



ENERGY RISK MANAGEMENT

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ENERGY MARKET REPORT FOR MARCH 16, 2006

OPEC's director of research, Adnan Shihab-Eldin said oil prices are likely to stabilize around the \$50-\$60/barrel level during the next few years. His comments followed those by OPEC President Edmund Daukoru that the group was aiming to keep oil prices in a range between high \$50s and low \$60s.

Iran's top nuclear negotiator, Ali Larijani said Iran was ready to open talks with the US to resolve Iraqi issues and help establish an independent and free government in Iraq. He said any talks between the US and Iran would deal only with Iraqi issues. Iran initially rejected the US offer for talks. However Iran changed its position after President Bush said Iranian involvement in Iraq was destabilizing the country. In response, the US said it was open to holding talks with Iran about stabilizing Iraq. White House spokesman Scott McClellan said any talks

Market Watch

In a video, one of five militants killed last month after taking part in the failed attack on a Saudi oil facility called on Muslims everywhere to join their fight to expel Westerners and install Islamic rule. The al-Qaeda leader in Saudi Arabia, in a video recorded before his killing, warned Americans and the US allied Saudi monarchy to leave the country or face more bombings. He also called on Saudi security forces to join the group's holy war. It was not clear when the video was recorded.

After hosting a meeting of G8 energy ministers, Russia said fossil fuels would remain the most important way of meeting world energy demand over the next half century. It also stated that the wider use of renewable energy would help diversify and reduce energy risks but put renewed emphasis on developing nuclear power. The statement also said the world needs to develop more efficient energy markets to increase energy supply and stem growth in demand, invest in production, transport and processing of energy and increase dialogue between producers and consumers.

The head of Venezuela's Seniat tax authority said it has temporarily shut the administrative offices of Italy's Eni SpA for tax irregularities. The Seniat also shut the offices of Total on Thursday for bookkeeping irregularities. Total, which is currently in talks over a \$107.4 million back tax bill said it hoped to be open by Monday.

Star Gas Partners LP, a home heating oil company, said its board of directors has determined that a revised Soros Group proposal to recapitalize the partnership is not a superior proposal to an amended offer from Kestrel Energy Partners LLC.

US CFTC is not interested in regulating the over the counter markets and is not seeking to expand its oversight authority into those areas. CFTC chairman Reuben Jeffery said the CFTC does not have the responsibility to pursue cases that involve market manipulation that could have implications for futures markets. He stressed the need to increase the level of coordination between the CFTC and foreign regulatory bodies in position reporting and other areas. The CFTC is currently reviewing a no-action letter issued in 1999 that allowed IntercontinentalExchange's WTI futures contract to trade in the US outside CFTC oversight.

FERC approved a new oil pipeline pricing index for a five year period which sets higher ceiling levels for oil pipeline rate charges. The new pricing index would be the Producer Price Index plus 1.3% compared with the current index of PPI plus 1%. The index would be in effect through July 2011.

would be confined to the Iraq issue and would be on a separate track from efforts to resolve the nuclear standoff with Iran.

According to Oil Movements, OPEC's crude exports are expected to continue falling in the four week period ending April 1 by 320,000 bpd to 24.76 million bpd.

Platts reported that Brazil may cut its international sales of ethanol as the US phases out the use of MTBE and replaces it with ethanol. Brazil's government has started to closely monitor ethanol producers to make sure they provide ample supply to the domestic market. Ethanol imports from Brazil were being counted on to help fill any ethanol deficit. Brazil's ethanol production this year should reach about 16 billion liters, up 5-7% on the year. Brazil's demand for ethanol in 2006 may be 13.5 billion to 14 billion liters, leaving about 2 billion liters for export to markets such as the US, India and Venezuela.

Refinery News

Italy's ERG expects to buy one cargo of crude oil less than planned after an unplanned outage last week at its Isab Sud refinery in Sicily. The reduced consumption of about 80,000 tons of crude follows an electrical fault that forced the 240,000 bpd refinery to shutdown for two to three days last week.

