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ENERGY RISK MANAGEMENT

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ENERGY MARKET REPORT FOR MARCH 22, 2005

Former Saudi Arabian Oil Minister Sheikh Ahmed Zaki Yamani said Saudi Arabia needs to pump more oil to lower oil prices even if there are no immediate buyers. He said Saudi Arabia needs to increase its production from its current level of 9.5 million bpd to 10 million bpd. He also stated that oil prices will not fall far from record highs unless there is a recession in the US.

OPEC's President Sheikh Ahmad al-Fahd al-Sabah said OPEC producers will not need to decide for up to two weeks whether to increase production quotas further. OPEC is currently in talks to increase its formal oil production ceiling by another 500,000 bpd. He said the renewed increase in prices was not caused by a lack of crude on world markets. Meanwhile, Venezuela's Oil Minister Rafael Ramirez said members of OPEC have not agreed to increase the group's quota beyond the 500,000 bpd increase implemented last week. He said it was too early to decide on a further increase.

Market Watch

The managing director of the Kuwait Oil Tanker Co, Abdullah al-Roumi said Kuwait expects its spot oil tanker shipments to increase in April as the country increases its crude oil production after OPEC's decision to increase production last week. He could not say how much Kuwait's oil production would increase or how many extra spot tanker fixtures it would make.

According to analysts at Goldman, Sachs & Co's commodities research unit, the commodities markets can still offer investors good rewards despite the rising prices. A senior energy economist said it is not too late to invest in commodities, particularly, the Goldman Sachs Commodities Index, which is heavily invested in energy. Returns in the GSCI were up 17.3% on the year in 2004. While the energy markets make up 70% of the GSCI's weight, the recent surge in energy prices would not lower prospects for increased returns. The analyst said NYMEX crude could reach $60/barrel should long dated oil prices, measured on the five year forward market, remain around $50/barrel.

Russia's Yukos Oil Co said it will no longer pursue its bankruptcy case in the US courts and will dismiss its appeal. It also stated that recent decisions by the US courts in Houston do not deter it from continuing its fight to preserve the value of its estate and protect its shareholders, creditors, and employees by resisting expropriation of its assets and pursuing causes of action to recover the value of assets that are expropriated from it.

An Iranian official at the Atomic Energy Organization of Iran said Iran will press ahead on the path to develop civilian nuclear power, despite US allegations that it plans to build nuclear weapons.

Kuwait Petroleum International said a downstream memorandum of understanding signed with Royal Dutch/Shell centers mainly on India and China. No specific investments were on the table but talks were due to start soon. The head of KPI said it is open to any plans to build new refineries in China and India to process Kuwait's heavy crude and sell the refined products in the local markets.

The Chicago Board of Trade is scheduled to launch is ethanol futures contract at 10 am on Wednesday, March 23rd. The trading months will run from June through December 2005. Its trading hours are from 9:30 am to 1:15 pm Monday-Friday and its overnight trading hours are from 7:36 pm to 6:00 am Sunday-Friday.

He said OPEC would have to wait and see how the market reacts to last week's decision to increase production limits.

According to an OPEC spokesman, OPEC will likely hold its next meeting in Vienna on Wednesday, June 15. OPEC had originally scheduled an extraordinary meeting for June 7 but OPEC will likely delay the meeting due to scheduling reasons. OPEC's news agency reported that OPEC's basket of crudes increased to $51.76/barrel on Monday, up from $51.67/barrel on Friday.

President George W. Bush again urged Congress to pass the energy legislation, saying he is worried about trends in the energy market.

Refinery News

According to the South Coast Air Quality Management District, a 65,000 bpd fluid catalytic cracker at ChevronTexaco's 260,000 bpd El Segundo, California refinery was shut down on Monday due to mechanical problems. It is expected to begin a restart mode within 24 hours.

The South Coast Air Quality Management District also reported that a 95,000 bpd fluid catalytic cracker at ExxonMobil's 150,000 bpd Torrance, California refinery is operating at reduced rates since Monday due to problems at adjacent units. The unit may begin operating at normal rates later on Tuesday.

Sinclair said it expects little effect on operations at its 75,000 bpd refinery in Tulsa, Oklahoma after equipment in a gasoline making unit exploded late Monday. A fire was started by a flare drum explosion in a Penex unit, which is a light gasoline processing unit used to increase octane content in the motor fuel. The unit was down at the time of the explosion.

