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ENERGY RISK MANAGEMENT

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ENERGY MARKET REPORT FOR JUNE 24, 2005

OPEC President Sheikh Ahmad al-Sabah may start talks with fellow OPEC ministers on Saturday or Sunday on lifting the group's output ceiling by an additional 500,000 bpd. An OPEC official said talks may start first with the Gulf oil producers such as Saudi Arabia, Kuwait and the UAE, which hold OPEC's only significant spare crude output capacity. The official said that the main issue to be discussed would be the timing of the possible increase. However it appears unlikely that fresh volumes of oil will be released onto the market for now. Earlier this week, a Gulf source said there is no immediate need for more OPEC oil on the market because refiners still are not requesting extra barrels. Iran's OPEC governor Hossein Kazempour Ardebili said OPEC should wait to see the impact of the first 500,000 bpd increase and then assess the

Market Watch

Saudi Arabia has hired a fifth VLCC to carry 285,000 tons of crude to the US Gulf. Its July spot shipments to the US have increased to 10.5 million barrels. In June, Saudi Arabia booked six VLCCs to transport 12.5 million barrels to US refiners.

Morgan Stanley said it expects concerns to return about world economic growth over the summer, pointing to record high commodity prices as one of the factors that worried its economists most.

A German government official said oil prices will be a key issue at the upcoming summit of the Group 8 on July 6-8. The official said it could not be ruled out that oil prices will rise even further.

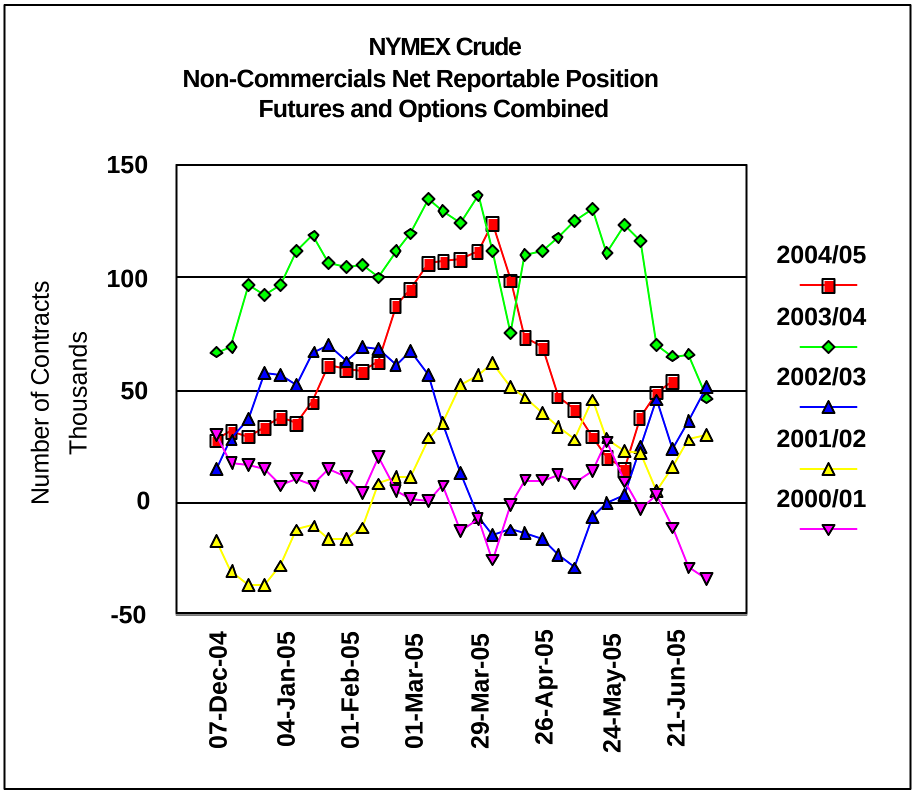
Japan's Chief Cabinet Secretary Hiroyuki Hosoda said the increase in oil prices to a high of $60/barrel looks speculative.

OPEC has sent a letter to Indonesia's government asking it to reconsider possible plans to downgrade its membership in the group. OPEC's Secretary General Adnan Shihab-Eldin sent a letter to Indonesia's Energy Minister, Purnomo Yusgiantoro, urging Indonesia to remain a full OPEC member. The letter is in reaction to a recommendation by a government panel to downgrade its OPEC membership to observer status. Indonesia will decide on the panel's recommendation within two years.

Nigerian National Petroleum Corp is planning to start its own tanker fleet, possibly as a joint venture with a Malaysian company. It considering several options for the proposed fleet including buying a fleet tanker company or partnering with Nigerian shippers.

Russia's Gazprom is planning a major move into the oil industry. It is studying the possibility of new acquisitions in this sector in Russia and abroad. Gazprom's chief executive said oil output would soon increase because new fields would come on stream.

situation. He reiterated that lack of sufficient refining capacity was a major problem in the current market.



