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ENERGY RISK MANAGEMENT

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ENERGY MARKET REPORT FOR JUNE 12, 2007

Market Watch

The Illinois Petroleum Marketers Association informed the US EPA that gasoline inventories were tight around East St. Louis and the crunch could worsen heading into July. It said it could request a waiver from the EPA that would allow suppliers to sell lower grade gasoline in East St. Louis after July 1. Pump prices in Illinois averaged $3.34/gallon on Tuesday, about 28 cents above the nationwide average.

DEBKAfile reported that Russia's President Vladimir Putin released the nuclear fuel for Iran's Bushehr nuclear reactor. It was delivered 245 hours before Israel launched its new military imaging satellite. It reported that Russia's President never promised President George W. Bush that Russia would deny Iran the nuclear fuel for its Bushehr reactor in perpetuity. He did assure Washington that he would postpone delivery as long as he could. The Bush Administration's plan to deploy missiles in East Europe made the Russian President mad enough to set the assurance aside.

According the US National Grain and Feed Association, cellulosic ethanol production using corn storver and switchgrass is not economically viable. It said switchgrass producers need $82/metric ton to profit on yields of six tons an acre. However ethanol plans can only afford $37/ton with ethanol prices at $1.75/gallon.

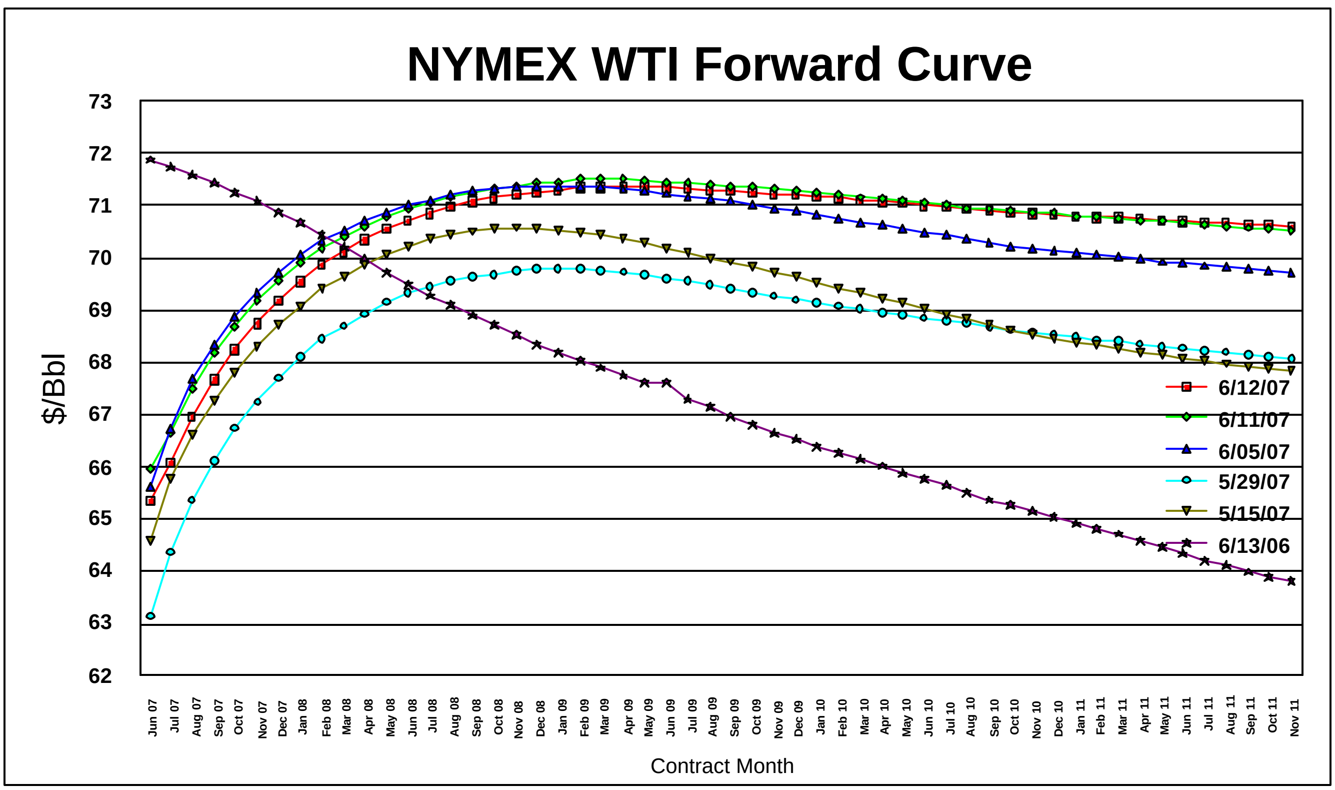
A total of 47,000 tons of gasoil is expected to be physically delivered against the expired ICE June gasoil futures contract.

