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## ***ENERGY RISK MANAGEMENT***

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### **ENERGY MARKET REPORT FOR MARCH 2, 2009**

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According to a Reuters survey, OPEC's oil production fell in February for the sixth consecutive month to 25.62 million bpd from 26.27 million bpd in January. OPEC has cut its production by 3.42 million bpd of the promised 4.2 million bpd. It reported that OPEC has an 81% compliance rate, up from a revised 66% in January.

Algeria's Energy Minister Chakib Khelil said a new output cut is possible when OPEC meets on March 15<sup>th</sup>. His statements contrast remarks made by Iran's Oil Minister Gholam Hossein Nozari that OPEC will make no decision for further cuts of production. Iran's

#### **Market Watch**

The National Weather Service reported that US heating demand this week is expected to average about 5.1% above normal as colder weather moves through the eastern half of the country. Demand for heating oil is expected to be about 17% above normal this week. Heating demand for natural gas is expected to average 2.9% above normal while heating demand for electricity is expected to average 7.7% above normal.

US manufacturing contracted at a less severe pace in February. The Institute for Supply Management said its index of national factory activity increased to 35.8 in February from 35.6 in January. Separately, the US Commerce Department said consumer spending rebounded by 0.6% in January after falling an unrevised 1% in December. Incomes advanced 0.4% following December's 0.2% decrease. Savings increased to an annual rate of \$545.5 billion, the highest level since monthly records began in 1959.

France's Markit/CDAF manufacturing purchasing managers' index fell to a new low of 34.8, down from 37.9 in January as companies cut their orders in response to the worsening economic slowdown. The output index also fell to a record low of 30.4 from 36.7 in January.

The ABN Amro Bank purchasing managers' index of India's manufacturing activity increased to a seasonally adjusted 47 in February from January's 46.7. India's economy has slowed much more than expected in recent months, falling to its weakest pace in almost six years in the October-December quarter as the world financial crisis cuts demand for its exports and prompts consumers to cut spending.

China's manufacturing sector deteriorated further in February. However the pace of decline slowed for the third consecutive month. CLSA's Purchasing Managers' Index increased to a seasonally adjusted 45.1 in February, moving further away from a record low of 40.9 in November and up from 42.2 in January. It said manufacturing production continued to contract at a marked pace, despite the improvement from January. Purchases of inputs continued to fall but at a significantly slower pace than in the last few months.

Russia's Energy Minister Sergei Shmatko said the country has proposed to set up a joint oil exchange with Iran and to sell some of Iran's crude on the St. Petersburg stock exchange.

Venezuela's PDVSA will immediately pay off debts built up in recent months to thousands of local service companies and contract workers. PDVSA has fallen behind in payments to third party companies due to the sharp decline in oil prices. Venezuela's Oil Minister Rafael Ramirez said PDVSA is trying to strike new payment deals with service companies.

DVB Bank S.E. said freight rates for oil tankers are expected to come under significant pressure this year as nearly 300 new oil tankers or 47 million deadweight tons of shipping capacity are due for delivery. This nearly double the number completed in 2008 when 164 vessels or 8.161 million deadweight tons.

