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ENERGY MARKET REPORT FOR MAY 26, 2006

Market Watch

Venezuela's government said a royalty increase to 33.3% on Venezuela's oil production would come in effect next week, increasing contributions from oil majors such as Exxon Mobil Corp and ConocoPhillips.

The American Trucking Associations' advanced seasonally adjusted Truck Tonnage Index increased by 2% in April, following a revised 2.9% fall in March. The latest increase put the seasonally adjusted index at 112.6. The non-seasonally adjusted index fell by 9.5$ to 107.8.

Algeria's Energy and Mines Minister Chakib Khelil said OPEC would keep its crude oil production unchanged when it holds an extraordinary meeting on June 1 in Caracas, Venezuela. He said the current market situation did not justify neither a ceiling increase nor a cut of OPEC's output level.

According to the Cambridge Energy Research Associates, signs of weak demand are clear, but the degree of weakness may be overstated. It stated that while the EIA has estimated US gasoline and total oil demand for the January to May period at 0.3% and 0.1%, respectively, they are small gains in relation to economic growth. US GDP in the first quarter expanded at an annual rate of 5.3%, the fastest rate since 2003. The demand weakness could partially be attributed to the effects of high prices as airlines have reduced the number of flights and commercials truckers seek to cut their fuel consumption. However it is possible that the initial estimates understate demand. In recent years, final estimates for US oil demand have tended to be higher than initial estimates. It stated that weak first quarter demand combined with slightly lower expectations for European demand growth have contributed to a downward revision of world oil demand growth in 2006 from its previous estimates of 1.7 million bpd to its current outlook of 1.5 million bpd. For 2007, it estimates an increase of 1.7 million bpd.

Refinery News

Valero Energy Corp's St. Charles refinery in Norco, Louisiana is expected to take four to six weeks to fully recover from a fire at its 48,000 bpd distillate hydrotreater that damaged some electrical and transmission lines. However, several key units are expected to restart as early as next week. Separately, Valero said it restarted a 50,000 bpd delayed coking unit at its refinery in Texas City, Texas with full production from the unit expected within two days. The unit was shut for repairs.

Meanwhile, Valero Energy said it delayed the maintenance of three of its US refineries that had been scheduled for work in the second and third quarters of the year. Maintenance at its Quebec refinery, previously scheduled for April was postponed for May. Also, maintenance on its Ardmore, Oklahoma and Aruba refineries, which was previously scheduled for June was postponed until July.

Kinder Morgan Energy Partners was forced to temporarily shut several product pipelines emanating from the Los Angeles basin because of a small gasoline spill at its Watson, California pipeline pump station. It said supply disruptions of gasoline, diesel and jet fuel was minimal.

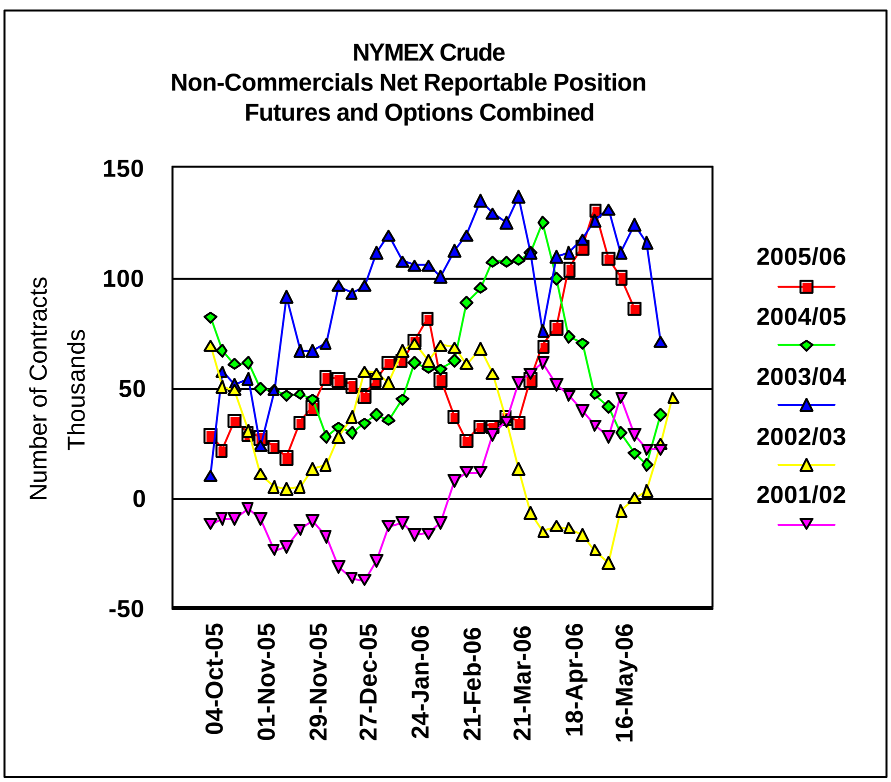
Italy's ERG SpA said the Sicilian judicial authorities have authorized it to restart operations at its 150,000 bpd ISAB Impianti Nord refinery by May 27.

