



## ***ENERGY RISK MANAGEMENT***

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### **ENERGY MARKET REPORT FOR APRIL 1, 2008**

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OPEC sources said OPEC would hold an informal meeting on the sidelines of the International Energy Forum, an oil producer-consumer conference, in Rome on April 20-22 to discuss whether current oil market developments warrant calling a special session to consider adjusting output. Meanwhile, the head of Libyan oil policy Shokri Ghanem said the meeting is yet to be confirmed but was being discussed. Sources however said a policy decision was unlikely at the meeting.

Iraq's southern oil exports stood at about 1.4 million bpd

on Tuesday. Iraq's southern oil production and exports have fallen by 100,000 bpd since a bomb attack on a pipeline last week. An Iraqi oil official said it was unclear if the flow had been restored yet.

#### **April Calendar Averages**

**CL** – 100.98

**HO** – 287.97

**RB** – 263.92

#### **Market Watch**

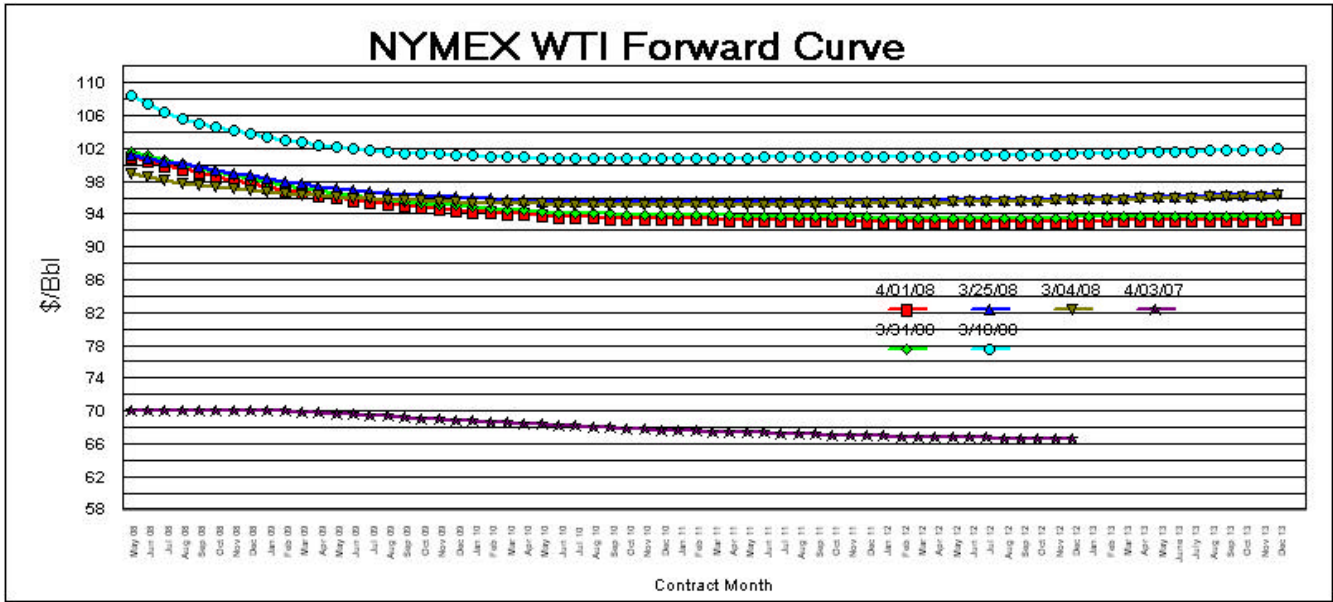
Russia's Tatneft said it was considering a joint project with Chevron after the head of the US oil major's Russian operations met the president of Tatarstan. Tatneft is expected to set up a joint venture with Royal Dutch Shell in mid-2008 to tap heavy oil deposits. The joint venture could produce about 5 million tons per year or 100,000 bpd at 12 bitumen deposits which Tatneft controls.

