



ENERGY RISK MANAGEMENT

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ENERGY MARKET REPORT FOR MARCH 16, 2005

OPEC members were puzzled by world crude prices surging to new highs. OPEC President Sheikh Ahmad al-Fahd said OPEC will monitor oil prices which rallied to record highs on Wednesday before reacting. OPEC's Secretary General, Adnan Shihab-Eldin also voiced disappointment at the rally in prices. He said prices should have eased following its decision to increase its production. Nigeria's Presidential adviser on petroleum, Edmund Daukoru said the rise in prices was not what OPEC intended.

Earlier, OPEC decided to increase its production quota by 500,000 bpd to 27.5 million bpd effective April 1st in an effort to rein in high crude prices. The agreement gives OPEC's President the power to consult with ministers in April to trigger an additional 500,000 bpd in May should prices fail to fall. OPEC scheduled its next meeting for June 7 followed by a meeting on September 19. OPEC's President Sheikh Ahmad Fahad al-Ahmad al-Sabah said OPEC

Market Watch

The NYMEX announced that it will increase margins on its Unleaded Gasoline and NY Harbor Gasoline Calendar Swap from \$4,725 to \$5,400 effective at the close of Thursday, March 17th. It also announced that it will increase margins on the spot Heating Oil and NY Harbor Heating Oil Calendar Swap contract from \$4,725 to \$5,400. Margins on the second through sixth months will increase from \$4,388 to \$5,063 effective at the close of Thursday.

The AAA said record gasoline prices will not curb driving, even though there seems to be consumer backlash against high fuel prices in car sales. Average US regular gasoline prices have rallied more than 15 cents in a month to \$2.05/gallon. The rising price for gasoline has started affecting sales of large sport utility vehicles and pickup trucks.

Venezuela's Oil Minister Rafael Ramirez said Venezuela hopes a tax dispute with ExxonMobil will not result in international arbitrage. Last year, Venezuela increased the royalty tax on four heavy crude projects in the Orinoco belt with no prior warning and as a result ExxonMobil is paying the new rate under protest. Venezuela increased the royalty to 16.6% from 1%.

Airlines plan to reduce their hedging of fuel purchases to about 20% this year from 40% in 2004, according to the International Air Transport Association.

The dollar fell further on Wednesday after news the US current account widened and oil prices surged to new highs. The current account gap widened more than expected in the fourth quarter to a record \$187.9 billion, increasing the full year gap to a new high of \$665.9 billion.

DaimlerChrysler said it will sell its first hydrogen powered car using fuel cell technology in 2012. It has sent 60 Mercedes-Benz A-Class cars to Japan, Germany, Singapore and the US for tests. Many car companies are developing hydrogen powered cars to help wean the world off diminishing oil supplies.

has the ability to pump some 31 million bpd. He said OPEC would actually need to pump about 28.4 million bpd in the third quarter and 30.3 million bpd in the fourth quarter of the year. He said OPEC believes it can cover demand for oil in the third and fourth quarter and wants to see inventories build to ensure shortages do not develop. He said OPEC estimated its spare capacity will reach 3 million bpd by the end of the year as some OPEC members speed up the implementation of their capacity expansion plans. He also stated that oil prices by the fourth quarter are likely to be as high or higher than current levels. However OPEC's Secretary General, Adnan Shihab-Eldin, said OPEC's spare capacity is limited to Saudi Arabia, Kuwait and the UAE who hold about 1.6 million barrels. He said OPEC will increase its forecast for world oil demand growth in 2005 by 130,000 bpd to 1.86 million bpd. In a move that overshadowed OPEC's agreement to increase its production, Saudi Arabia and Kuwait said they plan to add at least 700,000 bpd of fresh oil by the second quarter. They are unilaterally increasing their production, with much of that increase already on the way to the market. Saudi Arabia's Oil Minister Ali al-Naimi on Tuesday stated that it increased its production by 250,000 bpd in the past two weeks. The increase is intended to let consumers build up petroleum inventories this spring. Saudi Arabia's Oil Minister denied a report that said he wanted to see oil prices in a range of \$40-\$50/barrel, saying he did not favor any particular price. Meanwhile, Nigeria's Presidential adviser on petroleum and energy, Edmund Dakouru said Nigeria can quickly increase its production by 100,000 bpd if needed. He added that it could increase production by an additional 50,000 bpd over a longer period of time. He said oil prices holding over \$55/barrel should trigger a further 500,000 bpd increase in production. The UAE will add 44,000 bpd immediately as part of the OPEC agreement.

