



## ***ENERGY RISK MANAGEMENT***

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### **ENERGY MARKET REPORT FOR MARCH 7, 2008**

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Saudi Arabia's Oil Minister Ali al-Naimi said speculation was driving the oil market, making it impossible for any organization to control price movement. He said there was no link between oil market fundamentals and prices.

An Iranian cleric said the new set of UN sanctions imposed against Iran was aimed at undermining next week's legislative elections. Iranian conservative leaders have charged that the West adopted the resolution ahead of the March 14 vote to discourage people from casting their ballots and thus weakening Tehran Islamic regime.

Colombia's President Alvaro Uribe and Ecuador's President Rafael Correa announced the end of

#### Market Watch

US recession concerns increased as employment fell in February at its fastest rate in five years. The Labor Department said nonfarm payrolls fell 63,000 in February after falling 22,000 in January. The unemployment rate fell by 0.1% to 4.8%. The decline was triggered by a 450,000 decline in the size of the labor force, not a rise in employment.

The Federal Reserve announced that it would increase the size of auctions planned for March 10 and March 24 to \$50 billion each in an effort to ease the country's credit crisis. The Fed said it planned to continue the auctions for at least six months and would move to even larger auction amounts if needed. The Fed also said it would make \$100 billion available to a broad range of financial players through a series of separate transactions starting on Friday. The Fed has so far made available a total of \$160 billion in short term loans to banks in six auctions.

Goldman Sachs raised its 2008 Brent oil price forecast to \$95/barrel from \$80 and its 2009 forecast to \$105/barrel from \$90/barrel. It also raised its forecast to \$110 from \$80/barrel for 2010 and to \$110 from \$75/barrel for 2011. It raised the possibility of oil prices reaching \$150-\$200/barrel if there was a major supply disruption.

According to BlueGold Capital Management LLP, crude oil may reach a record \$130/barrel this year because pension funds are investing more in commodities. It said the outlook for oil over the next five years is also bullish as producers find it difficult to replenish reserves and demand outpaces supply. Meanwhile, Cambridge Energy Research Associates Inc said investors who are moving into the oil market may be exacerbating the US dollar's plunge and pushing oil prices to new highs.

Vitol Holding BV denied reports the company made heavy losses of up to \$500 million in the futures markets. Vitol was rumored to have made the losses by betting on the wrong side of the NYMEX April RBOB and Heating Oil crack spread, according to Platts.

the crisis that started following a Colombian cross border raid during the Rio Group summit on Friday. Earlier on Friday, Venezuela's President Hugo Chavez and Ecuador's President Rafael Correa demanded a stronger apology from Colombia. Colombia's President Alvaro Uribe, said Ecuador's President has not cooperated in the fight against terrorism and accused his Ecuadorian counterpart of having links to the FARC rebels. However in response, Ecuador's President later rejected the accusations linking him to FARC rebels.

Ukraine President Viktor Yushchenko issued a new denunciation of his Prime Minister on Friday over her stand on gas trade with Russia ahead of new talks to resolve long running price and supply disputes. Ukraine and Russia agreed this week to pay off Ukrainian arrears for gas and resume talks on a 2008 supply agreement but only after Russia's Gazprom halved its flows to its southern neighbor. Premier Yulia Tymoshenko has called to eliminate all joint venture intermediaries, which ship gas in from Russia and distribute to Ukrainian consumers. Meanwhile, Ukraine's government passed a resolution theoretically allowing Naftogaz Ukrainy to siphon off gas destined for Europe, should a problem arise with domestic supplies.

