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ENERGY RISK MANAGEMENT

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ENERGY MARKET REPORT FOR APRIL 7, 2005

According to the Wall Street Journal, Saudi Arabia has offered to produce up to its capacity to help buyers build up inventories. Citing a senior OPEC official, it stated that Saudi Arabia fears the price run up could backfire on oil producing countries by cutting world economic growth and energy demand. Earlier this week, Saudi Arabia also lowered its export prices in a bid to attract buyers of its crude for similar reasons. Saudi Arabia's move could however leave the world oil market with little spare capacity to pump oil in the event of a disruption to supplies. Also some OPEC and industry officials doubt that refiners and others will want to increase inventories of crude at the current high prices, which increase financing costs and post risks in the event of a price decline.

Market Watch

During the last day of open outcry at London's IPE, the electronic system for trading Brent crude and gasoil resumed working after its second outage on Thursday. From Friday, the IPE plans to switch to electronic only trading of its Brent and gasoil contracts.

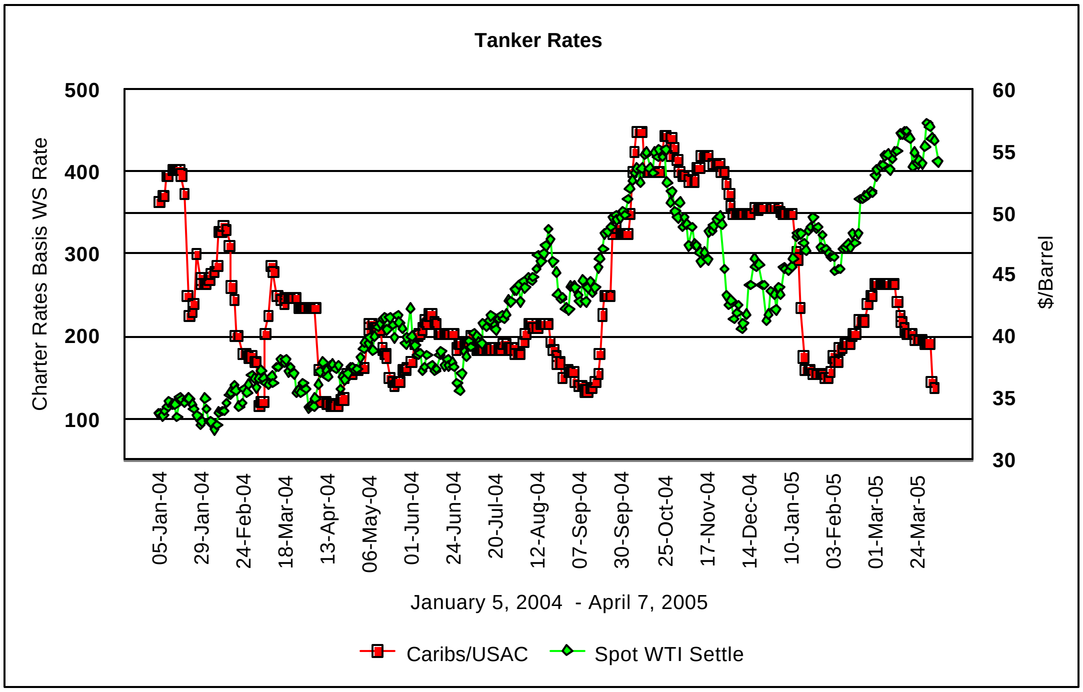
The IMF said China's increasing demand for oil, tight supplies and little spare capacity will keep oil prices volatile through 2030, with a possibility that oil prices can increase to $100/barrel. It forecast that China will consume nearly as much oil in 2030 as the US consumes now. It said that through 2010, oil prices will be subject to large swings as non-OPEC producers try to meet demand and from 2010 to 2030, the world will be more dependent on OPEC to meet demand. It forecast average world oil prices in a range of $39 to $56/barrel in 2030, in 2003 dollars or $67 to $96/barrel in nominal terms. For 2005, the average world price will be about $52.23/barrel. The IMF also estimated that world demand will increase to 138.5 million bpd in 2030 from 82.4 million bpd in 2004. China's demand will increase to 19 million bpd in 2030, more than triple its demand in 2004. It also stated that demand for OPEC oil will more than double to a range of 61 million to 74 million bpd by 2030. Separately, the IMF also urged China to improve its oil supply and demand data. It said more timely and accurate data is needed from China and other developing countries to help curb oil price volatility.

