



ENERGY RISK MANAGEMENT

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ENERGY MARKET REPORT FOR JUNE 13, 2005

Saudi Arabia's Oil Minister Ali al-Naimi said the country stood ready to increase its production to 10 million bpd if demand warranted such a move. He said Saudi Arabia can increase its production but added that whether it actually will depends on demand. He reiterated a call to increase OPEC's output quota but added that there is no need for extra barrels in the market at the moment. He also stated that he has no concern that oil stocks are being built too high. OPEC's President Sheikh Ahmad Fahed al-Sabah said he would propose a 500,000 bpd increase to bring production more closely in line with the real

Market Watch

The EIA stated that the market's recent heating oil rally is premature as there is still time for US oil inventories to rebuild ahead of the winter. The head of the EIA said US crude oil stocks are at comfortable levels and while stocks of refined products are low, it is not reason enough for a price upswing. He said it is not a reason for concern. He said WTI crude will remain above \$50/barrel this year and in 2006.

Royal Dutch/Shell Group chief executive Jeroen van der Veer said oil prices may increase because there is too little spare production capacity in the industry in the event of a disruption to supply. Shell is increasing its global investments in exploration and production by 25% to \$15 billion this year to help increase its reserves.

Cambridge Energy Research Associates stated that world oil production capacity will substantially exceed demand through at least 2010.

An executive at Malaysia's Petronas said the outcome of OPEC's meeting is likely to help stabilize the oil market. Separately, he stated that it was in talks with Iraqi officials about how it could help develop the country's oil industry.

A special adviser to Indonesia's Energy Minister, Rachmat Sudibjo said Indonesia will decide in one to two years whether it will remain a member of OPEC. A high level Indonesian panel has recommended that the country downgrade its membership in OPEC to observer status. A downgrade would reduce the financial commitments of Indonesia, already a net importer of oil to the group.

Iraq's Oil Ministry's field development chief, Hazem Sultan said Iraq plans to invite international companies to develop 11 oil fields capable of more than doubling the country's output. The fields could add three million bpd to present production and strengthen Iraq's position as a major player on the world market. He expressed confidence that with information on Iraq's reservoirs emerging from adopting new technology, 100 billion barrels would be added to country's 115 billion barrels of reserves.

Potential storage problems resulting from excess inventories of Alaska North Slope crude was averted Friday as ExxonMobil diverted the ExxonMobil Long Beach oil tanker to Valdez, Alaska and started loading ANS crude. Inventories started rising two weeks ago after a BP owned and operated ship was taken out of service, resulting in a lack of available tonnage for Alaskan crude. Valdez NS inventories, normally averaging 2 million barrels, had increased to 6.2 million barrels on Wednesday.

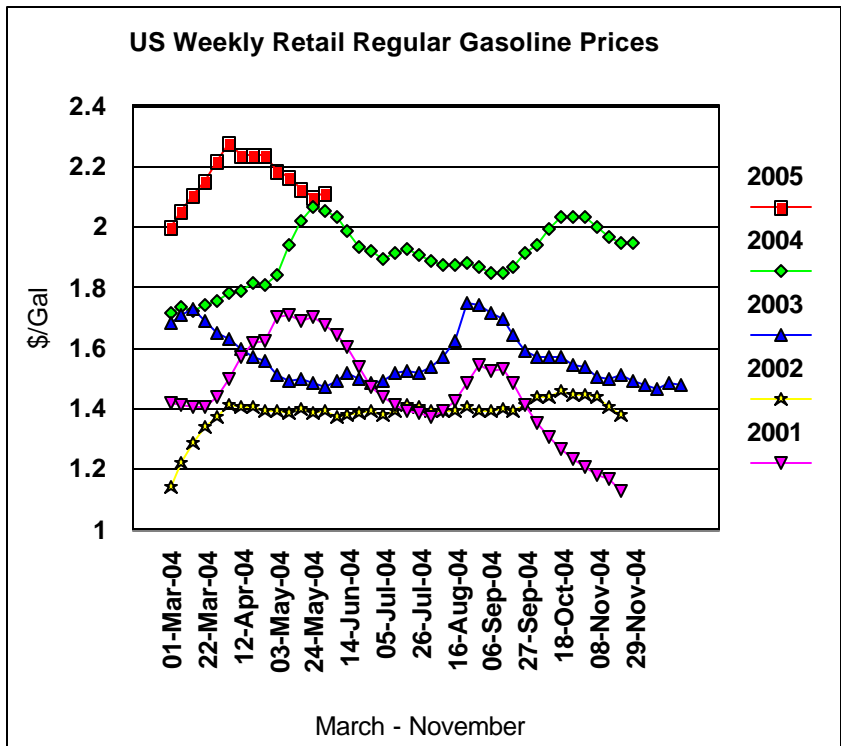
Kuwait Petroleum Corp still plans to invest in refinery stakes or new refineries in China and India despite an apparent lack of progress in discussions.