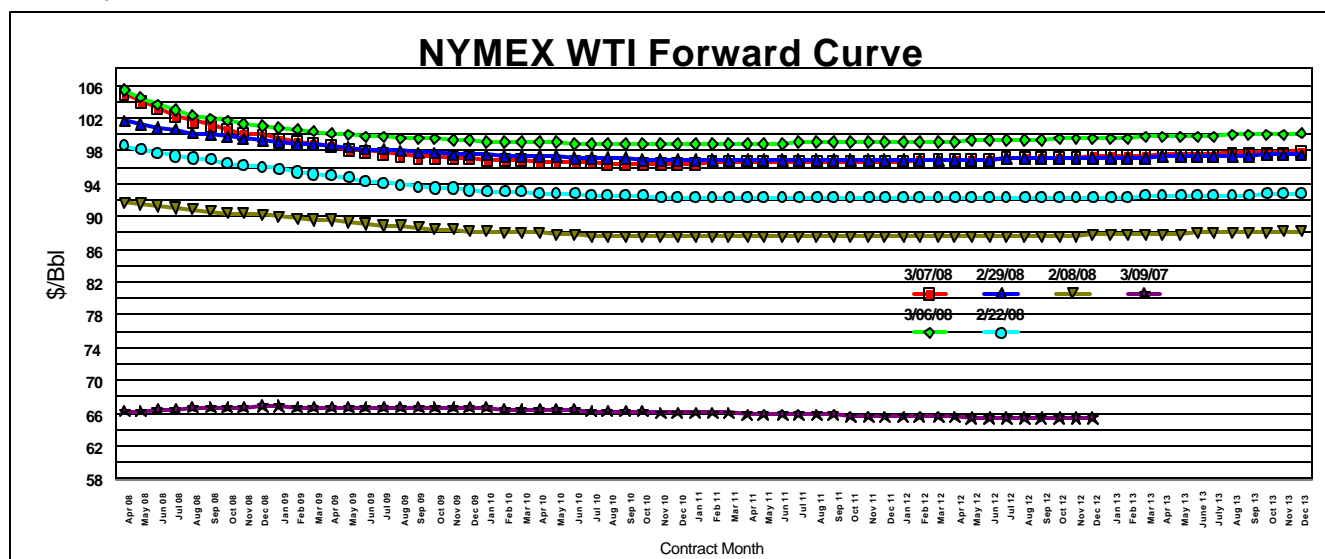
A militia leader from Nigeria's Niger Delta, Ateke Tom accused the government of talking peace while it provoked rebel commanders with army raids. He said he wanted to participate in the peace process but was angry about several military attacks against his militia in December. The government that came to power last May has tried to negotiate with militants in the delta however several militia groups have accused the authorities of insincerity.

Turkey's President Abdullah Gul called on Kurdish rebels to end terrorism. He said Turkey would never tolerate those who engage in terrorism.

Belarus recalled its ambassador to the US on Friday and urged the US envoy to leave the country. The Foreign Ministry said that the moves had been taken after Washington imposed new sanctions on Belarus' national oil products firm Belneftekhim.

**Refinery News**

Citgo Petroleum Corp shut equipment associated with a fluid catalytic cracking unit at its Corpus Christi, Texas refinery on Thursday. The sonic blowers in the electrostatic precipitators were shut due to heavy rainfall.



BP Plc's 265,000 bpd refinery in Carson, California is not expected to begin restarting a 103,000 bpd fluid catalytic cracking unit before Monday.

Alon USA Energy Inc said its damaged 70,000 bpd refinery in Big Spring, Texas plans to restart its fluid catalytic cracking unit in mid-July. Late last month, Alon said the refinery could resume gasoline production within 60 days. Under the first stage of operation, the refinery would be operating at 35,000 bpd throughput by the end of March.

Shell said it expected its 333,000 bpd refinery in Deer Park, Texas to reach maximum rates early next week following the restart of a gasoline hydrotreater on Sunday. Several units at the refinery underwent planned maintenance, including a crude distillation unit, a fluid catalytic cracker and three sulfur recovery units.