### March Calendar Averages

CL – \$40.15

HO –\$1.1512

RB – \$1.2862

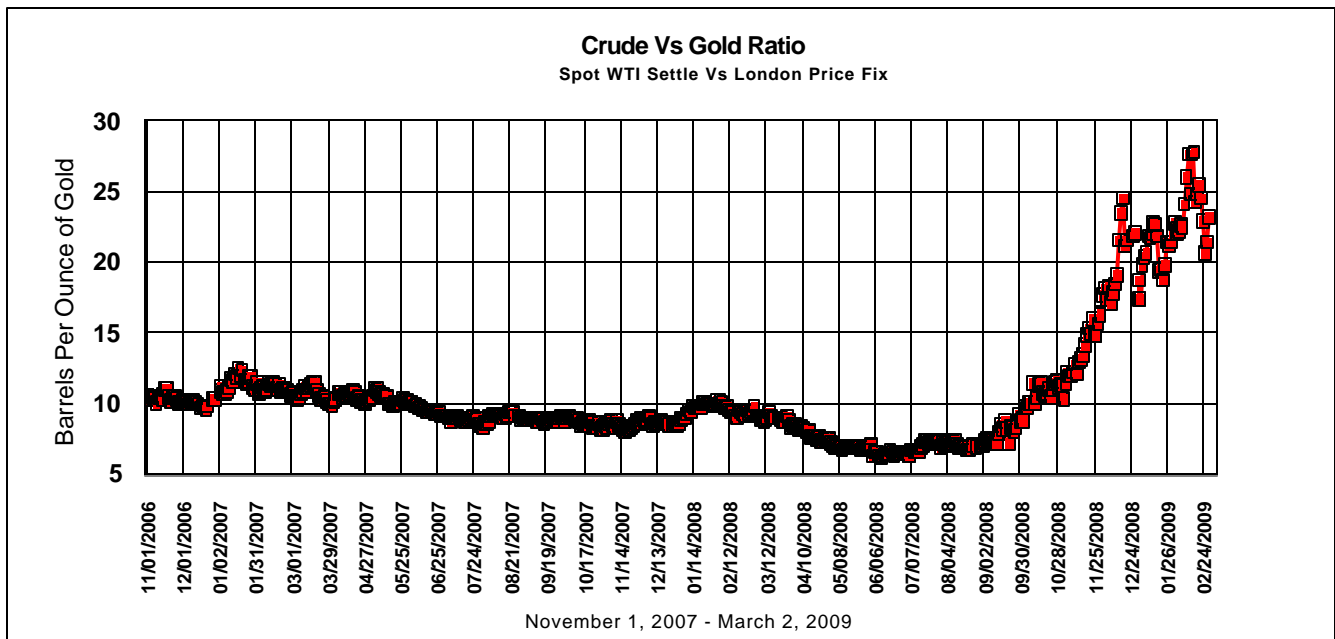
Oil Minister also said compliance among OPEC members is at 80%. He said there is still 500,000-600,000 bpd left for members to cut. He said a cut of the remaining 20% would help market stability. Separately, the head of National Iranian Oil Co, Seifollah Jashnsaz said OPEC's decision to cut output will help increase the price of crude.

Iran's deputy oil minister in charge of planning, Akbar Torkan said the country's oil income will increase slightly to about \$70 billion during the Iranian year ending later this month, up from \$68 billion in the previous year. He said the average price of Iranian crude during the 2008-09 year was around \$80/barrel.

General Secretary of the Nigeria Labor Congress, John Odah said Nigeria's labor unions rejected a plan by the federal government to end subsidies on petroleum products and privatize state-run oil refineries. He said the plan is unacceptable to the labor movement. The Trade Union Congress said the high levels of unemployment and poverty in the country do not justify the removal of subsidies.

Separately, the Petroleum and Natural Gas Senior Staff Association of Nigeria and the National Union of Petroleum and Natural Gas Workers gave notice on Monday they will start a three day strike 21 days from now as the security situation in the southern oil hub has not improved. Pengassan said its members will revolt against any attacks directed towards their members or any oil installations. However its president, Babatunde Ogun did not give further details.

Russia's two oil wealth funds increased to a combined 7.87 trillion rubles or \$217.5 billion in February. Assets in Russia's Reserve Fund were RUB4.87 trillion as of March 1 while the National Welfare Fund was Rub3 trillion.



Raymond James Financial Inc cut its forecast for the average price of oil this year by 28% to \$43/barrel from its previous forecast of \$60/barrel amid the economic slowdown. It expects oil demand to fall by 3.5%, up from its previous forecast of 2%. It also lowered its 2010 oil price forecast to \$65/barrel from \$80/barrel. It also cut its 2009 natural gas price forecast by 25% to \$3.75/mcf. The price will average \$2.50/mcf in the third quarter.

