



ENERGY RISK MANAGEMENT

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ENERGY MARKET REPORT FOR MAY 21, 2007

OPEC President Mohammed al-Hamli reiterated that oil markets remained well supplied and could even be seen as oversupplied. He said high prices were caused by US refining problems. Meanwhile, Qatar's Oil Minister Abdullah al-Attiyah said he was confident that there was no shortage of crude in the market and blamed international political tension for the rise in the price of oil. He said there was no need for OPEC to meet before its next scheduled gathering in September. Separately, the chairman of Libya's National Oil Corp, Shokri Ghanem said OPEC did not see the need to backtrack on its

Market Watch

Outgoing Nigerian Vice President Atiku Abubakar said he expected more militant attacks, including on energy infrastructure, to coincide with the inauguration of the new government. He said the government would likely respond with military force. Separately, an analyst said president elect Umaru Yar'Adua's expected appointment of Nasir El-Rufai as energy minister was a sign that the country is on a positive new path and indicated the new government would likely pursue negotiations with militants and communities.

Iran signaled on Monday it would delay this week's planned gasoline rationing and price increase, which has sparked confusion and concern about the impact on the poor in the country. Iranian state television said the government's plan to limit the sale of heavily subsidized fuel and increase the price by 25% would be delayed until Tuesday. President Mahmoud Ahmadinejad's government has stated that rationing and a higher price would help reduce Iran's heavy reliance on imports, particularly when Iran faces further UN sanctions.

Leading producers of ethanol and biodiesel said their industries faced serious barriers to meeting the 2017 growth targets outlined last week by President George W. Bush to reduce the country's dependency on gasoline. The Bush administration's plan included a goal to produce 35 billion gallons of renewable and alternative fuels by 2017. They stated that the industry's ability to increase production beyond 15 billion gallons would be constrained by feedstock limitations and infrastructure concerns.

IntercontinentalExchange's new Dubai sour crude oil futures saw modest trade in its Monday debut. This followed the Dubai Mercantile Exchange's, a joint venture between NYMEX, Dubai and Oman, announcement that it was delaying the launching of its Oman futures contract until June 1. ICE's Dubai is based on the Platts price system.

The NYMEX announced that margins on its RBOB contract would increase to \$9,450 from \$8,100 effective as of the close on Tuesday.

General Atlantic LLC said it has cut its stake in NYMEX Holdings Inc to 6.8%, selling about 1.9 million shares between March 27 and May 17. It has purchased a 10% stake in NYMEX in March 2006.

Kuwait has decided to drop its exchange rate peg to the dollar and has adopted a basket of currencies instead.

previous decisions to cut production by 1.7 million bpd. He also stated that there was no need to hold a meeting before its scheduled meeting in September.

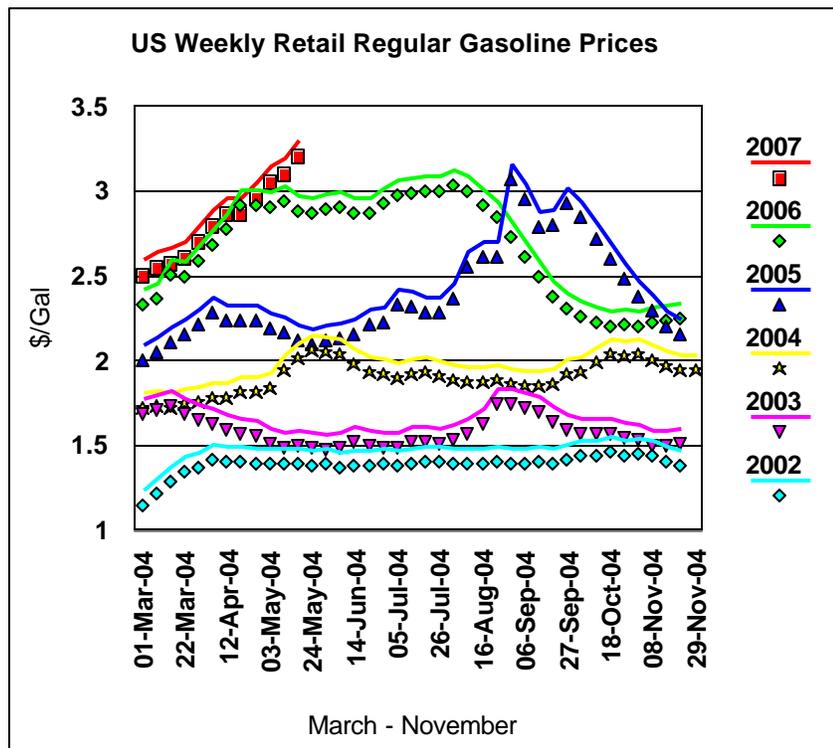
A senior Iranian official at the National Iranian Oil Co, Mohammad Ali Khatibi said the price of oil is expected to increase this fall and winter because non-OPEC countries have failed to raise production meet demand. On Friday, another senior Iranian official said oil prices would rise further because the market was concerned about constrained gasoline supplies for the US market ahead of peak summer demand.

