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ENERGY RISK MANAGEMENT

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ENERGY MARKET REPORT FOR MARCH 28, 2006

Nigeria's president has called a high level meeting with groups from the Niger Delta, including "youth leaders" (militants), traditional rulers, elected officials, and community leaders to tackle the crisis in the region. The meeting is scheduled for April 5th. It appears that the Nigerian president was trying to show a proactive approach to the situation in front of his meeting with President Bush on Wednesday. Meanwhile Nigeria's oil minister backed away from his earlier claims that much of the shut in production would return to service within two weeks following the release of the hostages. Today in an interview with Platts he said he expected "It will take a while now, as we need time to inspect the damaged facilities."

OPEC said today that it expects world oil prices will stay above $50 a barrel over the next two to three years, while OPEC's reference crude price will stay at or above $40 per barrel. The cartel also expects its net capacity to increase by 5-5.5 million b/d by 2010 and they expect non-OPEC production capacity to increase by a similar amount.

Oil traders seemed unsettled today on news of a Norwegian manufacturing union threatening to strike over the issue of early retirement pensions and wage growth. While these labor issues would not directly impact the production of oil, these labor discussion were seen as establishing a standard that all other union settlements in Norway may be negotiated. Most economists said they did not believe a strike was likely to go ahead, but rather the union was showing that they were going to negotiate and act tough. A settlement or resolution of the issue is possible by the end of the week.

Market Watch

Platt's reported that despite an offer from Morgan Stanley, TransMontaigne has reached a "definitive" cash merger with the SemGroup. The deal is believed to be valued at some $483.4 million some $47 million better than the Morgan Stanley offer.

Chinese government announced that it has suspended tax rebates for gasoline and naphtha exports, reversing a policy that restored the incentives from January to allow exports of products

Water levels at China's major hydropower reservoirs at the start of February were running some 23.9% higher than the same time a year ago. Typically hydropower provides some 25% of the nations electric generation but last year only supplied 15%.

India's exports of refined oil products rose 14.7% in February versus year ago levels. Exports surged as refinery output increased while domestic sales remained flat. Exports for the past 12 months have been up 20% while domestic sales have been flat.

U.S. consumer confidence in March stood at 107.2 the highest level since May 2002.

The DOE said it would soon release an environmental impact report on the potential sites for expansion or new development of the SPR. Congress last year required the DOE to expand the SPR to 1 billion barrel capacity from its current 727 million barrel capacity.

The CME said today that its launch of energy contracts would occur sometime after June 17th, when its non-compete agreement with the NYMEX ends. Officials said they expect to release details of their new energy contract sometime in the next 45 days.

The EIA today released their latest supply/demand estimates for January 2006, and it showed demand in the first month of the year was actually weaker than reported earlier, down some 177,000 b/d.. January demand now was pegged at 20.11 million barrels, down 2% from a year ago and the lowest for any month since September. Gasoline demand was estimated at 8.727 million b/d and distillate demand in January was the lowest for that month since January 2002, due to poor heating demand.

The DOE Monday reported that shipments of crude into the SPR are scheduled to rise to 2.6 million barrels in April, the most since November and up from 1.5 million barrels expected to be placed in the SPR in March, or 86,667 b/d versus 48, 387 b/d.. May shipments are expected to fall back to 48,387 b/d again.

Germany's top arms control official stressed today that the UN Security Council and EU powers are not under any circumstances talking or considering military action or even sanction to be applied to Iran in regards to their impasse with Iran and its nuclear program. Meanwhile the UK foreign minister said today that Security Council members were progressing well with a text regarding the matter, and that much progress had been made Tuesday in reaching that agreement.

Refinery News

Platts confirmed that ExxonMobil shut the largest of four crude units and a delayed coker at its Baton Rouge refinery. The units are expected to remain in turnaround until the end of April.

OMV reported today that a fire at its crude distillation unit at its 210,000 b/d Schwechat refinery in Austria had resulted in the unit being shut in. No timetable was given on a restart date for the crude unit or any details on the extent of the damage.

The nationwide work stoppage in France today reportedly had only limited impact on refining operations there. Total reported that production at its three refineries saw only "light, progressive lowering in production."

U.S. Energy Secretary Bodman said today that he was unaware of any government plans to ease fuel regulations to ensure adequate supplies this summer driving season. He said "..we will, as best I know be relying on the free market to respond, and move (ethanol) around when appropriate and needed." He again repeated though that due to high inventories, we should "be all right".

Production News

Platts reports that production problems at the Qua Iboe field in Nigeria has led to lower daily output there by 30,000 b/d. This production shortfall coupled with other shut in production in Nigeria from civil unrest would total some 660,000 b/d of production missing from the market.

