



## ***ENERGY RISK MANAGEMENT***

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### **ENERGY MARKET REPORT FOR FEBRUARY 26, 2007**

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OPEC's Secretary General Abdullah al-Badri said OPEC's existing oil production cuts should be sufficient to bring the world oil market into balance. He added that no member has yet to suggest a further reduction. He said OPEC's percentage of compliance is satisfactory, even though there is room for improvement. Meanwhile Qatar's Oil Minister Abdullah Hamad al-Attiyah said if current oil prices remain unchanged, OPEC may continue its current output policy when it meets on March 15.

The head of Libya's oil industry Shokri Ghanem said he believed US oil prices would remain close to \$60/barrel for the rest of 2007. He said market fundamentals were looking more balanced. He stated that it was a little too early to say but if the situation remained unchanged there would be no need to do anything in March.

Britain's Foreign Office stated that the permanent members of the UN Security Council and Germany started work on a new Security Council resolution imposing further sanctions on Iran. Britain said there would be further contacts between the six later this week.

#### **Market Watch**

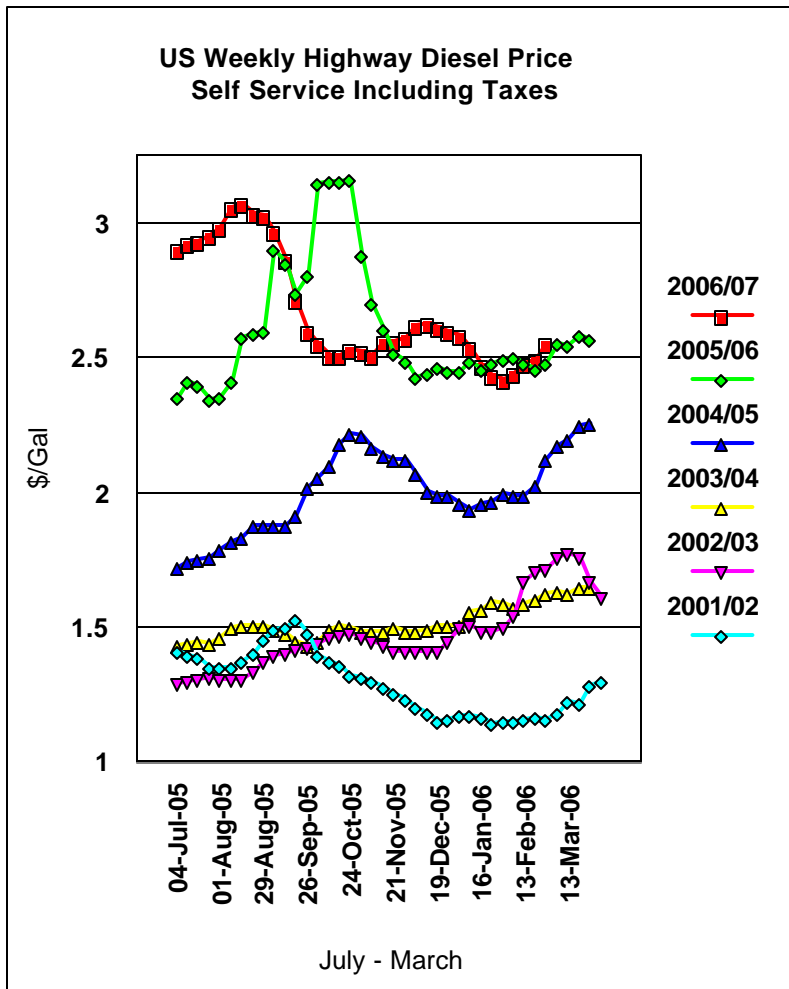
Saudi Arabia's former envoy to Washington, Prince Turki al-Faisal said the Bush administration's talk of breaking its dependency on foreign oil is a political myth.

Former Federal Reserve Chairman Alan Greenspan said it was possible the US economy may fall into a recession by the end of the year.

Meteorogix forecasted that temperatures in the Northeast US are expected to increase from below normal on Monday to above normal by midweek. Temperatures in the Northeast are expected to increase steadily through to Saturday. It also stated that above normal temperatures are expected to continue to keep demand for heating oil and gas below normal for the time of the year in most of northern Europe for at least the next 10 days.

Alberta's Premier Ed Stelmach said the government would invest \$341 million into the oil sands hub of Fort McMurray to help the city deal with strains on its public services. However he stopped short of reining in the pace of oil sands development in the Western Canadian province. Over the next decade, Alberta's oil sands production is expected to more than triple from about 1 million bpd.