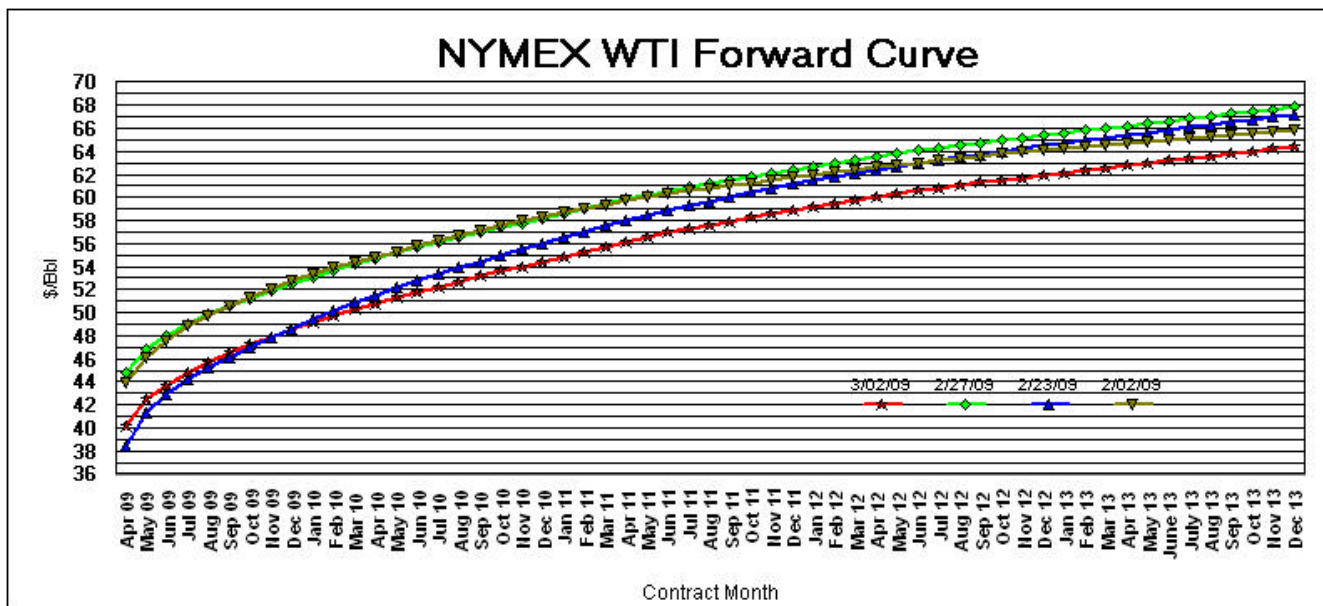
The EIA reported that the US average price of diesel fell by 4.3 cents/gallon to \$2.087/gallon in the week ending Monday. It is the lowest price since February 21, 2005. It also reported that the US average retail price of gasoline increased by 2.5 cents/gallon to \$1.934/gallon on the week.

### Refinery News

Colonial Pipeline said it is allocating the 14<sup>th</sup> cycle of this year for its main distillates line north of Collins, Mississippi as nominations exceed line capacity.

Credit Suisse reported that US refinery margins fell once again last week. Rocky Mountain margins fell by \$5.31/barrel to \$13.32/barrel. Gulf Coast margins fell by \$1.04 to \$8.81/barrel while Midwest margins fell by 29 cents to \$8.15/barrel. West Coast margins fell by \$2.94 to \$13.22/barrel while Northeast margins fell by 41 cents to \$7.24/barrel.

According to Reuters, European oil refining margins fell due to weakening demand for middle distillate products. Simple refineries in the Rotterdam area processing North Sea Brent saw margins at -15 cents compared to last week's margin of \$1.50. In the Mediterranean, simple refineries processing Russian Urals crude saw margins at -90 cents. Complex refineries cracking North Sea Brent in the Rotterdam area made \$1.95/barrel on Monday compared with an average profit of \$2.97/barrel last week. Meanwhile complex refineries in the US Gulf area made a profit of \$6.10 by cracking a barrel of WTI, down from \$6.47 the previous week.

