



ENERGY RISK MANAGEMENT

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ENERGY MARKET REPORT FOR AUGUST 20, 2008

The US EIA said Saudi Arabia may cut back on its recent increase in oil production if prices continue to fall. In response to high prices, Saudi Arabia increased its output in July to 9.7 million bpd from 9.45 million bpd in June. The EIA reiterated its latest forecast that prices may settle in a \$120-\$130/barrel range for the rest of the year, barring any major supply disruptions from hurricanes or other events.

The chairman of Libya's National Oil Corp, Shokri Ghanem said OPEC may decide to cut its production at a meeting on September 9 because the market is oversupplied. Meanwhile, Venezuela's Energy and Oil Minister, Rafael Ramirez said

Market Watch

Goldman Sachs reiterated its forecast that oil prices will rebound to \$149/barrel by the end of the year, saying a stronger dollar would not keep prices down in the long term. It stated that it expects declining oil supply growth and supportive emerging markets oil demand growth to continue to offset demand weakness.

Barclays Capital said OPEC appears headed for a production cut at its meeting on September 9.

Russia's Foreign Ministry issued a harsh response on Wednesday to the announcement of a deal between Poland and the US to base part of a US missile defense system in Poland. It denounced the decision to base a battery of US Patriot missiles in Poland, saying it would not provide any protection against any imaginary Iranian danger.

China's Guangdong province still suffers from a shortage of power despite receiving a record volume of power flows from other provinces and utilizing almost all of its gas fired generators. The province, China's manufacturing hub, has been experiencing power shortages because the increase in local generating capacity has failed to catch up with an expansion in demand. The province is expected to face tight supply in the coming weeks, as demand is likely to increase due to hot weather conditions. Meanwhile the power shortages in China's Shandong province has eased as coal stocks in power plants have recovered. The province was at one time facing 10 gigawatts of power shortfalls or nearly 30% of its maximum demand. As of August 18, coal stocks in the province recovered to 4.15 million tons, which on average is enough to last for 15 days' generation.

China's main stock index rallied more than 7% on Wednesday due to hopes that the government would introduce a stimulus package to boost the slowing economy and aid the stocks and property markets. Vice Premier Li Keqiang said that China needed to increase domestic spending to keep growth on track as the world economy weakened.

Minneapolis Federal Reserve Bank President Gary Stern said the Federal Reserve has done all it needs to protect the economy from downside risks and must be ready to increase rates to curb price rises.

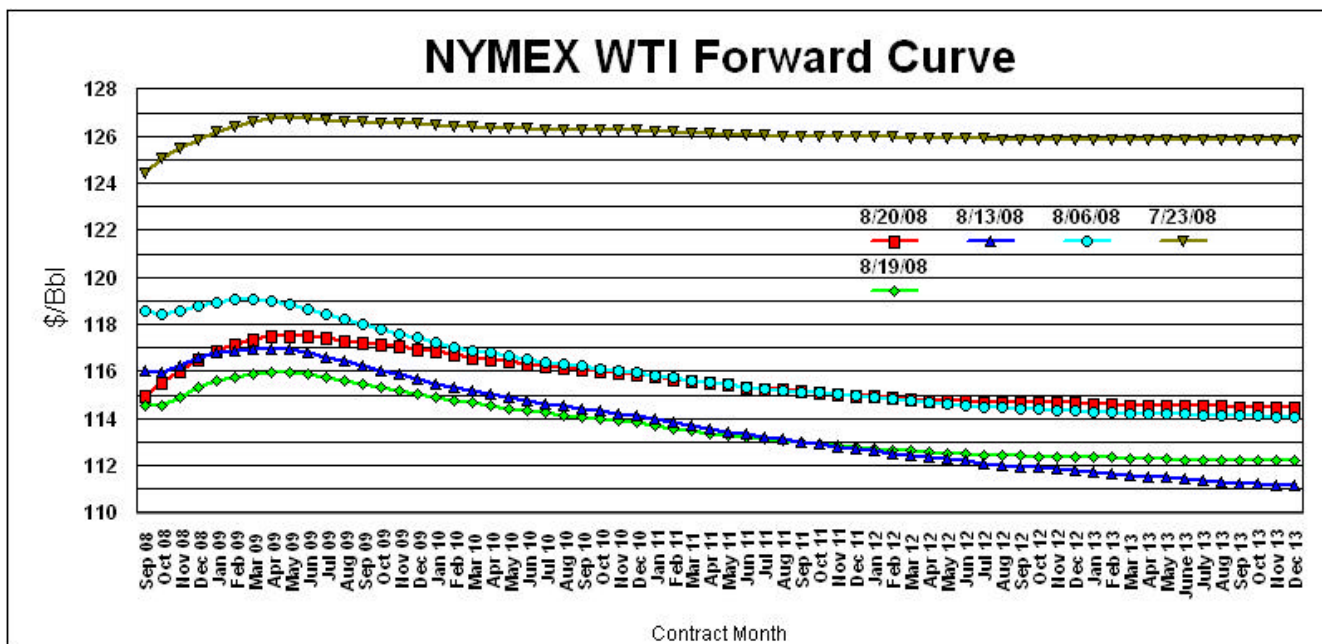
Venezuela would propose an OPEC cut if crude prices continue to fall.