The US currently has 117 operational ethanol plants with a capacity to produce 5.3 billion gallons of ethanol annually. Traditional ethanol facilities use natural gas or coal to fuel the boilers that create steam and distill ethanol from corn or other plant based sources. However such operations are vulnerable to natural gas price volatility and critics have stated that that pollution associated with coal fired plants offset the benefits of substituting ethanol for gasoline. The Mead plant however uses cattle manure, which is then processed into methane gas and powers the ethanol plants. It is a prototype for at least 15 similar US projects. The new plants would also be teamed with feedlots or dairies and have a capacity of at least 50 million gallons a year.



The US said it was seeking incremental diplomatic steps to pressure Iran to suspend its nuclear activities. Among the new measures under review are a mandatory travel ban on Iranian officials involved in the nuclear program, an end to government backed loans and credits, an enlargement of the list of items Iran cannot purchase and sell and restrictions on visas to students studying nuclear related subjects abroad.

Ahead of the meeting between the permanent members of the UN Security Council and Germany, Iran's President Mahmoud Ahmadinejad remained defiant over its nuclear program, stating that Iran had no brake and no reverse gear. US Secretary of State Condoleezza Rice said Iran needed a "stop button" for its program. In response, an Iranian official said Iran was prepared even for war. US Vice President Dick Cheney said all options were on the table following Iran's refusal to heed a UN deadline to halt its uranium enrichment. British officials said they were resolved to tackle the

issue using diplomacy. British Prime Minister Tony Blair's spokesman dismissed a New Yorker magazine article stating that a Pentagon panel had been created to plan a bombing attack that could be enacted within 24 hours of getting the go ahead from President George W. Bush. Meanwhile, Russia's Foreign Minister Sergei Lavrov said he was worried by speculation about military strikes on Iran.

DEBKAFfile reported that a Pentagon spokesman rejected a report of a 24 hour war plan. He stressed Washington was going to work with allies in the region to address concerns about specific Iranian government activities through diplomatic efforts. US Secretary of State Condoleezza Rice offered to talk with any Iranian representative at any time if Iran would suspend enrichment and reprocessing activities. The US has built up its military presence around Iran while Iran has countered that signal by placing its army and the elite Revolutionary Guards Corps on full war footing since September 2006. Israel, the third element in the war equation is in the middle of a series of combat training and war games. Field officers and troops have been told to be ready for a major flare up on more than one front in the summer.

Iraq's Prime Minister Nouri al-Maliki said the cabinet approved a draft of the Federal Oil Law on Monday, sending it to parliament for consideration. Iraqi political leaders have pledged to push through parliamentary approval of a new oil law and have it implemented by the end of May.

Italy's Foreign Ministry stated that two Italian workers kidnapped on Friday in Nigeria's city of Port Harcourt were released. The workers had been working for construction company Impregilo when they were grabbed by gunmen. At least eight foreigners were still being held by different armed groups.

A Saudi Interior Ministry statement said a group of nine French nationals were fired on after a car stopped them on a road between Tabuk and Medina in northwest Saudi Arabia. Three of the French nationals were shot dead in what appeared to be the first militant attack on foreigners in three years. The statement said some of the group members were heading to the holy city of Mecca for pilgrimage. Earlier this month, the Saudi wing of Al Qaeda vowed new attacks on westerners in the country.

According to the Lundberg survey, the average retail price of gasoline in the US increased nearly 13 cents/gallon to \$2.3487/gallon in the two weeks ending February 23.

The EIA reported that the US average retail price of diesel increased by 6 cents/gallon to \$2.551/gallon in the week ending February 26. It also reported that the US average retail price of gasoline increased by 8.7 cents/gallon to \$2.383/gallon on the week.

### **Refinery News**

ExxonMobil said it restarted a fluid catalytic cracking unit at its refinery in Los Angeles, California following unplanned repairs that started on February 19.

A flexicoker unit at ExxonMobil's Baytown, Texas refinery malfunctioned briefly on Saturday. The problem occurred a day after a compressor snag at the refinery briefly cut processing rates.

Delek US Holdings said it would shut a sulfur recovery unit and a SCOT unit at its 55,000 bpd refinery in Big Spring, Texas to repair the SCOT unit. The unit would remain shut for repair until March 3.

Imperial Oil Ltd said its Nanticoke, Ontario refinery is expected to run at reduced rates until the middle of March while it completes repairs. The 118,000 bpd refinery is expected to start up at rates under its capacity later this week. Separately, reduced transport capability, partly due to a strike at Canadian National Railway Co contributed to the gasoline shortage in Ontario. Imperial was still apportioning supplies to its customers as it deals with the tight market.

