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ENERGY RISK MANAGEMENT

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ENERGY MARKET REPORT FOR MAY 29, 2009

OPEC's Secretary General Abdullah al-Badri said he sees oil prices at \$70-\$75/barrel by the end of the year. He is the latest OPEC official to predict the current rally will persist. He said the oil market's rally is driven by improving sentiment about the world economy and is not supported by crude demand. He urged members to improve compliance with existing oil production quotas to lower crude oil inventories. He also stated that inventory levels will be important in any decision of the group to raise production. He said it is too early for OPEC to consider raising production.

Venezuela's Oil Minister Rafael Ramirez said oil demand is gradually improving and oil

Market Watch

The US Commerce Department reported that the US economy did not contract as much last winter as first believed. GDP fell at a seasonally adjusted 5.7% annual rate January through March. It previously reported that GDP fell by 6.1%. It is also a smaller decline than the 6.3% decline in the fourth quarter. First quarter consumer spending increased by 1.5%, down from a previously report 2.2% increase. The report showed that businesses decreased inventories in the first quarter, a decline of \$91.4 billion.

The Economic Cycle Research Institute said its Weekly Leading Index increased to a 30 week high of 111.9 in the week ending May 22nd from 111 the previous week. The index's annualized growth rate increased to a 43-week high of negative 9.3% from last week's rate of negative 11.5%.

The Reuters/University of Michigan Surveys of Consumers said its final May reading on consumer sentiments was 68.7, higher than an early May figure of 67.9 and a final April reading of 65.1. US consumer confidence improved amid hopes the government's economic stimulus program will bring the economy out of recession.

The Institute for Supply Management-Chicago business barometer fell to 34.9 in May from 40.1 in April. Business activity in the US Midwest contracted in May at a much higher than expected rates. A reading below 50 indicates a contraction in the regional economy.

The head of the IMF, Dominique Strauss-Kahn, said the world economy is likely to emerge from crisis early next year but even after that financial systems will need to be monitored closely.

The Baltic Exchange's main sea freight index increased to an eight month high on Friday due to higher Chinese demand for goods. The index increased by 5.94% or 196 points to 3,494 points on Friday, reaching its highest level since September 29, 2008.

Commoditrade Inc plans to introduce an energy hedge fund in the fourth quarter. The new fund will use the relative strength strategy followed by the metals fund. Galena Asset Management Ltd started an energy hedge fund this month that it said may expand to more than \$1 billion. Andrew Serotta aims to raise \$100 million for oil hedge fund called Logista Capital.

Japan's factory production increased 5.2% from March, when it gained 1.6%. The increase is more than the 3.3% expected by economists.

May Calendar Averages

CL – \$59.21
HO – \$1.5028
RB – \$1.7361

prices should increase to near \$70/barrel by year's end. Separately, Iran's OPEC Governor, Mohammad Ali Khatibi said he is concerned oil prices may fall in the longer term because of supply exceeding demand.

Frontline said offshore oil storage levels on tankers may fall by 15 million barrels in a month, as the shrinking discount for prompt crude makes storage less attractive. It said there is still 60 Very Large Crude Carriers currently deployed for storage purposes worldwide, including 22 VLCCs in the US Gulf of Mexico with each tanker storing more 1.9 million barrels.

Venezuela's oil workers are threatening to protest next week as tensions increase between the government and unions representing the workers. The unions claim PDVSA is trying to undermine their independence and avoid renegotiating labor contracts.

The AAA Daily Fuel Gauge Report showed that the US average retail price of gasoline increased by 3.8 cents to \$2.487/gallon on Friday. The price of diesel increased by 0.9 cents to \$2.345/gallon.

Refinery News

Colonial Pipeline said it is allocating nominations for distillates fuel shipments for cycle 32 on its Atlanta, Georgia to Nashville, Tennessee line due to space limitations.