The nuclear standoff between the West and Iran deepened over the weekend when Iran said that construction had started on its first domestically built nuclear power plant. The deputy head of the atomic energy agency said the planned facility would have a capacity of 360 MW in a statement underlining Iran's determination to press ahead with its nuclear program despite Western suspicions. Meanwhile, Iran's Foreign Minister Manouchehr Mottaki said nuclear talks with the EU were likely to take place in Spain this month.

Nigerian union leaders said oil and gas workers would strike on May 24 to protest the sale of the government's stake in the Port Harcourt refinery to Bluestar Oil Services Ltd. Meanwhile the militant group, the Movement for the Emancipation of the Niger Delta, said it had no plans to attack a refinery in Port Harcourt to protest the government's sale of its stake in the plant last week.

Nigerian police reported that two Indian foreign workers were kidnapped on Saturday by gunmen in Nigeria's Port Harcourt. Indian authorities said the men's employer, Eleme Petrochemical Co received a ransom demand from the hostage takers. The militants had originally taken 10 workers from the residence but soldiers engaged them in a gunfight and rescued the others.

Iraq's Deputy Prime Minister Barham Salih said Iraq was still hopeful of agreeing on a draft oil law this month that would allow parliament to pass it soon.



The head of the EIA, Guy Caruso said record gasoline prices are expected to continue until at least June due to ongoing US refinery production problems and low imports. He concurred with suggestions that US retail gasoline prices had not reached a peak yet. The EIA later reported that the US average retail price of gasoline increased by 11.5 cents/gallon to \$3.218/gallon in the week ending May 21. It also stated that the US average retail price of diesel increased by 3 cents/gallon to \$2.803/gallon on the week.

The EIA also reported that monthly ethanol imports to the US in March fell by 33% to 629,000 barrels in 14 shipments. Seven out of the 14 March shipments were bound for

East Coast ports compared with 10 out of 14 shipments in February. Four of the East Coast shipments or 337,000 barrels were received in New Jersey compared with 860,000 barrels to the region in February while New York received 97,000 barrels and Connecticut received 56,000 barrels. Imports to Houston increased to 126,000 barrels. It stated that imports from Brazil fell by 524,000 barrels in March to 48,000 barrels.

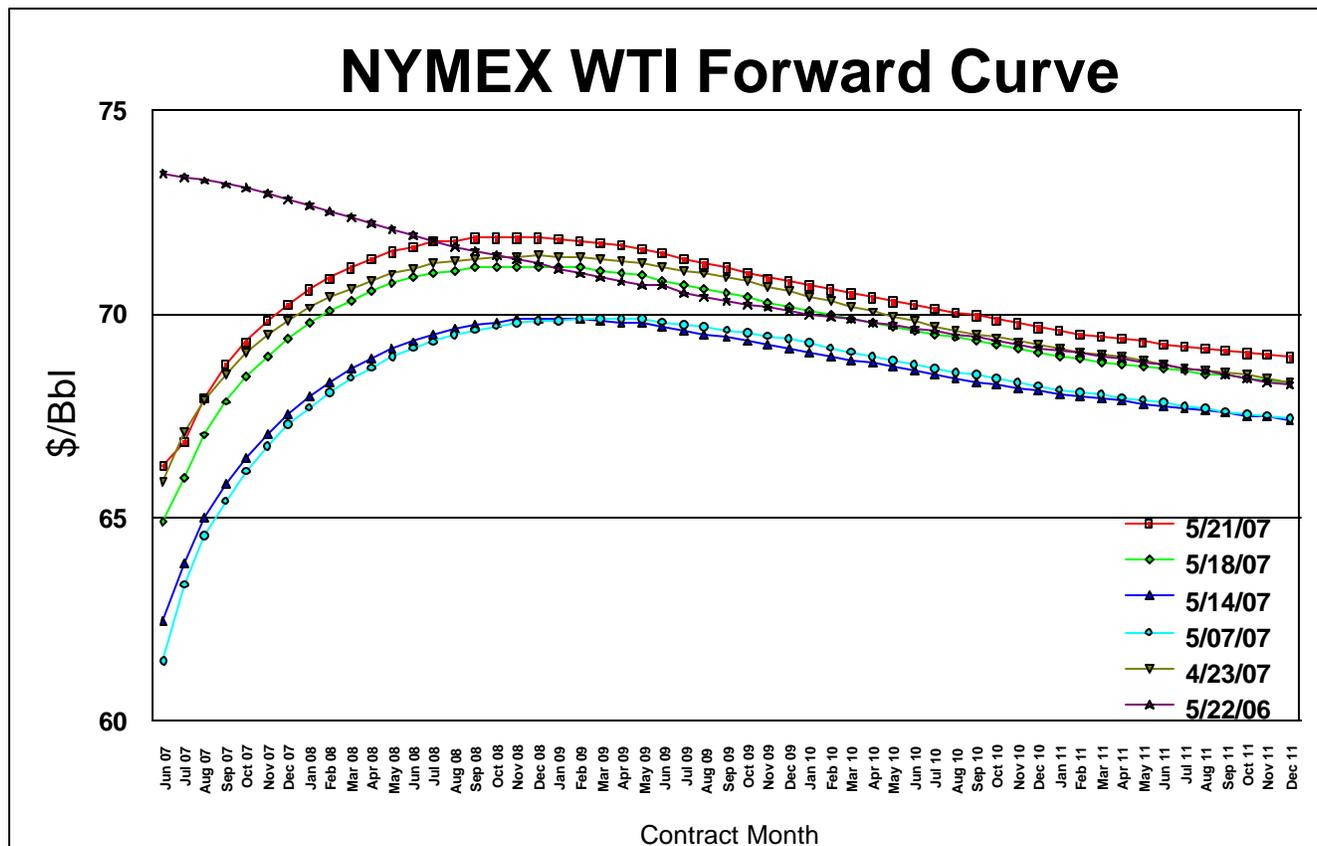
According to the Lundberg survey, US average retail gasoline prices increased 11.43 cents/gallon to \$3.18/gallon in the past two weeks as refinery maintenance and repairs curtailed production.