Neste Oil said its new diesel production line in Porvoo, southern Finland, would be delayed a few weeks due to a small fire on Sunday. The company said the new line was expected to be on stream in the middle of April. It said nobody was hurt in the fire, which was caused by a leak, and damage was mainly to electronic cables.

South Korea's SK Corp is expected to cut its crude runs in March by 30,000 bpd to 720,000 bpd due to weak refining margins.

Saudi Aramco, ExxonMobil and Sinopec signed contracts for a project that would triple the capacity of the Fujian refinery in southern China. The three companies finalized a deal that they initially agreed in 2005. The project would increase the Fujian refinery's capacity to 240,000 bpd from 80,000 bpd. The expanded refinery would start up in early 2009 and would process Aramco's heavy crude.

Chevron said it was not interested in taking a stake in a Saudi project to build an oil refinery with a capacity of up to 400,000 bpd in Saudi Arabia's western region.

### **Production News**

**NYMEX Petroleum Options Most Active Strike for February 26, 2007**

Symbol	Month	Year	Call/Put	Strike	Exp Date	Settle	Volume	IV
LO	4	7	P	55	03/15/2007	0.14	3,324	34.90
LO	4	7	P	60	03/15/2007	1.11	3,252	32.93
LO	6	7	C	63.5	05/17/2007	3.62	1,704	31.31
LO	6	7	P	50	05/17/2007	0.29	1,625	34.88
LO	7	7	P	60	06/15/2007	2.42	1,504	31.46
LO	6	7	P	63.5	05/17/2007	3.67	1,500	31.32
LO	12	7	C	66.5	11/13/2007	5.84	1,450	28.14
LO	4	7	P	61.5	03/15/2007	1.77	1,445	32.54
LO	8	7	P	65	07/17/2007	4.81	1,350	30.25
LO	8	7	C	65	07/17/2007	4.62	1,350	30.27
LO	12	7	P	66.5	11/13/2007	6.03	1,350	28.19
LO	4	7	P	75	03/15/2007	13.61	1,300	45.49
LO	12	7	C	41	11/13/2007	25.31	1,300	51.19
LO	6	7	P	62	05/17/2007	2.97	1,195	31.63
LO	4	7	P	56	03/15/2007	0.23	1,114	34.62
LO	7	7	P	50	06/15/2007	0.39	1,100	33.30
LO	6	7	P	60	05/17/2007	2.18	1,053	32.04
LO	9	7	C	65	08/16/2007	5.21	1,051	29.67
LO	4	7	P	74	03/15/2007	12.61	1,000	42.44
LO	4	7	P	59	03/15/2007	0.78	937	33.20
LO	12	8	P	55	11/17/2008	2.9	900	25.51
LO	12	8	P	60	11/17/2008	4.39	900	24.97
LO	7	7	P	56	06/15/2007	1.29	860	32.23
LO	12	7	C	100	11/13/2007	0.32	827	28.33
LO	6	7	C	65	05/17/2007	2.96	801	31.18
LO	5	7	P	55	04/17/2007	0.56	800	33.50
LO	7	7	P	55	06/15/2007	1.08	800	32.40
LO	4	7	P	50	03/15/2007	0.01	799	38.45
LO	5	7	C	65	04/17/2007	1.83	785	31.04
LO	6	7	C	67	05/17/2007	2.23	750	31.08
LO	12	7	C	39	11/13/2007	27.31	750	56.61
OB	7	7	C	1.98	06/26/2007	0.091	332	32.01
OB	7	7	C	2.04	06/26/2007	0.0747	332	32.57
OB	4	7	P	1.7	03/27/2007	0.0224	284	35.30
OB	5	7	P	1.8	04/25/2007	0.0685	168	32.15
OB	7	7	C	1.97	06/26/2007	0.094	111	31.92
OB	7	7	C	2.03	06/26/2007	0.0772	111	32.49
OB	4	7	P	1.79	03/27/2007	0.0509	104	34.84
OB	4	7	P	1.77	03/27/2007	0.0432	104	34.99
OH	6	7	C	1.76	05/25/2007	0.1024	227	31.49
OH	4	7	C	1.63	03/27/2007	0.1452	225	36.99
OH	6	7	P	1.62	05/25/2007	0.0475	206	30.65
OH	12	7	C	1.68	11/27/2007	0.2982	154	29.07
OH	12	7	C	1.9	11/27/2007	0.1705	140	26.90
OH	12	7	P	1.9	11/27/2007	0.162	140	26.86

Russia's Finance Ministry official said Russia would cut export duties on crude and refined products by about 12-13% in April-May following a decline in world oil prices. He said if average oil prices stood between \$54 and \$55/barrel during the last three days of February, the oil export duty is expected to be set at \$155-\$156/ton, down from \$179.70/ton. Its export duties for light products would be set at \$117/ton while its export duties for heavy products would be set at \$63/ton compared with current levels of \$133.40/ton and \$71.80/ton, respectively.