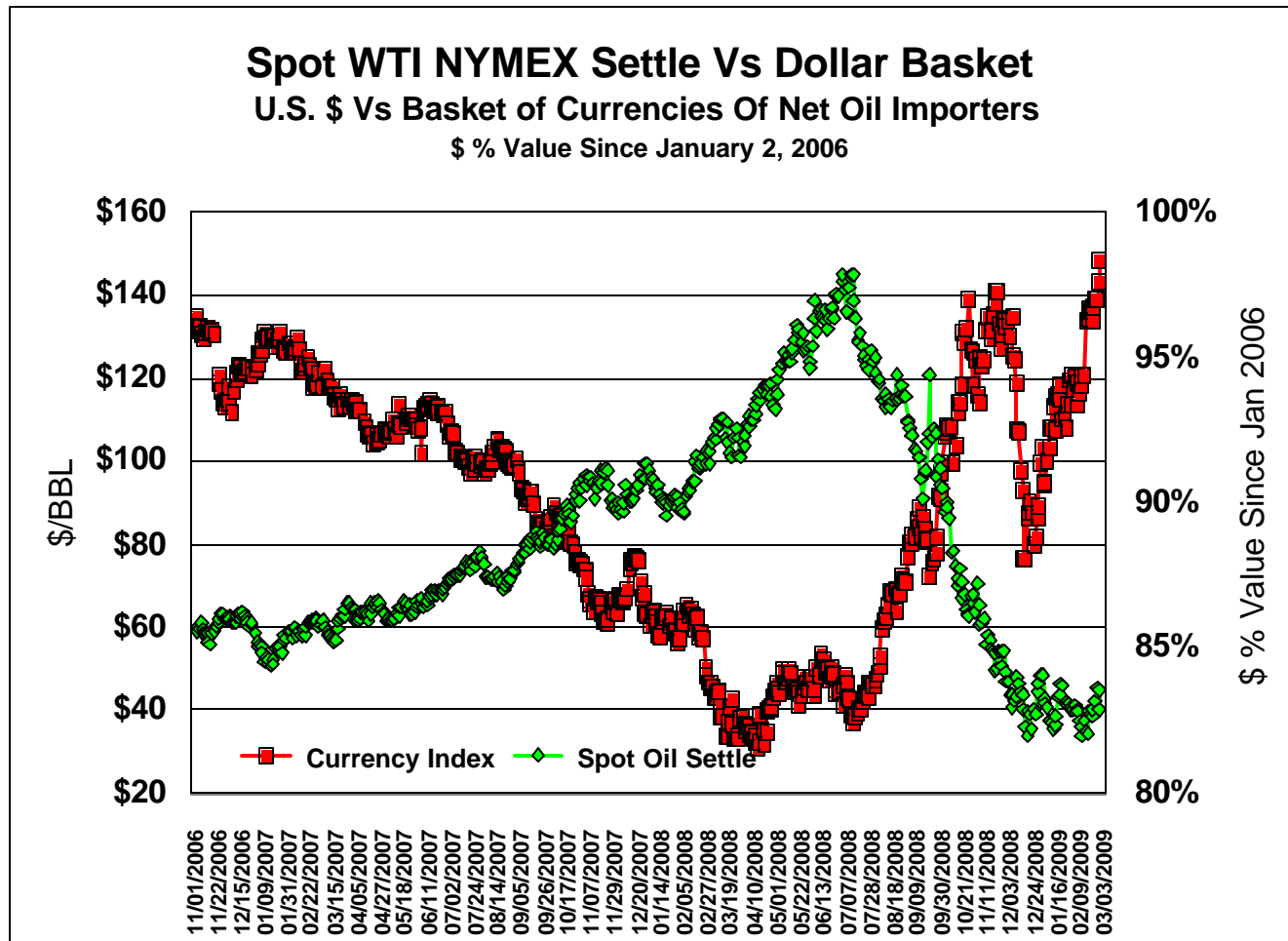


Sunoco Inc accepted terms of a national contract for United Steelworkers at its 178,000 bpd Marcus Hook, Pennsylvania refinery after they averted a strike on Sunday as they extended their contract talks. It however has not accepted terms of a national agreement at the 335,000 bpd Philadelphia refinery. A rolling contract extension for talks at the Philadelphia refinery will expire at midnight. Negotiations on local issues at the Marcus Hook refinery are ongoing and will last as long as they are making progress.

Shell Oil said it is unlikely that planned work on Monday to replace a failing transformer unit at its 329,800 bpd refinery in Deer Park, Texas could result in the loss of power to the fluid catalytic cracking unit and an alkylation unit.

Valero Energy Corp's 83,000 bpd Houston, Texas refinery is undergoing planned maintenance work. It is not immediately known which units were undergoing the work. Meanwhile, a crude unit at Valero Energy Corp's Port Arthur, Texas refinery that was shut down following a Friday fire remains shut. It also said scheduled turnaround at its Benicia, California refinery has not yet begun but will commence this month. It is planning to perform maintenance on its hydrocracker.

Murphy Oil said that operations at its 120,000 bpd refinery in Meraux, Louisiana returned to normal after the completion of planned and unplanned work.



Saudi Aramco restarted a 47,000 bpd reformer unit at its Yanbu refinery last week after it was shut in mid-February due to a technical problem.

ExxonMobil Corp shutdown a couple of units in its refinery and chemical plant in Singapore for six weeks of planned maintenance. It said it will continue to meet its customers' product needs during the turnaround.

Caspian Pipeline Consortium said the flow of oil through the pipeline shipping crude from Kazakhstan's Tengiz oil field to Russia's Black Sea port of Novorossiisk restarted on Saturday following a leak last Thursday. It halted shipments through part of the pipeline in Kazakhstan last week after oil leaked from it.