The Institute for Supply Management report on US manufacturing in March increased to 48.6 from February's 48.3 but remained below the 50 level, which separates growth from contraction. The report also showed an increase in inflation. The prices paid index increased to 83.5 from 75.5 a month earlier. In Europe, Italy and Spain reported outright contraction in manufacturing compared with growth in Germany and steady performance in France and Britain. In Asia, Japan's PMI index of manufacturing activity fell below 50 in March to 49.5. China's PMI, compiled on behalf of the National Bureau of Statistics, increased to 58.4 in March from 53.4 in February.

The Bank of Japan's quarterly tankan survey showed the index for large manufacturers' business sentiment fell to 11, down from 19 in the last survey released in December. Confidence at Japanese manufacturers has dropped to a four year low due to pressures from the falling dollar, increasing fuel prices and fears of a US slowdown. The survey also found that eroding optimism has led to the weakest capital spending plans by Japan's large firms in six years.

The International Monetary Fund cut its 2008 global economic growth forecast to 3.7% from its January estimate of 4.1% despite the financial crisis.

In northern Iraq, exports from the Kirkuk oilfields to Turkey continued to flow at about 480,000 bpd. Iraqi crude stored at the Turkish terminal of Ceyhan stood at about 4.3-4.4 million barrels.



Nigeria's senior oil workers' union, PENGASSAN, has withdrawn its industry wide strike threat after it reached a deal with the local unit of ExxonMobil over a labor dispute. The union had accused Exxon on Friday of renegeing on a series of agreements in the dispute over the firing of about 100 Nigerian workers by ExxonMobil. The union said Exxon agreed at talks with high level government officials to withdraw legal processes pending at an industrial court. Exxon said both parties had agreed to withdraw all lawsuits related to the labor dispute.

Royal Dutch Shell Plc chief executive Jeroen van der Veer said the company hoped Iraq would establish a national petroleum law by the end of the year, paving the way for investment in the country. Separately, he said he expected easy to produce oil and gas would likely peak in the next 10 years due to the depletion of maturing conventional resources and lack of access to remaining large reserves. Remaining resources would require increasingly costly investments.

The American Petroleum Institute said gasoline prices were high due to high crude oil costs and not a conspiracy to keep supplies low. The API said crude costs represent about 70% of the cost of gasoline. Last week, the Consumer Federation of America all but blamed big oil companies for conspiring to increase prices to their current levels. Chief API economist John Felmy said first quarter gasoline prices have only increased by 75 cents/gallon compared with a 94 cent/gallon increase in crude.

Independent truckers around the country pulled their rigs off the road while others slowed to a crawl on major highways in a loosely organized protest of high fuel prices. They believed the action may pressure President George W. Bush to stabilize prices by using the nation's oil reserves. Meanwhile in Washington, top executives of the five largest US oil companies said they know high fuel prices were hurting consumers but deflected any blame and argued their profits were in line with other industries.

Yemen's Oil Ministry said preliminary investigations into damage on a pipeline revealed a technical fault rather than a terrorist attack. No details were given on what pipeline had been affected or whether there had been any impact on production. An official was responding to reports that an al-Qaeda led group had carried out an attack on a pipeline operated by Total last Thursday. The group also said it fired mortars at an oilfield on Saturday.

MasterCard Advisors LLC reported that US gasoline demand in the week ending March 28 fell by 0.3% or 26,000 bpd to 9.273 million bpd. Demand in the latest week was down 1.7% on the year. The US average retail price of gasoline fell by 0.3% or 1 cent to \$3.27/gallon on the week.

### **Refinery News**

A small electrical fire at a power sub station at Valero Energy Corp's Houston refinery resulted in the shutdown of a gas compressor and a 9,000 bpd alkylation unit. The alkylation unit is expected to remain shut through Wednesday. The refinery's fluid catalytic cracking unit's operations were not affected by the alkylation unit shutdown. No material impact on production is expected due to the outage.

ExxonMobil Corp's 188,000 bpd Rotterdam refinery in the Netherlands has been partially shut for several weeks of maintenance. The Rotterdam refinery is expected to return to normal operations in late April or early May. Separately, ExxonMobil Corp said it would partially shut its 110,000 bpd Slagen refinery in Norway at the end of the week for annual planned maintenance.

ConocoPhillips is in the advanced planning stages of a project to upgrade its Wilhelmshaven refinery by adding hydrocracking and coking units. ConocoPhillips has intended to upgrade the refinery since it purchased it in March 2006 from Louis Dreyfus Energy Holdings Ltd.

