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ENERGY RISK MANAGEMENT

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ENERGY MARKET REPORT FOR JUNE 28, 2005

Qatari Oil Minister Abdullah bin Hamad al-Attiyah said he has not spoken to OPEC's President about whether OPEC should increase its oil output. He said OPEC still has some spare capacity and would increase production to meet real demand in the market. However he reiterated that the main reason behind the current high oil prices is not a shortage of crude supply but a lack of sufficient refining capacity in the world to produce enough oil products. Regarding Iran's new President elect, Mahmoud Ahmadinejad is expected to continue working positively with OPEC.

Chief economist at the IEA, Fatih Birol said there is no shortage of crude oil in the world oil markets. He also stated that the IEA has no intention to release its strategic stock

Market Watch

US Treasury Secretary John Snow said record high oil prices are starting to hurt the US economy, but not enough to halt or reverse the recovery. This followed his comments made on Monday, when he stated that the economy would continue to grow at a healthy rate. He said it would adapt to higher oil prices. He is confident the US economy will continue to grow at a good non-inflationary rate for the immediate future. He also called on Congress to pass pending energy legislation. He said the energy bill would help expand energy supplies over the longer term and added that in the short term, there is little the US can do to increase supply and curb prices.

Cambridge Energy Research Associates said world oil prices may ease over the second half of 2005 however the continued high cost will hurt world economic growth. It said crude oil prices could ease slightly from current record highs but only if there are no big political or natural disruptions.

Morgan Stanley stated that the price of WTI crude will average $50/barrel in both 2005 and 2006 amid higher demand and lower inventories. It had previously estimated an average price of $43/barrel for both years. It also raised its estimate for natural gas prices to $6.75/mcf for 2005 and to $7/mcf for 2006.

Indonesia may increase electricity prices, impose automobile taxes and use more natural gas in power generation to combat its growing oil demand and ease budgetary pressures. A cash squeeze at Pertamina, due to heavily subsidized retail prices and fuel shortages at power stations have heightened the urgent need for oil conservation in the country. Pertamina has not been able to upgrade refineries quickly enough to match demand due to lack of investment while crude production from maturing oilfields declines at 5% or more a year. In a newly revised budget, it nearly doubled its estimate of oil subsidies this year to $7.9 billion. It almost doubled its oil price estimate to $45/barrel from an original $24/barrel in the first 2005 budget.

The head of South Korea's central bank warned that the country's economy could lose 0.7% of growth if oil prices continue rising. It was not clear if the comments indicated the central bank intended to cut its current 2005 economic growth forecast of 4% by 0.7% when it announces revised estimated on July 7.

A Canadian official said record oil prices and world fiscal imbalances will be discussed at the Group of Eight meeting on July 6-8.

Syria has increased the flow of water down the Euphrates River to Iraq to increase the country's generation of power. The increased flow would increase the power generated at Hudaytha dam in Iraq and help ease shortages of electricity.

reserves as oil prices trade around $61/barrel. He said large investments are needed in the upstream and downstream sectors. He reiterated his earlier estimates that about $3 trillion of investment will needed by 2030 to meet oil demand growth. He reiterated IEA estimates of demand growth reaching 120 million bpd in 2030.

The US Senate on Monday passed an energy bill that mandates the use of 8 billion gallons of ethanol in gasoline by 2012. The House and Senate now need to negotiate differences in their respective bills before a final bill can be voted on again in each chamber and if approved, signed by the President. Two of the biggest differences between the House and Senate bill are the drilling in Alaska's Arctic National Wildlife Refuge and liability protection for MTBE producers. The final energy bill most likely will not include ANWR drilling, as the Republican leadership is seeking to move the provision as part of a budget resolution, which cannot be filibustered. The Senate bill bans MTBE within four years of the legislation's enactment, eliminates the 2% oxygenate mandate in the Clean Air Act with 270 days of enactment and provides the MTBE industry with up to $1 billion over four years to help ease the transition to ethanol. The legislation also expands the SPR to 1 billion barrels from the current capacity of 727 million barrels and requires the Department of Energy to take into consideration oil costs when filling the reserve.

Former US Energy Secretary Spencer Abraham said the oil markets are set to remain tight for the foreseeable future. He indicated that he had real concerns over where crude supply was going to come from to meet future world demand. He noted estimates by the EIA that world crude demand would reach 120 million bpd in 2025 compared with current demand of 83 million bpd-85 million bpd. It means that the world could require 50 million bpd in new output in order to meet the world's needs in 20 years' time.