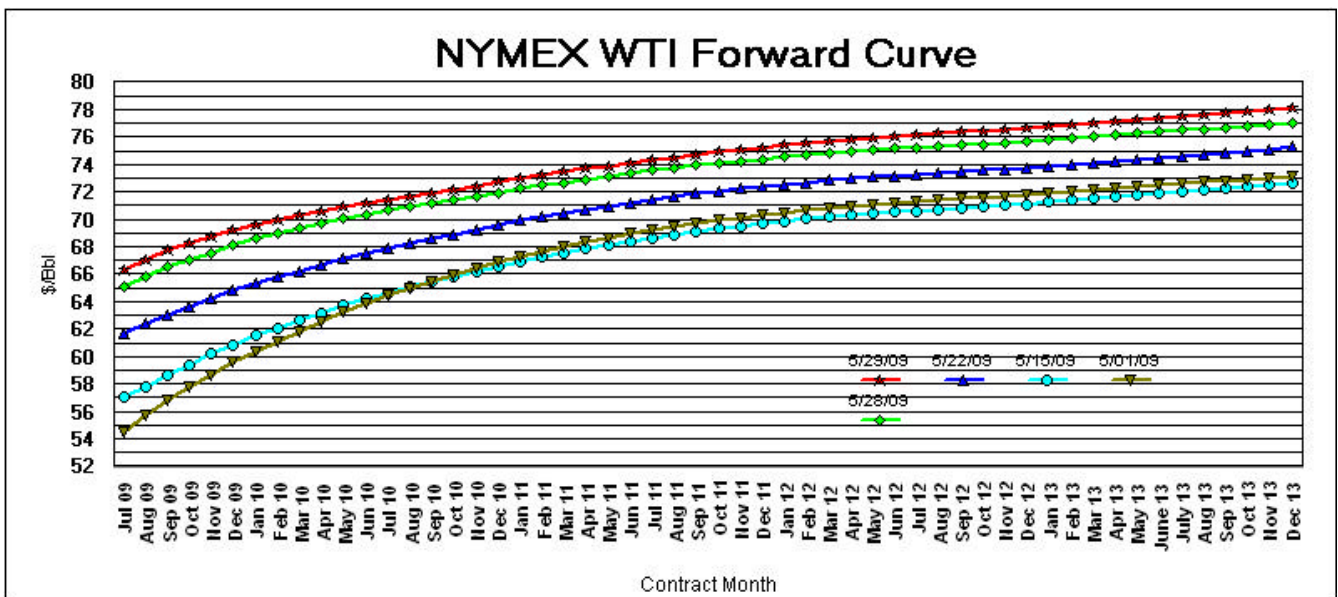
BP will restart the smaller of two fluid catalytic cracking units at its 405,000 bpd Whiting, Indiana refinery during the second half of June. The 64,000 bpd unit has been down for maintenance since early March and had originally been expected to resume operations earlier.

Valero Energy Corp reported a continuing problem with the fluid catalytic cracker scrubber at its 210,000 bpd Delaware City, Delaware refinery on Thursday. It said the coker is expected to resume operations by the end of the week. It said the problem with the scrubber is not impacting production.

Shell Oil reported a temporary problem in one of its units at its 333,700 bpd joint venture refinery in Deer Park, Texas. It did not specify which unit experienced the problem.

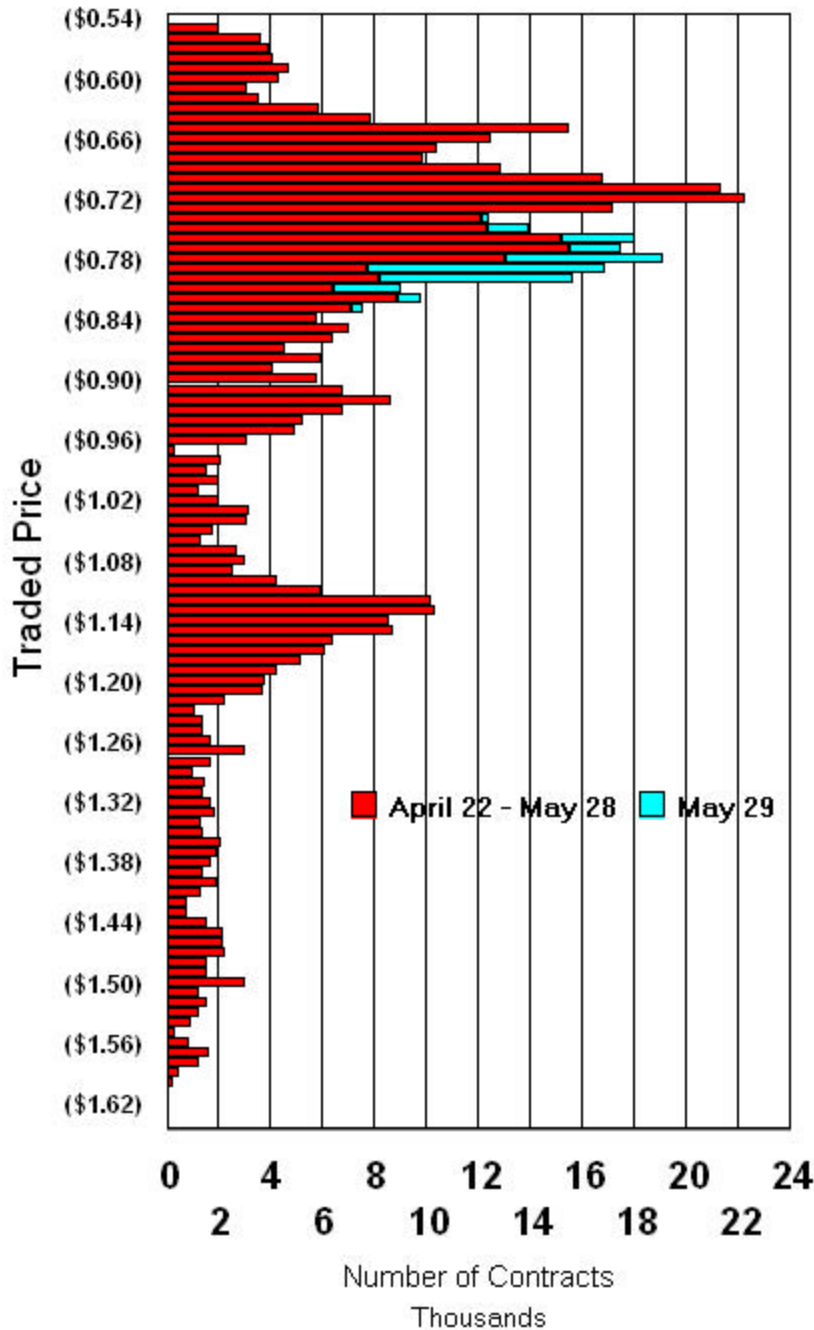
Total Petrochemicals will begin restarting a condensate splitter unit at its 174,000 bpd refinery in Port Arthur, Texas on Friday.

