



ENERGY RISK MANAGEMENT

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ENERGY MARKET REPORT FOR MAY 24, 2007

The head of the UN's IAEA, Mohamed ElBaradei said Iran was three to eight years away from producing a nuclear weapon if it decided to take that route. He urged the US and other Security Council members to abandon their rhetoric in their bid to get Iran to halt its nuclear program. He said Iran could only be kept away from nuclear arms through a comprehensive dialogue. He said his top priority was to prevent Iran from achieving industrial scale production of enriched uranium and to make room for a negotiated settlement. However he said the agency had no evidence that Iran was trying to

achieve industrial scale production of enriched uranium or of undeclared nuclear facilities operating in the country. However Iran's President Mahmoud Ahmadinejad vowed to proceed with Iran's nuclear

Market Watch

The DOE said it would sell about 35,000 barrels of home heating oil from the Northeast Home Heating Oil Reserve. The reserve's current five year storage contracts expire on September 30. It said it would use the revenue to supplement funds for the award of new long term storage contracts that are set to start on October 1. The sale from the reserve, which represents 2% of the heating oil reserves, would start June 13, 2007.

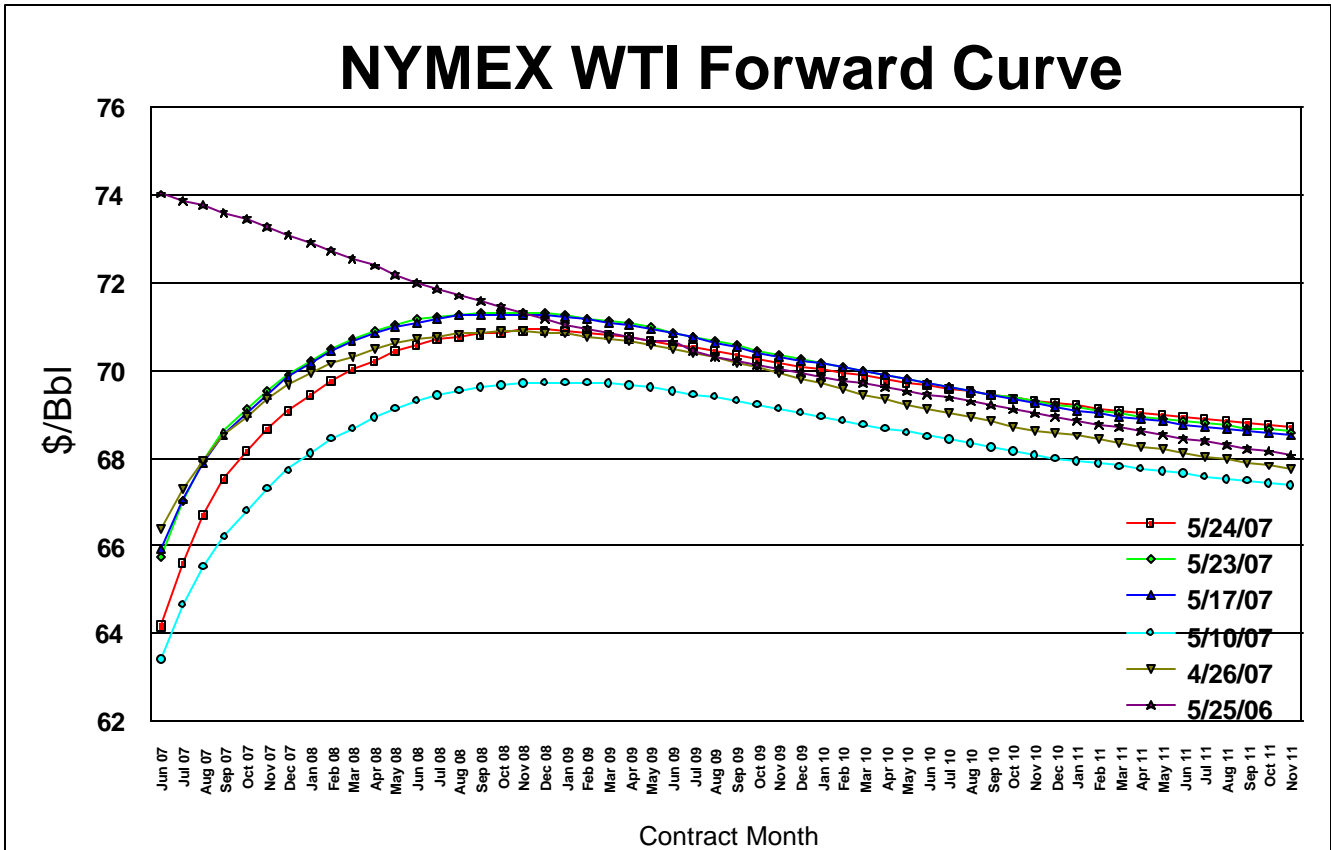
The IMF said it did not think the increase in oil prices and its effect on US consumer spending would have a tangible impact on world economic prospects.

