



ENERGY RISK MANAGEMENT

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ENERGY MARKET REPORT FOR JUNE 13, 2008

According to the Middle East Economic Survey, Saudi Arabia is likely to propose a sizeable increase in oil production during the June 22 meeting. It said the increase would put Saudi Arabia's oil production near record levels of about 10 million bpd, up from its current production level of 9.45 million bpd. An adviser to Saudi Arabian Oil Minister Ali al-Naimi, Ibrahim al-Muhanna said current oil prices threaten the world economy and hurt the long term interests of oil producers. He however

Market Watch

The rally that has driven oil to a record of \$139.12/barrel last week surpassed the gains in Internet stocks that preceded the dot com crash in 2000. Oil has rallied on growing demand from China and India while supply disruptions in Nigeria and Iraq and declining production in Russia also supported prices. However prices have also been well supported as investors have added about \$250 billion to commodity index trading strategies since 2003. Money has been flowing into oil as the world economy slows, with the US economy's expansion expected to slow to 1.3% this year from 2.2% in 2007. Analysts believe that with crude prices more than doubling in the past year and surging \$10.75 on June 6, the largest increase on record and largest percentage change since June 1996, the risk of a correction has increased.

IMF chief Dominique Strauss-Kahn said the IMF was opposed to general fuel subsidies to counter the high price of oil. He said the fuel subsidies would not help to solve the underlying problem of the high price of crude. Separately, Italy's Economy Minister Giulio Tremonti said that ministers from the Group of Eight industrialized nations have called on the IMF to investigate rising oil and commodity prices. He said the IMF has been asked to come up with proposals to deal with any issues it finds during its inquiries.

The European Union's executive commission said it would investigate whether increasing imports of US biodiesel were breaking global trade rules because of subsidies. The EU said there was enough evidence to warrant anti-subsidy and anti-dumping investigations. European producers said their US rivals were benefiting from large subsidies when they blended biodiesel with small amounts of mineral diesel in the US, creating unfair competition that has put much of the EU industry out of business.

The Labor Department reported that the consumer price index in May increased by 0.6%. The core consumer price index, excluding food and energy, increased 0.2% in May. It reported that energy prices increased 4.4%. In a separate report, the Labor Department said the average weekly earnings of US workers, adjusted for inflation, fell 0.4% in May, suggesting income was not keeping pace with prices.

India's wholesale price inflation increased 8.75% in the 12 months ending May 31, up from the previous week's 8.24%. The inflation rate is at the highest level since February 2001.

Indonesia's Minister of National Development Planning Paskah Suzetta said the country would likely need to implement gradual increases in domestic fuel prices over the next few years. Over the next 5 to 6 years, Indonesia will try to reduce the amount of fuel subsidies given by the government.

PDVSA has transferred about \$2.7 billion to a state-controlled development fund, its share of a recently approved windfall oil price tax.

June Calendar Averages

CL – 131.43

HO – 380.06

RB – 339.89

would not comment on the possible actions to be taken by Saudi Arabia during the meeting. MEES did not cite anyone as the source of information for the likely increase in production. On Thursday, OPEC President Chakib Khelil ruled out an OPEC production increase during the meeting, saying supply was sufficient.

Saudi Arabia's Oil Minister Ali al-Naimi said Saudi Arabia's proposed meeting between oil producers and consumers aims to stabilize the market. He said the meeting should seek a solution to high oil prices. He also said he hoped the meeting would have a positive impact on various aspects of international relations and the world economy. He reiterated that market fundamentals do not justify current high oil prices. Saudi Arabia has invited nations, including the US, the UK, China, Germany, India and Japan. OPEC members and other producers are also scheduled to attend.

Iran's OPEC Governor Mohammad Ali Khatibi said he was not aware of reported plans by Saudi Arabia to propose raising its oil production at an upcoming meeting.