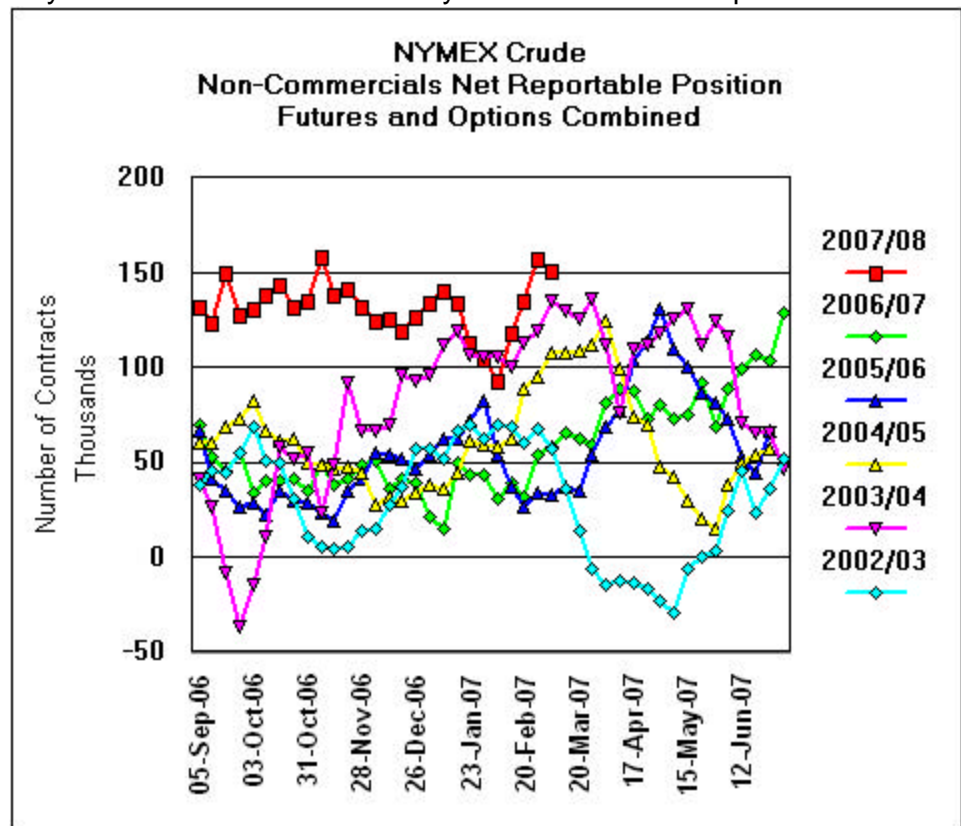
Separately, Royal Dutch Shell Plc said that unplanned maintenance at its 155,000 bpd Scotford oil sands upgrader near Edmonton, Alberta has cut supplies from its refinery there, further squeezing Western Canada's fuel supplies. Shell has started rationing supplies of gasoline and diesel to its gas stations and commercial customers as it seeks to secure outside feedstock for the Scotford refinery. Shell is the second of three Alberta refiners to cut gasoline supplies in Western Canada.

Sources stated that ExxonMobil was running its 200,000 bpd Augusta refinery in Sicily at reduced rates and may be weighing its options for a planned March maintenance shutdown.

Production at Venezuela's Petromonagas heavy crude upgrader project has totaled 113,500 bpd. PDVSA said the project would increase its production level in March, without offering further details.

Mexico's Transportation Ministry announced that the country's three main oil export terminals of Pajaritos, Dos Bocas and Cayo Arcas were closed due to adverse weather conditions on Friday afternoon.