Refinery News

US refining margins in inland regions and on the Gulf Coast increased again last week amid tight gasoline supplies in mid-continent markets. Refinery margins in the Midwest increased by \$4.38/barrel to \$42.16/barrel in the week ending May 18 while margins in the Gulf Coast increased by \$3.58/barrel to \$33.62/barrel on the week. Credit Suisse said refinery utilization rates are expected to increase in the coming weeks while imports are expected to hold between 1.3 and 1.5 million bpd.

A unit upset triggered flaring at Tesoro Corp's 100,000 bpd refinery in Wilmington, California on Saturday. A notice filed with the California Office of Emergency Services did not specify which unit at the refinery suffered a malfunction. It said operations at the refinery were unaffected by the upsets. A 36,000 bpd fluid catalytic cracking unit suffered an upset on Thursday night.

Valero Energy Corp said a wet gas compressor failure caused flaring at its 295,000 bpd refinery in Port Arthur, Texas on May 19. Meanwhile, Valero Energy said it was still running its 130,000 bpd refinery in Houston, Texas at reduced rates due to boiler problems. The refinery is not expected to resume normal operations until the weekend. It suffered operational problems last week resulting in a production loss of 64,000 bpd of gasoline and 44,000 bpd of distillates.



ExxonMobil started scheduled work on a 240,000 bpd crude unit, sulfur plant and a coker unit at its 349,000 bpd Beaumont, Texas refinery. The planned work is expected to last for 30 days.

ConocoPhillips said it planned to restart a 24,000 bpd fluid catalytic cracking unit at its Ponca City, Oklahoma refinery early this week after unplanned repairs. The unit was shut late on Thursday.

BP restarted a 52,000 bpd fluid catalytic cracking unit at its 155,000 bpd Toledo, Ohio refinery over the weekend. The unit was shut on April 20 after it lost power. It is expected to resume normal operations by the end of the week. Repairs to its 410,000 bpd refinery in Whiting, Indiana are still continuing through May with partial restarts expected in June.

Separately, BP's gas oil hydrotreater at its Texas City, Texas refinery resumed operations over the weekend after being shut ahead of Hurricane Rita in August 2005.

ExxonMobil confirmed on Monday it had restarted a 125,000 bpd crude distillation unit at its Singapore refinery that was shut since May 3 following a fire.

Preem Petroleum is expected to operate its 125,000 bpd Gothenburg refinery at reduced capacity for about three weeks after it resumes operations in early June.

Japan's Nippon Oil Corp said it expects to refine 5% less crude in June due to refinery maintenance.

Low water cargo surcharges remained in force along the Danube in Germany but were no longer being imposed on the Rhine River following an increase in water levels. Water levels fell over the weekend along the Danube and surcharges were likely to remain in force in the coming days.

Asian refiners purchased 1.42 million bpd of West African crude for June, up 380,000 bpd from the previous month and the highest since April 2006. China purchased 760,000 bpd, up 178,000 bpd from May. Trades attributed the surge in purchasing to a rise in heavy crude prices in Asia compared to West African grades.