India's official data showed that the country's domestic oil product sales in January increased by 7.3% on the year to 10.46 million tons. India's diesel sales in January increased by 8.2% on the year to 3.71 million tons.

Mexico's Pemex said the country's oil production increased to 3.143 million bpd in January following a drop to 2.978 million bpd in December. Its oil exports stood at 1.582 million bpd. It was up 3.7% from 1.525 million bpd in December, when bad weather delayed some shipments and far below the 2.052 million bpd Pemex exported in January 2006. Production at

Mexico's Cantarell oil field averaged 1.591 million bpd in January, up 6.6% on the month.

OPEC's news agency reported that OPEC's basket of crude increased to \$56.41/barrel on Friday, up from Thursday's \$54.99/barrel. It also reported that OPEC's basket of crudes increased by \$1.02/barrel to \$54.47/barrel in the week ending February 23.

Venezuela's PDVSA said it would sign an agreement on Wednesday for \$3.5 billion in financing from Japanese companies that could be repaid with oil and oil products.

Italy's Assobiodiesel said the country produced between 500,000 and 600,000 tons of biodiesel in 2006 and added that this year's production would depend on approval of new fiscal incentives as new plants are coming on stream. It said Italy planned to replace a 200,000 ton tax exempt quota with a partial tax that would cover 250,000 tons of biodiesel. The quota may increase to 290,000 tons this year if anti trust regulations allowed adding another 40,000 tons.

### **Market Commentary**

The oil market posted an inside trading day after it failed to breach Friday's trading range. The market opened slightly lower at 61.10 and traded to a high of 61.75 early in the session amid the concerns over Iran's nuclear program. Iran's President remained defiant stating that Iran would not give up its nuclear program as the permanent members of the UN Security Council and Germany were meeting to discuss further sanctions on Iran. The market however gave up its gains and sold off to a low of 60.65. The market later bounced off that level in choppy trading and settled in a sideways trading

range as it traded back towards its high ahead of the close. It settled up 25 cents at 61.39, the highest settlement since late December. Volume in the crude market was

<b>Technical levels</b>		
	<b>Levels</b>	<b>Explanation</b>
<b>CL</b> 61.39, up 25 cents	<b>Resistance</b> 62.00-62.35, 62.95 61.75, 61.80	Remaining gap, Previous high Monday's high, Friday's high
	<b>Support</b> 60.65, 60.50 59.75, 58.30	Monday's low, Friday's low Previous lows
<b>HO</b> 175.02, up 41 points	<b>Resistance</b> 176.00, 176.30, 178.75 175.75	Previous highs Monday's high
	<b>Support</b> 173.30 172.50, 167.90	Monday's low Previous lows
<b>RB</b> 183.37, up 1.56 cents	<b>Resistance</b> 184.75, 186.00, 186.54 184.50	Previous highs Monday's high
	<b>Support</b> 181.00 179.15, 177.00	Monday's low Previous lows

good with 221,661 lots booked on Globex. The March heating oil contract settled in positive territory after it traded to a high of 176.50 as traders liquidated their positions ahead of its expiration at the close. It settled up 57 points at 175.62. The April heating oil contract also settled up 41 points at 175.02 after it posted an inside trading day. It traded to a high of 175.75 early in the session and sold off to a low of 173.30 in afternoon trading. However it bounced off its low amid the market's late strength. The RBOB market opened down \$1.06 at 175.25, its intraday low and traded mostly sideways for much of the session. The market traded to a high of 178.25 amid some late buying ahead of its expiration. It settled up 1.46 cents at 177.77. The April RBOB contract settled up 1.56 cents at 183.37. Despite the product expiration, volumes were light with 28,776 lots booked in the heating oil market and 32,492 lots booked in the RBOB market.

The crude market is seen remaining headline driven amid the renewed concerns over Iran's nuclear program. The market will seek further developments on the talks between the permanent members of the UN Security over Iran's nuclear program as Iran continues to defy the UN's call to halt its uranium enrichment. The market is technically still seen trading higher as its stochastics are still trending

higher. Resistance is seen at its highs of 61.75 and 61.80. More distant resistance is seen at 62.00 to 62.35 and 62.95. Meanwhile support is seen at 60.65, 60.50, 59.75 and 58.30.