Venezuela's Foreign Minister Ali Rodriguez said OPEC could return to its price band system and may adopt a range of $40-$50/barrel.

Crude oil loadings at Iraq's Basra terminal were cut on Friday due to bad weather conditions. Earlier this week, loading were suspended due to high winds and swells.

OPEC's news agency reported that OPEC's basket of crudes increased by $0.35/barrel to $52.69/barrel on Thursday from $52.34/barrel on Wednesday.

Refinery News

According to a report filed with the Texas Commission on Environmental Quality, a pump at a sulfur recovery unit at Valero Energy Corp's Corpus Christi, Texas refinery malfunctioned on Thursday. Valero said production was not affected.

A hydrogen compressor unit at Chevron's 243,000 bpd refinery in Richmond, California failed. No obvious impact was felt in the market.

Shell Deer Park Refining LP said it plans to begin restarting its 67,000 bpd catalytic cracking unit on Saturday at its 340,000 bpd refinery in Deer Park, Texas. The unit is expected to return to normal rates by the middle of next week. The cat cracker was shut after a heater steam coil ruptured on June 15. Output from the refinery has been reduced by an undisclosed amount.

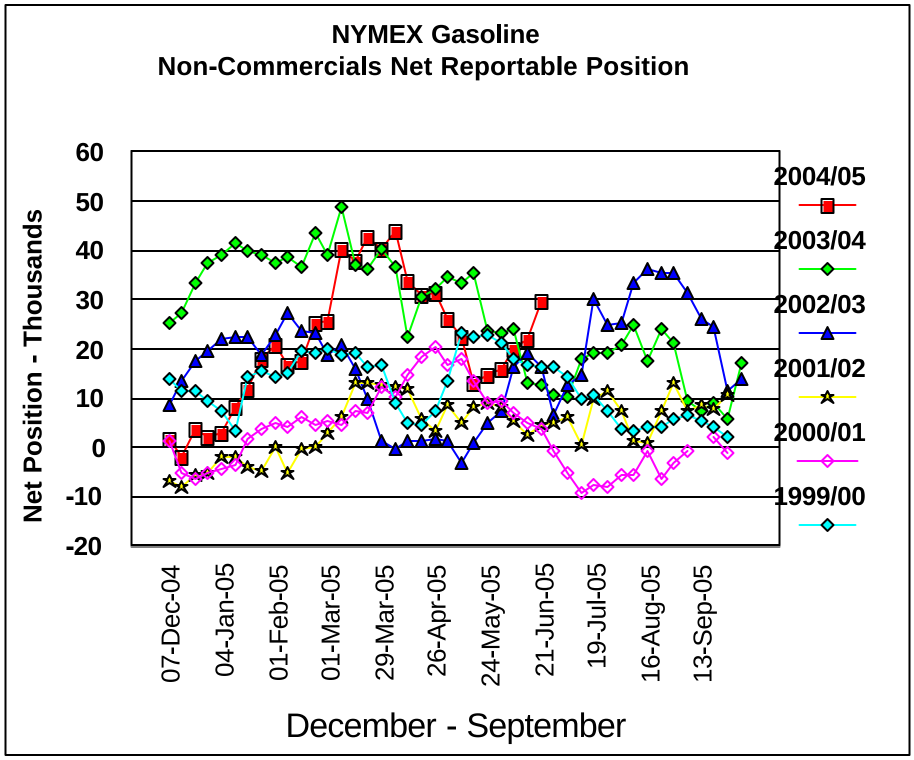
Louis Dreyfus started a maintenance shutdown at its 250,000 bpd Wilhelmshaven refinery. Traders said the turnaround was expected to last between two and three weeks, however it is unclear whether the refinery will be fully or partially shutdown.

Japan's Cosmo Oil Co said it shut a crude distillation unit at its 120,000 bpd Sakaide refinery for regular maintenance. The unit is expected to restart on August 1.

Production News

Statoil ASA said it reached a record production level in international operations last week with a weekly average output of 201,158 barrels of oil equivalent/day. It said its production increased mainly due to the resumption of output from the Lufeng development in the South China Sea on June 9 following an 11 month shutdown.

Separately, Statoil's 30,000 bpd Veslefrikk and associated 8,000 bpd Huldra fields in the North Sea will restart operations late Friday. The Velsefrikk field was shut on Tuesday.



According to the Aberdeen Petroleum Report, UK oil production fell by 4.1% to 1.57 million bpd in April.

The Azerbaijan International Operating Co has so far produced a total of 300 million barrels of oil at the Chirag field. The daily average output at Chirag is estimated to exceed 134,000 barrels in 2005.

China's apparent oil demand contracted over 4% in May. However demand could increase again if refiners are tempted to free up more fuel for sales in light of an increase in fuel prices. China will lift retail fuel prices for the second time this year on Saturday, increasing refiners' domestic margins and possibly stimulating sales. It will increase the mean diesel price by 3.8% to 150 yuan or $18.12 to 4,138 yuan/ton while retail gasoline prices will increase by 4.5% or 200 yuan to 4,675 yuan/ton. The price increase will force motorists to pay more for their fuel, which would normally curb demand, however the benefit of better margins could more than offset the effect.