Sunoco Inc will keep the Delaware portion of its fire damaged refinery in Marcus Hook closed until it



NYMEX WTI: July Aug Spread Price Vs Volume for April 22 - May 29, 2009

Trade Weighted: 5/27 -0.69, 5/28 -0.76, 5/29 -0.79



completes its assessment of the damage and cause of the May 18th fire.

Royal Dutch Shell Plc's joint venture with Saudi Aramco cut production at its 220,000 bpd Norco, Louisiana refinery after it shut a catalytic reforming unit for work on Thursday due to a compressor failure. The refinery had an upset in a fluid catalytic cracking unit on Wednesday, which was quickly corrected.

Japan's Nippon Oil Corp plans to refine 3.06 million kiloliters or 642,000 bpd of crude in June, down 140,000 kl or 4% on the year. Its May crude refining volume was estimated at 3.86 million kl, down 6% on the year.

Japan's Ministry of Economy, Trade and Industry reported that the country's oil product sales in April fell by 15.5% on the year to 15.35 million kiloliters or 3.22 million bpd. It is down for the 11th consecutive month. Sales of gasoline fell by 19.9% in April to 4.62 million kl or 970,000 bpd. Japan's crude oil imports fell by 22.5% to 16.82 million kl or 3.526 million bpd in April, down for the seventh consecutive month as refiners continued to import less crude in the face of run cuts. Japan's refinery output fell by 13.9% on the year to 3.271 million bpd. Japan's crude inventories in April increased by 5.7% on the year to 103.301 million barrels while its product stocks increased by 1.4% on the year to 72.424 million barrels.

South Korea's overall crude processing rates for June will increase 5% on the month to 2.08 million bpd, mainly due to the resumption of operations of a 300,000 bpd crude distillation unit.

Indian Oil Corp may not import diesel during the rest of the fiscal year that ends in March as gasoil demand in India is seen declining due to a fall in industrial activity. IOC imported 120,000 tons of diesel in April and May.

Production News

According to Baker Hughes, the number of drilling rigs searching for oil and natural gas in the US fell by 1 to 899 this week. The number of rigs searching for oil increased by 7 to 187 and the number of rigs searching for natural gas fell by 8 to 703.

Angola is scheduled to export about 1.85 million bpd of crude oil in July, much higher than its OPEC quota of 1.52 million bpd.

Iraq's Oil Ministry said the country is inviting Japan's Nippon Oil for talks on the Nasiriyah oil field and preparing for the award deals under its first bid round at the end of next month.

Indonesia's Energy Minister Purnomo Yusgiantoro said oil production from the Cepu field faces delays over a local land dispute but added that the country should still meet its oil production target this year. He said Indonesia should achieve a target of 960,000 bpd of crude and condensate production this year.

