



## ***ENERGY RISK MANAGEMENT***

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### **ENERGY MARKET REPORT FOR MARCH 6, 2008**

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Colombia's Deputy Energy Minister Manuel Maiguashca said the Revolutionary Armed Forces of Colombia, FARC, bombed the 100,000 bpd Transandino pipeline, in a possible reprisal attack just days after the army killed a rebel leader. The pipeline takes oil to the Pacific port of Tumaco.

Colombia's President Alvaro Uribe said he would not mobilize troops or allow his

nation to be drawn into war with his neighbors. Colombian Vice President Francisco Santos said he saw no risk of war with Venezuela or Ecuador despite military mobilization in a dispute over Colombian FARC rebels. Venezuela deployed tanks and air and sea forces towards the Colombian border on Wednesday in what it called a defensive move. The Organization of American States said that Colombia had violated international law but stopped short of condemning Colombia for the action. Colombia's Vice President said Colombia was justified in launching the raid because it had repeatedly asked Ecuador as well as Venezuela to take action against FARC camps on their territory. Colombia has apologized to Ecuador for crossing the border however Ecuador's President Rafael Correa has demanded international condemnation of Colombia's action. Meanwhile, Venezuela's President Hugo

Chavez threatened on Wednesday possible government takeovers of Colombian companies in Venezuela and added that Venezuela could sell off investments it made in Colombia. Venezuela has started to block billions of dollars in Colombian imports and investments.

#### **Mar Calendar Averages**

**CL** – 102.99

**HO** – 288.73

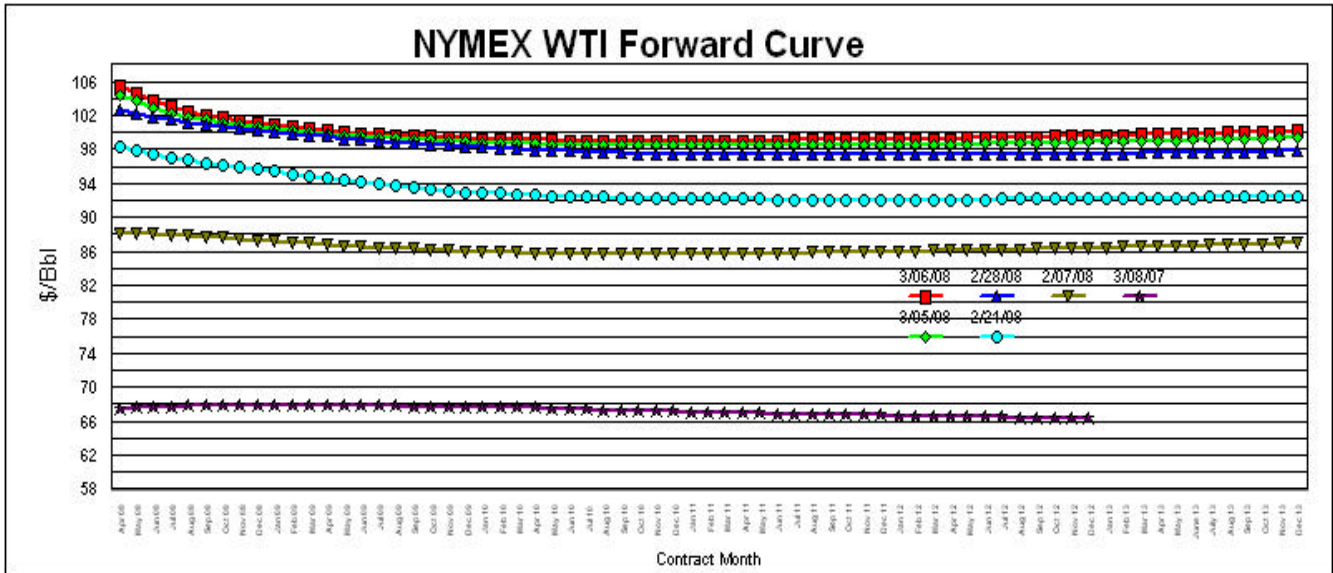
**RB** – 262.41

The White House said there was not much US President George W. Bush could do in the short term in the face of OPEC's decision to ignore

#### **Market Watch**

The dollar fell to a record low against the euro on Thursday after European Central Bank President Jean-Claude Trichet said euro zone inflation risks were on the upside. The dollar also fell to an all time low against a basket of currencies. Earlier, the ECB decided to leave rates at 4% while the Federal Reserve is expected to cut its benchmark overnight lending rate by at least 50 basis points later this month.