The IMF also stated that an increase in oil trading by hedge funds and investment banks in recent years has not contributed to the volatility of oil prices. It said much of the capital from hedge funds and institutional investors is invested in relatively passive indexfunds that track spot market and futures market oil prices. Recently several US lawmakers have asked the Government Accountability Office to investigate whether hedge funds are distorting the oil markets. Analysts estimate that about 75 commodity funds are active in trading energy futures, up from less than 12 last year.

The head of the Asian Development Bank, Haruhiko Kuroda said a renewed rally in oil prices, if sustained, would be a high risk to the Asian region. He said oil prices in the upper half of the $50/barrel range is too high. The ADB said the price of Brent was seen averaging $41/barrel in 2005. He said there would be a direct impact from high oil prices on countries such as South Korea, China, Thailand and Singapore.

Nigeria said it wants to create a commission to safeguard oil supplies in West Africa's Gulf of Guinea. Countries in the region lack effective deep sea navies and some have a history of coups and conflicts associated with wealth from their natural resources. The commission will look at the need for various interventions in security, safety and preservation of the region from all sorts of illegal bunkering activities.

In response to the Wall Street Journal article, the president of Marathon Ashland Petroleum, Gary Heminger said refiners are unlikely to follow through and increase their inventories, as oil prices are too high to justify holding excess stocks. The Saudi effort to produce at capacity to encourage an increase in inventories is a shift from its usual policy of trying to minimize growth in oil inventories during the spring to prevent an erosion of its pricing power.



Separately Nawaf Obaid, the head of the Saudi National Security Assessment Project, an independent consultancy that works closed with the Saudi government, said Saudi Arabia increased its sustained production capacity to 10.8 million bpd in February, up from 10.6 million bpd in January. The extra oil comes as it is bringing fields online to meet expectations of increased world demand. It is currently producing 9.5 million bpd and has offered to increase supplies to refiners. However analysts said the extra crude is Arab Heavy crude. Saudi Arabia can temporarily increase its output to 11.2 million bpd. Meanwhile Saudi Arabia's Oil Minister said Saudi Arabia could increase its production to 15 million bpd anytime over the next 15 years. Saudi Arabia has stated that it is speeding up plans to increase output capacity by 14% to 12.5 million bpd in four years. He said the country could maintain capacity of 15 million bpd for 100 years.