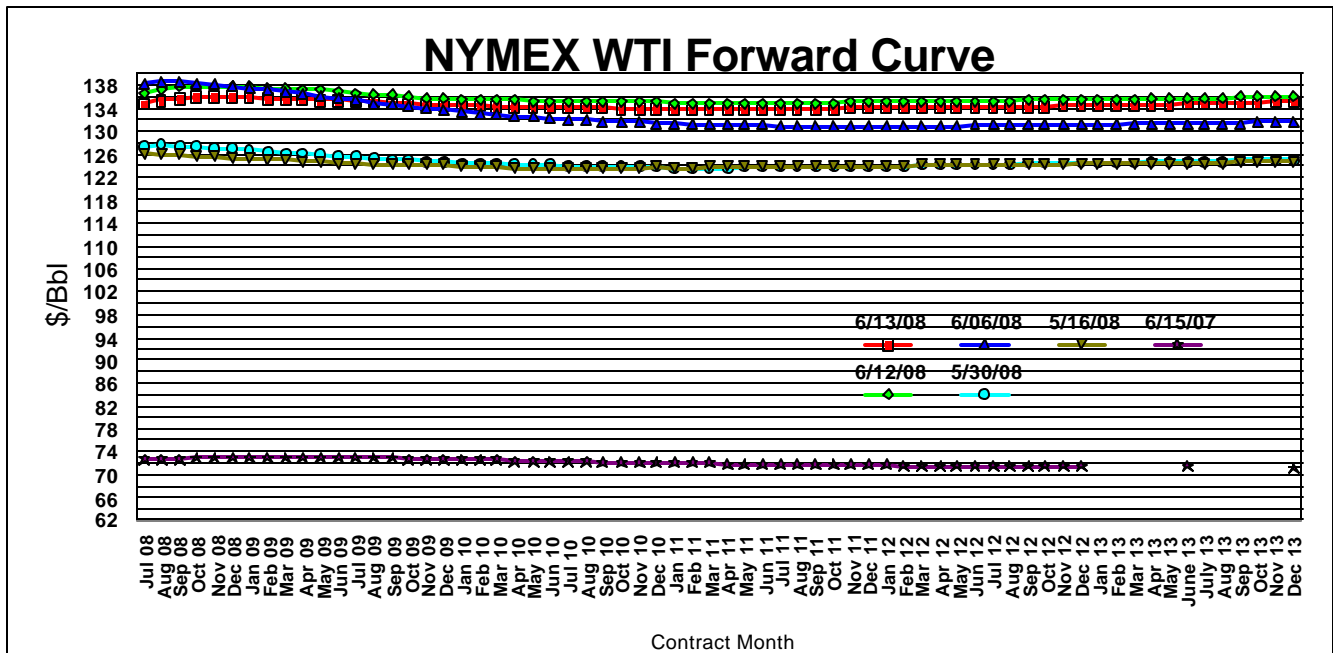
Iraq's Prime Minister Nuri al-Maliki said the country supported global efforts to tame high oil prices. Iraq's Oil Minister Hussain al-Shahristani said any crude oil production increase by Saudi Arabia would not lower oil prices. On Thursday, he said speculators were to blame for high world oil prices and more crude from Saudi Arabia or other OPEC producers would not solve the problem.

Japan's Minister of Economy, Trade and Industry Akira Amari called on oil producing countries to increase their output capacity to stabilize oil prices in the longer term. He also stated that he would attend the June 22 meeting of oil producers and consumers.

OPEC cut its 2008 global oil demand forecast for a fifth month as record oil prices curb demand. Oil demand this year is expected to increase by 1.1 million bpd to 86.88 million barrels, down 60,000 bpd from last month's estimate of 86.95 million bpd. It said slowing demand and increased Saudi Arabian production would cause a higher than average global stockpile increase in the third quarter. OPEC's report reaffirmed its view that there was enough oil in the market and that factors beyond oil supply and demand were supporting prices. OPEC also reported that non-OPEC supply is expected to average 50.13 million bpd this year, down 50,000 bpd from the previous forecast, mainly due to lower than expected output from the UK. Demand for OPEC oil is estimated at 31.82 million bpd. It also reported that the 13 OPEC members produced 32.19 million bpd in May, up 343,200 bpd on the month.