Refinery News

Valero Energy Corp is performing maintenance on Tuesday in Complex 1 at the West Plant of the Corpus Christi, Texas refinery. A report filed with the Texas Commission on Environmental Quality stated that the complex is to be returned to normal operation as quickly as possible. The units undergoing maintenance were not specified in the report.

According to the US Chemical Safety and Hazard Investigation Board, alarms malfunctioned before an explosion at BP's Texas City, Texas refinery in March. It said had the alarms sounded properly, it could have alerted operators to the emergency situation.

Indian Oil Corp will double the capacity of its Panipat refinery to 240,000 bpd by October and operate at full capacity in another two months.

Japan's Nippon Oil Corp plans to refine about 4.6 million kiloliters or 933,000 bpd of crude in July, down 6% from a year earlier. Japan's Idemitsu will refine 2.34 million kl or 475,000 bpd of crude oil in July, up 2% from an estimated 2.2 million kl or 461,000 bpd in June. Japan Energy plans to process 7.21 million kl or 493,000 bpd of crude in July.

Korea Petrochemical Industry Corp plans to shut its naphtha cracker for maintenance from September 26 to the end of October. The 35 day maintenance shutdown of its 400,000 tons a year naphtha cracker will keep the company away from the naphtha spot market until the second half of November.

Production News

Colonial Pipeline has allocated its stublines running from Atlanta to Nashville, Tennessee and to Bainbridge, Georgia due to strong demand for oil product shipping. It is the third consecutive 10-day shipping cycle that has been allocated for the two lines, which carry gasoline and distillate.

China's CNOOC executives have started talks with Unocal on its $18.5 billion bid. The Chinese government said the offer should be considered as a normal business deal without political interference. Also a Chinese oil official said the bid is purely a commercial matter. More than 40 US lawmakers urged the Bush administration to scrutinize national security implications of CNOOC's offer. CNOOC would gain Unocal's oil and natural gas reserves in Asia and the Gulf of Mexico as well as its proprietary drilling technology and mining assets. A person familiar with CNOOC's strategy said the company in a bid to ease government resistance to the deal is willing to carve out assets such as Unocal's stake in the Colonial Pipeline and terminals that feed the SPR and put them in a management trust or sell them. Meanwhile Chevron's proposal can be approved in August if Unocal shareholders support the offer, while CNOOC needs at least 90 days to win regulatory approval.

An energy official in China said the country will begin filling its strategic oil reserve by the end of the year. Chinese officials expect to fill their reserve gradually, potentially over several years. China's Sinochem is setting up facilities for the reserve. The reserve will be filled at first with domestic oil, rather than oil bought on international markets and China is considering allowing its oil companies pay royalties in kind with crude for the reserve.

OPEC's news agency reported that OPEC's basket of crudes increased to $54.26/barrel on Monday, up from $53.36/barrel on Friday.

Russia's Industry and Energy Ministry reported that Russian companies' oil production increased 1.8% on the year to 32.129 million tons between June 1 and June 25.

A Russian Finance Ministry official stated that Russia will set a new record high crude oil export duty from August due to the recent rise in oil prices. It is likely to charge at least $140/ton, up from $136.20/ton. Export duties on light refined products would increase to $107/ton while duties on heavy fuel oil would increase to $57.70/ton.

Russia's Lukoil is likely to drill a second exploratory well at the Yalama, oil and gas field on the shelf in Azerbaijan. The drilling of the first exploratory well did not show sufficient hydrocarbons to justify further drilling.

Separately, a joint venture of US' ConocoPhillips and Russia's Lukoil will start operations at the oil and gas fields of Russia's Nenets Autonomous District on July 1. Under the deal, ConocoPhillips is to buy 50% in oil company Naryanmarneftegaz, which holds a license to produce oil at the fields. Lukoil said it plans to bring the output of its joint venture with ConocoPhillips to 10 million tons per year by 2008.

Saudi Aramco and Kuwait Petroleum Corp increased their July official prices for liquefied petroleum gas products by $5/ton from June levels. The two companies priced July propane at $398/ton, up from $393/ton in June while butane was set at $401/ton compared with June's $396/ton.

Swiss based trader Mercuria and France's Total won tenders to purchase crude and fuel oil, respectively from Azerbaijan's SOCAR. Mercuria won the tender for two 85,000 tons or 623,000 barrel cargoes of Urals crude for loading at Russia's Black Sea port of Novorossisk on July 24-25 and July 30-31. Total won a tender for 30,000 tons of cracking fuel oil, which will begin loading at Georgian Black Sea ports on Tuesday.