China's refineries will operate at about 90-95% of capacity through 2020. Over the next five years, 90 million tons of new capacity will be added to help feed growing domestic demand while inefficient units processing 20 million tons a year will be taken out of service. Refiners are expected to focus on output of lighter products like diesel and naphtha.

Production News

Nippon Oil Corp said it planned to lower imports of oil from Iran this year by about 15% from last year partly due to threat of economic sanctions over the country's nuclear enrichment program. It plans to reduce its imports from Iran to 120,000 bpd this year. Nippon Oil Corp's decision to cut its Iranian crude imports due to increasing political risks has rattled Iranian customers but Nippon Oil's decision is unlikely to be followed by a wave of further reduction in Iranian imports. Several refiners however have stated that they were not contemplating similar action. Iran exports about 1.468 million bpd to Asia and about 663,000 bpd to Europe.

Saudi Arabia has booked three Very Large Crude Carriers bound for the US in April. It booked two VLCCs to carry 285,000 tons on April 7 and 14 to the US Gulf while the third VLCC was booked to carry 270,000 tons on April 9.

Royal Dutch Shell shut in oil production at the 25,000 bpd Tern Alpha platform after a fire broke out at the North Sea facility early Thursday. Nonessential staff at two other nearby platforms were also evacuated as a precaution.

Russia's main Black Sea port of Novorossisk was operating on Thursday despite bad weather conditions.

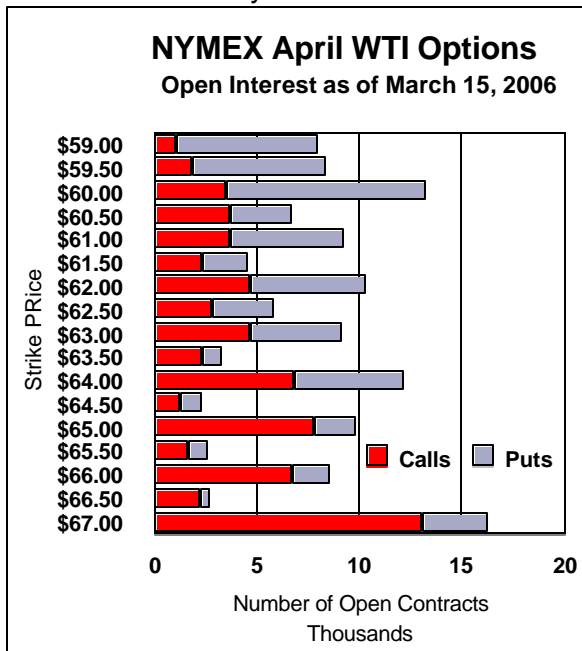
According to a preliminary schedule by Transneft, Russia is expected to increase its oil exports in the second quarter by an average of 70,000 bpd to 4.3 million bpd from all Baltic Sea ports including Primorsk in Russia, Butinge in Lithuania and Gdansk in Poland. However exports via the Black Sea port of Novorossiisk, Odessa and Yuzhny is expected to fall 1.7 million tons in the second quarter.

Kazakhstan's crude and oil gas condensate production fell by 3.6% on the year to 9.71 million tons in January-February 2006. Its crude oil production fell by 2.3% on the year to 8.143 million tons in the

two month period. Crude production in February fell by 6.1% on the year to 3.797 million tons. Separately, Kazakhstan's Vice Minister for Energy said its oil production would increase to 70 million tons or 1.45 million bpd in 2007, an increase from the 62.5 million tons forecast for this year.

Georgia's Black Sea port of Batumi is expected to increase crude shipments to 1.1 million tons a month soon from its current level of 830,000 tons.

Poland's Economy Minister Piotr Wozniak said the Odessa-Brody pipeline, which would bring Caspian oil to the Baltic Sea, could be ready within three years. Poland's conservative government has promised to speed up work on the pipeline to diversify its sources of oil and gas to make it less dependent on Russia. Work on the pipeline and reversing the flow to bring Caspian oil to Poland has made little headway due to difficulties in finding commercial investors.



