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ENERGY RISK MANAGEMENT

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ENERGY MARKET REPORT FOR MAY 17, 2005

OPEC reported today that crude output by all 11 members averaged 29.95 mbd in April, up 276,000 b/d from March. The group confirmed that it would increase its production capacity and it expects to accommodate increased demand in the fourth quarter of this year by increasing production once again. While the group expects world demand for oil to grow by 1.82 mbd this year this is some 80,000 b/d less than its prior forecast. The cartel lowered its demand forecast due to lower than expected first quarter demand from Europe and China. But the group noted that due to lower non-OPEC production, OPEC would need to produce 30.5 million barrels a day in the fourth quarter.

Refinery News

The Iranian Oil Ministry reported that it plans to

Market Watch

The U.S. Department of Labor reported this morning that U.S. wholesale prices in April increased at a faster than expected rate, growing by 0.6%, after jumping 0.7% in March. Economists had been predicting a 0.4% gain on the month.

The Federation of Indian Chambers of Commerce and Industry, forecasted that India's economic growth rate may fall by 0.4% and the nation's inflation rate may grow by an additional 1.5% over the next 12 months if oil prices remain above $50 per barrel. The Indian government currently is looking for the nation's economy to grow by 7% over the next 12 months. Current wholesale price inflation is running at 5.67%.

Officials at the Chinese Ministry of Agriculture confirmed today that China will begin an annual fishing ban from June 1st for many areas along its southern coastline, along the Guangdong, Hainan and Guangxi provinces. The ban lasts from June 1st through August 1st. A similar ban is scheduled for June through September in the East China Sea and the northern part of the Yellow Sea. The ban is intended to help preserve fishing stocks. Last year Hong Kong saw monthly gas oil imports fall to 120,000-150,000 tonnes during the ban, compared to its normal consumption of 350,000-400,000 tonnes per month. In addition fuel oil fired power plants in the Guanghdong province have suspended some operations and cut electricity generation in recent months due to soaring fuel oil prices and low government controlled electricity prices.

Chinese input commodity prices rose 2.8% in the year through April, slowing from a 3.5% rise a month earlier, the central bank reported. Meanwhile the Chinese government reported that retail sales in China rose 12.2% from a year earlier.

Japan reported that its economy grew faster than expected during the January-March period, expanding by 1.3%. This was the highest economic expansion in a year. Meanwhile a Japanese trade association reported that power generation in Japan in April was some 2.1% higher than a year earlier. This follows a 4% year on year gain in March.

The Federal Reserve Bank reported today that U.S. industrial production in April shrank by 0.2%. The bank also revised lower March's gain of 0.3% to only a 0.1% improvement.

Merrill Lynch reported today that according to its most recent survey of some 339 fund managers, it found that the group has become increasingly negative about prospects for the world economy and have begun rolling back their individual expectations for growth, corporate profits and inflation. Merrill noted that this group of mangers showed the most negative growth expectations since 2001, and indicated that a dramatic reassessment of investment strategy and economic views are underway.

expand the crude processing capacity at its Bandar Abbas refinery over the next three years to 480,000 b/d. Current capacity is estimated at 232,000 b/d.

PetroChina, China's largest oil and gas producer, announced it has begun providing 93 RON gasoline in Beijing which meets Euro III standards. The local Beijing government has decided to adopt the Euro III standards from July 1st to improve the city's air quality.

PDVSA reported today that it has restored to service the 54,000 b/d catalytic cracker unit at its El Palito refinery, which had been shut down earlier this month. The unit was restarted over the weekend and was now back to full operating levels. The company reported that the entire complex was operating at normal levels now.

BP's interim investigation report into the fire and explosion at its Texas City refinery in March shows that a series of failures by personnel at the facility led to the explosion and fire. The company accepted responsibility for the explosion and will pay compensation to those injured. The company also noted that a flare system would have reduced the severity of the incident.

Dow Jones reported that a 35,000 b/d hydrocracker at the Tesoro's 165,000 b/d refinery in Martinez, CA refinery was taken out of service late Monday for unknown reasons. The unit is expected to remain out of service for 3-4 days.

A propane leak at the ExxonMobil's 150,000 b/d Torrance, CA refinery Monday, reportedly forced the company to take an alkylation unit partially off line. Government air quality regulators reported that the problem had been rectified and the refinery had returned to full service by the afternoon.

Production News

OPEC's reference crude basket price dropped by 7 cents on Monday to $45.47 per barrel.

The president of Saudi Aramco said Monday that Saudi production currently is not exceeding 10 million b/d. The Saudi oil minister though said on Tuesday that his nation is ready to boost oil output further if needed. He noted that "very high or unstable" oil prices were not in the best interests of OPEC and other producing nations. He went on to say that Saudi Arabia had no plans to reduce its current production levels despite rising U.S. oil inventories, and would increase its output to meet higher fourth quarter demand. He estimated current Saudi oil production at 9.5 million b/d. The oil minister warned that higher crude oil supplies will not help bring down prices, as refinery bottlenecks are the main problems.

Meanwhile the head of the state owned Saudi Arabian Oil Company said today that Saudi Arabia's oil facilities are guarded by multiple layers of security and built in a way that allows the country to reroute up to 5 million b/d of crude oil in case of supply disruption, and export that oil via western facilities on the Red Sea.

