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ENERGY RISK MANAGEMENT

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ENERGY MARKET REPORT FOR MARCH 8, 2005

Iran's Oil Minister Bijan Zanganeh said OPEC ministers gathering in Iran next week will decide to keep their output quotas unchanged for a short period, leaving any changes in policy for a subsequent extraordinary meeting. He said another extraordinary meeting was scheduled for May or June, where OPEC would be able to assess further its output policy. Meanwhile Venezuela's Oil Minister Rafael Ramirez said current oil prices are fair and there is a consensus to maintain prices at these levels. Also, Qatar, and Algeria have stated that OPEC does not need to increase its output while OPEC's President Sheikh Ahmad al-Fahd al-Sabah has described the market as well supplied. Also, a Saudi official said on Monday that prices should come down somewhat from current levels but added that it was unrealistic to expect a sharp decline in prices.

Market Watch

Venezuela's Foreign Minister Ali Rodriguez said Venezuela plans to increase its crude oil production capacity by at least 2 million bpd to meet increasing demand from the US and Asia. He said the five year plans calls for Venezuela to invest about $40 billion to increase production capacity to about 5 million bpd. Venezuela is currently producing about 3 million bpd however analysts have stated that the country is producing closer to 2.75 million bpd. Separately, Venezuela's Foreign Minister stated that high oil prices are being driven mostly by speculation and not by market fundamentals.

Nigeria's Nupeng and Pengassan oil unions threatened to start a strike if international oil firms and state regulators failed to address a series of labor issues before a mid-March deadline. The unions said they will proceed with an industry wide strike if no progress is made by the time the ultimatum expires on March 15.

The Nigerian government has returned four of the 13 oil blocks it seized from Royal Dutch/Shell last year. The government withdrew the blocks from Shell Petroleum Development Co of Nigeria last year, accusing the company of not making adequate progress on the development of the blocks. Meanwhile, Nigeria's government will offer 60 oil blocks on Friday under new regulations. The process will give special consideration to local investors and operators in line with the government's aim to build local capacity in the oil and gas industry.

Lehman raised its oil and gas price forecasts for this year to $40-$45/barrel, up $5-$8 from is previous estimate. Its gas price estimate was increased to $6-$6.25, up 25 cents to $1/mmbtu.

The NYMEX stated that hedge fund activity in its crude oil futures and natural gas futures was limited to less than 10% of volumes for those contracts in 2004. It stated that hedge fund activity accounted for about 2.7% of crude volumes and 9.1% of natural gas volumes. It said that the study's findings were that hedge fund participation does not cause volatility but appears to dampen volatility.

Venezuela's President Hugo Chavez said the era of cheap oil is over and the current price above $50/barrel is reasonable. He said the current price is very fair. Separately, he stated that PDVSA has started talks to sell part of Citgo.

According to shippers, Iraq's crude oil exports through the country's northern pipeline to Turkey remained on hold on Tuesday.

OPEC's news agency reported that OPEC's basket of crudes fell by $0.22/barrel on Monday to $48.15/barrel from Friday's $48.37/barrel.

The EIA reported in its Short Term Energy Outlook its estimated average WTI price for the first quarter of 2005 has been revised upward to about $48.70/barrel, up $2 from its previous estimate and up $13 on the year. It projects that WTI prices will likely remain near the high to mid-$40s throughout 2005-2006. It stated that world petroleum demand growth during 2005-2006 is expected to average about 2.5% per year, a rate that exceeds expected growth in non-OPEC supply and world refinery capacity. It is however down from 3.4% demand growth in 2004. It said the lower oil demand growth rate is attributed to the impact of high oil prices and the slower projected Chinese oil demand growth. It expects China's oil demand to average 7.4 million bpd this year, up 200,000 bpd from its previous estimate. Total demand in 2005 is estimated at 84.7 million bpd while demand in 2006 is estimated at 86.7 million bpd, up 200,000 bpd from its previous estimates. World oil demand for the second quarter is estimated at 83 million bpd, up from its previous estimate of 82.7 million bpd. Meanwhile US petroleum demand in 2005 is estimated at 20.8 million bpd, unchanged from its previous estimate while its 2006 estimate was increased by 100,000 bpd to 21.3 million bpd. Its estimate for motor gasoline demand in 2005 remained unchanged at 9.22 million bpd while its 2006 estimate was revised down to 9.39 million bpd from 9.43 million bpd. US gasoline demand during the second quarter is expected to average 9.33 million bpd, up from its previous estimate of 9.3 million bpd. It estimated distillate demand at 4.1 million bpd in 2005 and 4.22 million bpd in 2006, compared with its previous estimates of 4.13 and 4.2 million bpd, respectively. In regards to gasoline prices, pump prices for regular gasoline are expected to average about $2.10/gallon during the 2005 driving season, up 20 cents on the year. It said gasoline prices could reach $2.15/gallon. The EIA also reported that the ten OPEC members produced 27.84 million bpd in February, up 630,000 bpd. OPEC's spare production fell by 500,000 bpd to 1.1 million-1.6 million bpd in February from the previous month. Iraq's production was unchanged in February at 1.9 million bpd.