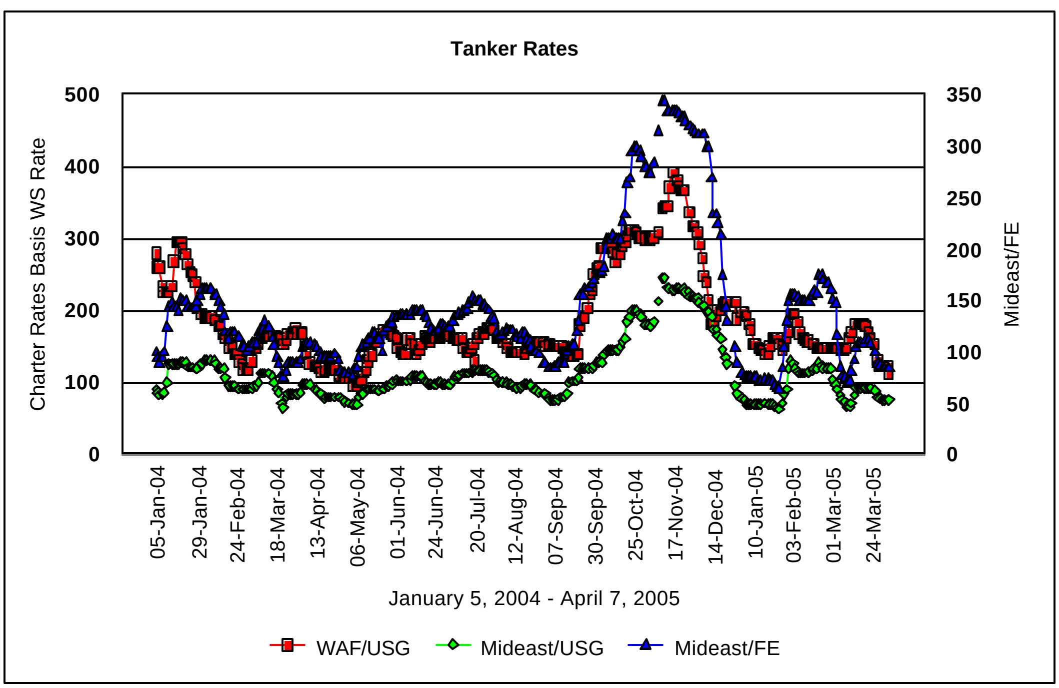
In its Short Term Energy Outlook, the EIA stated that gasoline prices in 2005 are expected to remain high, at an expected average of $2.28/gallon during the April-September summer season, 38 cents/gallon above last summer's price. Similar high gasoline prices are expected through 2006. Monthly average prices are expected to peak in May at about $2.35/gallon. It stated that gasoline demand is expected to reach an average of 9.3 million bpd this summer, up 1.8% from last summer. Gasoline demand in the second quarter was cut to 9.32 million bpd from 9.33 million bpd while its third quarter estimate was also revised down to 9.34 million bpd from its previous estimate of 9.42 million bpd. US refiners' summer production of gasoline should average 8.382 million bpd, up 0.5% on the year. Imports are expected to make up the difference to meet demand, with an average import estimate of 893,000 bpd. Despite high prices, demand is expected to continue to increase due to the increasing number of drivers and vehicles. The EIA also stated that world petroleum demand growth is expected to remain strong, despite high oil prices. However it is likely to moderate in response to slower Chinese growth. World demand growth for 2005 and 2006 are expected to average 2.2 million bpd or 2.6% per year, down from 3.4% growth in 2004. World oil demand is estimated at 84.8 million bpd in 2005, up from its previous estimate of 84.7 million bpd. World oil demand in the second quarter is estimated at 83.1 million bpd, up from its previous estimate of 83 million bpd. Its third quarter estimate was also revised upwards to 84.6 million bpd, up from its previous estimate of 84.5 million bpd. The EIA also stated that US petroleum demand is expected to average 20.9 million bpd in 2005, up 1.7% from its 2004 level. It is also up from its previous estimate of 20.8 million bpd. Demand in the second quarter is estimated at 20.67 million bpd, up from its previous estimate of 20.65 million bpd while third quarter demand is estimated at 20.95 million bpd, down from its previous estimate of 20.98 million bpd. The EIA stated that the already thin cushion of spare capacity will fall even further in 2006 to below 1 million bpd. It said oil prices are seen remaining above $50/barrel through 2006 due to capacity constraints. In regards to OPEC's production, it stated that total OPEC production increased slightly to 29.815 million bpd in March from 29.765 million bpd in February. The ten OPEC members produced 27.915 million bpd in March compared with 27.865 million bpd in February. Meanwhile, Iraq's production averaged 1.9 million bpd in March.

Nigeria's Presidential Adviser on Petroleum and Energy Edmund Daukoru said Nigeria could immediately increase its oil production by 40,000 bpd if OPEC decides to increase its output ceiling by another 500,000 bpd to lower oil prices.

According to Oil Movements, OPEC shipments in the four week period ending April 23 increased by 350,000 bpd to 24.23 million bpd, up from 23.88 million bpd in the period ending March 26. It said that after Middle East spot bookings declined for the past three consecutive months, shipments are increasing in April. It also almost all the export increase this week come from OPEC Gulf producers with extra volume split between Asian and Western refiners.

A Platts survey showed that OPEC's total oil production increased by 250,000 bpd to 29.83 million bpd in March from 29.58 million bpd in February. Production by the ten OPEC members, excluding Iraq, increased from 27.73 million bpd to 27.98 million bpd on the month. Saudi Arabia increased its output by 150,000 bpd to 9.4 million bpd while Iran increased its output by 50,000 bpd to 3.98 million bpd. Meanwhile Iraq's production was mostly unchanged at 1.85 million bpd.

Bloomberg reported that OPEC's production increased by 0.8% in March to 29.92 million bpd.



OPEC's news agency reported that OPEC's basket of crudes fell by $0.17/barrel to $52.10/barrel on Wednesday.

Kurdish leader Jalal Talabani was sworn in as interim president of Iraq on Thursday. The presidential council later nominated Shi'ite leader, Ibrahim al-Jaafari, as interim prime minister. Al-Jaafari has two weeks to name his cabinet, allowing the new government to begin drafting a permanent constitution. If approved, the constitution will pave the way for elections for a permanent government in December. Parliament speaker Hajim al-Hassani said outgoing Prime Minister Ayad Allawi turned in his resignation but was asked to conduct the day to day work of the government until a new cabinet is named.

Refinery News

Total shut its 97,000 bpd Grandpuits refinery in France last week for maintenance. The maintenance period is expected to last about five to six weeks. It is also expected to shut its 105,000 bpd Milford Haven refinery for maintenance in May.