Thailand's Finance Minister Somkid Jatusripitak said the country may review its oil reserve requirement to cut its oil import bill. Thailand requires oil companies to maintain an oil reserve equivalent of 36 days of domestic demand. Thailand consumes about 900,000 bpd of oil, implying a minimum stock level of about 32 million barrels. Thailand's Finance Minister said he has called on oil companies to curb unnecessary oil imports.

Ecuador's Energy Ministry reported that the country's average oil production increased by 2.5% to 529,378 bpd in the first five months of the year from 516,422 bpd in the same period of 2004.

<u>Market Commentary</u>

The oil market gapped lower from 60.10 to 59.41 as traders took profits following its sharp rally on Monday. The market posted an intraday high of 59.75 but quickly posted an early low of 58.95 and settled in range. The market, which failed to find further upside momentum to backfill its gap, traded in a sideways range from 59.75 to 59.00. It however breached its earlier low and sold off sharply to a low of 57.90 as it retraced nearly 38% of its move from a low of 53.00 to a high of 60.90. It settled down $2.34 at 58.20. Volume in the crude was better during today's session with 214,000 lots booked on the day. The market sold off sharply despite the lack of any bearish fundamental. Meanwhile, the product markets also ended the session sharply lower, with the heating oil market settling down 5.57 cents at 162.04 and the gasoline market settling down 5.02 cents at 162.48. The heating oil market also gapped lower from 166.10 to 165.25, which it backfilled as it traded to a high of 166.97. However as the market failed to test its previous highs, the market erased its gains and extended its losses to over 6.6 cents. It traded to a low of 161.00 before it bounced off its low ahead of the close, still settling sharply lower. Unlike the crude and heating oil market, the gasoline market did not gap lower as it opened down 1.5 cents lower at 166.00. The market traded to an early low of 164.50 before it bounced off its low to a high of 166.80. However the market just as quickly found some further selling, which pushed the market to a low of 161.90 ahead of the close as traders took profits ahead of Wednesday's release of the weekly petroleum stock reports. Volumes in the product markets were good with 51,000 lots booked in the heating oil market and 62,000 lots booked in the gasoline market.

Technical Analysis		
	Levels	**Explanation**
	59.75 to 60.10, 60.95	Gap (June 28th), Previous high
Resistance	59.00	
CL 58.20, down 2.34 cents		
Support	57.90, 57.85	Tuesday's low, Previous low
	57.60, 57.00, 56.07	Backfills gap(June 17th), 50% (53.05 and 60.95), 62%
	166.97, 168.10-168.50	Tuesday's high, Preivous highs
Resistance	164.00	
HO 162.04, down 5.57 cents		
Support	161.00	Tuesday's low
	160.60, 159.94, 157.30	Previous low, 38% retracement(146.10 and 168.50), 50%
	166.80, 168.70	Tuesday's high, Previous high
Resistance	164.00, 166.00	
HU 162.48, down 5.02 cents		
Support	161.90	Tuesday's low
	160.43, 157.88, 155.32	38%, 50% and 62% retracement (147.05 and 168.70)

The oil market on Wednesday may retrace its sharp sell off. It will seek further direction from the weekly petroleum stock reports, which are expected to show draws in crude stocks of 1.5 million barrels in crude stocks, builds of about 1.5 million in distillate stocks and a draws of about 500,000 barrels in gasoline stocks. If the market continues to show draws in crude stocks, the market is seen retracing its losses, even though the market's daily stochastics have crossed to the downside. The market is seen finding support at its lows of 57.90-57.85 followed by 57.60. More distant support is seen at 57.00 and 56.07. Meanwhile resistance is seen at 59.00 followed by its gap from 59.75 to 60.10 and 60.95.

The EIA on Friday afternoon released its latest detailed monthly report on the supply and movements of petroleum products in the United States. The data through April 2005 showed that distillate exports have been running at brisk rates for the last seven months up some 36% from the same period a year earlier, but not necessarily at record levels. While the EIA has broken down these distillate exports by the their sulfur content only since January of this year, high sulfur exports (greater than 500 ppm) remain the vast majority of these exports, accounting for nearly 66% of total exports, with the remainder of distillate exports falling under the 15-500 ppm category. No exports of 15 ppm or less material has been made so far this year.