Refinery News

BP Petroleum has delayed the restart of a hydrogen unit at its Texas City, Texas refinery until at least March 16. The unit has been down since February 16 due to maintenance.

US gasoline supplies could fall in the next couple of months as domestic refiners undergo spring maintenance. A source stated that about 800,000 bpd of fuel output will be shut in March and April, with about half of that from gasoline producing units in the US Gulf Coast.

Production News

Royal Dutch/Shell shut its 140,000 bpd North Sea Draugen field on Friday following a condensate leak. Shell said repair work has started but it is not yet determined when its crude production can resume.

Kuwait's oil gathering center number 15 is operating normally and producing 100,000 bpd of crude following a small fire at a nearby natural gas recovery unit in the complex. The gathering center was closed briefly as a precautionary measure following the fire on Monday afternoon. The complex which has a capacity of 380,000 bpd was producing 100,000 bpd ahead of the fire.

Iran's Oil Minister Bijan Zanganeh announced that Iran has discovered a large new oil field called Ramin. The Ramin field reportedly holds recoverable reserves of some 855 million barrels. He added that a separate field containing 168 billion cubic meters of recoverable natural gas reserves had been found in the Gulf, near the Balal field.

An official at South Korea's Ministry of Commerce, Industry and Energy said it plans to increase its strategic oil stockpile to cover 135 days of oil demand in 2008 due to mounting concerns over high oil prices. The country's total strategic oil reserves would increase to about 238 million barrels. As of February 28, the country's strategic oil reserves totaled 143.738 million barrels covering 105 days.

Petroecuador exported 155,134 bpd of crude oil in February, up 0.47% from 154,406 bpd in January.

Market Commentary

The NYMEX energy complex opened at its lows and never looked back amid the surge in the heating oil and natural gas markets. The markets surged upwards in light of forecasts for colder temperatures in the Northeast. According to private weather forecasters the blast of cold air will mark the start of a cold weather pattern that will last several days in the Northeast. Temperatures are expected to average well below normal through the upcoming weekend. The heating oil market which led the complex higher was well supported by fund buying. There was good buying in the April/May heating oil spread as funds started rolling their positions. The April heating oil contract opened at its low of 148.60 and quickly rallied to 153.20 within the first hour of trading. The market, which retraced about 38% of its earlier move, bounced back and rallied to a high of 153.50. It later traded mostly sideways and held good support at 152.00. The heating oil market settled sharply higher at 152.38, up 3.88 cents. The strength in the heating oil market, which spilled over to the rest of the complex, pushed the crude market above its recent highs. The April crude contract opened at its intraday low of 53.70 and never looked back as it continued to climb higher. The market quickly breached its double top at 53.95-54.00 and traded to a high of 54.90 within the first hour of trading. It held good support and traded to a high of 55.00 amid the strength in the heating oil market. The crude market settled in a sideways trading pattern as it held good support at 54.50 before it rallied to a high of 55.15 ahead of the close. It settled up 70 cents at 54.59. Meanwhile the gasoline market also settled up 3 cents at 153.53 after it opened at its low of 150.10. The market rallied to 154.20 where it was holding some resistance. However the market later breached that level and traded to a high of 154.95 on further buying. Volumes were excellent with over 255,000 lots booked in the crude,

Technical Analysis			
		Levels	**Explanation**
		55.20, 55.65	Previous highs, (continuation chart)
	Resistance	55.15	Tuesday's high
CL	54.59, up 70 points		
	Support	54.50	
		53.70, 52.91-52.86	Tuesday's low, Triple bottom
		159.00	Previous high(continuation chart)
	Resistance	153.50	Tuesday's high
HO	152.38, up 3.88 cents		
	Support	151.80	
		148.60, 145.80	Tuesday's low, Previous low
		157.06	Basis trendline
	Resistance	154.95	Tuesday's high
HU	153.53, up 3 cents		
	Support	152.50	
		150.10, 147.80	Previous low

60,000 lots booked in the heating oil and 49,000 lots booked in the gasoline market.

The oil market on Wednesday will be driven by weekly petroleum stock reports. The DOE and API reports are expected to show builds in crude stocks of about 2 million barrels, draws in distillate stocks of about 1.5 million barrels in distillate stocks and small draws in gasoline stocks of less than 500,000 barrels. If the reports show larger than expected draws in product stocks amid the cold weather forecasts, the market will continue to climb higher. The crude market is seen finding resistance at its high of 55.15 followed by 55.20 and its previous high of 55.65. Meanwhile support is seen at 54.50 followed by 53.70 and its previous lows of 52.91-52.86.