The EIA reported in its latest Short Term Energy Outlook that world oil consumption is expected to grow by 1.4 million bpd in 2007 and by 1.6 million bpd in 2008 to 85.9 million bpd and 87.5 million bpd, respectively. Its world oil demand estimate is down 100,000 bpd from its previous estimate. It said non-OPEC production is expected to grow by about 600,000 bpd to 49.8 million bpd in 2007 and by 900,000 bpd to 50.7 million bpd in 2008, about half the expected growth in consumption. It stated that the combination of OPEC's production cuts and rising consumption has been causing OECD commercial inventories to fall from their high historical levels of last fall. Preliminary OECD data indicate a draw of 800,000 bpd in the first quarter compared with an average inventory draw of 300,000 bpd for the quarter over the past 5 years. If OPEC does not increase its production, inventory levels could fall below the 5 year average. It reported that the ten OPEC members produced 26.31 million bpd in May, down from 26.47 million bpd in April. In regards to US consumption, the EIA reported that total petroleum demand averaged 20.8 million bpd during the first quarter of 2007, up 1.9% from the first quarter of 2006. For 2007 as a whole, total petroleum consumption is expected to average 20.9 million bpd, up 1.5% from the 2006 average. In 2008, total petroleum demand growth is expected to fall to 1.1%. It reported that gasoline demand is expected to average 9.33 million bpd in 2007 and 9.44 million bpd in 2008. Its gasoline demand estimate was cut by 100,000 bpd for 2007 and by 200,000 bpd for 2008 from its previous estimates. Distillate demand is estimated to average 4.26 million bpd and 4.32 million bpd in 2007 and 2008, respectively. The EIA stated that gasoline inventories are expected to be tight during the summer season. It also stated that during the summer season, regular gasoline prices are expected to average $3.05/gallon, up 21 cents on the year and up 10 cents from its previous estimate. The price of WTI is projected to average $64/barrel in 2007, down from $66/barrel in 2006.

