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ENERGY RISK MANAGEMENT

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ENERGY MARKET REPORT FOR MARCH 15, 2005

OPEC President and Kuwait's Oil Minister Sheikh Ahmad Fahad al-Ahmad al-Sabah said OPEC should increase its official output ceiling by 500,000 bpd from March 16 and by another 500,000 bpd at an undetermined date if needed. This latest proposal is another variation to the plans being considered by the group as it prepares to set output policy. He cast his plan as a compromise between Saudi Arabia's plan to increase the group's ceiling by 500,000 bpd now and a ministerial committee's recommendation to delay the increase until May 1 and to implement it only after ministerial consultations in early April.

Earlier, an OPEC committee chaired by Iran agreed to recommend that OPEC plan to increase its output by 500,000 bpd starting May 1 but only implement the increase after ministers reassess the market around April 10. Meanwhile, Saudi Arabia's Oil Minister Ali al-Naimi said Saudi Arabia will pump as much oil that is

Market Watch

Valero Energy Corp's senior vice president of refining, Richard Marcogliese said the refining sector will continue on an upswing for the next two years, paving the way for continued success for Valero. However he stated that if petroleum demand fell in reaction to high prices, Valero and other refiners could see a slowdown in demand for the fuels and other products they produce.

Europe is expected to see an increasing oversupply of fuel oil that refiners will find hard to sell as extra capacity comes onstream in the Middle East and Asia. An analyst stated that by 2010 there is a potential for the high sulfur fuel oil excess to increase to 10 to 15 million tons a year.

China is considering a plan to open its onshore oil exploration and production industry to the domestic private sector as part of efforts to stem its falling domestic production. However the plan could struggle for immediate results because many Chinese companies are not strong and experienced enough to embark on major oil exploration and production.

Russian President Vladimir Putin's increasing government control is seen hurting investment in new wells, rigs and pipelines. Oil production is expected to increase by 3.8% this year, less than half the average rate during the past five years and the lowest since $10/barrel hurt investment in 1999. Drilling in Russia fell last year as the government demanded $28 billion in back taxes from Yukos Oil Co, increasing concern that other oil companies may face similar claims.

Iran's Foreign Minister Kamal Kharrazi said the US must change its policies towards Iran and recognize it as a regional power if relations are to improve between the two countries. Last week, the US offered Iran economic incentives for it to scrap its nuclear work. Washington said it would drop its opposition to Iran's membership of the World Trade Organization and the sale of civilian airplanes parts to Iran as part of a coordinated strategy with the European Union. Iran dismissed the US offer as insignificant. He said Iran is ready to give assurances that it will not produce bomb grade uranium.

The Chicago Board of Trade moved up its launch date for its corn based ethanol futures contract to March 23 from April 8. The move came after the Chicago Mercantile Exchange said this month that it was also listing an ethanol futures contract starting March 29. The New York Board of Trade offered a sugar based ethanol contract in May 2004. The contract never gained much trade interest and NYBOT is revamping it.

need to meet demand, regardless of whether the rest of OPEC agrees with its proposal to increase the group's output ceiling. His proposal would mean actual OPEC output, including existing leakage of about 700,000 bpd over formal limits would increase from 27.7 million to 28.2 million bpd. OPEC's official output quota would increase to 27.5 million bpd from 27 million bpd. He said Saudi Arabia already lifted its output by 250,000 bpd in March in anticipation of the deal. He stated that additional oil would come in April as additional supply will be required. Saudi Arabia's production is now at 9.5 million bpd, leaving 1.5 million bpd in spare capacity. Saudi Arabia's Oil Minister Ali al-Naimi said there is an expected increase of more than 2 million bpd in consumption between the third and fourth quarter. The question looming in the market is whether Saudi Arabia will be able to pump enough of the right kinds of oil to cover oil demand later in the year. Separately, Nigeria's Presidential adviser on petroleum and energy, Edmund Dakouru said OPEC should immediately increase its ceiling by 500,000 bpd. He said he agreed with the Kuwaiti proposal to increase production in two 500,000 bpd stages.