NYMEX Holdings, Inc and LCH.Clearnet Ltd, the leading independent central counterparty group in Europe, announced that they would introduce a broad range of world energy products. Under the agreement, NYMEX would offer a new slate of OTC and futures products for clearing through LCH.Clearnet. The initial slate would include WTI, Brent and Gasoil as well as natural gas electricity contracts. The contracts are expected to begin trading and clearing in mid-2008, pending regulatory approval. The contracts would be listed for trading on the CME Globex electronic trading system and on NYMEX Clearport for submission for clearing. The contracts would be cleared by LCH.Clearnet.



his pleas to increase its output. White House spokeswoman Dana Perino said there was no short term solution to the problem.

Iran's Oil Minister Gholamhossein Nozari said the latest UN sanctions imposed on Iran over its nuclear program would not affect Iran's oil sector. In regards to OPEC's decision to keep its production policy unchanged, he stated that the impact would be seen in coming weeks. Separately, US Secretary of State Condoleezza Rice insisted that world powers would continue to offer Iran incentives to get it to suspend uranium enrichment.

An Iraqi official said the US-Iran talks on Iraqi security was postponed on Thursday. No new date was set for the fourth round of talks between US and Iranian officials over ways to improve Iraq's security. Meanwhile, the US insisted that a meeting between Iran and Washington was never scheduled.

The EIA reported that the US average price of heating oil increased by 8.9 cents to \$3.55/gallon over the past week.

Oil Movements reported that OPEC's oil exports are expected to fall by 70,000 bpd in the four weeks ending March 22 to 24.32 million bpd. Deliveries from core OPEC producers in the Middle East are forecast to fall by 80,000 bpd to 17.47 million barrels over the same timeframe.

According to Dresdner Kleinwort, OPEC's decision to maintain its production policy unchanged would lead to a larger than average increase in oil inventories as demand falls. It said that while OPEC continues to produce crude at "winter" rates, oil demand is expected to fall by about 1.5 million bpd.

Indonesia's President Susilo Bambang Yudhoyono is scheduled to travel to Iran next week and meet with Iran's President Mahmoud Ahmadinejad and supreme leader Ayatollah Khamenei to discuss Iran's refusal to suspend uranium enrichment as demanded by the UN. Indonesia's President is expected to urge Iran to be transparent and to cooperate with the UN's IAEA. Meanwhile Indonesia's Pertamina is sending a team to Iran to discuss plans to build an oil refinery jointly with Iran.

### **Refinery News**

Several key processing units at US refineries are scheduled to resume operations in March following seasonal maintenance. While US refinery utilization was above average in February, the number of

refineries scheduled to return from maintenance and unplanned outages suggests that utilization rates would continue to increase.

Shell Oil resolved a brief problem with a gas compressor at its 156,000 bpd refinery in Martinez, California. The gas compressor tripped Thursday night and caused some brief flaring.

A crude unit at Venezuela's 640,000 bpd Amuay refinery has been shutdown, according to a refinery source.

Venezuela's PDVSA said its Petro Monagas heavy crude upgrader was producing 113,500 bpd. It has a production capacity of about 120,000 bpd of heavy crude, which could be upgraded into about 108,000 bpd of synthetic crude.

Venezuela's Oil Minister Rafael Ramirez said Venezuela would discuss an asset swap with ExxonMobil Corp involving the Chalmette, Louisiana refinery after a UK court froze \$12 billion in PDVSA assets.

Imperial Oil Ltd has been forced to ration fuel to Esso gas stations in Western Canada due to operational problems at its Edmonton, Alberta refinery. It cut allocations of fuel to its retail outlets on February 24 after the 190,000 bpd refinery cut its rates.

Chevron Corp is expected to build a precommercial plant at its refinery in Pascagoula, Mississippi to test a new heavy oil upgrading technology. The technology, called Vacuum Resid Slurry Hydrocracking, has the potential to increase yields of gasoline, diesel and jet fuel from heavy and ultra heavy crude oils and could be used to increase and upgrade production of heavy oil resources. The test plant would have a capacity of 3,500 bpd.

According to Reuters, China's twelve major refineries are expected to process 2.51 million bpd of crude in March, down from February's 2.52 million bpd level.

Gasoline inventories in independent storage in the Amsterdam-Rotterdam-Antwerp area increased by 52,000 tons on the week and by 362,000 tons on the year to 1.141 million tons in the week ending March 6. Gas oil stocks fell by 46,000 tons on the week and by 827,000 tons on the year to 1.201 million tons while fuel oil stocks fell by 104,000 tons on the week but increased by 44,000 tons to 588,000 tons. Naphtha stocks fell by 11,000 tons on the week but increased by 8,000 tons to 88,000 tons while jet fuel stocks fell by 10,000 tons on the week and by 238,000 tons to 154,000 tons.