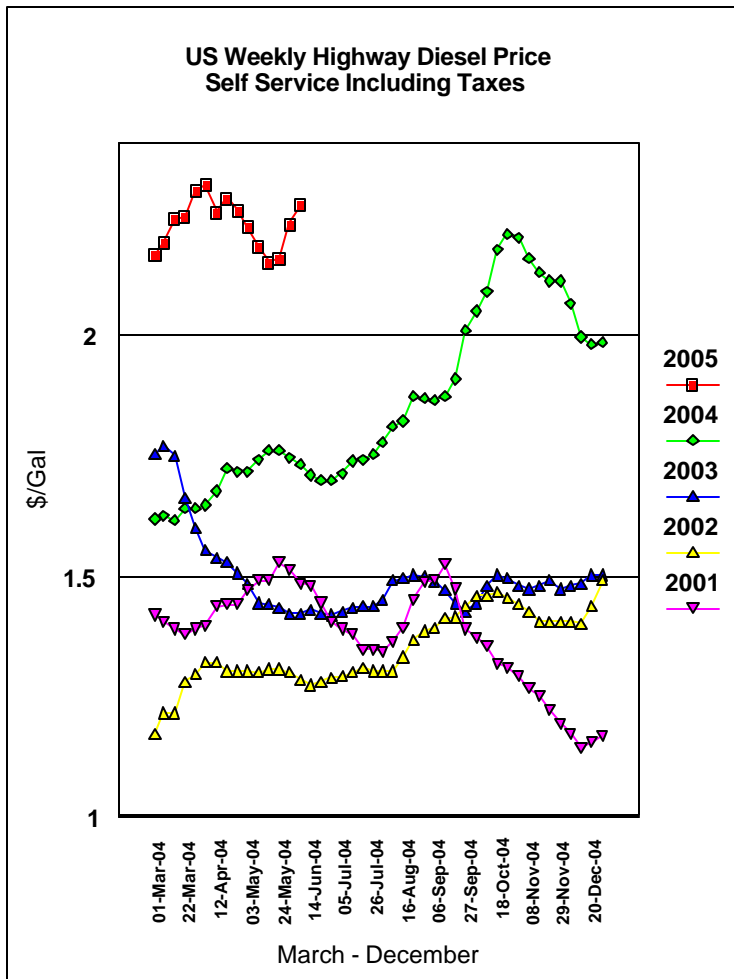
production levels. Algeria's Oil Minister Chakib Khelil said he would support a plan by OPEC to increase its official output ceiling by 500,000 bpd when it meets on Wednesday. Separately, Iran's Oil Minister Bijan Namdar Zanganeh said world oil markets are well supplied and there is little OPEC can do to lower prices because it is pumping at full capacity. He said OPEC and non-OPEC producers are doing their best to keep markets well supplied. He said any OPEC decision to raise or lower the output ceiling could only have a psychological effect on the market, rather than a real impact. He said Iran will neither oppose or support a proposed increase in OPEC's formal output ceiling at its meeting on Wednesday. Venezuela's Oil Minister Rafael Ramirez said OPEC does not need to increase its official production ceiling of 27.5 million bpd. He noted that Venezuela will seek to defend its price for oil but did not elaborate. He also stated that Venezuela is prepared to increase shipments of diesel fuel and other products to the US if demand for these products were to increase. The UAE's Oil Minister Mohammed bin Dhaen al-Hamili said OPEC has two options when it meets on Wednesday, either to keep its current production ceiling at 27.5 million bpd or increase it by an amount that will cool oil prices. He said there would be an 800,000 bpd oil stock buildup by the end of the year if OPEC maintained current output levels. Meanwhile, Indonesia reiterated its support for a 500,000 bpd increase in OPEC's output ceiling, although its oil minister will not attend the meeting. Nigeria's Presidential Adviser on Petroleum Edmund Daukoru said Nigeria supports a move in OPEC to increase its oil output ceiling by 500,000 bpd to legitimize existing overproduction.

An Iraqi oil official said Iraq has resumed exports of Kirkuk crude to the Turkish port of Ceyhan after exports were halted for three days. Authorities managed to pump 350,000 barrels from Sunday, increasing its inventories to over 4 million barrels. However the official stated that bad weather and production problems have affected loadings of Iraqi crude from its southern terminals. The official said if bad weather continues, Iraq may have to suspend crude oil exports from the southern terminals. He said southern oil production has dropped to 1.7 million bpd since Sunday, down from an average of 1.78 million bpd last week. Iraq has cut its Basra crude oil term contracts to 1.47 million bpd for the second half of this year due to export and production difficulties. The head of Iraq's SOMO, Mussab al-Dujaili said most volume cuts were for US and European customers, while it kept exports to Asian customers steady.