Iraq halted exports from its southern oil terminal late Monday night due to poor weather conditions that forced the suspension of berthing operations. Three tankers are waiting to berth at the facility currently. Iraqi oil officials also reported that they have hired an additional two tugs to escort tankers in and out of southern oil terminals in an attempt to ease a shortage that has hindered exports for months. Prior to this the Iraqis had only three tugs operating in the area. Meanwhile Iraq's oil minister said today that Iraq will need a further 8-12 months before it can resume oil exports from its northern oilfields via Turkey. The minister said the sabotage to the manifold pipeline, which gathers oil from feeder pipelines to pump it to the export line was totally destroyed and it is not working at all. As a result it will take months to fix it and thus exports from the north will be forced to remain on hold. He also noted even when the work is completed the resumption of oil exports will also depend on the security situation at that time. Exports from the south, which are running currently at 1.5 mbd, are nearing its capacity of 1.6 mbd.

Russia will slightly increase crude oil exports from it Baltic port of Primorsk in April but exports from the Butinge and from Novorossiisk and Yuzhny will be lower, due in part to some pipeline maintenance work, especially at Novorossiisk which is expected to see some 70 hours of down time starting on April 18th.

Australian oil producer Santos reported today that it had shut down production at its Mutineer-Exeter oil field off the coast of western Australia due to the approach of a tropical cyclone. Production at the 30,000 b/d field has been shut in since Monday night.

Chevron said today that it expects a 40% increase in its Angolan oil production over the next three years. Currently the company produces 481,000 b/d.

Petroecuador reported today that its oil production levels have returned to normal or at 200,200 b/d after a weeklong strike by contract workers earlier this month. Earlier company officials had warned it could take two months to return production levels to normal following conclusion of the strike.

Market Commentary

The NYMEX oil markets gapped higher this morning following a buying spree that began with the start of the day in Europe and continued steadily throughout the day. The bullish fever seemed to be maintained by a variety of headlines, coming to further refinery problems, Norwegian worker unrest, the lack of progress in returning shut in Nigerian production and the long term loss of Iraqi northern oil exports. But the steady pace of the buying seemed to be more reflective of new fund buying that seemed to keep rolling into the market. By the end of the day the May crude contract settled up just under $2.00 and at its highest level since February 6th. Prices also seemed to be drawn to the gap left in the charts since that time which coming into the day stood at $66.05-$66.70. For most of the day crude oil was the driver to the upside as it outpaced both products in the move to the upside. It was only a late spike in gasoline prices on the close that allowed the gas cracks to settle stronger for the fourth consecutive trading session. Despite the large gains registered on the day volumes were a bit disappointing with just 177,000 crude futures traded. While products were a bit better with heating oil and gasoline seeing 43,000 and 31,000 lots respectively booked it still was not outstanding considering today was an option expiration day in the products.

Technical Analysis

		Levels	Explanation
		$67.85, $69.00 & $70.10	Highs from Feb 6th and Feb 1st.
	Resistance	$66.34 & $66.70	62% retracement of the Feb sell off, top of gap from Feb 6th
CL	66.07, up $1.91		
	Support	$64.95-$64.44	Gap from today's opening
		$64.31, $63.73 and $63.14	Lows from March 21, March 8 and February 15
		191.60 & 192.30	highs from Feb 1st and January 20th
	Resistance	183.40 & 184.48	Today's high and trendline
HO	182.77, up 4.66 cents		
	Support	180.25, 176.62 & 176.43	Today's low, 20-day moving Average, Trend line support
		172.50,167.25-167.00, 162.55	March 21st low, Mid march lows, Feb 16th low
		197.60 & 199.50	Jan30th and Jan 20th highs
	Resistance	189.00	Today's high
HU	188.45, up 5.57 cents		
	Support	184.25, 182.74,180.80, 178.86	Tues low, 38%, 50% & 62% retracement of move 3/23-3/28
		176.43	Trendline support

Market expectations for tomorrow's inventory report appear to be calling for Crude stocks to be up 1.5-2.0 million barrels while distillate and gasoline are seen declining again this time by 1.5-2.0 million barrels.

We have to admit the pace and the extent of the upmove of this market surprised us today. The resistance we thought would be found at the $65.55-$65.64 was not even a speed bump as prices moved through this area before lunch time. It now appears to us that this market is intent on marching higher and looking to backfill the gap in the daily charts. We would look for the market to mark time until after the release of the EIA/API numbers tomorrow morning. Even if these inventories reports appear bearish, we fell that the bulls will quickly seize upon any sell off as a buying opportunity and still will drive this market higher to back fill this gap. But we still feel that over the intermediate term that this market still has one more downward move left in it before the summer and would look for this price spike as an opportunity to add to shorts or at least look to be a seller of out of the money calls in the May crude.