Singapore's International Enterprise said the country's light distillate stocks fell by 1.132 million barrels to 7.868 million barrels in the week ending March 15. Its middle distillate stocks increased by 830,000 barrels to 7.764 million barrels while its residual fuel stocks increased by 1.832 million barrels to 13.665 million barrels on the week.

Pemex said that Mexico's proven oil and natural gas reserves fell to 16.47 billion barrels of oil equivalent at the end of 2005, down from 17.6 billion bce a year earlier.

Ecuador's central bank stated that the country's average oil production increased by 6% to 563,258 bpd in January from 531,774 bpd in January 2005. Oil production was up 1% on the month.

China is expected to increase its guidance gasoil prices to catch up with international prices. A price revision was expected following a two week meeting of the National People's Congress which ended March 14.

OPEC's news agency reported that OPEC's basket of crudes increased by \$0.61/barrel to \$58.30/barrel on Wednesday.

Italy's Eni SpA said it expects supplies of gas from Russia to fall 4.1% below requested volumes on Thursday and Friday.

Market Commentary

The oil market continued to retrace its previous gains and gapped lower from 62.00 to 61.90 on the opening. The market quickly backfilled its gap before it continued to sell off to a low of 61.65. The market however bounced off its low as it failed to test its previous low and never looked back. The oil market extended its gains to over \$1.70 as it rallied to a high of 63.90 ahead of the close. The crude market settled up \$1.41 at 63.58. The market was well supported by the reports that the US launched a major air assault in Iraq while renewed strength in the gasoline market also prompted further buying. In addition the expiration of the April WTI options also seemed to help the march higher, as the \$64 calls seemed to act as a magnet, as the market saw some 6875 lots open in the contract coming into today, along with the \$63.50 calls which saw open interest jump by 1,059 lots basis trading on

Wednesday. Volume in the crude market was good with 229,000 lots booked on the day. Meanwhile the gasoline market, which gapped lower from 182.30 to 179.80 on the opening, continued to trend lower early in the session. It partially backfilled its previous gap from 178.00 to 175.00 as it extended its losses to over 5.9 cents on the day and posted a low of 177.00. However the market bounced off its low and never looked back. It backfilled its opening gap and rallied over 5 cents to a high of 188.00 ahead of the close as it held resistance at its previous high of 188.30. It settled up 4.53 cents at 187.44. The heating oil market opened down 70 points at 177.50 and sold off to a low of 176.20. The market however bounced off its low amid the strength in the gasoline market. The market rallied to a high 181.80 ahead of the close and settled up 3.08 cents at 181.25. Volumes in the product markets were good with 52,000 lots booked in the gasoline market and 30,000 lots booked in the heating oil market.

The crude market is once again seen retracing some of its sharp gains early in the session. However the market's losses are seen limited ahead of the weekend as the market remains concerned over the geopolitical problems. The market is seen finding support at 62.95, 62.50 and its low of 61.65. More distant

support is seen at 61.40. Meanwhile, resistance is seen at 63.90 followed by 63.95, 64.49 and 65.74.

Technical Analysis		
	Levels	Explanation
CL 63.58, up \$1.41	Resistance 63.95, 64.49, 65.74	Previous highs, 50% and 62% retracement (69.78 and 59.20) Thursday's high
	Support 62.95, 62.50 61.65, 61.40	
HO 181.25, up 3.08 cents	Resistance 184.00, 184.80, 191.60 181.80, 183.10	Previous highs Thursday's high, Wednesday's high
	Support 180.00, 178.00, 176.20 175.25 to 174.70	
HU 187.44, up 4.53 cents	Resistance 188.30, 195.40 188.00	Wednesday's high, Previous high Thursday's high
	Support 185.00, 180.00 177.00 to 175.00	
		Remaining gap (March 14th)