ExxonMobil's Japan unit obtained approval to restart its fire stricken 156,000 bpd Sakai refinery. A suspension order was lifted. The refinery could restart as early as next week after completing safety checks of all repair works and scheduled maintenance of the fire stricken units at TonenGeneral Sekiyu's plant earlier in the week. However ExxonMobil said it is likely to take some time before the restart because the refinery is still undergoing repair work and regular maintenance.

Iraq's Oil Ministry reported that a small fire erupted in Iraq's Gulf terminal of Khor al-Amaya on Friday. The fire did not cause any damage and was extinguished. An Oil Ministry spokesman said the South Oil Co has opened an investigation into the incident.

ExxonMobil has purchased a 2.2 million barrel cargo with Azeri Light crude, the first ever loaded at the Turkish port of Ceyhan. An official from the Azeri state oil company, Socar, said the cargo would load on May 27-28.

Indonesia purchased 12.36 million barrels of oil products for June, up 68% on the month due to heavier gasoline demand and refinery outages. Pertamina has increased the July delivery parcels of diesel, gasoline and fuel oil by more than 50% for each product compared with levels reported last month.



Indian Oil Corp has increased its kerosene imports to 180,000 tons for May to July, including the latest tender award of 100,000 tons, as its plants produced less of the heavily subsidized domestic fuel.

Production News

The management of Mobil Producing Nigeria Unlimited and the Petroleum and Natural Gas Senior Staff Association of Nigeria were continuing talks on Friday. The meeting was a continuation of an all day meeting between the two parties on Thursday, in an effort to avert strike action by Pengassan's Mobil branch, which has been demanding an increase in their salaries.

Oil tankers loadings at ExxonMobil's offshore Yoho oilfield in Nigeria has been cut due to a power problem. The field normally pumps at 150,000 bpd, however shipping sources said each tanker now takes about days to load against the normal 24 hour period.

According to Petrologistics, Saudi Arabia cut its oil production in April and May to its lowest level in a year due to a seasonal fall in world refinery demand. Saudi Arabia's production since April stood at 9.1 million bpd, down from 9.42 million bpd in March. The head of Saudi Arabia's Saudi Aramco previously stated that the country was producing between 9 million and 9.5 million bpd. Petrologistics reported that OPEC produced about 29.9 million bpd so far in May, up from a revised figure of 29.8 million bpd in April.

OPEC's news agency reported that OPEC's basket of crudes fell to $63.91/barrel on Thursday from $64.48/barrel on Wednesday.

Market Commentary

The oil market ended slightly higher on Friday ahead of the long holiday weekend. The crude market opened down 37 cents at 70.95 as it erased some of Thursday's sharp gains. The market posted a low of 70.90 and quickly bounced off that level as traders positioned themselves ahead of the long weekend. In light volume trading, the market rallied to a high of 71.90. The market later took some profits and erased some of its gains. It settled in a sideways trading pattern ahead of the close and settled up just 5 cents at 71.37. Volume in the crude was light with 126,000 lots booked during the shortened trading session. Meanwhile, the gasoline market settled up 3.24 cents at 213.68. The market posted a low of 208.00 and quickly breached its previous highs. The market extended its gains to over 6 cents as it traded to a high of 216.50 ahead of the close. Unlike the crude and gasoline markets, the heating oil market settled in negative territory after it sold off ahead of the close. The heating oil market posted a low of 197.00 but quickly retraced its earlier losses and rallied to a high of 201.25. The market later settled in a sideways trading pattern before a late bout of selling ahead of the close pushed the market to a low of 197.00. The market settled down 1.37 cents at 198.05. Volumes in the product markets were lighter today with 30,000 lots booked in the gasoline market and 32,000 lots booked in the heating oil market.

The oil market on Tuesday will be driven by headlines seen over the weekend. The market is seen remaining concerned over the dispute on Iran's nuclear program. Next week, the market also will look for further developments on the talks between Pengassan union members at Nigeria's ExxonMobil unit amid the threats of a strike as well as the OPEC meeting, during which OPEC members are expected to keep their production levels unchanged. The market is seen finding support at 70.90 followed by 69.90 and 69.80. Meanwhile, resistance is seen at 71.50 followed by 71.90 and its gap from 72.15 to 72.95.

Technical Analysis			
		Levels	**Explanation**
CL	**Resistance**	72.15 to 72.95	Remaining gap (May 15th)
		71.50, 71.90	Friday's high
	71.37, up 5 cents		
	Support	70.90	Friday's low
		69.90, 69.80	Thursday's low, Previous low
HO	**Resistance**	202.50 to 204.25	Remaining gap(May 15th)
		200.00, 201.25	Friday's high
	198.05, down 1.37 cents		
	Support	197.00	Friday's low
		194.50, 193.60	Thursday's low, Previous low
HU	**Resistance**	214.00 to 216.75	Remaining gap (May 15th)
		216.50	Friday's high
	213.68, up 3.24 cents		
	Support	212.50, 210.00, 208.00	Friday's low
		202.50, 201.50	Thursday's low, Previous low