August Calendar Averages
CL – 116.72
HO – 318.49
RB – 292.03

BP Plc said the Baku-Tbilisi-Ceyhan crude pipeline is set to restart by the weekend after it was shut two weeks ago following a fire. Repairs have been completed and testing of the pipeline's integrity will start Wednesday and run for the next couple of days before oil flows are increased. The pipeline was operating at about 850,000 bpd before the incident. BP said the investigation continued into the cause of the fire. Meanwhile, a BP official in Georgia said the 150,000 bpd Baku-Supsa pipeline will remain shut as a precaution due to the conflict between Russia and Georgia over the Georgian region of South Ossetia. Separately, Georgian Black Sea ports are running out of crude and oil product supplies as Russian troops block railways near the city of Khashuri. BP Plc, Azerbaijan's Socar and other exporters halted crude and product exports by rail through Georgia to the Black Sea after a bridge was attacked on August 16. An alternative bridge has been fixed however Russian troops have blocked the railways.

The leader of South Ossetia said the region will appeal to Russia for recognition of its independence in the coming day. Meanwhile, Russia's emergency situations ministry said over 15,000 of 37,355 refugees displaced by fighting in South Ossetia have returned to the disputed Georgian region. A senior Russian commander said Russian troops were fortifying a buffer zone around the disputed South Ossetia region with eight military posts and a no-fly rule for Georgian aviation. He said Russia will also maintain a military presence around Abkhazai, another separatist region in the west of Georgia. Meanwhile, Germany called on Russia to comply with its promise to withdraw its troops from Georgia by the weekend. A government spokesman said the troops movement has so far been unsatisfactory. US Secretary of State Condoleeza Rice said there was no evidence Russia was withdrawing forces from Georgia and complained that Russia was setting another pull out deadline. Separately, Turkey's Prime Minister Recep Tayyip Erdogan flew to Azerbaijan for talks on the conflict between Georgia and Russia that has sparked fears of regional instability. He said he and Azeri President Ilham Aliyev would discuss Turkey's proposal to establish a regional platform for stability and cooperation in the Caucasus that would include Georgia, Russia and Armenia.

Iran said three day talks on its nuclear program with International Atomic Energy Agency deputy chief Olli Heinonen were positive and would continue.



Turkish troops fired shells at Kurdish rebel positions in northern Iraq early on Wednesday. Turkey has intensified operations against the Kurdistan Workers Party rebels in recent weeks. Over the weekend, Turkish fighter planes hit a PKK guerrilla base in northern Iraq.

The Movement for the Emancipation of the Niger Delta accused the Nigerian military of carrying out extra-judicial executions of 22 captured insurgents in the region. The rebels were captured Tuesday during a gun battle with the military in Nigeria's Port Harcourt region.

Refinery News

Valero Energy's 275,000 bpd refinery in Aruba has resumed normal rates following a recent problem with a hydrotreater. Meanwhile, Valero Energy Corp also said its 45,000 bpd hydrocracking unit at its Port Arthur, Texas refinery was in start up mode after planned work. It also stated that it is restarting a fluid catalytic cracking unit at its 100,000 bpd Three Rivers, Texas refinery.

Irving Oil said it is performing some work on a flange at its Canaport oil terminal in Saint John, New Brunswick which is causing it to buy extra supplies of gasoline on the spot market. It said there was no operational issue at the refinery.

Isfahan Oil Refining Co's 375,000 bpd Isfahan refinery in Iran will continue to operate at full capacity despite the partial shutdown of some units at the complex in October. The refinery's 20,000 bpd catalytic reformer unit will be down for about 10 days while a 22,000 bpd atmospheric and vacuum distillation unit will be offline for 22 days.

Russia's Energy Ministry reported that the country's refinery runs fell by 0.8% on the month but increased by 2.5% on the year to 20.424 million tons/day.