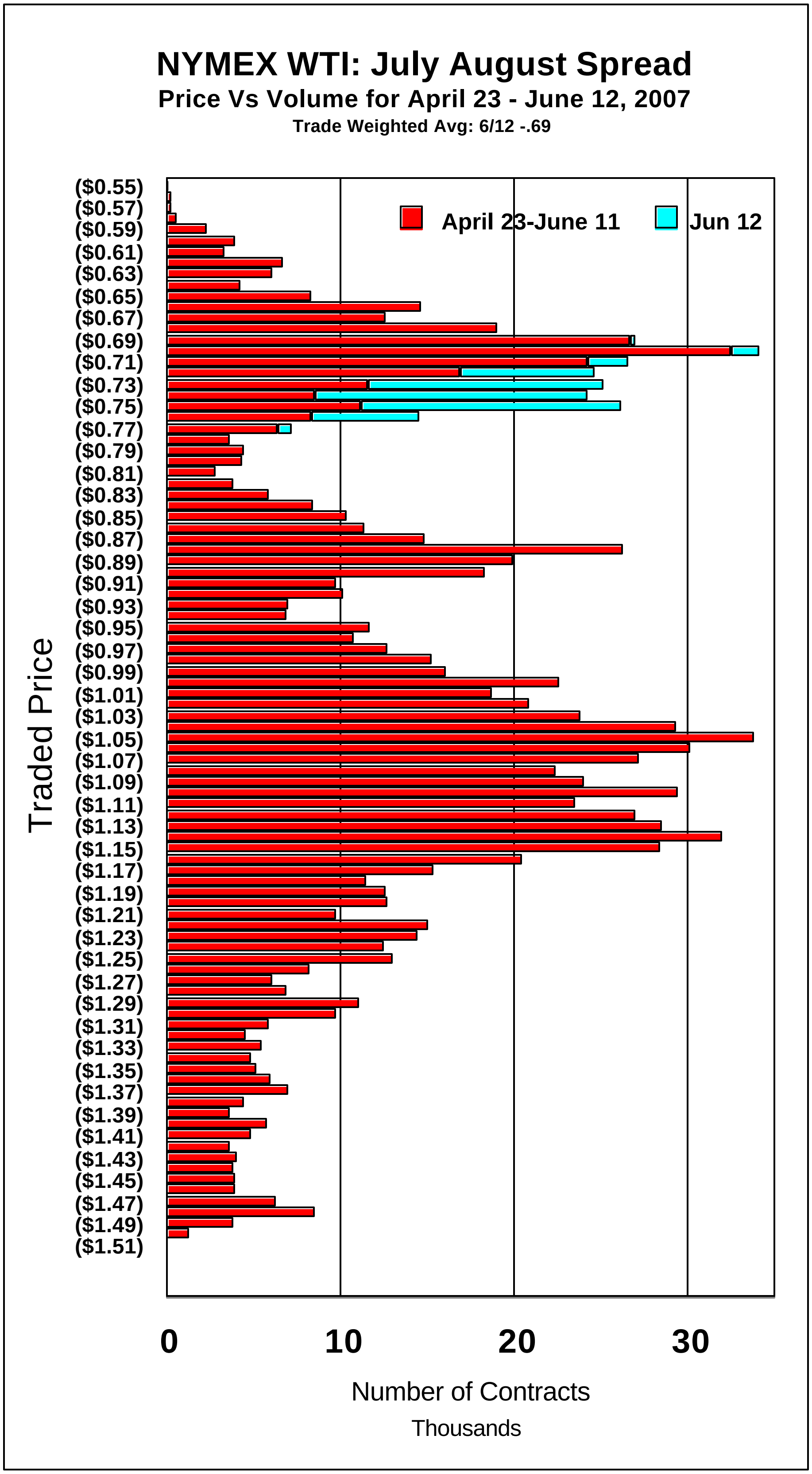
In its Short Term Energy Outlook, the EIA also stated that hurricanes could cause 13.2 million barrels of crude production and 86.5 billion cubic feet of natural gas production to shut in. It based its prediction on a recent forecast by the National Oceanic and Atmospheric Administration that called for above normal hurricane activity this hurricane season.

Separately, the EIA reported that US oil imports in April fell 167,000 bpd or 1.6% on the month to 10.181 million bpd. Canada shipped 1.909 million bpd to the US while Mexico shipped 1.46 million bpd. Imports from Saudi Arabia increased 20% on the month to 1.458 million bpd. Venezuela ranked as the fourth largest source of oil imports, with 1.182 million bpd shipped in April.

The IEA, in its June monthly report, increased its forecast for 2007 growth in world oil demand to 1.7 million bpd or 2%, up 200,000 bpd from its previous forecast. The IEA urged OPEC to increase its production to lower prices that were close to $70/barrel, up from about $50 in January. The IEA warned that while inventories increased by 9.9 million barrels in April, the trend may reverse should OPEC maintain its production close to current levels. It raised the call on OPEC oil to between 31 million bpd and 32 million bpd, up 500,000 bpd from its previous estimates. The IEA cut its estimate of 2007 non-OPEC supply by 110,000 bpd to 50.2 million bpd, citing lower than expected output from the OECD and producers in Africa. It cut its forecast for China's oil product demand growth this year. It expected total Chinese refined oil products demand to increase 6.1% to 7.6 million bpd in 2007, down from 6.4% forecast in its May report. In regards to Russia, the IEA said Russian oil production could start to level off from 2010 to 2012. It estimated Russian oil production would increase from 9.9 million



bpd in the first quarter of 2007 to 10.6 million bpd in 2010 and then fall to 10.5 million bpd by 2012.



The IEA also stated that tightness in US gasoline should ease in the coming weeks as refiners process more crude. However the reprieve may be short lived and supplies are expected to remain strained by historical standards. Global refinery crude runs are expected to increase 0.7 million bpd to 73.7 million bpd in June and should increase in July to reach a peak in August at 75.2 million bpd.