The US EPA has approved a draft permit for a proposed refinery in Arizona, a preliminary step in allowing what would be the first refinery to be built in the US in almost 30 years. The EPA's approval of the draft permit should also help the Arizona Clean Fuels project sponsors in securing financing and in further encouraging negotiations with Mexico to supply crude oil to the facility. The Arizona Department of Environmental Quality anticipates the final permit within the next two weeks. Arizona Clean Fuels plans to begin construction on the 150,000 bpd in 2006. It is currently in its second year of negotiations with Pemex to secure long range crude supply contracts for the refinery. The company is planning to seek permits to build a pipeline from a port in Baha, Mexico to the refinery.

Shell Canada Ltd said that output of synthetic crude at its Scotford upgrader will be cut by about 25% in March due to an outage at the operation. It said one of two trains at the upgrader was taken out of service and would only return to full operations at the end of March because of temperature problems.

Indonesia's PT Pertamina will delay the maintenance shutdown of its Dumai oil refinery, which was originally planned for June. The delay will likely affect Pertamina's imports of petroleum products.

Russian tax authorities froze the accounts of the Moscow oil refinery because it owed $135 million in back taxes. It was unclear whether the accounts freeze was still in place on Tuesday. Analysts stated that there was unlikely to be any immediate impact on the refinery's operations.

Lithuania's Mazeikiu Nafta has secured the supply of 1.8 million tons of crude oil for the second quarter. A spokesman for the refinery said it is currently receiving crude and is operating.

Production News

Energen Corp said it hedged an additional 9.5% of its estimated 2006 oil production, prompting the diversified energy company to increase its 2006 earnings estimate for the second time in 11 days. On Monday, it said Energen Resources Corp hedged an additional 360,000 barrels of its 2006 sour oil production at a NYMEX equivalent price of $54.14/barrel. The company's total oil hedge position for 2006 stood at 1.44 million barrels at an average price of $46.01/barrel.

Euroilstock reported that European refiners increased its production by 0.5% on the month and by 1.8% on the year in February to 13.346 million bpd. It reported that gasoline production increased by 1.4% on the month and by 4.6% on the year to 3.47 million bpd. Its middle distillate production fell by 0.4% on the month and by 0.6% on the year to 6.038 million bpd. Total crude intake was slightly lower in February at 12.32 million bpd while refinery utilization stood at 94.04%.

Gas oil and fuel oil exports out of the former Soviet Union are set to fall lower this month from February as refinery maintenance and weather related delays slow flows. TNK-BP's Ryazan refinery resumed normal operations at the end of last week after more than a month's maintenance work. Meanwhile freezing temperatures in the Baltics and stormy and foggy weather in the Turkish straits have delayed shipments from ports such as Tallinn and Novorossiisk.

According to a government official, India's domestic oil product sales in February increased by 0.6% to 8.81 million tons from the same month last year. Earlier this month, the government stated that the sales by state-operated companies fell by 2.2% to 7.65 million tons in February. India's naphtha sales fell by 9% as power and fertilizer firms switched to gas, which has been available since last year, when India started importing liquefied natural gas. The use of compressed natural gas has also dampened diesel demand. Diesel sales fell by 0.1% to 3.09 million tons. Analysts and oil industry officials say India's oil demand growth is expected to slow down this year due to a high base and higher prices of fuels.

According to China's General Administration of Customs, oil product imports fell in February as refiners produced more oil products. Imports of products such as diesel and fuel oil fell sharply. China's diesel imports fell by 84.2% to 19,780 tons or 5,200 bpd in February. It reported a demand growth of about 5% from the previous year, down from January's 6% growth rate.

China will raise its retail gasoline prices by 7% on Wednesday, the first since August, in a move that will increase state refiners' margins but do little to slow demand. China will increase the average of retail 90-octane gasoline price by 300 yuan or $36.25/ton to about 4,625 yuan or $559/ton. However its will keep its retail diesel prices unchanged at about 3,830 yuan. Analysts however sated that move would do little to cut gasoline demand growth. An economist at said the increase would trim demand by only about 20,000 bpd.

Japan's Ministry of Economy, Trade and Industry reported that Japan's oil product demand is expected to fall to 1.3% in the year starting in April, suggesting a continued reduction in its dependence on oil due to the start up of a new nuclear power plant and a shift to other resources. Demand is seen at 232.51 million kiloliters or 4.01 million bpd for the year to March 2006, down from 235.5 million kl or 4.06 million bpd in the current year ending March 31. Demand for low sulphur fuel oil for thermal power generation is expected to mark the largest year on year decline, down 18.4% at 7.644 million kl in the year from April. Fuel oil demand from industrial users is expected to fall 2.1% to 16.43 million kl in the year from April. Gasoline demand is expected to increase 0.3% to 61.353 million kl or 1.06 million bpd in the year from April, from an estimated 61.18 million kl in the year to March 31. Demand for kerosene is seen increasing by 1.9% to 28.213 million kl during the year.