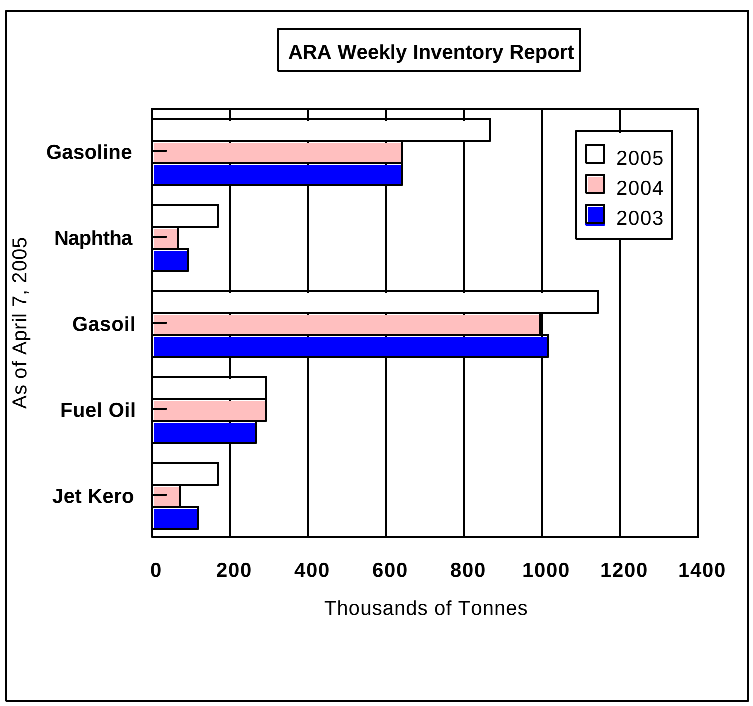
Production News

Oil product inventories in the Amsterdam-Rotterdam-Antwerp tanks were mixed in the week ending April 7th. Gasoil stocks fell by 25,000 tons to 1.15 million tons from last week's level of 1.175 million tons. Gasoline stocks however increased by 25,000 tons on the week to 875,000 tons while naphtha stocks were unchanged at 175,000 tons. Fuel oil stocks fell by 75,000 tons to 300,000 tons while jet fuel stocks fell by 25,000 tons to 175,000 tons on the week.

BP Plc said its existing oil and gas fields are posting production declines of about 3%. Some industry analysts have estimated that overall decline rates for existing producing fields could be as high as 8%, forcing companies to aggressively drill for new supplies to keep production levels from falling.

Suncor Energy Inc produced 137,000 bpd of oil from its oil sands facility during March. It said production during March was reduced by the impact of a fire that occurred in January.

Iraq's SOMO has cut the official selling price of its Basra Light crude to the US to $9.95/barrel below second month WTI in May compared with WTI minus $7.90/barrel in April. Its official selling price of Basra Light crude to Europe was cut to $8.50/barrel under Dated Brent compared with $6.95/barrel under Dated Brent in April. However it prices for Asia were increased to $1.50/barrel under the Oman/Dubai average compared with a discount of $1.75/barrel in April.



An analyst at the EIA stated that Brazil's Petrobras is gaining ground on Venezuela's PDVSA. The EIA stated that while PDVSA's production totaled 1.5 million bpd and Venezuela's total production is about 2.6 million bpd, Petrobras' domestic oil production exceeded 1.7 million bpd. The company expects to reach an average of 1.85 million bpd in domestic output by the end of 2005. It also produced 164,818 bpd outside of Brazil in February.

Russia's Sibneft has won an auction for the right to develop the Salym-5 block in the Khanty-Mansiisk region of Western Siberia. The block has estimated recoverable reserves of 19.6 million tons or 146 million barrels of oil. Last month, it won the auctions for Salym-2 and Salym-3 which have reserves of almost 50 million tons. Meanwhile, A Russian daily reported that Russia has canceled several auctions for rights to develop oil fields in Siberia to prevent Russian-British oil company, TNK-BP, from winning the rights to develop the fields. TNK-BP and Russian government officials did not comment.

Salym Petroleum has started shipments of oil through Russia’s pipeline network. Salym has three oilfields, two of which began trucking small amounts of oil for loading into the pipeline network on April 11. By November, the firm plans to have built 88 km of pipeline and a processing plant, enabling it to start pumping up to 120,000 bpd of crude into the national pipeline network in the fourth quarter.

Singapore’s International Enterprise said the country’s residual fuel stocks fell to 10.832 million barrels in the week ending April 6, down 545,000 barrels from the previous week’s level. It also reported that the country’s light distillate inventories fell by 889,000 barrels to 8.003 million barrels while middle distillate inventories fell by 212,000 barrels to 6.402 million barrels on the week.