Separately, Algeria's Oil Minister Chakib Khelil said the increase will merely legitimize existing overproduction and will not put any fresh oil on the market. Libya's Oil Minister Fathi Shatwan meanwhile stated that the oil markets will be able to absorb the increase in output pledged by Saudi Arabia and Kuwait without seeing prices crash. Iran's Oil Minister Bijan Namdar Zanganeh said it was comfortable with oil prices at about \$40/barrel while Venezuela's Energy Minister Rafael Ramirez said current oil prices around \$55/barrel are acceptable.

OPEC's President Sheikh Ahmad Fahad al-Ahmad al-Sabah said OPEC has adopted a new reference price for its oil with 11 grades of crude produced by the group. The new reference index will replace the existing basket of 7 crudes. The new basket will reflect a lower value than the previous version as it contains a larger volume of heavier, high sulfur crudes. The grades included in the new basket are Sahara, Minas, Iran Heavy, Basra Light, Kuwait export, Es Sider, Bonny, Qatar Marine, Arab Light, Murban and BCF 17.

OPEC's news agency reported that the basket of crudes increased by \$0.62/barrel to \$50.21/barrel on Tuesday from \$49.59/barrel on Monday. It is the first time the price has surpassed the \$50/barrel level.

The head of the EIA, Guy Caruso said OPEC's new production ceiling of 27.5 million bpd is still not high enough to satisfy world demand for OPEC's crude oil this year. He said that in order to balance the market to make adequate supply available, OPEC would need to increase its oil production more. He later stated that the price impact of OPEC's agreement to increase its production will depend largely on whether the move results in actual supply increases. He said OPEC was producing 27.8 million bpd.

Meanwhile, the EIA said hedge funds and speculative traders were not to blame for increasing crude costs. It said even though inventory levels for US crude and gasoline are at or above their historical average, the growth in oil demand and limited spare refinery capacity are responsible for current high oil prices.

The API reported that US demand for oil and oil products in February increased by 1.2% on the year to 20.805 million bpd. It stated that gasoline consumption increased by 1% in February to 8.831 million bpd while jet fuel demand increased by 1.4% to 1.675 million bpd. Distillate demand in February however fell by 4.1% to 4.092 million bpd. Residual fuel demand increased by 30% to 1.134 million bpd as industrial and electric utility users switched from natural gas to residual fuel. The API reported that crude oil and petroleum product imports increased by 7.2% from a year earlier to 13.213 million bpd. Crude oil imports increased by 6.6% to 9.865 million bpd in February. It reported that crude inventories reached 302 million barrels. It is the first time it reached over 300 million barrels since June. Gasoline inventories stood at 224 million barrels while distillate stocks fell by 4.7 million barrels on the month.