CPC Corp shut its 25,000 bpd residual fluid catalytic cracking unit at its Dalin refinery starting March 27 for about two weeks of maintenance.

According to a Reuters survey, China's top refineries are expected to cut crude runs in April from levels in recent months due to planned maintenance. Twelve major plants would process 2.48 million bpd of crude in April, down from 2.5 million bpd in March and 2.52 million bpd in February.

PetroChina's Dalian refinery is expected to shut half of its 400,000 bpd refining capacity as well as relevant downstream facilities from mid-April for one month of maintenance work.

ExxonMobil's Japanese unit, TonenGeneral Sekiyu KK said it completed the sale of its majority stake in the Okinawa based refinery to Brazil's Petrobras. The 100,000 bpd refinery is expected to be upgraded to refine Brazil's heavier crudes.

The UK Retail Marketing Survey from the Energy Institute showed that more British drivers were switching to more efficient diesel cars as petrol sales continued to fall. Diesel sales in Britain increased 869,000 tons or about 4% to 21 million tons last year. In contrast, UK petrol sales has fallen by 17% over the last 10 years.

Brazil's Foreign Trade Ministry reported that the country's ethanol exports fell to 278.8 million liters in March compared with 365 million liters in February.

Official data showed that India's domestic oil product sales in February increased by 10.9% on the year to 11 million tons. India's domestic diesel sales increased by 18.1% on the year to 4.11 million tons. The official data also showed that India's crude oil imports increased by 8.1% on the year in February to 9.83 million tons. India's oil product imports in February increased by 32.6%, largely due to an increase in diesel, fuel oil and kerosene purchases by state run refineries.

Russia's crude oil exports from the Barents Sea Belokamenka terminal fell slightly in the first quarter of 2008. Crude oil shipments in January-March 2008 amounted to 690,000 tons compared with 750,000 ton in the first three months of 2007.

South Korea's Ministry of Knowledge Economy said the country's crude oil imports fell for the second consecutive month by 10.8% to 72 million barrels in March from 80.7 million barrels last year.

Indonesia's Pertamina said the country is expected to import 10.54 million barrels of oil products in May, including 5.8 million barrels of gas oil and 3.2 million barrels of gasoline.

Trader said about 200,000 tons more of Kazakh light sweet Caspian Pipeline Consortium Blend crude was available for export in April after pipeline maintenance was postponed. The postponement has led to more 85,000 tons cargoes being offered than usual and pushed the grade's premiums lower.

### **Production News**

According to a Reuters survey, OPEC's 12 members, except Iraq, produced 29.81 million bpd in March, down from 29.91 million bpd in February. Total OPEC production fell to 32.06 million bpd in March from 32.21 million bpd in February. It reported that Saudi Arabia's oil production was unchanged at 9.15 million bpd. Iraq's oil production fell by 50,000 bpd to 2.25 million bpd.

Dow Jones reported that OPEC's total oil production increased by 0.26% or 82,000 bpd to 32.25 million bpd. Production by the 12 members increased by 102,000 bpd to 29.97 million bpd. It reported that Saudi Arabia's production remained unchanged at 9.11 million bpd while Iran's production increased by 60,000 bpd to 4 million bpd. Iraq's production fell by 20,000 bpd to 2.28 million bpd.

Royal Dutch Shell Plc said that about 54,000 bpd of crude production in Gabon remained shut in amid an oil workers' strike that started several days ago. Oil workers unions were demanding various labor concessions from the oil industry. It restarted 6,000 bpd of oil production after the government requested it restart pumping. Shell said it would not resume production at its Gamba facility until a dispute with Gabon's National Organization of Oil Workers was resolved.

Separately, Royal Dutch Shell said an incident had caused a fire on a section of one of its oil pipelines in Nigeria but said production capacity and exports were unaffected. The affected section of the pipeline, known as the Trans Niger pipeline, which runs to the Bonny oil terminal, was still on fire. Shell said it had been unable to get access to the area due to security reasons. A second fire was also reported on another pipeline in the region that feeds Nigeria's largest oil refinery in Port Harcourt.