Vitol said oil was about \$10 off levels that would sharply impact consumption, though recent data showed demand from top users was holding up at current prices.

Late Wednesday, legislation that would penalize oil companies up to \$150 million if they were found to be price gouging on their petroleum products was passed by the US House of Representatives by a two thirds majority. The Senate is expected to consider a similar bill next month as part of a bipartisan energy package. White House officials however threatened to veto the bill.

IntercontinentalExchange announced that the new ICE Middle East Sour Crude futures contract was off to a strong start. The contract reached trading volumes of 3,868 on Wednesday, its third trading session. Meanwhile, Vitol and Koch said they would trade both of the new sour crude futures contracts on ICE and the Dubai Mercantile Exchange, when it launches its Oman sour crude contract on June 1.

The NYMEX announced the margin rates for the new Dubai Mercantile Exchange contracts that are scheduled to begin trading on June 1. Margins for the Oman crude futures contract for customers would be \$4,658. It said margins for the WTI-Oman financial spread futures contract would be \$2,093 while margins for the Brent-Oman financial spread futures contract would be \$1,958 for customers.



program. He ruled out any temporary suspension. He accused the West of trying to stop Iran's nuclear program in order to reduce its influence in the world. Separately, Iran's President warned Israel it would be uprooted if Israel made any move against and attacked Lebanon in the coming summer.

US President George W. Bush said that the US would work with its allies further sanctions to combat Iran's efforts to advance its nuclear program. He said they would continue to pressure Iran. Meanwhile, China's Foreign Ministry said relevant parties should intensify diplomatic efforts and adopt a constructive approach to resume the talks and agree on a solution. This followed Wednesday's release of an IAEA report stating that Iran was expanding its nuclear enrichment program and the arrival of US ships in the Persian Gulf for exercises.

The US Navy started war games in the Persian Gulf on Thursday. The USS John C. Stennis, USS Nimitz and the USS Bonhomme Richard are part of the group of nine ships that entered the Gulf on Wednesday for unannounced exercises. The drills would include exercises to defend against air, surface and submarine threats.

According to Oil Movements, OPEC's oil exports are expected to increase by 90,000 bpd in the four weeks ending June 9 to 24.13 million bpd. It said the increase was mostly due to incremental demand in Asia where the refinery maintenance season was ending.

Refinery News

Valero Energy Corp said it was forced to shut a fluid catalytic cracking unit at its McKee, Texas refinery due to a catalyst circulation problem. The unit is expected to resume operations within two weeks.

During this time, Valero said it expected losses of 30,000 bpd of gasoline and 3,000 bpd of jet fuel. It is expected to cut its crude rates slightly to 80,000 bpd.

ConocoPhillips' said it was beginning the restart process on portions of its 247,000 bpd Alliance refinery in Belle Chasse, Louisiana after it suffered a power failure Wednesday afternoon due to a storm. Its fluid catalytic cracking unit was among the units it was restarting on Thursday.

Refinery production in California increased to its highest level since January 5. California Energy Commission data showed that production of CARB reformulated gasoline increased by 7.2% in the week ending May 18 and was up 9.9% above last year's level. The AAA reported that gasoline prices in California fell 0.7 cents/gallon on Thursday to an average of \$3.435/gallon, down from the May 9 peak of \$3.49/gallon. The nationwide price for regular gasoline stood at \$3.227/gallon, up 40 cents from a month ago.

Norway's Statoil said its refining operations at its Mongstad refinery would not be affected by a fire at a nearby oil tank facility.

Belgium oil sector workers agreed on a collective labor deal, averting a strike at the country's oil refineries.

Oman Refining Co is scheduled to receive bids for the supply of two cargoes of gasoline to be delivered in June to meet shortages arising from an unscheduled shutdown at Oman's refinery in Sohar. Each cargo would consist of 220,000 barrels of gasoline. The 116,400 bpd Sohar refinery is expected to resume operations in early June.

Japan's Idemitsu Kosan Co said it resumed production from a fire hit reduced crude desulphurization unit at its Aichi refinery on Tuesday. Runs at a 160,000 bpd crude distillation unit and a 50,000 bpd catalytic reforming unit have been increased in line with the start of operations of the fire-hit unit.

Production News

Chevron Corp said 51,000 bpd of oil production in Nigeria was resuming after it was shut early this month due to militant attacks. It includes 15,000 bpd of production shut in at an offshore oil facility three weeks ago and 36,000 bpd from the Abiteye flow station. Meanwhile, Italy's Eni said it could lift its force majeure on its Brass River exports within a week. Separately, the Movement for the Emancipation of the Niger Delta said it planned to free six Chevron Corp oil workers in coming days. The workers were kidnapped from an offshore oil facility. The militant group however reiterated it was planning more attacks on oil installations before Nigeria's new president Umaru Yar'Adua, takes office on Tuesday.