Nigeria's President Umaru Yar'Adua said he expected world oil demand to keep increasing. He also said Nigeria was in a good position to secure a larger share of OPEC's output. Separately, Nigeria's President said a summit in the Niger Delta meant to help end a campaign of sabotage against the country's oil industry is scheduled to take place next month.

On Thursday, US Senate leaders unveiled proposals targeting oil futures markets. The proposals seek to encourage the same type of regulations across all crude futures markets, including reporting requirements and speculation limits for foreign exchanges such as ICE Futures Europe. The proposal calls for the addition of 100 employees to the Commodity Futures Trading Commission. The agency would also get information about a broader array of oil transactions, in a more detailed format, than under current regulations. The bill would require the CFTC to work with foreign regulators such as the UK's Financial Services Authority to bring foreign exchanges such as ICE Futures to the same regulatory standard as US regulated markets. Another proposal would require ICE Futures Europe to register with the CFTC as a designated contract market. ICE Futures Europe is currently a foreign



board of trade and is exempt from many of the rules required for NYMEX. Separately, a senior UK futures market executive said the imposition of new regulation could do more harm than good.

The NYMEX urged US regulators to increase surveillance of commodity index funds and to impose stricter regulations on ICE Futures Europe to improve market transparency. NYMEX CEO James Newsome said the CFTC should take steps to identify more precisely the counterparties to transactions with swap dealers.

European Union foreign policy chief Javier Solana traveled to Iran on Friday to hand over an incentives offer, promising Iran economic benefits if it halts its nuclear program. He said he hope it would start a new process for resolving the standoff diplomatically. He is scheduled to meet with Iran's Foreign Minister Manouchehr Mottaki and chief nuclear negotiator Saeed Jalili on Saturday for talks on the incentives package. Meanwhile, analysts have stated that Iran, which refused to stop enriching uranium, may be more open as sanctions have started cutting into its economy although it is unlikely to yield on enrichment.

Iran's Acting Interior Minister Mehdi Hashemi said the country would begin selling gasoline at international prices in 2011. He said the plan to start selling gasoline at international prices was based on a parliament decision. Iran introduced rationing in June 2007, allowing motorists to buy a maximum 100 liters/month at the price of 1,000 rials or about 11 cents/liter in order to curb consumption.

The US Army Corps of Engineers said the upper Mississippi River could be closed to barge traffic for several weeks, cutting off commerce on a 300 mile stretch of the waterway. Four locks were closed since Thursday and seven more are scheduled to shutdown by Monday. In addition to being unable to operate due to high water levels, closing the locks is necessary to move electrical equipment to higher ground.

UK fuel tanker drivers for Royal Dutch Shell are scheduled to stage another four day strike from June 20. On Friday, the workers began their first four day strike after they rejected a pay offer.

The EIA reported that US crude oil imports in April increased by 3% on the month but were down 2.5% on the year at 9.921 million bpd. Canada was the top source of crude imports for the US, with shipments averaging 1.952 million bpd, up 8.7% on the month. Saudi Arabia was the second largest source of US crude imports, with 1.453 million bpd, down .05% on the year. Mexico supplied the US with 1.259 million bpd of crude while Nigeria supplied 1.115 million bpd. Crude imports from Venezuela increased by 161,000 bpd to 1.019 million bpd while Iraq supplied 679,000 bpd.

Refinery News

ExxonMobil Corp reported a pump failure on Thursday at its 150,000 bpd refinery in Torrance, California but said the refinery was operating. It also said it shut one of two sulfur recovery units on Monday for planned work.