South Korea's crude oil import bill in February fell by 48.3% on year to \$3.24 billion, largely due to the fall in oil prices. Its crude oil shipments increased 10.2% on the year but fell by 19.8% on the month to 74.8 million barrels in February.

### **Production News**

The Auger Pipeline segment damaged by Hurricane Ike in the US Gulf of Mexico last September returned to service on Saturday. Meanwhile, a section of Poseidon pipeline which had been reversed to ease the impact of the Auger shutdown, was closed for a few days of maintenance. It is expected to resume normal operations when the work is completed on or before March 10.

Kuwait Oil Co brought an oil leak in the Al Ahmadi area under control on Sunday. Less than 300,000 barrels of crude leaked from a pipe.

Qatar has notified at least one Asian buyer that it will supply contracted volumes of Qatar Marine crude in April. Qatar had cut supplies of the medium-heavy crude grade by 15% from contracted volumes in March.

Mexico's three main oil exporting ports of Pajaritos, Dos Bocas and Cayo Arcas, remained closed on Monday due to rough weather. Dos Bocas has been closed since Saturday while the other two Gulf of Mexico ports were shut on Sunday.

Russia's Energy Ministry reported that the country's oil production in February increased to 9.72 million bpd or 37.14 million tons from 9.7 million bpd in January. It reported that Russia's exports via Transneft increased to 4.33 million bpd from 4.25 million bpd. It also reported that Russia's Gazprom produced 1.41 billion cubic meters of gas in February, down 2% from 1.44 bcm in January and down from 1.67 bcm/d last year.

Iraq's oil exports from its southern Basra terminal was restored to 1.44 million bpd on Monday after falling to as low as 648,000 bpd on Saturday due to technical problems.