Iran's Oil Ministry reported that the country's gasoline consumption reached 510.6 million liters or 72.9 million liters/day in the week ending August 15, up 6.8 million liters on the week. Iran's diesel consumption reached more than 642 million liters last week.

China has imported 10 million metric tons of crude oil or 73 million barrels from Kazakhstan through a cross border pipeline since it was commissioned in 2006. However the imports are still well below the pipeline's capacity of 20 million tons/year or 401,600 bpd mainly because China has not completed the 200,800 bpd Dushanzi refinery and a 1 million ton ethylene plant near the end of the pipeline.

China's PetroChina and Sinopec Corp will halt diesel imports next month after building up stocks for the Olympics. PetroChina is not buying any cargoes for September delivery after purchasing 430,000 tons for August while Sinopec will skip diesel imports in September after buying 100,000 tons for August.

India's Reliance Industries will delay the shipment of at least one gasoline parcel by about 7 days due to a problem at its 220,000 bpd fluid catalytic cracking unit at its 600,000 bpd Jamnagar refining complex.

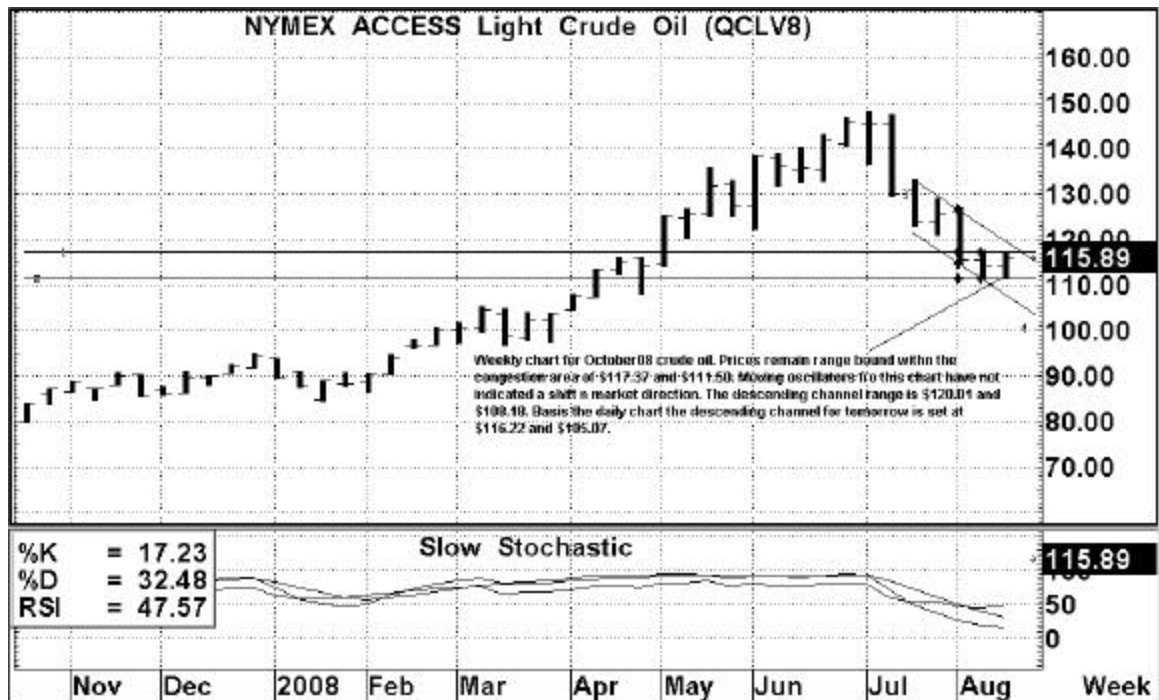
According to the Petroleum Association of Japan, gasoline stocks fell by 64,472 kiloliters on the week to 2.01 million kiloliters in the week ending August 16. Crude stocks fell by 467,040 kiloliters on the week to 15.45 million kiloliters or 97.17 million barrels while gas oil stocks increased by 310,793 kl to 2.28 million kl. It also reported that crude runs increased by 596 kl to 4.72 million kl.

Production News

The Norwegian Petroleum Directorate reported that Norway's July oil production increased to 2.19 million bpd from June's 1.94 million bpd. Production of natural gas liquids and condensate increased to 372,000 bpd in July from 271,000 bpd in June.