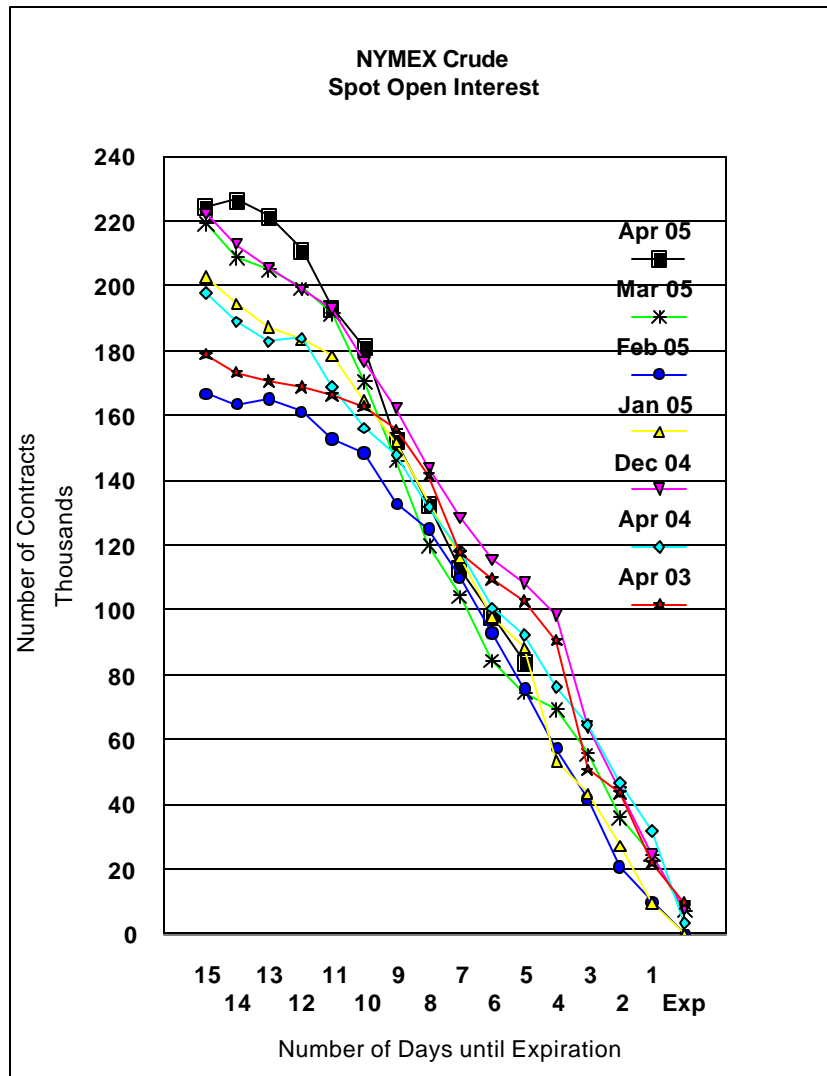
Shipping brokers said crude oil freight prices on core export routes from the Gulf increased on Wednesday following OPEC's decision to increase its production quota. They stated that several spot bookings to the US this week by Saudi Arabia had help support prices. VLCC rates to the US firmed at least six Worldscale points to W92. Shipping brokers said Saudi Arabia had booked four spot VLCCs to the US this week to load in early April.

Refinery News

A fluid catalytic cracking unit at ExxonMobil's Joliet, Illinois refinery was shutdown on Tuesday on an unplanned basis. A boiler associated with the unit malfunctioned and was taken down for repairs. The catalytic cracking unit is seen down 5-7 days.

Suncor Energy Products Inc's Sarnia refinery will partially shut down for four weeks of maintenance starting on Thursday. The refinery will operate at 75% of its normal capacity.

Total is looking to upgrade its European refineries to take advantage of discounts for low sulfur crudes. However its feedstock constraints will limit extra diesel production. Total is increasing its refining investment to 600 million euros or \$806 million a year until 2008 in light of its forecasts that recent high refining margins will last for several years. The majority of Total's investment is going to a 2.4 million ton a year hydrocracker at its Gonfreville refinery.



Production News

Saudi Aramco has signed an engineering contract to develop the Khursaniyah Oil and Gas Program and the Hawiyah Natural Gas Liquids Recovery Program expected to increase crude production by 500,000 bpd by 2007. The projects are part of its goal to increase crude production capacity by 2.3 million bpd to 12.5 million bpd by 2009, in order to have a cushion of 1.5-2 million bpd capacity. The projects will increase the amount of lighter end crude and products Saudi Arabia produces, helping it capture more of the refinery market in Asia and the US.

Iran's President Mohammad Khatami blamed US sanctions against the country for reducing its oil production capacity and hurting world consumers as a result of record high oil prices.

Russia's Minister for Economic Development and Trade, German Gref said there is no ban on foreign controlled companies developing the country's oil fields. He said the law stated that there may be limits on foreign participation in state assets designated as strategic.

The Shetland Island Council reported that Brent blend crude oil liftings from Sullom Voe increased to 221,889 tons in the week ending March 15, up from 104,777 tons in the previous week. A total of 127,368 tons were bound to the US.

Turkey's Bosphorus shipping channel was closed on Wednesday for the second consecutive day due to heavy fog. A maritime official said 15 tankers were waiting at both ends of the strait. The Dardanelles strait was open however ships faced delays after the waterway was shut for part of the day on Tuesday and overnight. A shipping agent said up to 18 ships were waiting to enter the Dardanelles.

Russia's Oil Ministry expects oil production to increase by 250,000 bpd to a new post-Soviet high of 9.58 million bpd in the second quarter of the year. Russia's production in February stood at 9.33 million bpd. The ministry said crude exports via the Transneft pipeline network would amount to about 5 million bpd. Of the total production, 4.5 million bpd is scheduled to be processed in refineries in Russia.