Iraq's SOMO has increased the July official selling price of its Basra light crude oil bound to the US, Europe and Asia. The Basra Light crude for delivery to the US in July was priced at WTI minus \$6.65/barrel compared with minus \$7.85/barrel in June. The Basra Light crude bound to Europe was priced at dated Brent minus \$5.95/barrel compared with minus \$6.75/barrel in June. The official selling price for Basra Light crude bound to Asia was priced at the Oman/Dubai average minus \$1.20/barrel compared with minus \$1.35/barrel in June.

Four bomb blasts struck government buildings in the Iranian city of Ahwaz, killing at least eight people and wounding at least 86. Hours later, two small bombs exploded in central





Tehran, killing one person and wounding four. Iran's security service blamed the bombings on supporters of ousted Iraqi leader Saddam Hussein. Sources said they fear an upsurge in violence in the election run up. Iran's Interior Ministry spokesman said the target of the blasts is to undermine Friday's presidential elections. Iran's governor to OPEC said the country's oil facilities were not the target of a series of bombings on Sunday. Separately, the ethnic rebels of Iran's southwest province of Khuzestan have for the first time struck an Iranian oil target on June 8 according to DEBKAfile. The rebels struck the new petrochemical installations of the Karoun Oil and Gas Production's drilling and well services.

OPEC's news agency reported that OPEC's basket of crudes increased \$0.19/barrel on Friday to \$50.74/barrel, up from Thursday's \$50.55/barrel.

The EIA reported that the US average retail price of gasoline increased by 1.4 cents to \$2.13/gallon in the week ending June 13th. It also reported that the US average retail price of diesel increased by 4.2 cents/gallon to \$2.276/gallon on the week.

According to the Lundberg Survey, the average retail price for gasoline fell 1.65 cents to \$2.16/gallon in the past three weeks ending June 10. Trilby Lundberg said she expects prices to continue to fall, although the pace has slowed due to rising demand for diesel fuel as the economy recovers.

Refinery News

Premcor cut rates on its 80,000 bpd fluid catalytic cracking unit at its 255,000 bpd Port Arthur, Texas refinery by 50% due to mechanical problems. The Texas Natural Resource Conservation Commission reported that "B" blower on the FCC unit tripped resulting in catalyst pluggage. Operation and maintenance personnel are working to repair the blower and return the unit to operation within the next 7 days.

A fire partially shut PDVSA's delayed coker unit at its Amuay Bay refinery on Sunday. The unit which operates normally at 42,000 bpd is running at about 50% of capacity until repairs are completed. With one of the two coker units operating at 50% capacity, it is likely that Amuay's overall crude processing rates has been cut to about 400,000 bpd from its normal 420,000 bpd.

Operations at the National Cooperative Refinery Association's 81,200 bpd refinery in McPherson, Kansas are expected to return to normal rates by late Monday. Some processing units were shut on Friday following a brief fire.

Nippon Oil Corp said a small fire started at a sulfur recovery unit at its Sendai refinery and had not affected operations of its other refinery units.

A diesel hydrotreater at Singapore Refining Co's refinery was shut after a fire started on Monday afternoon. However the fire is not expected to have a major impact on SRC's production and is now assessing the damage.

Production News

US Minerals Management Service said US producers had 56,445 bpd of oil and 416 mmcf/d of natural gas production still shut in the Gulf of Mexico on Monday morning. It reported the cumulative amount of production shut in stood at 561,625 barrels of crude and 3.3 bcf of natural gas since Friday.

Chevron Corp said its Petronius oil and gas platform in the Gulf of Mexico was expected to reach normal production on Monday after it was shut over the weekend due to Tropical Storm Arlene. The Petronius platform accounted for more than a third of the total production shut in by Arlene, with 50,000 bpd of capacity. Separately, Murphy Oil Corp restored production from two offshore platforms that had shut in production ahead of Tropical Storm Arlene. Murphy's Medusa platform resumed operation on Saturday night while the Frontrunner project resumed operations on Monday morning. The two platforms produce 62,000 bpd of oil and 66 mmcf/d of natural gas. The Viosca Knoll project also returned to normal operation on Monday.

Saudi Aramco notified its customers in the US and Europe that they will receive the same term supplies in July compared with volumes supplied in June. Volumes to Europe are expected to remain at about 30% below full capacity.

Iraq and Iran have agreed to revive a pipeline project to help solve Iraq's fuel shortages. The dual pipeline would allow Iraq to pump up to 150,000 bpd of crude oil from southern oil fields to Iran's Abadan refinery and receive the equivalent in refined products.

Libya's Oil Minister Fathi bin Shatwan said he expects Libya to increase its crude capacity some 18% or 300,000 bpd before the year is out.