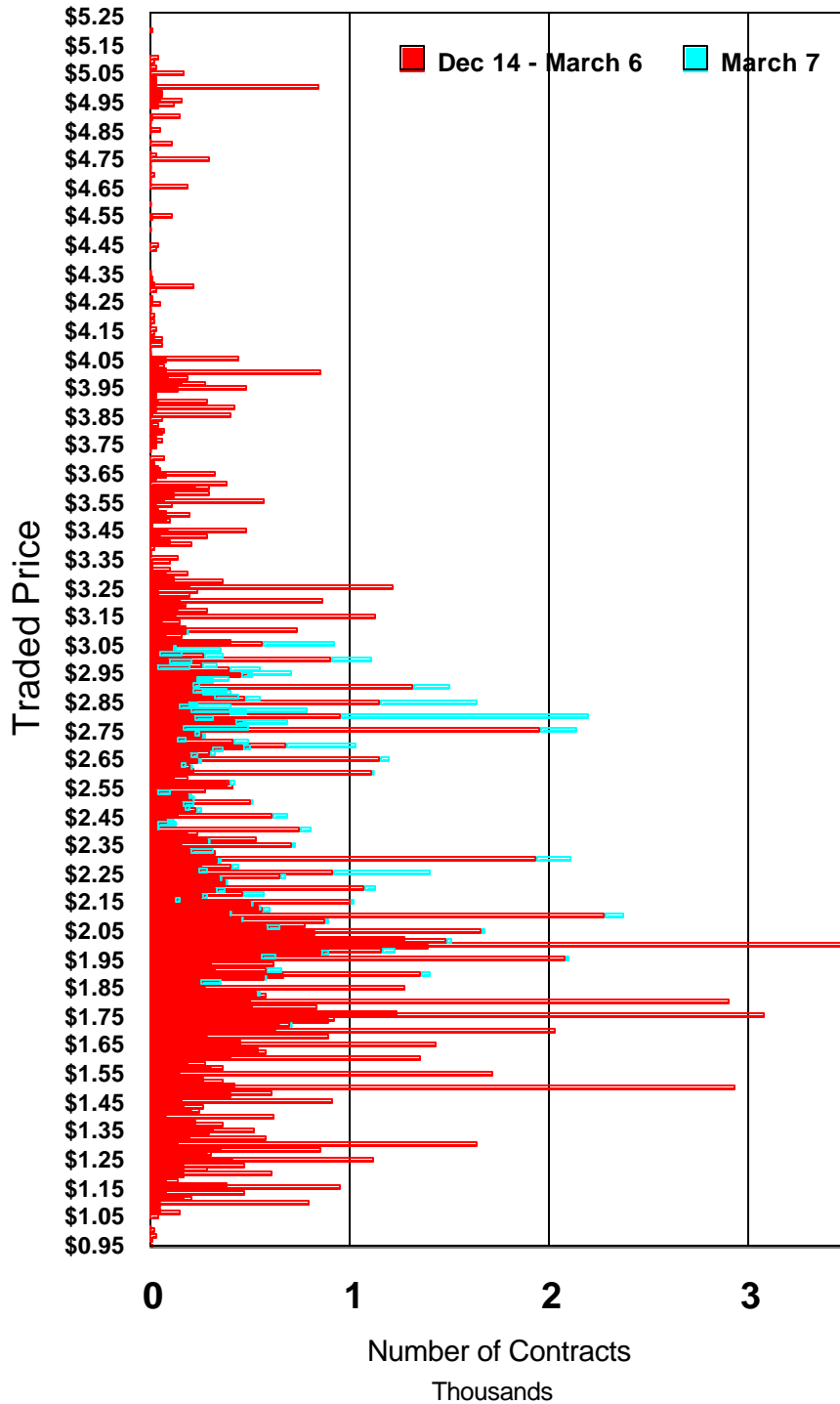
China is expected to more than double its diesel imports this month to 450,000 tons from 200,000 tons in February to meet peak farming demand and build inventories ahead of the summer Olympics. In February, demand fell as winter weather conditions caused transportation diesel demand to fall amid factory closures for the Lunar New Year. Meanwhile 1.31 million tons of fuel oil have already been fixed for arrival in March, down from last month's 1.44 million tons.



## NYMEX WTI: Dec 08 Dec 09 Spread

### Price Vs Volume for December 14 - March 7, 2008

Trade Weighted Avg: 3/7 2.68, 3/6 1.83, 3/5 1.73, 3/4 1.50, 3/3 1.78



According to a Reuters survey, South Korean refiners are expected to lower their fuel oil exports in March by 9% on the month to 200,000 tons. South Korean refiners are expected to cut March crude processing rates to just above 80% of total capacity.

France's port and dock union said its members would hold a 48 hour strike on March 11-12 to protest against planned reforms of French state-owned ports. The government said it would privatize the loading activities of seven out of nine public ports as part of reforms to be carried out in the spring, triggering opposition from unions. The seven ports include Marseille, Dunkirk, Le Havre, Rouen, Nantes-Saint-Nazaire, La Rochelle and Bordeaux.

### Production News

Norway's North Sea Gullfaks crude system is scheduled to load about 313,500 bpd in April, up from about 303,000 bpd in March. Norway's North Sea Troll crude system is scheduled to load 274,000 bpd in April, down from 277,000 bpd in the previous month.