The Russian Federal State Statistics Service reported today that Russian oil companies' oil output rose by 3.6% on the year in the January-March period to 114.2 million tones. In March oil output alone rose 4.3% on the year and 10.5% from February. Oil exports in the January-March period rose 0.6% on the year on year period, with exports in March alone down 2.1% from a year earlier.

Kuwait Oil reported yesterday that Kuwait oil reserves have increased to 97.3 billion barrels as the company has added 818 million barrels to its previous estimated deposits. Production last year averaged 2.4 million b/d. The company drilled some 73 new wells over the last year and upgraded 122 other wells to boost their production capacity. Cost of oil production in the country remains one of the lowest in the world at $1 per barrel. The company plans to signing a $1 billion contract to build a new export terminal by the end of the year as well as a contract to build a new oil storage facility with eight tanks.

A CIA analyst warned that gang violence ahead of Nigeria's 2007 presidential election threatens to disrupt exports from that nation. The analyst cited the violence and attacks against Western-owned oil installations that were seen during the run-up to the 2003 presidential election. She noted that there are few or no signs that the producing regions will be more stable in the near term. During the 2003 election upwards of 40% of crude oil output was shut in.

Chevron's CEO said today that he sees continued long term growth in oil demand that will justify investments in major oil projects. He felt that the market is not vulnerable to a price collapse that were recoded in the 80's and 90's, when the industry over invested in production capacity. Instead he sees continued growth in the middle class leading to ever higher demand.

NYMEX officials noted that its new freight futures have gotten off to a slow start this week but they were still optimistic that participation will ramp up in the coming weeks. The exchange plans to launch four additional contracts on May22nd. These contracts will be MEG to Japan 250 k MT; West Africa to USAC 130 k MT; North Sea to Continent 80k MT; and Rotterdam to USAC 37k MT.

The Venezuelan Comptroller General's office reportedly has begun investigating PDVSA's funding of Chavez's social outreach programs or "missions" due to a large and growing number of corruption allegations. The comptroller noted that PDVSA is a headache to audit because the transactions the company is involved in are so large.

		Technical Analysis	
		Levels	**Explanation**
		49.70 to 50.25, 50.35, 51.00	Remaining gap (May 12th), 50%, 62% (53.10 and 47.60)
	Resistance	49.30	Intraday high from May 12th
CL	48.97, up 36 cents		
	Support	48.05, 47.60	Past two days lows
		46.14, 45.75	Basis trendline support and Feb 9th low
		139.70, 141.65 & 143.60	Retracements of the down move from 14990-13340
	Resistance	139.40 to 140.00	Remaining gap (May 12th)
HO	137.39, up 2.36 cents		
	Support	134.70, 133.40	Tuesday & Monday's lows
		130.25-127.6	Gap from Feb 22nd
		145.70 to 146.30	Remaining gap (May 12th)
	Resistance	143.90 & 145.60	Today's high & 50% retracement of move 153.50-137.70
HU	143.52, up 3.00 cents		
	Support	139.30 & 137.70	Past two days lows
		136.17	Bottom of Channel support

Market Commentary

The oil markets jumped higher overnight on news of surprisingly strong economic news out of China and Japan. But this rally was quickly erased as OPEC released it revised demand outlook and the continued comments out of Saudi officials that oil production from the kingdom would be maintained and even increased by the fourth quarter. This coupled with a weakening economic picture in the United States, basis the latest producer price index and industrial production numbers released this morning appeared to reflect in weaker prices by the time the NYMEX began its regular day session prices. But shortly after the opening, prices began to rebound as the support level in the crude from yesterday afternoon held and buying in the products coming from commodity funds helped to drive prices higher. Minor refinery glitches reported at two west coast refineries appeared to re-enforce the comfort in buyers to continue to return to this market for the second day in a row. The June heat and gas cracks both settled higher today by 63 cents and 90 cents per barrels respectively. Final estimated volume was good with the majority of the activity being booked during the first two hours of trading. Crude futures saw 253,000 lots changing hands while heating oil and gasoline saw 38,000 and 47,000 contracts trading respectively.

While we feared that today's late price surge in crude oil might have been driven by option expiration and an attempt by some traders to squeeze $49.00 call shorts in the June crude, in the overnight market tonight,as the June contract settled at $48.97. But this threat appears to be non-existent as just 271 of the $49 calls were exercised and 415 contracts were abandoned.

This market continues to look for builds across the board basis tomorrow's inventory reports, with crude stocks growing by 750,000-900,000 barrels with distillate and gasoline stocks building by 1 million and 500,000 barrels respectively.

We are not ready to cast our lot with bulls that the price action over the past couple of days is the start of a new bull run in the oil markets. While the markets over the past two days have shown some resilience and rebounded, with gasoline leading the way retracing some 38% of the sell off from the past week, we still feel that the market remains in a downtrend. We see support in this position from continued ample supplies of crude oil on the world oil market, coupled with recent signs that high oil prices have damaged demand, as industrial production here in the United States showed a surprisingly large decline today, further supported by declining trucking activity in the U.S. and reports of lagging retail sales of gasoline as well. As a result we would look for tomorrow's inventory report if it comes in within expectations of builds across the board should pressure prices lower once again. We continue to look for this market to remain on the defensive (without a major supply disruption in crude or products) until inventory builds are halted.