of 214 million barrels. Gasoline stocks in the second quarter are estimated to total 216 million barrels compared with its previous estimate of 221 million barrels. In regards to prices, the EIA projects that WTI prices are likely to remain in the low to mid-$40/barrel range throughout 2005-2006. Its first quarter estimate was increased to $46.70/barrel, up $3.70 from its previous estimate. Gasoline prices in the first quarter are expected to average $1.92/gallon, up from its previous estimate of $1.82/gallon while prices in the second quarter are expected to average $2.04/gallon, up from its previous estimate of $1.94/gallon. According to the EIA, OPEC's total oil production fell by 580,000 bpd to 29.01 million bpd in January. OPEC ten production, excluding Iraq, fell by 480,000 bpd to 27.21 million bpd. Iraq's production averaged 1.8 million bpd, down from 1.9 million bpd in December.

OPEC's news agency reported that OPEC's basket of crudes fell to $39.98/barrel on Monday from $40.73/barrel on Friday.

Refinery News

ChevronTexaco plans to cut operations at its 120,000 bpd hydrocracker to one third of its capacity at its 225,000 bpd Richmond, California refinery this month for planned maintenance. The hydrocracker will begin reducing its output next week and is expected to fall to minimum rates by the end of February. The work is seen completed in late March.

Russia's Yukos committed itself on Tuesday to restore supplies to Baltic refinery Mazeikiu Nafta as soon as possible. Processing at the refinery was halted due to supply shortages on Friday night. Oil executives guaranteed oil supplies provided the current structure of Yukos was maintained. The stoppage announcement by Mazeikiu is the first time it has publicly admitted that it is having difficulty obtaining oil from Yukos. However, Lithuania's Economy Minister cast doubt on the Yukos supply pledges. He indicated that Mazeikiu Nafta was continuing to seek alternative suppliers to Yukos.

Kuwait's al-Shuaiba refinery plans to shut a 27,000 bpd fuel oil cracker early next week for about 8 weeks of scheduled maintenance. Overall output at the 200,000 bpd refinery will not be affected.

Spain's Cepsa is planning to lower its crude runs at its Huelva refinery in March and shut crude distillation units at the Algeciras refinery in April and May for maintenance. The company will reduce runs for 12 days in March for work on the CDU at its 100,0000 bpd Huelva refinery. It is also planning a two week shutdown of the refinery's 38,000 bpd vacuum distillation unit in February. It also scheduled another 12 days of maintenance on the Huelva refinery CDU and 10 days of work on the 17,000 bpd reformer in September. It will undertake 7 days work on one of two CDU's at its 180,000 bpd Algeciras refinery in April and 19 days on the second CDU in May. It will also perform 10 days of work on its 40,000 bpd vacuum distillation unit and its 40,000 bpd catalytic cracking unit in April. The Algeciras refinery will also shut a reformer for 15 days in April and another reformer for 37 days work in May and June. An alkylation unit will be shut for 15 days in April.

Production News

Crude oil flows from the North Sea Forties system is expected to total 627,000 bpd in March, up from 568,000 bpd in February.

Russia's main Black Sea port of Novorossiisk was closed for the fifth consecutive day on Tuesday due to bad weather conditions. Berthing operations briefly resumed on Monday as conditions improved. However the weather worsened and operations were halted once again. The port has been shut since midday on Friday.

Azerbaijan's SOCAR tendered to sell an 80,000 ton or 585,000 barrel cargo of Urals crude for loading at Russia's Black Sea port of Novorossiisk on March 11-12.

Russia's Federal Customs Service said that Russian companies' 2004 oil product exports to non-Commonwealth of Independent States countries increased by 35% on the year to $18.2 billion. The increase is due to the average price increasing to $233.30/metric ton in 2004 from $180.90/metric ton in 2003. Russian companies exported 77.961 million tons of oil products in 2004.

Analysts stated that Russian oil companies must embark on more exploration and production from new oil sites if they are to sustain the rapid production growth rates of recent years. Russia's production growth this decade has been driven mainly by rehabilitation of existing fields which allowed some firms such as Sibneft and Yukos to increase output by over 20% a year. As firms concentrate on the existing sites, exploration spending has stagnated and companies' production targets for 2005 are much lower than past years.

China's crude oil imports fell by 24.1% on the year in January to 7.82 million tons. China's crude imports increased by 35% to a record 122.7 million tons in 2004 due to the industrial demand and nationwide power crunch. However analysts warned that increased use of coal and gas would slow crude import growth this year. China's oil demand growth is expected to slow to 360,000 bpd this year from 850,000 bpd in 2004.