China's General Administration of Customs reported that China imported 10.4 million metric tons or 2.46 million bpd of crude oil in May, up 8.2% on the year. Its crude imports in the first five months of the year increased by 5.1% to 52.3 million tons. It exported 222,141tons or 52,526 bpd of crude oil, down 69.1% on the year. It also reported that its imports of fuel oil fell by 40.7% on the year to 1.61 million tons in May. Its diesel imports fell by 91.6% on the year to 25,313 tons. Meanwhile, China's industrial production increased faster than expected in May on overseas orders for products such as steel, shoes and laptop computers.

India's Oil Ministry officials said India's sales of refined oil products fell by 1.6% in May. It said naphtha sales fell by 11.4% as customers switched to liquefied natural gas, creating a larger surplus for exports, which increased 41% to 267,200 tons. They also stated that India imported 11.6 million tons of crude oil in May, up 45% on the year.

Indonesia and ExxonMobil Corp have successfully concluded talks that will allow the US firm to tap the Cepu oil field. Indonesia's government has agreed to give ExxonMobil 6.75% of Cepu revenues if world oil prices are above $45/barrel, 9% of the revenue if prices are between $40 and $45/barrel and 11.25% of revenue if oil prices are between $35 and $40/barrel. If prices fall below $35/barrel, ExxonMobil will get 13.5% of the revenue. The government expects the Cepu block to start producing oil in late 2007 or early 2008, with capacity likely to reach between 160,000 bpd and 180,000 bpd within two years after operations begin.

Market Commentary

The oil market opened slightly higher at 59.50 after the market once again failed to stay above the 60.00 level when it tested that level in overnight trading. The market traded to an early high of 59.90 and traded mostly sideways as it failed to find further upside momentum. The market posted a low of 59.17 before it retraced its losses and traded to a high of 59.93 ahead of the weekend. It settled up 42 cents at 59.84. Volume in the crude was light with 150,000 lots booked on the day. The market, which posted an inside trading day, shrugged off the news that OPEC may begin talks on increasing their output ceiling by a further 500,000 bpd this weekend as most believe that OPEC will not put more oil into the market. The product markets however ended the session in negative territory with the heating oil market settling down 2.52 cents at 165.04 and the gasoline market settling down 10 points at 165.57. Similar to the crude market, the heating oil market posted an inside trading day. The market quickly posted its high of 168.10 early in the session. However as the market failed to test its previous high of 168.30, the market erased its gains and settled in a sideways trading range from 167.50 to 165.30 for most of the session. The market however sold off to a low of 164.50 in a late bout of selling ahead of the close. The gasoline market also posted an inside trading day after it failed to test its resistance late in the session when it posted a high of 166.10 on the close. Volumes in the product markets were good with 46,000 lots booked in the heating oil and 43,000 lots booked in the gasoline market.

According to the latest Commitment of Traders report, non-commercials in the crude market continued to increase their net long position amid the strength in the market. Non-commercials increased their net long positions by 7,284 contracts to 19,847 contracts in the week ending June 21st. The combined futures and options report also showed that non-commercials in the crude increased their net long positions by 5,063 contracts to 54,295 contracts on the week. Given the market's continued strength, non-commercials have likely continued to add to their position. Meanwhile, non-commercials in the gasoline market also increased their net long position from 21,854 contracts to 29,883 contracts while non-commercials in the heating oil market cut their net long position slightly by 201 contracts to 4,834 contracts on the week.

The oil market is seen continuing to hold resistance at the 60.00 level barring any bullish news over the weekend. The market, which has tested its resistance at the 60.00 level several times, has continuously failed to sustain those gains amid the lack of any supportive fundamentals. If the market does breach that level, the market will be in uncharted territory. More distant resistance is seen at 61.48, basis a weekly resistance trendline. Meanwhile support is seen at its low of 59.17, followed by 58.56, 58.30 and 57.85. If OPEC does begin its talks on increasing its ceiling by a further 500,000 bpd over the weekend, the market will mostly continue to ignore the news as most believe that OPEC will not put more oil in the market.

Technical Analysis

		Levels	**Explanation**
		59.95 to 60.02	Recent highs
	Resistance	59.93	Friday's high
CL	59.84, up 42 cents		
	Support	59.17	Friday's low
		58.56, 58.30, 57.85	Basis support line, Previous lows
		170.00	
	Resistance	168.10, 168.30	Friday's high, Thursday's high
HO	165.04, down 2.52 cents		
	Support	164.50	Friday's low
		163.25, 160.60	Thursday's low, Previous low
		168.00	Previous highs
	Resistance	166.10, 166.45	Friday's high, Thursday's high
HU	165.57, down 10 points		
	Support	163.70, 162.20	Friday's low, Thursday's low
		160.00	Previous low