StatoilHydro ASA may shut its Kviteboern natural gas field in the North Sea until spring next year after a leak was discovered in a pipeline. The pipeline to Kollsnes will shutdown until repairs scheduled for spring 2009 are completed. The field produced about 13 million cubic meters/day of gas on average and about 40,000 bpd in the first six months of the year. StatoilHydro kept an outlook for output of 1.9 million bpd of oil equivalent in 2008.

A fire at a crude storage tank in Ras Lanuf may force Libya to cut its production by as much as 100,000 bpd. The storage tanks that caught fire yesterday during maintenance contains 500,000 barrels of



crude. The chairman of Libya's National Oil Corp, Shokri Ghanem said the fire was still raging and added that the company was trying to prevent it from spreading to the whole tank farm.

Iraq's Oil Minister Hussein al-Shahristani said Iraq and China modified an oil agreement signed under Saddam Hussein's regime to develop Iraq's al-Ahdad oilfield in southern Iraq. Under the new service agreement, China would receive fees for work however Iraq would keep the profits.

Chevron's Hebron oil field will start producing in the next 8 to 10 years after Chevron Corp and Newfoundland agreed to formal terms. Under the deal, the field will produce 150,000 bpd at its peak. The cost of developing the field is estimated at C\$5 billion to C\$7 billion or \$4.7 billion to \$6.6 billion.

Iran's Oil Ministry said Iran will install the first leg of a new rig at its offshore Reshadat oil field. The development of the Reshadat field, which currently produces more than 5,000 bpd of crude, will result in a production increase to 80,000 bpd.

OPEC's news agency reported that OPEC's basket of crudes fell by 42 cents to \$108.26/barrel on Tuesday from \$108.68/barrel on Monday.

Market Commentary

What a roller coaster ride today, as prices reacted to the release of the DOE/API numbers. Despite the fact that crude oil stocks increased by 9.4 million barrels last week, crude oil firmed slightly on the heels of stronger products. With gasoline stocks decreasing by 6.2 million barrels and distillate stocks increasing by 500,000, the initial reaction was a run-up in prices. Further examination of the numbers however, resulted in a sell off in prices. Imports for crude oil increased by 11 million barrels, up 93,000 barrels per day from last year, basis a 4 - week average. Demand for gasoline averaged 9.5 million barrels per day, down 1.6% from the same period last year, distillate demand increased by 3.3% from a year ago and demand for jet fuel fell 6.2%. Demand once again played a key role in market response and once market participants absorbed these numbers, sellers entered the marketplace. With the September contract expiring today, October is now the spot month. This contract traded within the pattern of congestion and within the descending channel that can be drawn on a daily bar chart. Basis today's settlement for the October contract, prices settled below the upper trendline on both the aforementioned formations. Technical indicators once again edged higher. Percent K and percent D are both above the over sold parameter of 20.00 and the RSI is above its oversold parameter of 30.00. There is no divergence however between the direction in prices and the direction in these moving oscillators. Based on these observations, this market should continue to trend sideways to lower, with a test to the downside at the weekly channel bottom of \$108.18. The RBOB market rallied higher following the release of the DOE report which showed a larger than expected draw in gasoline stocks. The market however retraced its gains amid the losses seen in the crude market. However it bounced off its low and retraced most of its losses ahead of the close. The market was able to settle above its downward trendline as it settled up 4.64 cents at 291.03. The market is seen trending higher and testing its resistance at 303.00. Meanwhile the heating oil market continued to trade within its congestion area and posted an inside trading day in light of the expected build in distillate stocks. The market posted a high of 319.70 before it sold off to a low of 308.00. It later retraced its losses and traded back towards its high. It settled up 3.98 at 316.35. The market is seen testing its resistance at 319.98 followed by 323.15 and 330.75. Open interest for crude oil is 1,203,758, down 18,662, September 08 29,492 down 35,544, October 08 307,010 up 13,599, November 08 102,400, up 1,052 and December 08 176,519 up 1,193. Total open interest for heating oil is 220,026 down 1,969, September 08, 31,170 down 3,312 and October 08 43,404 down 160. Total open interest for gasoline is, 226,341 up 1,942, September 08, 44,257 down 1,106 and October 08 66,124 up 2,180.

Crude Support	Crude Resistance
109.55,108.00,105.18, 85.40	117.40, 128.60,132.05, 139.30, 144.00,147.90,
Heat support	Heat resistance
3.0285	3.2315,3.3075,3.3798,3.6135,3.8215, 4.0210,
Gasoline support	Gasoline resistance
2.8190, 2.7285, 2.5920	3.0300, 3.1050,3.1460,3.1970, 3.2620