Libya's Oil Minister Fathi bin Shatwan, who is opposed to the Saudi proposal, stated that he supported a proposal that OPEC wait until early April before deciding on whether to lifts its production ceiling. Meanwhile, Qatar's Oil Minister Abdullah bin Hamad al-Attiyah said the oil market was well supplied and blamed the rally in crude prices on psychological factors. He said high oil prices were not in OPEC's control. Some OPEC ministers have stated that the extra oil may not cap record prices.

OPEC Oil Ministers stated that US Energy Secretary Sam Bodman called several OPEC ministers ahead of the meeting. Washington has stated that it is concerned over high prices, saying inflated energy costs could hurt economic growth.

OPEC's news agency reported that OPEC's basket of crudes increased to $49.59/barrel on Monday to $49.20/barrel on Friday.

Kurdish and Shi'ite leaders agreed to convene Iraq's new parliament on Wednesday even if they fail to resolve some issues in their deal to form a coalition government. Shi'ite officials said they also agreed to reach out to the country's Sunni Arab community to name the parliament speaker. Shi'ite and Kurdish negotiators planned to meet Tuesday with representatives from Prime Minister Ayad Allawi's list. Separately, The Washington Times reported that three car bombs exploded in Baghdad, killing at least five people.

Refinery News

Sunoco Inc's chairman and chief executive officer, Jack Drosdick said it may have some interest in individual Citgo assets. Sunoco has about 890,000 bpd of refining capacity in the eastern US. Venezuela's PDVSA has started talks to sell parts of Citgo. He noted that refinery margins had been increased by increasing oil demand. He said the trend is unlikely to result in the construction of any new refineries but could lead to expansion at existing facilities.

Indonesia's Pertamina restarted its 60,000 bpd refinery in Balikpapan after several weeks of maintenance. It restarted the distillation unit on March 9.

Production News

ChevronTexaco said its Petronius oil and gas platform in the US Gulf of Mexico that was shut due to Hurricane Ivan has resumed production ahead of schedule. Petronius, which ChevronTexaco operates with a 50% interest, was producing an average of 42,000 bpd of crude oil and 65 mmcf/d of natural gas ahead of the hurricane.

The North Sea Troll system is scheduled to load 8.36 million barrels or 279,000 bpd in April compared with 315,000 bpd in March.

Turkey's Bosphorus shipping channel remained closed due to heavy fog on Tuesday. Meanwhile, the Dardanelles strait was reopened however tankers restricted to daylight passage would only be allowed to transit on Wednesday. Earlier in the day, officials said a total of eight tankers were waiting at the Bosphorus and four at the Dardanelles.

Germany's MWV reported that the country's heating oil sales in February fell by 2.6% to 2.4 million tons in February. Its gasoline sales fell by 8.1% to 1.78 million tons while diesel sales fell by 2.8% to 2.03 million tons.

Azerbaijan has scheduled five cargoes of Azeri Light crude for export in April. All of the cargoes contain 1 million barrels each, except for one cargo which will contain 600,000 barrels.

Russian companies' crude oil exports to China by rail increased by 37.2% on the year to more than 1.1 million metric tons in January-February. In January, crude oil exports amounted to 555,000 tons, up 34% on the year while in February, oil exports to China increased by 39.9% on the year to 600,000 tons.

Russia's Rosneft is suing Yukos for $11 billion in damages. Russia's newspaper Vedomosti said the company was demanding Yukos pay the money to its former unit, Yuganskneftegaz, in compensation for losses caused by its tax policies. Rosneft has inherited $5.1 billion of tax debts at Yugansk for which it holds the previous shareholders of the company responsible. The suit alleged that Yuganskneftegaz suffered losses as a result of Yukos' illegal tax policies. The suit alleges that Yukos' use of offshore trading firms to buy oil from its subsidiaries at below market prices and then sell it at world prices, led to losses worth 304.3 billion rubles or $11.1 billion at Yuganskneftegaz in 1999-2003. However Russia's Yukos has rejected the claim, saying it had not received any formal notification that Yuganskneftegaz is now owned by Rosneft and arguing that the unit had been confiscated illegally.