Production News

Royal Dutch Shell has resumed normal production levels at its 400,000 bpd Bonny Light oilfields in Nigeria. Shell started restoring production last week after it was forced to cut output by 170,000 bpd due to a protest by local villagers. The force majeure however remained in place for Bonny Light shipments.

Total said attacks on abandoned oil wells located at one of its onshore production facilities near Port Harcourt would not impact oil flow. The attackers caused a couple of barrel's worth of oil to spill but Total's overall Nigeria oil production was not affected.

Kazakhstan's State Statistics Agency said the country's crude oil and gas condensate output totaled 22.351 million tons in January-April 2007, up 9.7% on the year. Its crude oil production increased by 7.1% on the year to 18.204 million tons in January-April while its crude production in April alone increased by 5.7% on the year to 4.697 million tons.

Mexico's Pemex reported that Mexico's crude production averaged 3.164 million bpd in the first four months of the year. Mexico's oil production in April was unchanged at 3.182 million bpd. It said oil exports in the first four months of the year averaged 1.703 million bpd while its exports averaged 1.679 million bpd in April compared with 1.782 million bpd in March.

China said it has set temporary import duty for fuel oil at between 0 and 3% effective June 1, down from the current rate of 6%. The Ministry of Finance said the move to keep the import rate, including for fuel oil and coal, at a temporarily lower rate was to encourage international purchases.

South Korea's oil products demand increased by 8.4% on the year to 2.17 million bpd in April. It reported that naphtha demand increased by 40% on the year amid the expansion of petrochemical plants. Despite the increased products demand, South Korean crude imports fell to an average of 2.27 million bpd in April, down 16% on the month. Crude runs fell by 7.6% on the month in April but were up 2.1% on the year at 2.35 million bpd.

OPEC's news agency reported that OPEC's basket of crudes increased further to \$65.88/barrel on Friday from Thursday's \$65.14/barrel. OPEC also reported that OPEC's basket of crudes increased by \$2.29/barrel to an average \$64.55/barrel in the week ending May 18.

Market Commentary

Today's market traded higher with the move based on technicals. Basis the spot continuation chart, there is a trendline set at 66.56 stemming from the highs of mid-March. The July, which will be the front month after June goes off the board tomorrow, has surpassed this mark falling just 2 cents shy of the 67.12 trendline which can be drawn on the July daily chart. We would look for more upside movement in this market and would like to see a test of the 68.60 area. Current resistance is set at 67.12, 67.78, 68.09 and 68.58, with support set at 66.40, 65.56, 65.28 and 64.68. As mentioned in previous wires, we liked buying the Sept07 contract versus selling the Dec07 contract, with a break above -1.60. This spread has played out nicely for us so far and had experienced a -1.60 - -1.45 range today. We would look for further strength basis the Sept contract and are looking for a test of -1.00. Upon examination of the forward curve chart, the front part of the curve continues to can strength against the middle to back end months. Open interest in crude was 1,386,605, down 41,590. Open interest in the June contract fell by a total of 44,635 on liquidation ahead of its expiration on Tuesday. The RBOB market continued to see some further profit taking as it settled down 64 points at 240.13. The market, which opened up 68 points at 240.98, sold off to a low of 236.10 early in the session on amid some reports stating that refineries were restarting units that were shutdown recently. However the RBOB market bounced off its low and rallied back above the 242.00 level before it retraced some of its gains ahead of the close. Meanwhile, the heating oil market settled up 3.57 cents at 195.09 after it rallied to a high of 196.00 and settled in a sideways trading pattern. The markets on Tuesday are like to retrace today's losses amid the strength in the crude market. The RBOB market is seen remaining headline driven. Support is seen at 239.00, 237.40 and 236.10. Meanwhile resistance is seen at

242.62 followed by 244.22 and 246.77.

Technical levels		
	Levels	Explanation
CL 66.27, up \$1.33	Resistance 67.78, 68.09, 68.58	Previous high
	Resistance 67.10	Monday's high
	Support 66.61, 66.40, 65.56, 65.28 64.68	Monday's low
HO 195.09, up 3.57 cents	Resistance 196.80, 201.50	Previous highs
	Resistance 196.00	Monday's high
	Support 193.50, 191.50, 190.35 189.31, 187.25, 187.08, 185.18	Monday's low 38% retracement (178.49 and 196.00), 50% Previous low, 62%
RB 240.13, down 64 points	Resistance 244.22, 246.77	Previous high, Basis trendline
	Resistance 242.62	Monday's high
	Support 239.00, 237.40, 236.10 235.12, 232.99, 229.53, 226.52, 226.06	Monday's low Previous low, 38% (214.83 and 244.22), 50% Previous low, 62%