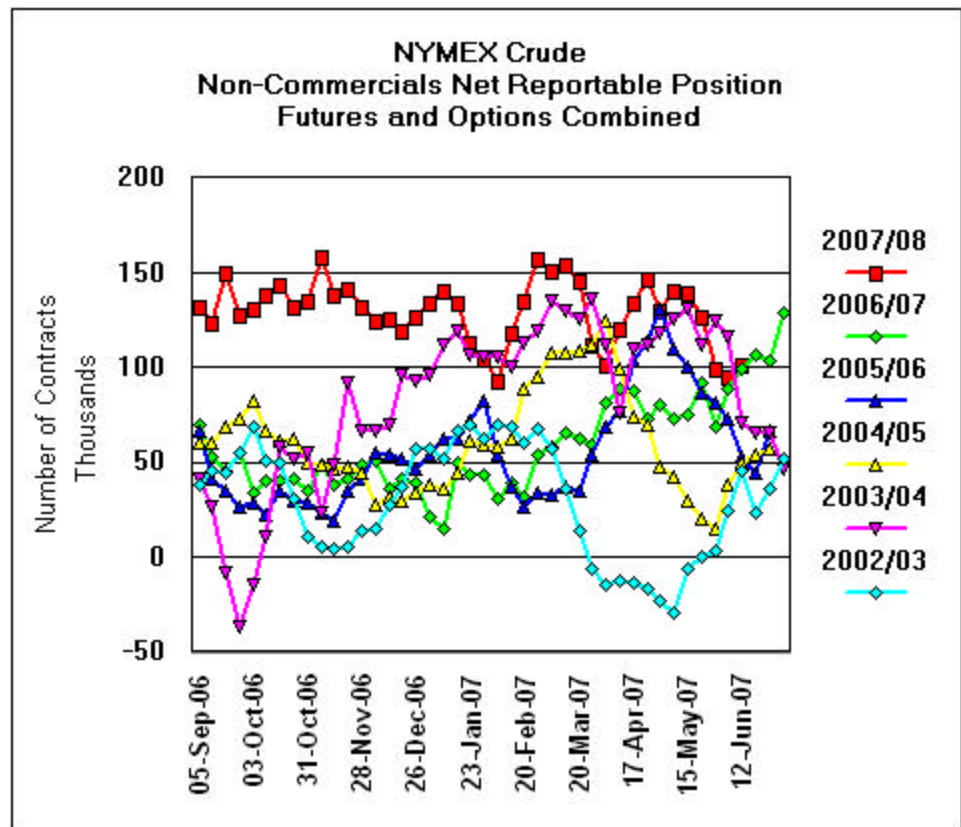
Petroplus said its BRC refinery in Antwerp is expected to return to full operation by the end of July after it was partly damaged by a fire earlier in the week. It had suspended all crude distillation following the fire.

Neste Oil announced plans to build a plant in Rotterdam with the capacity to produce 800,000 tons of renewable diesel/year by 2011. The plant would initially use a wide range of feedstocks including rapeseed oil, palm oil and soya oil. The company's Rotterdam plant is expected to supply the European market. The European Commission has set a target for 10% of all road transport fuel to be derived from renewable fuels by 2020.

The port authority said a 48 hour strike at France's Fos-Lavera in southern France blocked 22 oil tankers from entering the terminal. The port workers started a 48 hour strike on Thursday. They are also scheduled to hold a 48 hour strike on June 17 and June 18 to coincide with the government presentation of the port reform at the National Assembly next week.