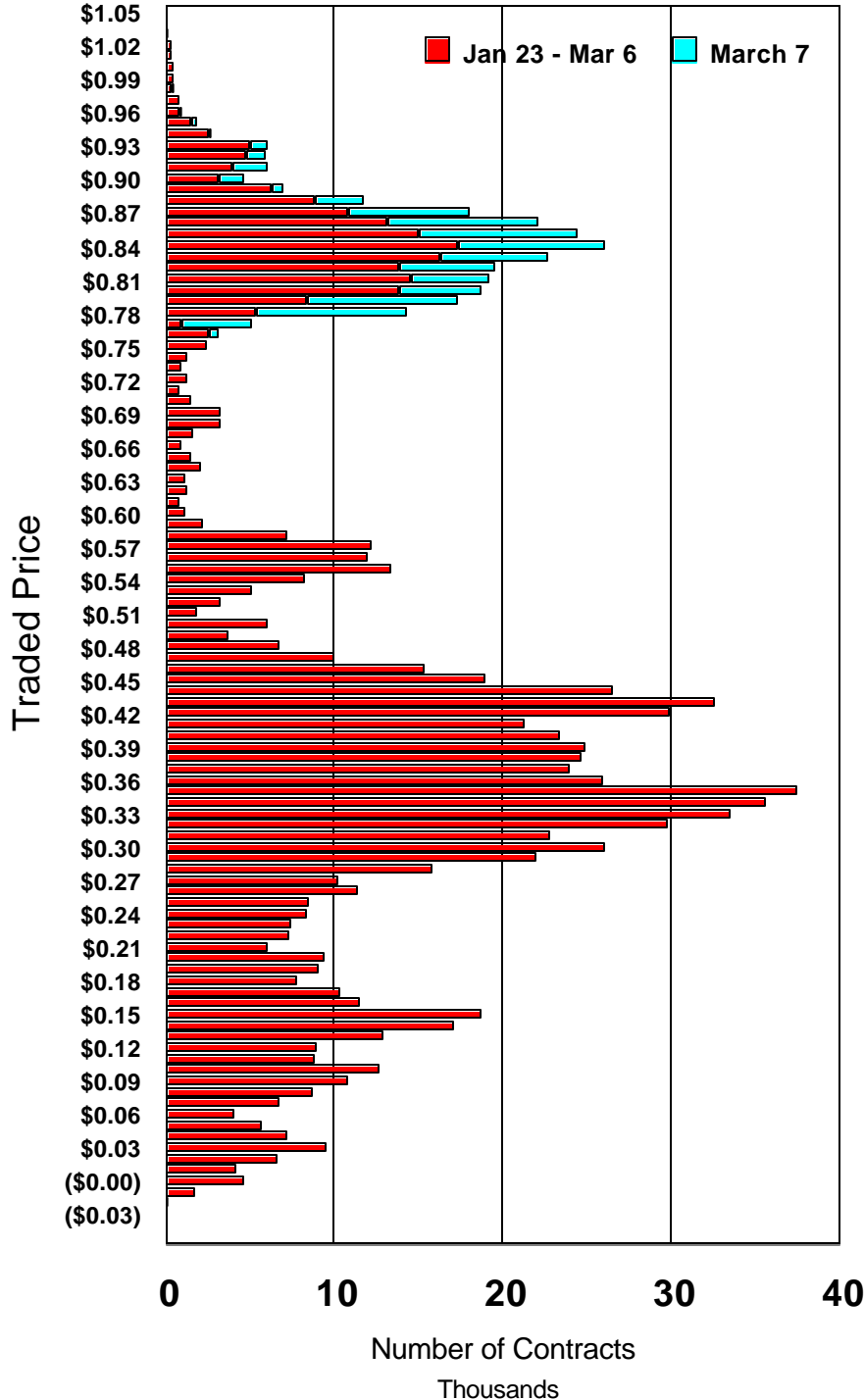
The Norwegian Petroleum Directorate said Norway's StatoilHydro found oil and gas in an exploration well in the Barents Sea.

Azerbaijan produced an average of 889,000 bpd of oil in February, down 7.3% on

the month. BP said it produced 714,000 bpd in January, down 7.6% on the month while SOCAR

## NYMEX WTI: April May Spread Price Vs Volume for January 23 - March 7, 2008

Trade Weighted Avg: 3/7 .83, 3/6 .87, 3/5 .79, 3/4 .55, 3/3 .44



produced 175,000 bpd, down 6.2% on the month. An average of 740,330 bpd of oil was exported in February, up 12% from January.