The Caspian Sea port of Aktau, Kazakhstan's only sea export route, handled 802,838 tons of oil and oil products in January, up 37.5% over the same month last year.

Sources at the National Iranian Oil Co said Iran Light crude bound to NW Europe was priced at the IPE Brent crude weighted average minus $4.90, its Iran Heavy was priced at BWAVE minus $6.90 and its Forozan crude was priced at BWAVE minus $6.80. Meanwhile it set its prices for crude bound to the Mediterranean at BWAVE minus $7.15 for Iran Light. Its Iran Heavy was priced at BWAVE minus

$9.15 and its Forozan crude was priced at BWAVE minus $9.05. Its Iran Light bound to Sidi Kerir was priced at BWAVE minus $5.30, its Iran Heavy was priced at BWAVE minus $7.30 and its Forozan crude was priced at BWAVE minus $7.20.

Market Commentary

The oil market opened 28 cents lower at 45.00 as it remained pressured by comments made by OPEC members, signaling that the group would wait until its next meeting in March before cutting its production. Saudi Arabia's Oil Minister stated that it would continue to produce 9 million bpd until further notice. The crude market posted the day's trading range within the first hour of trading as it posted an intraday low of 44.80 and bounced off that level to a high of 45.70. However the market erased some of its gains and traded slightly below the 45.00 level before the market once again bounced back into positive territory. The market's losses seemed to have been limited by the strength in the natural gas market late in the afternoon following the release of a supportive weather forecast calling for colder temperatures. The crude market traded to 45.50 ahead of the close and settled up 12 cents at 45.40. Volume in the crude market was excellent with over 205,000 lots traded on the day. Open interest in the crude fell by a total of 5,392 contracts to 738,030. Open interest in the March contract fell by 20,893 contracts while open interest in the April contract built by 12,853 contracts amid some spread rolling. Meanwhile, the heating oil posted an inside trading day as traders lacked the conviction to push the market either way. Similar to the crude market, the heating oil market posted the day's trading range within the first hour of trading. It posted an intraday low of 122.50 but quickly bounced into positive territory and traded to a high of 125.50. The market later retraced most of its gains as it traded back to 123.00. However the market's losses were also limited by the strength in the natural gas market in light of the bullish weather forecast. The heating oil market erased most of its losses ahead of the close and settled up 1.54 cents at 124.60. The gasoline market also opened down 42 cents at 120.80 and quickly posted and intraday low of 120.50 on the opening. However the market erased its losses and rallied to a high of 123.65 as it held resistance at Monday's high. The market erased most of its losses before it settled in a 1 cent trading range from 121.00 to 122.00 ahead of the close. It settled up 40 points at 121.62. Volumes in the product market were good with over 45,000 lots booked in the heating oil and 54,000 lots booked in the gasoline market.

Given the market's sideways trading pattern following the first hour of trading during today's session, the market will seek further direction from the DOE and API weekly petroleum stock reports due out on Wednesday. The reports are expected to show builds in crude stocks of less than 1 million barrels, draws in distillate stocks of about 1.5 million barrels and a build of less than 1 million barrels in gasoline stocks. If the market does see larger draws in distillate stocks and the weather forecasts remain supportive, the markets will remain supported. The

Technical Analysis

		Levels	Explanation
		46.80, 47.25	Friday's high
	Resistance	45.50, 45.70, 46.15-46.25	Tuesday's high, Remaining gap (February 7th)
CL	45.40, up 12 cents		
	Support	44.80	Tuesday's low
		44.59	62% retracement (41.40 and 49.75)
		125.80 to 127.00	Remaining gap (February 7th)
	Resistance	125.50	Tuesday's high
HO	124.60, up 1.54 cents		
	Support	122.50	Double bottom
		121.80, 118.20	Previous lows
		123.80 to 125.00	Remaining gap (February 7th)
	Resistance	122.00, 122.40, 123.65	Tuesday's high
HU	121.62, up 40 points		
	Support	121.00, 120.50	Tuesday's low
		120.23, 119.70	62% retracement (109.00 and 138.40), Previous low

crude market is seen finding support at its low of 44.80 followed by 44.59. Meanwhile resistance is seen at 45.50, 45.70 followed by its gap from 46.15-46.25. More distant resistance is seen at 46.80 and 47.25.