The chief US delegate to the IAEA, Gregory L Schulte said the US remained interested in joining direct nuclear talks with Iran if it complied with UN Security Council demands. Meanwhile, Undersecretary of State Nicholas Burns said he expected the UN Security Council to start discussing a new resolution sanctioning Iran over its nuclear program within weeks. Separately, he stated that Iran was transferring weapons to Taliban insurgents in Afghanistan.

Nigerian militants freed 12 foreign hostages and one Nigerian in the Niger Delta on Monday ahead of peace talks with the incoming government of President Umaru Yar'Adua. The release of the 13 hostages was the latest sign of easing tensions in Nigeria after the President promised to address grievances in the impoverished region. Meanwhile, the Nigerian government has invited unions to a meeting on Friday to discuss a possible strike over rising prices and privatizations. The unions had given the government until next Monday to rescind the measures.

Officials of Iraq's southern oil workers' union called off an open ended strike designed to halt Iraq's oil exports of 1.6 million bpd after the central government promised to meet their demand for better wages and working conditions.

An official who helped draft Iraqi oil legislation said there was no sign of a compromise that would lead to final approval by the parliament. He blamed the delay on a lack of security in Iraq as well as on corruption. The oil legislation is expected to encourage foreign oil companies to invest in Iraq and help the country attain its goal of doubling current production of 2.5 million bpd by 2010.

Refinery News

Citgo Petroleum Corp shut a crude unit in the east plant of its 156,000 bpd Corpus Christi, Texas refinery on Monday.

Valero Energy Corp was actively selling vacuum gas oil from its Port Arthur, Texas refinery on Monday, signaling potential operational problems at its fluid catalytic cracking unit. Valero, which typically sells high sulfur VGO from its St. Charles refinery in Louisiana, sold about 245,000 barrels for Port Arthur on Monday.

Chevron Corp and PDVSA could increase their output capacity by 10,000 bpd at the Boscan field if they can secure buyers for the crude oil. The oilfield has been producing 108,000 bpd of heavy crude grade.

Saudi Aramco restarted an asphalt unit at its Ras Tanura refinery following the completion of maintenance and was operating at 20,000 bpd.

Indonesia's Pertamina restarted a hydrocracking unit at its Dumai refinery. The company said the unit was operating at 60% of capacity. Separately, Pertamina bought at least 4.2 million barrels of crude oil for August arrival in tender, up from 2.9 million barrels for July.

Japan's Kyushu Oil Co increased the capacity of its No. 1 crude distillation unit at its Oita refinery by 5,000 bpd to 24,000 bpd. The upgrade work was conducted on the crude unit while it was shut for planned maintenance between May 14 and June 15.

South Korea's S-Oil Corp put an indefinite hold on its plan to build a 480,000 bpd refinery. S-Oil could not say when construction would start and emphasized that the project was delayed, not cancelled. Separately, as much as 3.8 million bpd of refining capacity that had been planned in Asia and the Middle East may not be built due to higher costs.

Vitol said its newly purchased refinery in Fujairah has oil storage tanks that can hold 3.15 million barrels. The refinery however has been shut since March 2003.

Venezuela's PDVSA offered 240,000 barrels of jet fuel for loading at El Palito on June 24-26.

Production News

The July loading program for North Sea Flotta crude scheduled a total of 1.95 million barrels.

Italy's Eni said it resumed full production at its Brass River oil terminal in Nigeria. It has been forced to cut 98,000 bpd of production at Brass River and declare force majeure after a May 8 bomb attack on three of its oil pipelines.

Iraq cut the official selling price of Basra Light crude loading in July for Asia to the Oman/Dubai average minus $2.20/barrel, down from $2.10 in June. It also set the July price for European buyers at dated BFO minus $4.75, up from minus $5.20 in June. Iraq's SOMO also increased its price for US buyers to second month WTI minus $3.90, up from minus $4.85 in June.

BP Plc said the world's proven oil reserves at the end of 2006 stood at 1.208 trillion barrels, slightly down from 1.209 trillion barrels. The one billion barrel reduction reflects in part a fall in Norway's reserves, which fell to 8.5 billion from 9.6 billion barrels. Reserves in Saudi Arabia increased to 264.3 billion barrels from 261.4 billion barrels. BP also stated that world primary energy consumption increased by 2.4% in 2006 compared with 3.2% in 2005.

Oil output from Iran's Darkhovin field is expected to reach 160,000 bpd by the end of the year.