Nigerian National Petroleum Co workers started an indefinite strike on Thursday and stated that they would target oil production if their demands were not addressed within days. The strike, which is linked to the privatization of the country's largest oil refinery last week, is expected to impact domestic fuel supplies first. If their demands were not addressed, they would extend the strike to the upstream sector. A separate two-day strike is planned by all Nigerian unions on Monday and Tuesday, however they previously stated that the action would not affect oil production.

Iraq's Oil Ministry said a small fire erupted in a well near the Iraqi city of Kirkuk. It was not clear what caused the fire at the nonfunctioning well but an investigation was underway. Earlier, an official from the North Oil Co said vandals sabotaged the well.

Agip KCO, which operates the Kashagan oilfield said well tests at Island A confirmed the preliminary evaluation of initial yield of over 35,000 bpd. It said the well test results showed there was a potential yield of over 120,000 bpd for all the wells at Island A. Kashagan holds oil reserves of up to 13 billion barrels.

A tanker loaded with 1.7 million barrels of oil arrived at China's second oil reserve base in Aoshan. Ten new tanks totaling 7.6 million barrels at Aoshan were ready for use. The reserve scheduled for completion next year would have total capacity of about 32 million barrels.

India's Oil Ministry reported that the country's domestic oil product sales increased 5% on the year to 10.27 million tons. India's diesel sales increased an annual 8.4% to 3.96 million tons in April while naphtha sales increased an annual 4.8% to 1.05 million tons. It reported that India's crude oil imports increased by 34.9% to 10.99 million tons. Its oil exports in April increased by 89.1% on the year to 2.71 million tons.

Japan's Ministry of Finance stated that Japan's crude oil imports fell by 16.4% on the month to 19.569 million kiloliters or 4.1 million bpd.

Singapore's International Enterprise reported that the country's residual fuel stocks fell by 504,000 barrels to 14.727 million barrels in the week ending May 23. It reported that its light distillate stocks fell by 35,000 barrels to 8.449 million barrels while its middle distillate stocks fell by 855,000 barrels to 8.123 million barrels on the week.

OPEC's news agency reported that OPEC's basket of crudes fell to \$66.18/barrel on Wednesday, down from \$66.50/barrel on Tuesday.

Market Commentary

Based upon today's price activity, we would still consider the market to be in a period of consolidation. The July contract tested the 64.25 area, we mentioned two wires ago, penetrated it, touching off sell stops that pushed the market to a low of 63.82. This consolidation pattern should still be in effect as long as July can hold its strength above 62.35. We would like to take advantage of this sideways pattern buying and selling at the list support and resistance numbers. Support is set at 63.82, 63.40, 63.20, 62.91, 62.65 and 62.35. Resistance is set at 64.25, 64.78, 65.05, 65.31, 65.77 and 66.15. With Sept7/Dec7 trading back below -160 we would have exited our position, and would wait on the sidelines before taking it up again. In comparison to the front end of the curve, the back end held its strength with Dec7/Dec8 trading in a range between -175 - to -241. We would look for this spread to possibly

widen out to -2.60 before beginning to narrow. While the oil market sold off as further refinery problems indicated that there was less demand for crude from

Technical levels		
	Levels	Explanation
CL 64.18, down \$1.59	Resistance 64.25, 64.78, 65.05, 65.31, 65.77	66.15, 67.00 Double top, Previous high
	Support 63.40, 63.20, 62.91, 62.65, 62.35	63.82 Thursday's low Previous lows
HO 192.91, down 32 points	Resistance 194.15, 195.20, 195.69	196.00, 196.80 Previous highs Thursday's high
	Support 190.20, 189.31, 187.25, 187.08	192.20 Thursday's low Previous low, 38% retracement (178.49 and 196.00), 50% Previous low
RB 235.69, up 4.65 cents	Resistance 240.25, 242.62, 244.22	236.80 Previous highs Thursday's high
	Support 226.30, 224.45	233.00, 229.80 Thursday's low Previous lows

Cushing, Oklahoma, the RBOB market rallied. The RBOB market was well supported on reports that Valero shut a fluid catalytic cracking unit at its McKee refinery for two weeks, cutting gasoline production by 30,000 bpd during the period. The market bounced off a low of 229.80 and extended its gains to over 5.7 cents as it rallied to a high of 236.80. The market later erased some of its gains but remained supported ahead of the close and settled up 4.65 cents at 235.69. The July RBOB crack spread widened out once again over 30.00 and settled at 30.87. The spread is seen testing its recent high of 32.40 amid the refinery problems, which have kept the gasoline market well supported. The RBOB market is seen continuing to trend higher on Friday ahead of the long holiday weekend. The RBOB market is seen finding support at 233.00 followed by its low of 229.80, 226.30 and 224.45. Meanwhile resistance is seen at 236.80 followed by 240.25, 242.62 and 244.22.