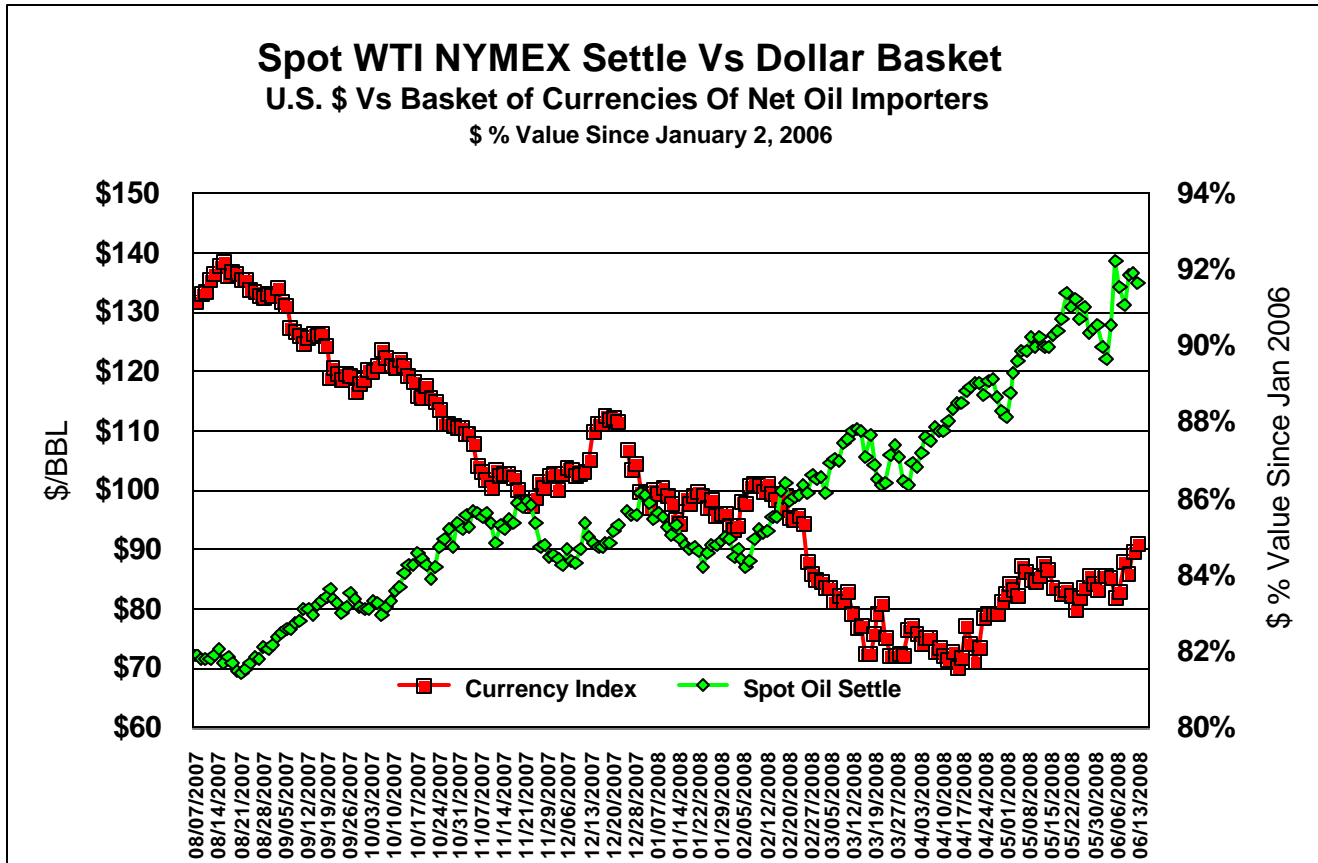
South Korea's Yeochun Naphtha Cracking Center's 500,000 ton/year No. 2 naphtha cracker was experiencing problems but has not been shutdown. The unit was still in operation and whether there would be a production cut or a shutdown was no immediately known.

Qatar Petroleum reported that it was planning to shutdown two crude distillation units and utilities during the first quarter of 2009 for 34 days. It is also scheduled to shut its residual fluid catalytic cracking unit and sulfur units, condensate units and utilities in the fourth quarter



of 2009 for 54 days.