Ecuador's central bank reported that the country exported 3.21 million barrels in the first three months of 2009, down 9% on the year. Its oil product export revenue between January and March fell by 51% to \$121.58 million from the \$250.54 million reported last year.

India's government said it may eliminate diesel and gasoline subsidies as soon as July, ending a policy that has cut state refiners' profits, strained government finances and inflated oil demand. Pricing freedom will increase tax revenue and remove massive subsidies bills, helping offset the cost of economic stimulus measures that have stretched public finances and widened the fiscal deficit to 6% of GDP.

OPEC's news agency reported that OPEC's basket of crudes increased to \$61.77/barrel on Thursday from \$60.75/barrel on Wednesday.

Market Commentary

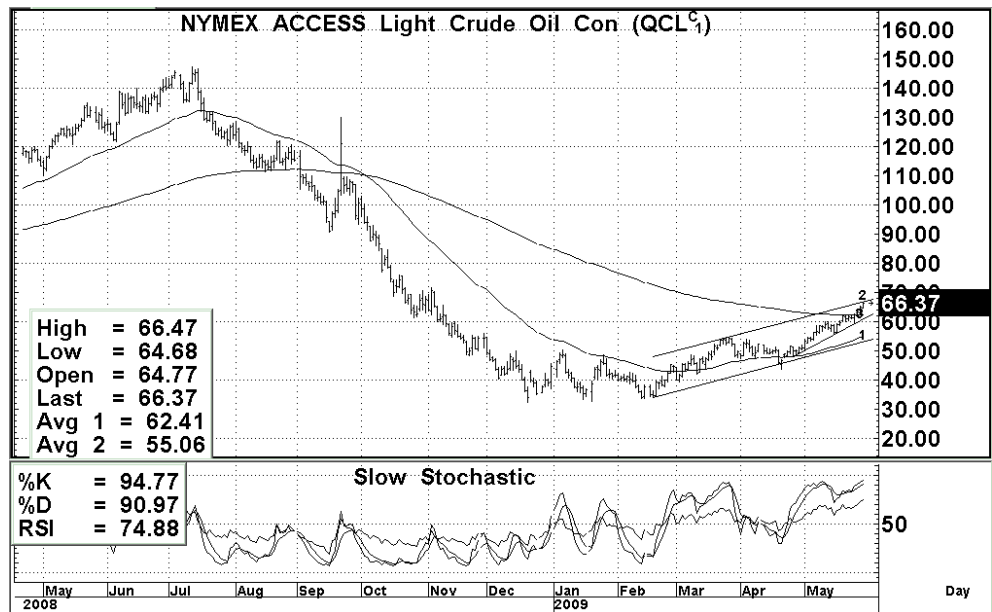
Crude oil rose today as speculator confidence concerning the economy became more hopeful based on a report by the U.S. Commerce Department. The Commerce Department released a report stating that the U.S. economy contracted slightly less than was initially estimated for the first quarter. The government revised its 6.1% drop for the first quarter to 5.7%. A weak dollar brought investors into the market, pushing crude oil to its highest monthly gain in 10 years. Once again the true fundamentals of this market are being overshadowed by the global economic situation. Since breaking above the 200-day moving average, crude oil has gained \$4.00 and that moving average is now key support. Worth pointing out is that both the 50-day and 200-day exponential moving averages have proven to be key indicators of market direction (see chart below). The 200-day moving average is currently set at \$62.41 and the 50-day moving average is currently set at \$55.06. Hopes of a recovering economy brought with it stronger gasoline and heating oil markets. Demand is at the forefront of everyone's mind and a recovery economy would mean demand growth. Demand at this point has not shown great signs of growth, which could ultimately push these two markets lower. From a technical standpoint gasoline appears to have more room to the upside. Prices have settled above the ascending channel on a weekly chart for the second straight week. Moving oscillators are in overbought territory but have not crossed indicating a move to the downside. As long as the spot month can remain above this channel we would look for a test at the projected upside target of \$2.1600.