Oil and oil products exports via Ukraine's Odessa port fell by 25.3% on the year in the January-February period to 2.254 million tons. Oil exports fell by 23.6% on the year to 1.472 million tons while oil product exports fell by 27.4% on the year to 1.082 million tons.

Total gas oil shipments from the former Soviet Union increased to 3.34 million tons in February, up 139,000 tons or 4.3% on the month. Fuel oil exports fell by 665,000 tons or 18% to 3 million tons.

Nigerian National Petroleum Co is expected to buy about 60 gasoline cargoes or 1.8 million tons of motor fuel for delivery between May and the end of July or early August. Traders said the Nigeria deliveries have cut some of the stocks in European storage tanks, providing some relief from the supply pressure on prices in Europe.

Angola's Oil Minister Desiderio Costa said the country is hoping to increase its production to 1.4-1.5 million bpd by the end of next year and may be able to reach 2 million bpd by the end of 2008.

SK Corp is likely to keep its April fuel oil exports unchanged from March at 50,000 tons.

Brazil's Petrobras S.A. said that its average domestic oil production fell slightly in February due to a temporary maintenance shutdown at one of its offshore oil platforms. Its average oil output fell by 0.6% on the month to an average of 1.524 million bpd in February.

Market Commentary

The oil market opened down 20 cents at 54.85 in light of the news that OPEC decided to increase its production by 500,000 bpd effective April 1st while Saudi Arabia and Kuwait stated that they planned to put 700,000 bpd of crude into the market by the second quarter. However the market's fall seemed to be tempered by the fact that the market may have already priced in the 500,000 bpd increase and that OPEC has already been overproducing by more than 500,000 bpd. The crude market posted an intraday low of 54.60. However it never looked back as it was well supported by the DOE and API reports which showed larger than expected draws in product stocks. The market bounced off its low and quickly breached its previous high of 55.67 as it rallied to a record high of 56.40. The market later settled in a range and traded back towards the 55.50 level. However the market bounced off that level and rallied to a new high of 56.60 on further buying ahead of the close. It settled up \$1.41 at 56.46. Volume was good in the crude market with over 265,000 lots booked on the day. Open interest in the crude market surprisingly fell by 4,010 contracts to 841,984 contracts on the day. Meanwhile the product markets ended the session sharply higher as traders pushed the markets higher amid the fall in distillate and gasoline stocks. The heating oil market opened down 95 points at 154.25, its intraday low. However the market bounced off its low and never looked back. The market rallied 4.8 cents to a high of 160.00 within the first hour of trading following the release of the DOE and API reported which showed draws in distillate stocks. The market later retraced some of its gains and settled in a sideways trading pattern ahead of the close. It settled up 3.94 cents at 159.14. The gasoline market also settled up 4.1 cents at 154.83 after it breached its recent highs amid the larger than expected draws reported in gasoline stocks. The market bounced off its low of 149.20 and breached its previous highs as it surged to its high ahead of the close. Volumes in the product markets were good with over 62,000 lots booked in the heating oil and 63,000 lots booked in the gasoline market.

The oil market will likely continue to trade higher despite the OPEC announcement and the fact that stocks are still higher when compared to previous years. Even though the market is not fundamentally supported, it seems the market is set to test the \$60 level amid the continued buying in the market. Technically, the market still has room to the upside as its daily stochastics are still trending higher. The market is seen find resistance at its high of 56.60 followed by more distant resistance at 60.00.

Meanwhile

support is seen at 56.00 followed by 55.50 and today's low of 54.60.

Technical Analysis		
	Levels	Explanation
CL 56.46, up \$1.41	Resistance 60.00 56.60	Wednesday's high
	Support 56.00, 55.50 54.60	Wednesday's low
HO 159.14, up 3.94 cents	Resistance 160.30, 163.65 160.00	Previous high(continuation chart), basis trendline Wednesday's high
	Support 157.50 154.25, 152.50	Wednesday's low, Previous low
HU 154.83, up 4.10 cents	Resistance 156.00 155.00	Previous high Wednesday's high
	Support 152.50, 151.94 151.00, 150.00, 149.20	38% retracement (147.00 and 155.00) 50% and 62% retracement, Wednesday's low