Germany's MWV said German oil product sales in May totaled 5.57 million tons, down 6.8% on the year. It reported that diesel fuel fell by 3.4% on the year to 2.37 million tons, heating oil sales fell 6.9% to 1.04 million tons and fuel oil sales fell by 19.3% to 420,000 tons. It also reported that gasoline sales fell by 7.7% to 1.74 million tons.



Asian demand for West African crude for July loading increased by 30% from June to 1.16 million bpd as the volumes purchased by India increased to their highest in almost three years. India bought about 429,000 bpd of West African oil for July while China imported 613,000 bpd.

China's gasoline imports for June are expected to reach a new high as the country copes with a worsening supply shortage. PetroChina and Sinopec are expected to buy more than 500,000 tons of gasoline for June delivery.

Production News

Denmark's North Sea DUC crude oil system is scheduled to load about 155,000 bpd in July, down from 200,000 bpd in June.

BG Group, Petrobras and Repsol made another oil find in the Santos Basin offshore Brazil. BG said that the Guara exploration well struck oil in the same block where the partners made the Carioca discovery in September 2007. The head of Brazil's National Petroleum Assembly said in April that Carioca contained 33 billion barrels of oil equivalent.

China's Sinopec has discovered an additional 730 million barrels of proven oil reserves in its northwestern Tahe oilfield. Sinopec's Northwest Oilfield Co found the new deposits in the Yuqi Block of Tahe, which would pave the way to increase its production to 10 million tons of oil equivalent by 2010.



Petrobras said its overall domestic and international oil and gas production increased by 4.3% on year in May to 2.37 million bpd of oil equivalent. Its domestic oil production totaled 1.85 million bpd in May, up from 1.84 million bpd in April.

Iraq extended an agreement with Jordan to supply it with 10,000 bpd of crude under preferential terms for another three years. Officials however stated that the two countries failed to reach an agreement on a new deal that would have enhanced the terms of the original agreement that was due to expire in August.

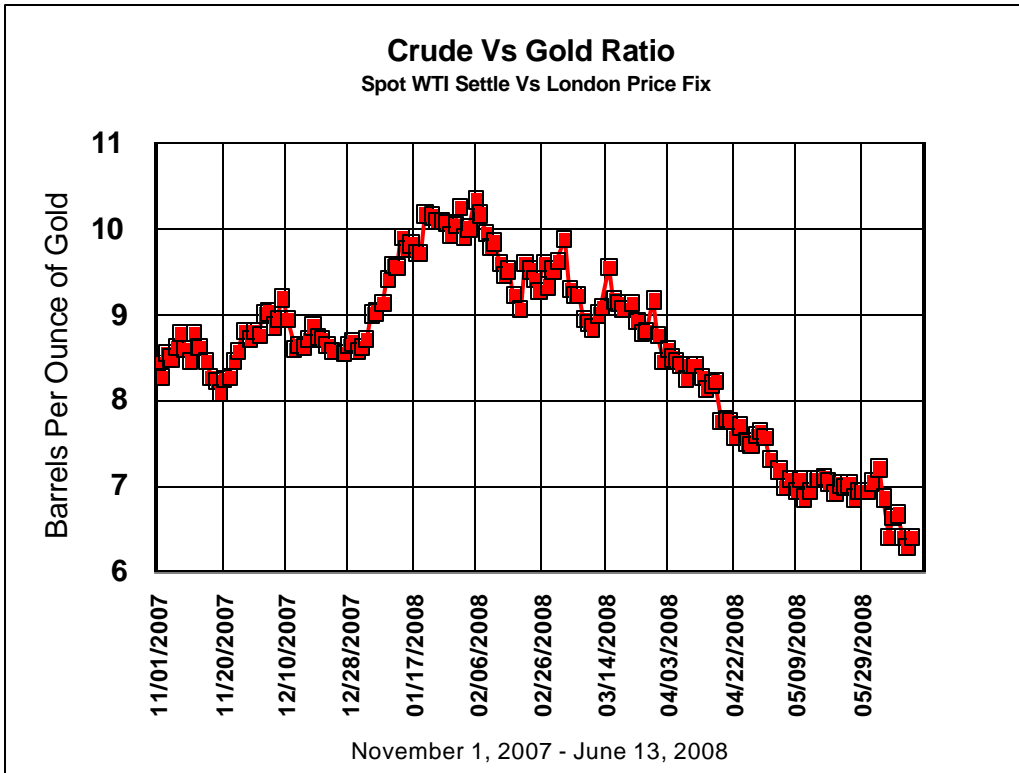
Norway's DNO International said it has not yet received an oil export license from the Iraqi government. It said there were no new signals about the timing of its expected Iraq oil export license.