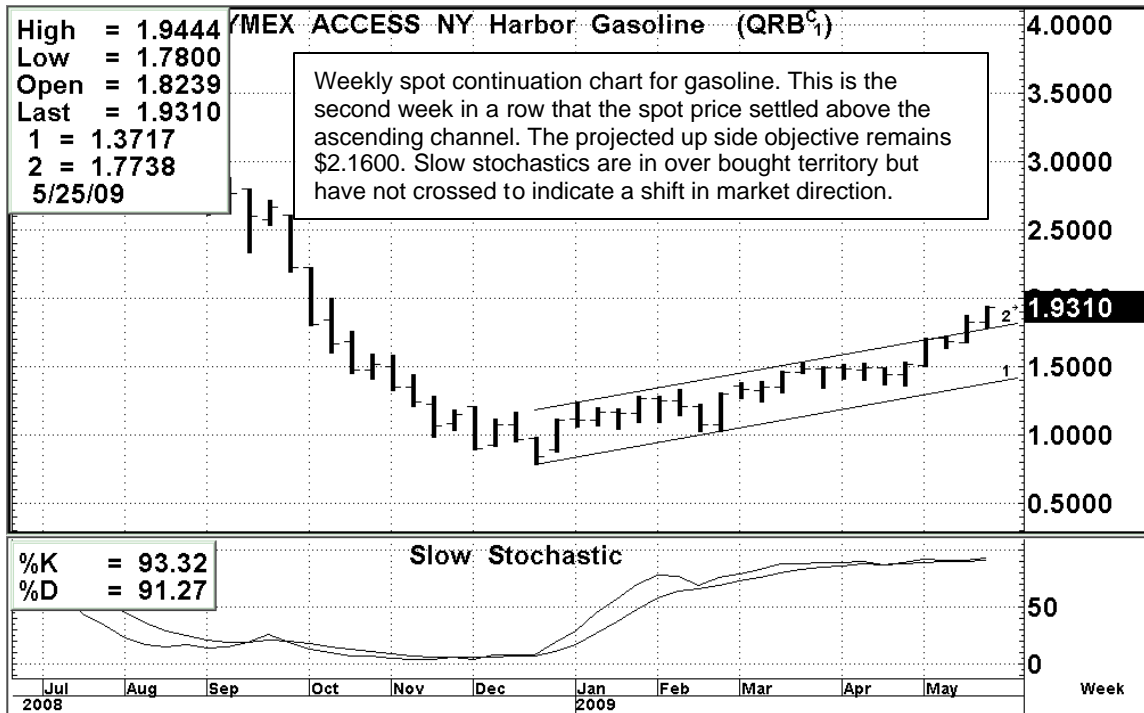
Crude Oil JUL.09 346,632 -2,021 AUG.09 110,606 +8,748 SEP.09 75,630 +3,718 OCT.09 41,867 +1,458 Totals: 1,148,208 +24,345 N.Y. Heating Oil (HO) JUL.09 66,055 +5,313 AUG.09 26,100 +43 SEP.09 20,939 +1,271 OCT.09 15,557 +224 Totals: 262,092 - 658 NEW YORK HARBOR RBOB

JUL.09 94,063 +737 AUG.09 36,433 +254 SEP.09 25,880 +164 OCT.09 15,364 -626 Totals: 214,605 - 8,994

The latest Commitment of Traders report showed that non-commercials in the crude market increased their net long position by 4,885 contracts to 40,122 contracts in the week ending May 26th. The combined futures and options report showed that non-commercials in the crude market increased their net long position by 7,587 contracts to 101,598 contracts on the week, the highest level since mid-March. They increased their total long position by 9,319 contracts to 187,139 contracts. Non-commercials have likely continued to add to their net long position given the market's continued move higher and an increase in open interest. The combined futures and option report also showed that non-commercials in the heating oil market increased their net long position by 940 lots to 21,039 while non-commercials in the RBOB market increased their net long position by 4,990 lots to 62,024 contracts on the week.

Daily spot continuation chart for crude oil. The spot contract continues to trend within the ascending channel. The 50 & 200 day moving averages have worked nicely in indicating market direction. The last time these two averages crossed the market took a dramatic move to the downside. Currently the 200-day moving average is set at \$62.41 and is acting as key support. Should the 50 day moving average which is set at \$55.06, cross above the 200 day moving average, this market could make extended moves to the upside. The current channel is set between \$66.94 and \$53.07. A break above this channel sets prices up for a move to \$80.81.





Crude Support	Crude Resistance
60.50 , 59.85, 58.90, 56.75, 55.45, 54.49, 53.45, 52.33	65.55, 67.65,
Heat Support	Heat resistance
1.2715, 1.2300, 1.1359, 1.1095, 1.0520	1.6025, 1.6475, 1.6688, 1.6715
Gasoline support	Gasoline resistance
1.5370, 1.5260, 1.3560, 1.3400, 1.3180, 1.2700, 1.2625 1.1680, 1.0128, .9590	2.0000, 2.0650, 2.1600

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