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ENERGY RISK MANAGEMENT

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ENERGY MARKET REPORT FOR JUNE 21, 2005

While the Norwegian union representing managers and supervisors reported that no progress had been made in their talks with Statoil despite the participation of a state mediator in the talks. The union warned that if no progress was made by 2200 GMT it would begin an industrial action. Dow Jones reported that according to a senior Norwegian government official, that the Norwegian government would step in and block any strike from being called by the trade union for managers and supervisors against Statoil, if a settlement is not reached between the two sides. Some 920,000 to 1 million barrels of daily oil production could be shut in.

Refinery News

Taiwan's Chinese Petroleum announced it was investing NT$ 20 billion to build a new

Market Watch

A senior Iranian oil ministry official said today that he saw no reason that oil prices should not reach $70 per barrel or higher given the continued strong demand for oil globally. He saw strong demand for oil coming from countries such as India and China and until the new production capacity is built in the world this ever tightening supply demand balance will keep pushing oil prices higher.

The Bank of France Governor Noyer said Tuesday that the rise in the price of crude oil is a "real worry" and that as it seeps into inflation it could force central bank action. Meanwhile the French Finance minister today reduced his country's growth forecast by 0.5% to less than a 2% expansion due to rising oil prices and the highest unemployment rate since 1999.

T. Boone Pickens said Tuesday that gasoline prices in the United States should reach and pass $3 per gallon within the next 12 months, which he feels will shock the U.S. economy.

Libya has raised its official selling price for Es Sider crude by 50 cents per barrels versus June to Dated minus $2.30 per barrel.

South Korea reported that it imported 68.4 million barrels of crude oil in May, up 4.4% from the same month a year ago. South Korean refineries processed some 71.7 mbd of crude oil on the month, up 2.2% from a year ago. Commercial stocks of crude oil rose to 13.5 million barrels, some 4.9 million barrels higher than a year ago.

CNOOC was rumored to be considering bidding $20 billion in cash for Unocal, some 10% higher than the Chevron offer for the company.

Due to a cash squeeze at the Indonesian state owned oil and gas company, Pertamina, supplies of diesel oil have fallen to only 14.5 days of forward supply. This has resulted in the state electric company being forced to close one 750 mw power plant, and may be forced to close a 1000 mw plant as well. Pertamina said it has imported more diesel supplies and was in the process of delivering these supplies. Pertamina's president said the company would increase its domestic oil product supplies to 20 days of forward cover from its current 17.5 days of forward supply target by June 25th. The company though continues to buy products on the world spot market, but sell them into the domestic market under government subsidies.

The Center for Global Energy Studies Monday warned that the surge in oil prices has forced it to reduce its 2005 demand growth forecast by 100,000 b/d to 1.6 mbd.

fluid catalytic cracker and diesel desulfurizer. The 80,000 b/d units will be completed in 5-6 years.

PetroChina reportedly is planning to increase its gasoline exports in July, given strong export margins. While the company had cut exports in June to 120,000 tonnes, from 150,000 tonnes exported in May, it hopes to export 180,000 tonnes in July. Some 60,000 tonnes have already been sold for July. West Pacific Petrochemical said it will keep its July exports of gasoline unchanged at 100,000 tonnes.

ESAI analysts said they look for distillate margin to remain firm in the coming months even though U.S refiners have increased their distillate yields at the expense of a seasonal shift to gasoline production. They note that strong demand, specification changes and reduced imports should keep margins above historical levels and remaining above $10 per barrel versus WTI.

The CEO of ExxonMobil said today that his company had no interest in building oil refineries at closed military bases in the United States, since these locations did not provide access to crude oil and feedstocks supplies.

Production News

Iraqi oil officials reported that pumping along the northern pipeline to the Ceyhan terminal was suspended "due to a shortage of available crude". But officials confirmed some 5.65 million barrels of crude was in storage at Ceyhan. The Iraqi Finance Minister said today that the Iraqi government would enforce new security measures in northern Iraq to safeguard crude exports there, but failed to elaborate. Exports from Iraq's southern oil terminals were slowed on Monday due to weather conditions, but reportedly had resumed normal loading rates on Tuesday.

BP said it hoped to restart its Kinneil processing plant in Scotland, the loading terminal for the Forties gas and oil pipeline later Tuesday, following a technical glitch which forced the closure on Monday afternoon. The Forties system flows some 600,000 b/d.

Statoil reported that it was forced to shut down the 30,000 b/d Vestlefrikk oil field on Tuesday following safety tests that found problems with three lifeboats at the platform. The shutdown may last 2-3 days until new lifeboats could be put in place.

TNK-BP said it would share marketing production from Slavneft, its joint venture with Sibneft. Up to this point Sibneft has been marketing all of Slavneft's 480,000 b/d of production. TNK-BP will market some 73,000-98,000 b/d, with the remaining production still going to Slavneft's traditional refining destinations.