Energy adviser to Iraq's Prime Minister, Thamir al Ghadhban said the Iraqi government has drawn up a plan to increase the country's declining oil production by 350,000 to 500,000 bpd by the end of 2010. The plan emerged following a three day conference that concluded in Baghdad on Sunday with the aim of checking declining oil production from southern oil fields that fell by 250,000 bpd since mid last year. Delays in water injection projects, pressure problems, lack of maintenance to producing oil wells as well as lack of investment and mismanagement are behind the decline in Iraq's oil production.

A new oilfield with proven reserves of 100 million metric tons has been found in Siziwang Banner pasture in north China's Inner Mongolia Autonomous Region. The recoverable reserves are estimated as 35 million tons to 40 million tons. The local government plans to set up 100 wells in the oilfield to produce 500 tons of crude oil daily and 150,000 tons annually by next year.

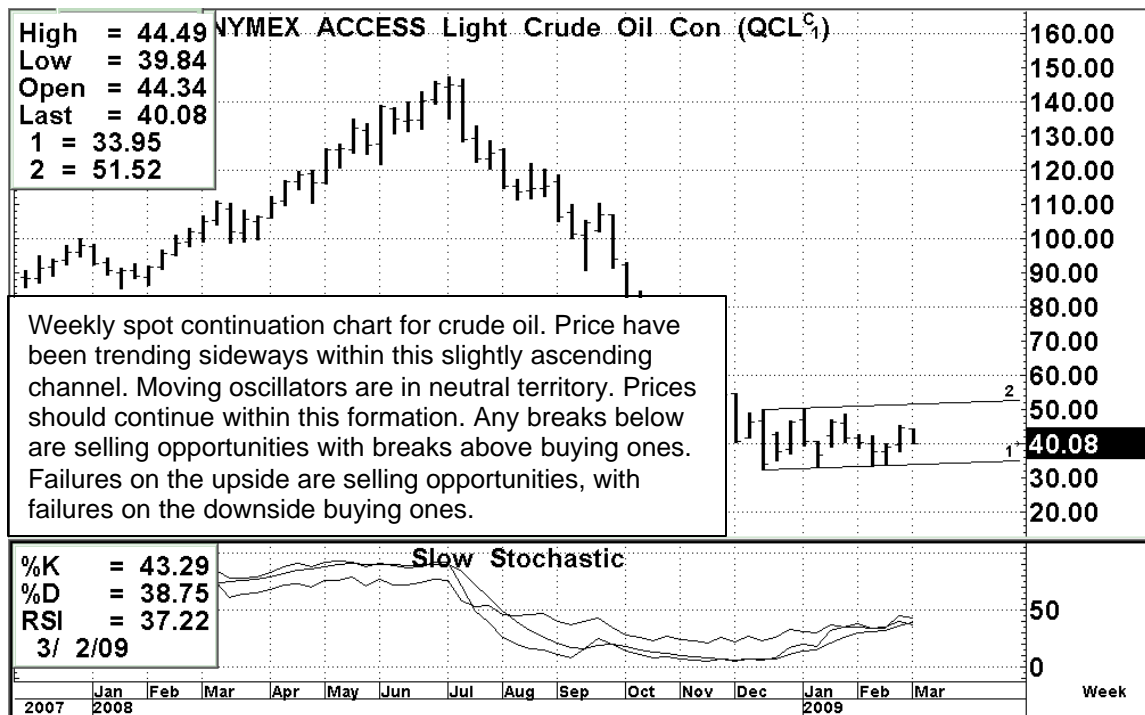
Saudi Arabia is expected to cut the number of oil rigs by as much as 20% until year-end amid lower crude output. By the end of the first quarter, the number of rigs will fall to 118 and fall further to 101 by the end of this year. Last year, Saudi Aramco had about 130 offshore and onshore rigs in operation at peak times.