A PDVSA official said the company was seeking exploration opportunities abroad but has yet to acquire stakes in any oil blocks. He said Venezuela has proven oil reserves of 87 billion barrels and is in the process of certifying some 238 billion barrels of extra heavy oil reserves in the Orinoco belt.

According to China's General Administration of Customs, China's crude oil imports increased by 4.7% in May to 12.97 million tons. Crude oil imports in the first five months increased by 9.6% on the year to 67.43 million tons. It also imported 3.17 million tons of oil products in May.

China cut its shipments of gas oil and gasoline in June due to peak summer demand in the domestic transport and construction sectors. According to Reuters, China is expected to export 420,000 tons of gasoline in June, down 16% on the month. Its gas oil exports are expected to fall to 10,000 tons from 30,000 tons the previous month.

Taiwan's refined oil products demand continued to fall in April as it switched to gas from fuel oil for power generation. Oil products demand stood at 814,000 bpd in April, down 3.68% on the year. Demand for fuel oil fell by almost 16% on the year to 155,000 bpd while gasoline demand fell by 8.3% to 144,000 bpd. Its crude oil imports in April stood at 28.698 million barrels, down 9.2% on the year.

Technical levels

		Levels	Explanation
		66.15, 66.40, 66.72, 67.32, 68.20	Previous highs
	Resistance	65.64, 66.08	Tuesday's high
CL	65.35, down 62 cents		
	Support	65.25, 64.95, 64.87	Tuesday's low
		64.69, 64.52, 64.27	Previous low
		193.40, 194.04, 195.24, 197.70, 199.15	Previous high, 50% (199.15 and 188.92), 62%, Previous highs
	Resistance	191.60, 192.50, 193.29	Tuesday's high
HO	191.39, down 1.52 cents		
	Support	189.73	Tuesday's low
		188.92, 187.32, 184.82, 184.21	Previous lows
		218.58, 223.00	Previous highs
	Resistance	216.05, 216.10	Tuesday's high, Monday's high
RB	213.50, down 1.63 cents		
	Support	211.30	Tuesday's low
		210.59, 209.76, 207.80	Friday's low, Previous lows

Ecuador's central bank reported that the country exported 39.13 million barrels of oil in the first four months of the year, down 20% on the year. Ecuador's oil export revenues totaled $1.827 billion from January to April, down 23% on the year.

OPEC's news agency reported that OPEC's basket of crudes fell further to $65.04/barrel on Monday from $66.12/barrel on Friday.

Market Commentary

July crude continues to trade with in the area of consolidation between 64.25 and 66.15. The neckline mentioned in yesterday's wire is set at 64.27, which would provide a buying opportunity should prices touch and hold. We would look to be buyers at this level and exit up around 66.15. Likewise should prices test 66.15 and hold this gives us the opportunity to short the market. Breaks below and above these two numbers would provide the opposite scenario. Support is set at 65.25, 64.95, 64.69 and 64.27. Resistance is set at 65.64, 66.15, 66.40, 66.72, 67.32 and 68.20. As we indicated yesterday, we would look for the July/August spread to test the -.45 level with the completion of the rolls. As for the curve, from July07 through June09 came under pressure today with the balance of the curve basically flat. With expectations of builds in the products and slight draws in the crude, we would look for continued front end pressure down to the aforementioned level. Open interest in the crude market fell by a total of 17,107 lots. Open interest in the July contract fell by 36,249 lots while open interest in the August and September contracts built by 11,922 lots and 5,671 lots, respectively. The product markets ended in negative territory on expectations that the weekly petroleum stock reports would show builds in product stocks. The RBOB market continued to trade within Monday's trading range, as traders were unwilling to take any significant position ahead of Wednesday's release of the inventory reports. The market failed to test its previous high as it posted a high of 216.05. It however sold off to a low of 211.30 late in the session and settled down 1.63 cents at 213.50. Similarly, the heating oil market settled down 1.52 cents at 191.39 after it posted an inside trading day. It posted a high of 193.29 and extended its losses to over 3 cents as it posted a low of 189.73 in afternoon trading. The product markets are seen remaining pressured amid the expectations of product stocks builds. The RBOB market is seen finding support at 211.30 followed by 210.59, 209.76 and 207.80. Resistance is however seen at 216.05, 216.10 followed by 218.58 and 223.00.