India's Petroleum Minister Mani Shankar Aiyar said Saudi Aramco wants to work with Indian Oil Corp in maintaining India's strategic crude oil reserves. However no formal proposal has been received from Saudi Aramco in this regard. India is building storage facilities for a further 5 million metric tons of crude, aiming to complete and fill these by early 2008. India's refineries currently have crude storage capacity of 5.7 million tons.

Separately, India's Petroleum Minister said India's oil demand in the fiscal year to March 31 is expected to increase to 111.9 million tons, up 4.2% on the year. Domestic oil consumption has increased by 4-5%in the current fiscal year however analysts said demand growth is expected to slow down in 2005 due to a high base, higher fuel prices and naphtha consuming power and fertilizer firms switching to gas.

Market Commentary

The energy complex settled in positive territory despite the news that Saudi Arabia continued to call for an increase in production of 500,000 bpd. The markets seemed to have shrugged off the mostly bullish news as Saudi Arabia called for an immediate increase while Kuwait offered a compromise of increasing its output by 500,000 bpd immediately followed a further increase of 500,000 bpd if it is determined that a further increase is needed during a meeting in April. The crude market opened down 25 cents at 54.70 and traded to an early high of 55.20. However it erased its gains, amid the news that some OPEC members were opposed to the Saudi proposal, and erased its gains as it fell to a low of 54.25 within the first hour of trading. The market however bounced off that level and seemed to be holding resistance at 55.00 before further buying ahead of the close pushed it to a high of 55.45 on the close. The market however retraced some of gains and settled up 10 cents at 55.05. Volume was good with over 223,000 lots booked in the crude market. Open interest in the crude market continued to build, by 3,468 contracts to 845,994 contracts. Open interest in the April contract fell by 14,159 contracts while open interest in the May and June contracts built by 11,217 contracts and 4,982 contracts, respectively. Meanwhile, the heating oil market surprisingly settled up 1.60 cents at 155.20 on continued buying interest. This was despite the fact that there were no new fundamentals supporting the market. The market opened down 50 points at 153.10 and traded to 155.00 before the market posted its intraday low of 152.50. The heating oil market bounced off that level and rallied to a high of 156.20 late in the session on continued buying by funds. The gasoline market settled just 8 points higher at 150.73 after the market opened down 1.35 cents at 149.30. It bounced off its low of 148.15 and rallied to a high of 151.60 amid the strength in the heating oil market. Volumes in the product markets were good with 39,000 lots booked in each the heating oil and gasoline markets.

The NYMEX crude oil option market today caused many traders to take notice at the December 2010 $80 call option which traded 10,000 times between $1.75-$1.80 per barrel. Rumors swirled about the floor that the buyer of these calls was a hedge fund.

Technical Analysis				
		Levels		**Explanation**
CL		55.65		Wednesday's high&Previous high
	Resistance	55.45		Tuesday's high
	55.05, up 10 cents			
	Support	55.00		
		54.25, 53.52, 52.86-52.90		Tuesday's low, Monday's low, Previous lows
HO		159.00		Previous high(continuation chart)
	Resistance	156.20		Tuesday's high
	155.20, up 1.60 cents			
	Support	154.00		
		152.50, 150.00-149.80		Tuesday's low, Previous lows
HU		156.00		Previous high
	Resistance	151.60, 152.25-152.30		Tuesday's high, Double top
	150.73, up 8 points			
	Support	150.50, 149.00		
		148.15, 147.20-147.00		Tuesday's low, Previous lows

The market on Wednesday will mainly be driven by the outcome of the OPEC meeting. It however seems that Saudi Arabia will increase its output even if the other OPEC members decide to delay an increase until May, as proposed by the OPEC committee. The markets will be pressured if OPEC does decide to increase its production, even though the market seemed to have shrugged off the prospects of an increase during today's session. The oil market will also be driven by the weekly petroleum stock reports, which are expected to show builds in crude stocks of over 2 million barrels followed by draws of over 1.5 million barrels in distillate stocks and draws of less than 1 million barrels in gasoline stocks. The oil market is seen finding resistance at its highs of 55.45 followed by its previous high of 55.65. Meanwhile support is seen at 55.00 followed by its previous low of 54.25, 53.52 and its previous lows of 52.86-52.90.