Singapore's International Enterprise reported that the country's residual fuel stocks built by 5.228 million barrels to 18.032 million barrels in the week ending March 5. It reported that light distillate stocks built by 752,000 barrels to 9.546 million barrels while middle distillate stocks fell by 11,000 barrels to 7.312 million barrels on the week.

Georgian Black Sea port of Batumi shipped 554,600 tons of crude oil and refined products in February, down from 817,000 tons last year and down from 666,200 tons in January 2008. It shipped 9.5 million tons of crude oil and refined products in 2007, down from 11.7 million tons in 2006.

### **Production News**

Suncor Energy Inc said oil production at its oil sands facility in February averaged about 253,000 bpd, with year to date production averaging about 247,000 bpd.

ExxonMobil said some production from its 400,000 bpd Qua Iboe oil field in Nigeria remained shut in following a small leak from a pipeline February 28. It said it would comply with its existing Qua Iboe crude oil supply contracts with customers.

Norway's Statistics Agency reported that investment in Norway's oil and gas industry is forecast to reach 130.2 billion crown or \$25.42 billion in 2008, up from 109.3 billion crowns or \$21.34 billion in 2007.

OPEC's news agency reported that OPEC's basket of crudes fell further to \$95.95/barrel on Wednesday from \$96.29/barrel on Tuesday.

### **Market Commentary**

As the US dollar fell to its lowest level ever against the euro, crude oil took this as an opportunity to post another record high. At this point in time one has to wonder whether this market is being driven higher by supply and demand issues or just plain old market sentiment. Indeed, there are supportive fundamentals affecting the market, however, are they enough to push prices to their current levels? In order to compensate for the falling dollar, prices will rise, but with rising prices, comes waning demand. Gasoline supplies are on the rise, set at 234.3 million barrels, their highest level since 1994. In the meantime demand is set at 9.07 million barrels a day, down 1.3% from a year ago. Although distillate stock levels fell 2.4 million barrels on the week, demand for distillate also fell 4.4% from the same period last year. Globally, demand is slowing, as economic woes expand across the globe. The supportive factor here is the fact that hedge fund managers are using the commodities markets as a hedge against inflation. At what point will this trend reverse itself. Today's market activity experienced some length lightening, with this market experiencing intermittent dips. The forward curve for crude oil is still supportive for prices, and not until we see prices breach and settle through the \$100.46 support level would we look for a turn in the trend. We would stick to buying and selling at the listed support and resistance numbers until this breach occurs. Open interest in crude oil is 1,468,087 up 17,131, April08 329,928 down 3,447, May08 207,06 up 14,612 and Dec08 208,656 up 1,561. Meanwhile, the heating oil market continued on its upward trend, taking the lead in the product markets once again. The market, which traded mostly sideways in overnight trading, rallied higher amid the continued strength in the crude market. The market breached its previous high early in the session and found some resistance as it erased its gains and sold off to a low of 290.45. The market however bounced off that level and rallied to a high of 297.51 on steady buying ahead of the close. It settled up 3.02 cents at 297.33. The heating oil market is seen remaining in its upward trend in light of the supportive long term weather forecasts. The gasoline market continued to trade within Tuesday's trading range. It posted a high of 265.85 in overnight trading before it erased its gains and sold off to a low of 257.69. The market however bounced off its low and rallied back towards its high on the close. It settled up 1.11 cents at

265.32. The product markets are seen continuing their upward trend amid the strength in the crude market. In the heating oil, support is seen at

		<b>Explanation</b>	
<b>CL</b>	<b>Resistance</b>	106.68, 107.21	Basis trendlines
	<b>Support</b>	105.97	Thursday's high
<b>HO</b>	<b>Resistance</b>	103.73, 102.85	Thursday's low
	<b>Support</b>	100.46, 99.93, 98.85, 86.34	Previous lows
<b>RB</b>	<b>Resistance</b>	301.17	Basis trendline
	<b>Support</b>	297.51	Thursday's high
<b>RB</b>	<b>Resistance</b>	295.25, 290.45	Thursday's low
	<b>Support</b>	283.11, 279.32, 276.96, 275.08, 268.15, 261.23	Basis trendline, Previous lows, 38% (238.80&297.51), 50%, 62%
<b>RB</b>	<b>Resistance</b>	268.70, 273.25, 274.10, 275.56	Previous highs
	<b>Support</b>	265.85	Thursday's high
<b>RB</b>	<b>Resistance</b>	260.00, 257.69	Thursday's low
	<b>Support</b>	252.98, 252.20, 250.38, 249.19, 242.37, 238.14	Previous lows

295.25, 290.45, 283.11, 279.32, 276.96 and 275.08 while resistance is seen at 297.51 and 301.17. In the RBOB, support is seen at 260.00, 257.69, 252.98, 252.20 and 250.68 while resistance is seen at 265.85, 268.70, 273.25, 274.10 and 275.56.