OPEC's news agency reported that OPEC's basket of crudes increased to \$129.77/barrel on Thursday from \$128.89/barrel on Wednesday.

Market Commentary:

Saudi Arabia's oil minister said today that the June 22nd meeting should focus on ways to put a halt on rising oil prices, as the market fundamentals do not support current prices. OPEC has also lowered its' forecast for demand for 2008, shaving early estimates from last month, by 60,000 barrels per day.

Based on these factors and a stronger dollar the energy markets traded lower today. This is the first time in nine weeks that crude oil has experienced an inside trading session. Both the slow stochastics and rsi's are in over bought territory, both are pointing lower and the slow stochastics have crossed to the downside. Coming into next week, we would look for a test at the bottom of this channel which comes in at \$128.07. As for the July08/August08 spread, with our bearish outlook for next week, we would look for length lightening in the August to outpace that of July, thereby strengthening this



spread. Gasoline also took a hit today, and for the first time in twelve weeks traded within the previous week's range. Slow stochastics and rsi's for this product are also in overbought territory, with the slow stochastics crossing to the downside. As with the crude oil, gasoline traded lower today. Coming into next week, gasoline should continue lower, touching the bottom of the pennant formation on the July daily chart, which

comes in at \$3.3760. At this time we would reassess this market. Heating oil also came under pressure and appears to be in a period of consolidation. This is the only market that did not experience an inside trading session for the week. We still feel that this product is in a bullish trend until it is able to take out major support at \$3.5450. We would look to buy and sell this market at the listed support and resistance numbers. Total open interest for crude oil is 1,403,331 down 22,740, July08 191,405 down 32,381, August08 263,540 up 17,187, December 08 184,093 down 3,824. Total open interest for heating oil is 218,007 up 252,007 July08, 46,779 down 2,525, August08, 39,722 up 1,216. Total open interest for gasoline, 259,981 up 5,465, July 62,602 down 3,581, August08, 50,826 up 5,529.

The latest Commitment of Traders reported that non-commercials in the crude market cut their net long position by 3,050 contracts to 25,246 contracts in the week ending June 10 as the market came of its record highs. Their net long position is at the lowest level seen since August 28. The funds increased their total short position by 5,146 contracts to 193,238 contracts on the week. The combined futures and options report however reported that non-commercials in the crude market increased their net long position by 6,682 contracts to 101,434 contracts. Meanwhile, non-commercials in the heating oil market cut their net long position by 60 lots to 15,015 contracts while non-commercials in the RBOB market cut their net long position by 10,933 contracts to 53,624 contracts on the week.

July Crude Support	July Crude Resistance
127.80, 124.25, 122.54, 120.65, 119.36, 109.60, 98.60, 85.40	141.00, 147.54, 150.00
Heating oil support	Heating oil resistance
3.8000, 3.6800, 3.5450, 3.5100, 3.3500, 3.1680, 3.0980	4.0338, 4.0475, 4.0640
Gasoline support	Gasoline resistance
3.3075, 3.1760, 3.0920, 3.0730, 3.0400, 3.0250, 2.9255	3.6345, 3.755, 3.8655