Nigeria's Oil Minister Odein Ajumogobia said Nigeria could succeed in increasing its oil production to a 2010 target of 4 million bpd. He said Nigeria already had the capacity to increase its production from 2.1 million bpd to 3.2 million bpd.

According to the Aberdeen Petroleum Report, UK oil production averaged 1.469 million bpd in January, down 0.6% on the month.

Norway's DNO said its production increased in February to 17,760 bpd from 17,355 bpd in January. It said its first quarter production would be above a target of 16,000 bpd.

Abu Dhabi National Oil Co has notified lifters in Asia it would supply crude at full contracted volumes for May as expected and unchanged on the month.

Brazil's Petrobras has started its first production of extra heavy oil from offshore fields. The vessel platform FPSO Cidade de Rio das Ostras started producing extra heavy oil from the Sire shallow water reservoir off the coast of Rio de Janeiro state. The platform has a capacity to produce 15,000 bpd.

The Financial Times reported that Colombia's heavy oil area could hold 20 billion barrels of recoverable resources. On Wednesday, Colombia's national hydrocarbons agency, ANH, is expected to release details of its second licensing round. Oil majors have been invited to bid for heavy oil exploration acreage in the Llanos Basin.

China's second liquefied natural gas import terminal is expected to receive its first shipment of gas before April 28.

Japan's Osaka Gas said it planned to buy 7.47 million metric tons of LNG in fiscal 2008-2009(April-March), up 1.1% from its expected purchase volume of 7.39 million tons in the previous fiscal year. It also planned to buy 67,000 tons of LPG in fiscal 2008-2009, up 26.4% from its estimated purchase volumes of 53,000 tons in the previous year.

OPEC's news agency reported that OPEC's basket of crudes fell further to \$98.63/barrel on Monday from \$99.77/barrel on Friday.

### **Market Commentary**

Basis the May crude oil contract, \$101.17 proved to be a profitable pivotal area we wrote about in yesterday's wire. The May contract settled below this level and should continue to work lower tomorrow, with \$98.34 the next downside objective. Upon examination of the forward curve, the middle to back end of the curve came under greater pressure than the front end. Until the front of the curve indicates weakness we would look for the nearby contracts to hold against the deferred and for backwardation to continue. Tomorrow's release of the API/DOE numbers is calling for a build of 2.1 million barrels in crude oil, a draw of 2.2 million barrels in gasoline and a draw of 1.5 million barrels in distillates. Although the products are expected to show a draw, we do not believe this to be significant enough to bolster prices. Demand is still low at a time when stock levels, especially for gasoline, are on the higher end of the average range. Overall we would look for the energy complex to come under further pressure and for the gasoline to gain strength against the heating oil and crude oil contracts. With this in mind, we would like to buy the May gasoline and sell the May crude oil and or the May heating oil contracts on a seasonal play. The May crack spread is seen targeting 10.96 followed by 11.37 and 14. Total open interest for crude oil is 1,396,612 down 5,192, May08 349,071 down 12,543, June08

178,395 up  
7,416 and  
Dec08  
202,200  
down 1,037.

			<b>Explanation</b>
<b>CL</b>	<b>Resistance</b>	102.55, 103.89, 104.91, 106.78, 107.63, 108.22	Previous highs
	100.98, down 60 cents	102.00, 102.55	Tuesday's high
	<b>Support</b>	99.55	Tuesday's low
		98.35, 97.54, 95.51, 86.34	50%retracement(86.33 and 101.86), Trendline, 62%, Previous low
<b>HO</b>	<b>Resistance</b>	305.39, 305.56, 305.63, 308.00, 308.74, 310.93	Previous highs
	287.97, down 2.64 cents	290.35, 292.75	Tuesday's high
	<b>Support</b>	285.45	Tuesday's low
		283.75, 279.23, 275.08, 273.27, 269.05	Previous lows
<b>RB</b>	<b>Resistance</b>	275.84, 276.72	Previous highs
	263.92, up 1.21 cents	266.50, 267.66	Tuesday's high
	<b>Support</b>	259.20	Tuesday's low
		259.08, 258.85, 251.94, 249.35	Basis trendline, Previous lows