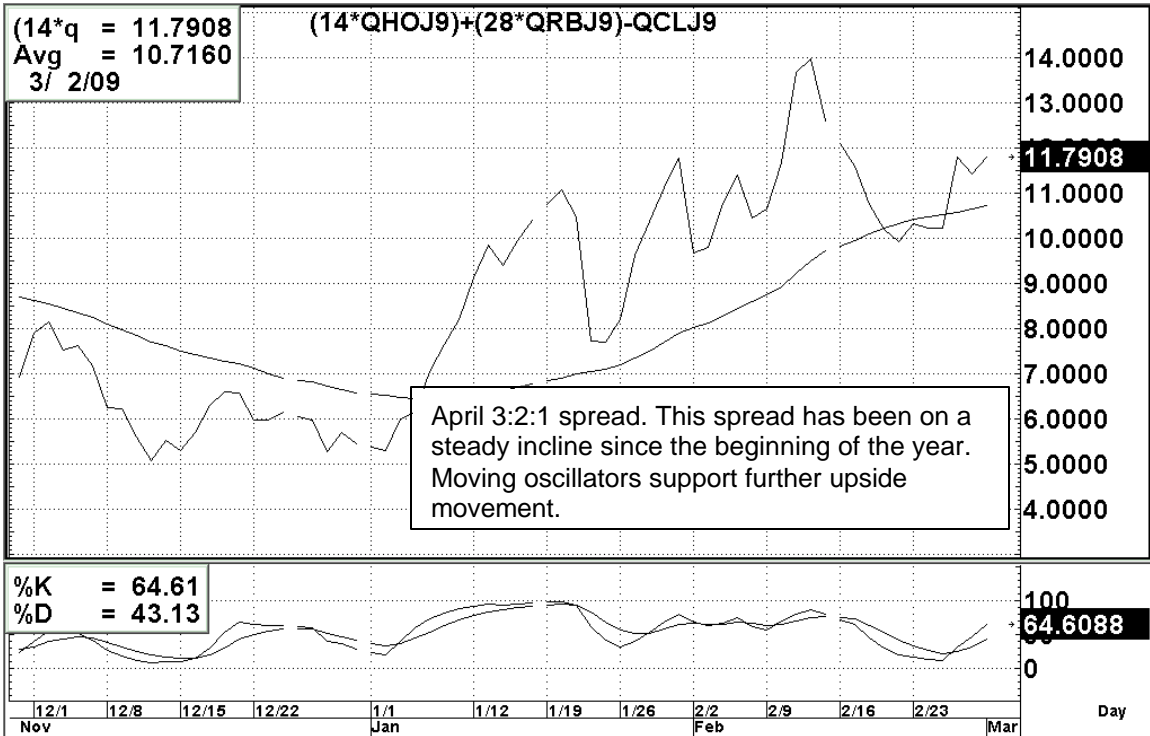
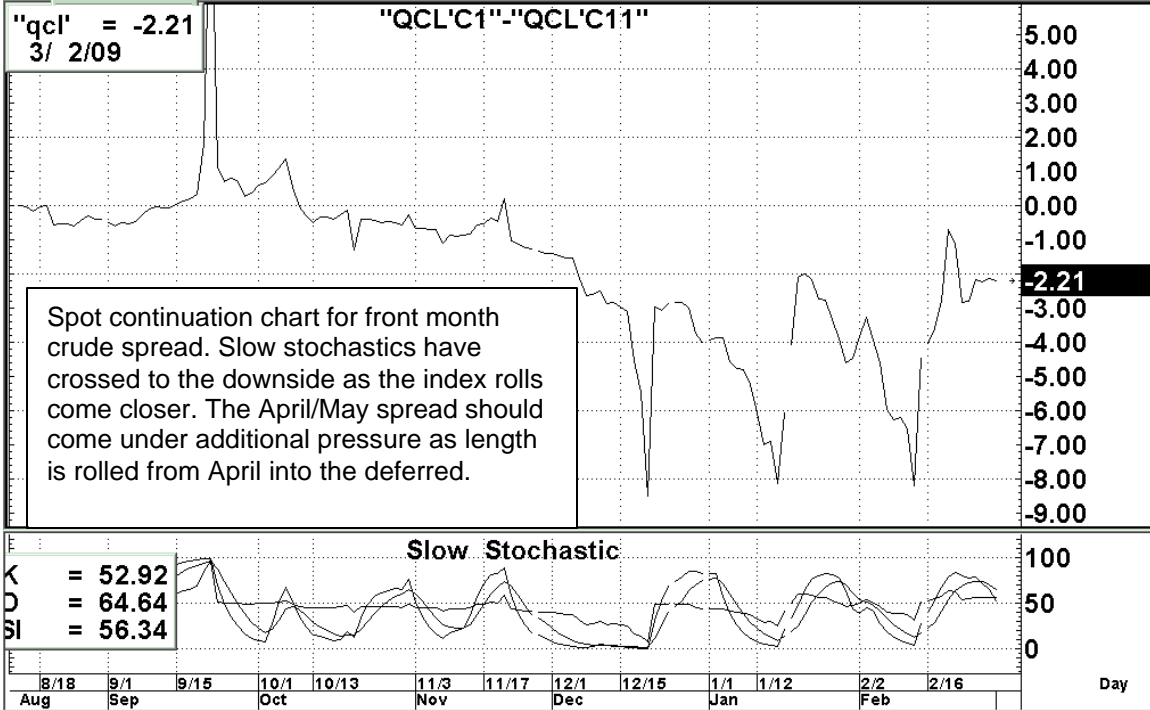
OPEC's news agency reported that OPEC's basket of crudes increased to \$43.30/barrel on Friday from \$42.95/barrel on Thursday. It reported that OPEC's basket of crudes increased by \$1.56/barrel to \$41.01/barrel in the week ending February 27.