TNK-BP reported it has started oil exports via the Caspian Pipeline with volumes running 240,000 tonnes per month.

Woodside Petroleum reported that production from Australia's North West Shelf Cossack oil system has been reduced by 40,000 b/d since June 15th due to problems at two sub-sea wells feeding the facility. The problems could delay some crude oil deliveries since it may take at least six weeks to complete temporary repairs.

The Nigerian national conference charged with drawing up constitutional reforms aimed at ending decades of unrest within the country postponed its final session for a second time today, as a bitter debate continued to fester over how to share the country's oil revenues. Delegates from the Nigerian delta, where most of Nigeria's crude oil is produced, said they would not rejoin the conference until their demands for a greater share of the oil revenues were met. These regional delegates are demanding a 50% share of these oil revenues, while the conference group overall was looking to increase the delta's share of revenues by 4% to 17%. Delegates from the Muslim north have rejected demands from the delta representatives and have also rejected a mediation team to reopen the debate on revenue sharing. All recommendations from the conference though will have to be approved by Nigeria's president. The president though was confident that the differences would be resolved by June 29th.

Cambridge Energy Research Associates said Tuesday that they expect oil prices will remain above $50.00 per barrel for the next year given the strong continued demand for oil globally and global production capacity stretched to its limit. But they warned that demand could falter if spot prices made a definitive and sustained move above $60 and challenge the $70 per barrel level. The analysts though expect prices to fall below $50 per barrel next summer as demand growth moderates and new non-OPEC production capacity comes on line. They see a potential 6-7.5 million barrel over supply of crude oil by 2010. They feel though that OPEC will mange the price erosion and as a result see an implicit floor in oil prices in the low $40's.

Chevron said today that due to a shortage of drilling rigs, its planned first exploration well in the shared production region of Nigeria and Sao Tome in the Gulf of Guinea, probably will not be drilled late this year but rather delayed until next year. The joint governmental administration authority for this region said today that they hoped to sign five new exploration contracts with operators for this region by the end of the year.

PDVSA said today that it has only executed 17% of its 2005 exploration and production budget so far this year, which had been expected to be $3.5 billion. Company officials said that the availability of rigs has delayed efforts in this area, but exploration activity should pick up starting in September as more drilling rigs arrive. They still expect to spend some 85-90% of their budget by the end of the year.

PetroEcuador reported that its exports of crude oil in May reached 4.75 million barrels up 11.76 from a year earlier.

OPEC's reference crude basket price rose to $52.78 a barrel on Monday up $1.20 from Friday.

Market Commentary

The oil markets continue to surprise us. With today being expiration day, we had been expecting some fireworks in price movements, especially given the breakneck upward surge in prices over past 5-10 trading sessions. Instead it appeared that most traders were suffering from a bullish hangover, as crude oil prices for much of the session stayed contained in an unheard of 30-cent trading range. While prices finally found some volatility in the latter part of the afternoon trading session, as spec traders first bought the market looking for the late day surge, only to be disappointed and liquidated these positions driving prices down to new lows for the session just prior to the close. While volumes were light to moderate for the first several hours of trading, especially in crude oil, they did pick up in the afternoon, and as a result crude futures were still able to post 224,000 contracts traded, with heating oil and gasoline trading 25,000 and 33,000 respectively.

We feel that today's price action even with bullish news of a potential Norwegian oil workers strike, coupled with two separate production problems in the North Sea as well as some minor disruptions in Iraq and Australia, should have kept the bears in hibernation for another trading session. Instead this market appears to be demonstrating a bullish exhaustion. As a result unless we see very bullish inventory numbers tomorrow, we feel that this market is ripe at least for a short-term price correction, before the buying trend is resumed. Our near term downside objective therefore would at least be a closure of the gap in the daily charts from Friday's higher opening at $58.10 - $57.60, with additional trend line support tomorrow at $57.38.

Market expectations for tomorrow's oil inventory reports appear to be centered around a 2 million drawdown in crude stocks, with a build in heating oil and gasoline of 1.9 million and 200,000 barrels respectively.

Technical Analysis		
	Levels	**Explanation**
	$61.10	Basis channel trandline on weekly chart
Resistance	$59.95, $60.02	Past two days highs
CL 59.04, down 84 cents		
Support	59.00, 58.10	Monday's low
	58.10 to 57.60	Opening gap (June 17th)
	167.90-168.00	Double top
Resistance	165.50	Tuesday's high
HO 162.97,down 321points		
Support	162.75	Tuesday's low
	160.30	Low from June 16th
	168.00, 168.46	Previous high, Basis trendline
Resistance	165.30	Monday's high
HU 162.74, down 182 points		
Support	162.10	Tuesday's low
	161.80 to 160.30	Backfills gap (June 17th)