Japan's Ministry of Economy, Trade and Industry held the first round of discussions to review the country's oil stockpiling policy. Several officials emphasized the government should cut the mandatory stockpile levels to lower oil refiners' and importers' financial burden of maintaining the stocks. Currently, refiners, wholesalers and importers are required by law to maintain crude and refined product reserves equivalent to their oil imports or production volumes for a minimum of 70 days. The government holds crude oil in its strategic reserves equivalent to 90 days of domestic oil requirements.

Russia's Lukoil has agreed to purchase another 5% in Ritek to increase its control in the company to 64.1%. Ritek is a fast growing producer which plans to increase output at its own and leased fields by a third this year to about 84,000 bpd.

Russia's Tatarstan based oil company Tatneft signed an agreement on Tuesday with the Syrian government and Syrian Petroleum Co on the exploration and development of oil block number 27 in Syria's Dayr az Zawr province not far from an oil pipeline from Iraq to Syria on production sharing agreement terms.

Thailand's PTT PCL said total petroleum demand increased by 7.3% to 1.124 million bpd. Its oil imports fell by 1.4% on the year to 999,300 bpd.

Sri Lanka's Ceylon Petroleum Corp and India's Oil and Natural Gas Corp may sign an oil product procurement agreement during the first week of April.

Market Commentary

The energy complex ended in negative territory with the crude market settling down $1.43 at 56.03 following a technical sell off. The May crude contract opened 16 cents lower this morning at 57.30 as it retraced some of Monday's gains. The market immediately posted an intraday high of 57.58. However the market just as quickly erased its gains and sold off to an early low of 56.90 after it failed to test Monday's high of 57.63. The May crude contract later settled in a range from 57.00 to 57.30 before some technical selling pushed the market to its low of ahead of the close. It sold off more than $1.70 to 55.69 as stops were triggered below the 57.00 level. The market erased some of its losses and settled down $1.43 at 56.03. Volume in the crude market was excellent with over 245,000 lots booked on the day, of which 156,000 lots traded via spreads. Similarly, the heating oil market opened slightly lower at 157.30 and quickly posted an intraday high of 159.70. However the market continued to erase its gains and traded to a low of 156.00, where it held good support for most of the session. It settled in a 1 cent trading range before the market breached its support and sold off sharply amid the technical sell off in the crude market. The market sold off to a low of 154.20 and settled down 2.69 cents at

Technical Analysis

	Levels	Explanation
	57.58, 57.63	Tuesday's high, Monday's high
Resistance	56.50, 57.00	
CL 56.03, down $1.43		
Support	55.69	Tuesday's low
	55.30, 55.06, 54.90	Previous low, 38% (50.15 and 58.10), Previous low
	157.90, 158.50	Tuesday's high, Monday's high
Resistance	156.00, 157.00	
HO 154.66, down 2.69 cents		
Support	154.20	Tuesday's low
	152.50, 151.80, 149.80	Previous low, 38% (136.50 and 161.25), Previous low
	160.30	Tuesday's high
Resistance	158.00, 158.75	
HU 157.49, down 2.07 cents		
Support	156.50	Tuesday's low
	154.90, 153.65, 153.50	Previous low, 50% (147.00 and 160.30), Previous low

154.66. The gasoline market also settled down 2.07 cents at 157.49. The market traded to a high of 160.30 early in the session before it sold off and settled in a sideways trading range from 158.75 to 159.80 before the market breached its support and sold off more than 3 cents to a low of 156.50. Volumes in the product markets were good with over 52,000 lots booked in the heating oil and 45,000 lots booked in the gasoline market.

The oil market, which continued its down move during the start of the overnight session, will likely continue to trade lower following today's sharp sell off ahead of the close. The market may continue to come off as its daily stochastics crossed to the downside. It will also be driven by the DOE and API reports, which are expected to show builds in crude stocks of about 2 million barrels and draws in distillate and gasoline stocks of about 1.5 million barrels, each. The market is seen finding support at 55.69 followed by 55.30, 55.06 and 54.90. Meanwhile, resistance in the crude market is seen at 56.50, followed by 57.00, 57.58 and 57.63.