Nippon Oil Corp said it has acquired rights in oil and gas blocks in the Gulf of Mexico from Devon Energy Corp of the US. Under the agreement it has purchased stakes in a total of 27 oil and gas fields. Combined production volume in the blocks stands at 13,000 bpd. It will increase Nippon Oil’s production to 168,000 bpd.

China’s Sinopec Corp plans to import 36 million metric tons of sour crude this year. It is up from 27.6 million tons of sour crude it imported last year. It also stated that it expects to process 14 million tons of crude this year.

Technical Analysis		
	Levels	**Explanation**
	56.59	Thursday's high
Resistance	55.00, 56.05	
CL 54.11, down $1.74		
Support	54.00, 53.77	Thursday's low
	52.50, 51.95	Previous low, 50%(45.70 and 58.20)
	160.40	Thursday's high
Resistance	153.80, 158.10	
HO 152.83, down 5.84 cents		
Support	151.00	Thursday's low
	149.50, 148.90, 146.00, 145.00	Previous lows
	166.30	Thursday's high
Resistance	158.00, 162.80, 163.20	
HU 156.80, down 9.12 cents		
Support	155.00	Thursday's low
	152.85, 152.70, 151.80	50% retracement (130.90 and 174.80), Previous lows

Indian Oil Corp’s crude oil imports will increase by 25% to 40 million tons or about 800,000 bpd in the year ending March 2006. It will import more crude oil due to refinery expansions and relatively lower imports in 2004/05 following unscheduled shutdowns of some of its units.

Mexico’s Pemex said it cut its May discount on exports of Maya crude to the US Gulf by 40 cents to $4.65/barrel. Its May discount on exports of Isthmus crude to the US was increased by 25 cents to $4.00 and its premium on exports of Olmeca crude to the US was unchanged at $0.05/barrel. It cut its discount on exports of May crude to Europe by 40 cents to $5.50 while its discount of Isthmus crude was cut by 40 cents to $3.06/barrel. Also, its discount on exports of Maya crude to Asia was unchanged at $8.95 while the premium of Isthmus crude was increased by 40 cents to $1.05/barrel.

Market Commentary

The oil complex tumbled sharply lower, with the gasoline market leading the complex to its lows as it extended its losses to over 10.9 cents on the day. The gasoline market drove the market lower despite the lack of any news or change in fundamentals. It opened 22 points lower at 165.70 and quickly posted its intraday high of 166.30. However the market erased its slight gains and continued its downtrend seen during the past few trading sessions. It backfilled its gap from 163.80 to 161.90 and tumbled to a low of 155.00 as sell stops were triggered. During the past few trading sessions, traders have been liquidating their crack spreads with the May gasoline crack settling down at 11.74 from Tuesday's level of 13.84. The May gasoline contract settled down 9.12 cents at 156.80. Meanwhile, the crude market opened higher at 56.40 in follow through strength seen in overnight trading and quickly posted an intraday high of 56.59. However the market followed in the gasoline market's footstep. It was surprising to see that despite the Wall Street Journal article stating that Saudi Arabia has offered to produce at its capacity, the crude market did not fall out of bed sooner in the session. The market later backfilled its gap from 54.90 to 54.20 and extended its losses to over $2 as it tumbled to a low of 53.77 late in the day. It settled down $1.74 at 54.11. Similar to the gasoline market, the heating oil market posted its intraday high of 160.40 on the opening but quickly retraced any of its gains as it sold off sharply. The market backfilled its gap from 158.50 to 156.60 and sold off even further as sell stops were triggered. The market sold off more than 8.67 cents as it tumbled to a low of 151.00 late in the session. It settled down 5.84 cents at 152.83. Volumes were excellent with over 312,000 lots booked in the crude, 83,000 lots booked in the gasoline and 76,000 lots booked in the heating oil. Meanwhile, open interest in the crude market continued to build for the fifth consecutive day, with a build of 9,105 lots as of Wednesday's session. Open interest in the May contract fell by 5,849 lots while the June contract built by 9,480 contracts.

The market, which may retrace some of its sharp losses early on Friday, is however still seen trending lower. Technically, the market still has room to the downside after stochastics crossed to the downside during today's session. The selling in the products may also continue as traders liquidate their long positions. If the market does breach its support at its low of 53.77, the market is seen targeting the 52.50 level followed by more distant support at 51.95. Resistance is however seen at 54.75, 55.00, 56.05 followed by its high of 56.59.