### **Market Commentary**

Crude oil experienced its largest drop in seven weeks, as the dollar strengthen and demand concerns circulated the marketplace. With AIG posting a \$61.7 billion dollar loss, concerns deepened over the recession and its impact on demand. Conflicting stories came out of OPEC, with Algerian Oil Minister Chakib Khelil stating in an interview that OPEC members “will likely” reduce supplies to support prices. Meanwhile, yesterday, Iran’s oil minister said that OPEC is unlikely to lower crude production when it meets March 15<sup>th</sup>. Crude oil for April delivery dipped below \$40.00 a barrel, settling just above, at \$40.15. The shape of the forward curve is indicative of an oversupplied market as we get closer to the index rolls. Based on this and the spot continuation chart for the front month crude oil spread, we would look for the April/May spread to encounter additional pressure. The 3:2:1 crack spread which cracks three barrel of crude oil into two barrels of gasoline and one barrel of heating oil, has been on a steady incline since the beginning of the year. With the forward curve for crude oil indicating an over supplied market, should demand of gasoline show even the slightest spike, this spread will surely gain momentum.

Crude Oil (CL) APR.09 283,824 -9,683 MAY.09 165,833 +4,746 JUN.09 152,253 +322 Totals: 1,191,502 - 2,944 Heating oil MAR.09 1,283 -4,537 APR.09 59,551 -500 MAY.09 37,347 -256 Totals: 250,034 -5,064  
 NEW YORK HARBOR RBOB GASOLINE MAR.09 1,118 -4,916 APR.09 62,628 -890 MAY.09 31,319 +302 Totals: 181,102 -4,810





<b>Crude Support</b>	<b>Crude Resistance</b>
41.47, 32.25, 29.66, 28.63, 26.65, 25.50	46.65, 48.77, 50.07, 54.75, 55.98, 57.20
<b>Heat Support</b>	<b>Heat resistance</b>
1.10951.0520	1.3315, 1.4813, 167.15, 171.85, 176.70, 1.8500
<b>Gasoline support</b>	<b>Gasoline resistance</b>
1.0128,9590, .8978, .8755, 7850	136.14, 1.3775, 1.4100,1.4400