Nigeria's 225,000 bpd Bonga oilfield is now due onstream in September, more than two years after its original target.

Germany's MWV said German oil product sales in May 2005 totaled 6.86 million tons, up 13.1% from May 2004. It reported that heating oil sales increased by 50.9% year on year in May to 1.8 million tons while diesel fuel increased by 4.5% to 2.38 million tons. Total gasoline sales increased by 1.1% to 2.12 million tons.

Latvia's Ventpils said reloadings of oil and oil products for May was at 600,000 tons compared with 900,000 tons for the same month a year ago. It said it handled not crude oil in May. It said that the lack of crude transit was due to higher rail tariffs on crude imposed by the Russian government.

Kazakhstan's State Statistics Agency reported that the country's oil and gas condensate production increased by 11.5% to 26.1 million tons or 1.13 million bpd in January-May.

India's state-run oil companies sold 4.1% less petroleum product in May compared with last year's level, mainly due to lower demand for diesel in the rural market. The country's domestic oil majors altogether sold 7.96 million metric tons of oil produced in May compared with 8.3 million tons in May 2004. Overall diesel sales fell about 8.6% to 3.2 million tons.

South Korean exports of diesel or gas oil are likely to increase in July as refiners lift output following maintenance work. South Korea's five oil refiners are expected to sell 640,000 tons of high sulfur gas oil with a 3.5% sulfur content in July under spot contracts compared with 600,000 tons in June.

China's net imports of oil products fell by nearly two thirds in May from April, a further sign of slowing demand growth. May net imports were cut to 12,580 tons/day, well below the 36,000 tpd rate in March and April and less than 25% of the average 64,000 tpd reached in the first two months of the year.

Market Commentary

The oil complex settled sharply higher amid the continued strength in the heating oil market. Despite the reports of several oil companies resuming their offshore operations in the Gulf of Mexico after operations were shut in ahead of Tropical Storm Arlene, the markets were well supported by reports of some refinery problems. Premcor cut rates by 50% on its 80,000 bpd fluid catalytic cracking unit at its 255,000 bpd Port Arthur, Texas refinery due to mechanical problems while a fire partially shut PDVSA's delayed coker unit at its Amuay Bay refinery on Sunday. The market may have also been somewhat supported amid the bombings in Iran, causing concern of possible disruptions to its production. The oil market opened at its low of 53.50 and never looked back as it quickly bounced off that level. The market traded to 54.65 early in the session and settled in a range as it failed to test Friday's high of 54.95. However as the market held good support at its low, the market later breached its earlier high on good buying. It rallied over \$2.20 as it posted a high of 55.80 ahead of the close. It settled up \$2.08 at 55.62. Volume in the crude was excellent with over 226,000 lots booked on the day. The heating oil market continued to support the complex and settled up 5.57 cents at 166.31. The market posted a low of 161.25 and quickly bounced off that level. The market traded to 164.50 and settled in a range. The heating oil market, which erased some its early gains, later breached its early high and continued to trend higher. It extended its gains to over 7 cents as it rallied to a high of 167.90. It later retraced some of its gains and settled up 5.57 cents at 166.31. Meanwhile, the gasoline market settled just 1.06 cents higher at 155.42 as it continued to trade within last Thursday's range from 150.50 to 158.40. The market rallied to 156.70 before it erased its gains and sold off to a low of 152.65. Similar to the heating oil and crude market, the gasoline market rallied to a high of 156.70 ahead of the close. Volumes in the product markets were good with 43,000 lots booked in the heating oil and 47,000 lots booked in the gasoline market.

The crude market on Tuesday may continue to trend higher as it breached its resistance and

stochastics crossed to the upside. The market will also remain supported, especially if the heating oil market continues to trend higher. The market is seen finding resistance at 55.80 followed by more distant resistance at

Technical Analysis		
	Levels	Explanation
CL 55.62, up \$2.08	Resistance	57.00, 57.20 55.80
	Support	55.10, 54.52, 54.13, 53.73 53.50, 53.35
		Previous highs Monday's high, Previous high
HO 166.31, up 5.57 cents	Resistance	171.04 167.90
	Support	166.00, 164.00, 162.00 161.25, 160.55
		38% retracement(52.45 and 55.80), 50%, 62% Monday's low, Previous low
HU 155.42, up 1.06 cents	Resistance	162.40, 163.64, 164.50 156.70, 158.30-158.40
	Support	154.00, 152.65 150.50, 149.00
		Basis resistance line Monday's high
		Monday's low, Previous low
		Previous high, Basis resistance line, Previous high Monday's high, Double top
		Monday's low Previous lows

57.00 and 57.20. Meanwhile support is seen at 55.10, 54.52, 54.13 and 53.73. More distant support is seen at its low of 53.50 followed by 53.35.