PetroChina Co Ltd said its domestic crude oil production is expected to increase nearly 1% in 2008. Its domestic oil production totaled 107.64 million tons in 2007.

Petroecuador is seeking to sign an agreement with Canada's Ivanhoe Energy in April to develop and exploit the Pungarayacu oilfield. The oilfield has reserves of 3-4 billion barrels of crude oil. Oil production would begin in the fourth year with 30,000 bpd and could increase to 120,000 bpd.

OPEC's news agency reported that OPEC's basket of crudes increased to \$98.46/barrel on Thursday from \$95.95/barrel on Wednesday.

### Market Commentary

The crude market retraced some of its previous gains early in the session as US recession concerns increased following the release of US employment data. The Labor Department said employment fell in February at its fastest rate in five years. The market was also pressured as the US dollar recovered against the euro. The crude market posted a low of 103.91 early in the session before it bounced off that level and rallied to yet a new high of 106.54. The market traded in

a yo-yo pattern as trading remained volatile ahead of the weekend. The market once again retraced

its gains and traded back towards its low only to see the market recover some of its losses ahead of the close. The crude market settled down 32 cents at 105.15. Open interest in the crude fell by a total of 17,279 lots to 1,450,808, with open interest in the April contract falling by 32,824 lots to 297,104 while open interest in the May contract built by 8,618 lots to 215,624. The crude market is seen trading higher as it remains in its upward trend channel and stochastics are yet to cross to the downside. The product markets ended mixed, with the heating oil market settling down 2.63 cents at 294.70

and the RBOB market settling up 4.11 cents at 269.43. The heating oil market, which seemed ready to post and

		<b>Explanation</b>	
<b>CL</b> 105.15, down 32 cents	<b>Resistance</b>	107.74	Basis trendline
		106.54	Friday's high
	<b>Support</b>	105.00, 103.91 102.85, 100.58, 98.74, 96.89	Friday's low Previous low, 38%(90.93 and 106.54), 50%, 63%
<b>HO</b> 294.70, down 2.63 cents	<b>Resistance</b>	303.22	Basis trendline
		298.63	Friday's high
	<b>Support</b>	291.73 290.45, 285.16, 279.32, 277.82, 276.96	Friday's low Previous low, Basis trendline, low, 38% (244.16&298.63), low
<b>RB</b> 269.43, up 4.11 cents	<b>Resistance</b>	273.25, 274.10, 275.56	Previous highs
		270.08	Friday's high
	<b>Support</b>	266.00, 262.76 257.69, 252.98, 252.20, 250.38, 249.19	Friday's low Previous lows

inside trading day, rallied to a high of 298.63 as the crude market traded to its new high. The heating oil market however retraced its gains and posted a low of 291.73 before it retraced some its losses ahead of the close. The RBOB market retraced more than 62% of its move from a low of 252.20 to a high of 275.56 as it bounced off its low of 262.76 to a high of 270.08 ahead of the close. The April RB/HO spread bounced off a low of -32.01 on Thursday to -25.27cents amid the strength in the RBOB market. The spread is seen finding some resistance at -19.67 followed by -15.86. The product markets will likely remain supported, with the RBOB market seen testing its previous highs. In the RBOB, support is seen at 266.00, 262.76 followed by 257.69, 252.98, 252.20, 250.38 and 249.19 while resistance is seen at 270.08, 273.25, 274.10 and 275.56.

The Commitment of Traders report showed that non-commercials in the crude market increased their net long position by 7,914 lots to 99,539 contracts in the week ending March 4. The non-commercial cut their total short positions by 6,974 contracts to 159,390 contracts. The combined futures and options report however showed that non-commercials cut their net long position by 6,596 contracts to 151,144 contracts on the week. However non-commercials have likely added to their net long position once again during the last few trading sessions as the market continues to trend higher. Meanwhile non-commercials in the heating oil market increased their net long position by 1,627 contracts to 31,407 contracts while non-commercials in the RBOB market also increased their net long position by 2,820 contracts to 45,450 contracts on the week.