



## ENERGY RISK MANAGEMENT

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## **ENERGY MARKET REPORT FOR OCTOBER 1, 2008**

US President George W. Bush said that the Senate financial market rescue bill is an improvement over the measure that was rejected by the House this week and should pass. The measure is expected to be voted on later on Wednesday. He indicated that he expects the House to revisit the legislation on Friday. The Senate bill would raise the FDIC insurance limit on most bank accounts to \$250,000 from \$100,000 for one year.

The US Secretary of Energy Samuel Bodman said the world financial crisis could have a significant impact on energy demand if it remains unresolved.

The EIA stated that spot shortages of gasoline at some US retail outlets in the wake of Hurricanes Gustav and Ike may continue for the

### Market Watch

Schlumberger Ltd's CEO, Andrew Gould reiterated his view that the exploration and production cycle should remain strong for years, even as a credit crisis roils world markets. He said that even though high oil prices have limited demand in some developing countries, energy supplies remain tight and a sharp decline in growth would be needed to slow exploration and production.

The Institute for Supply Management said US factory activity shrank in September to its lowest level since the 2001 recession. It said its index of national factory activity fell to 43.5 in September from 49.9 in August. Its manufacturing employment index fell to its lowest level since April 2003, falling to 41.8 in September from 49.7 in August.

Freight carriers have imposed more low water cargo surcharges on freight moved on the southern and central sections of the Rhine and the length of the Danube in Germany after another overnight fall in water levels. Water levels along the Rhine River between Cologne and Koblenz fell below the minimum that vessels need to sail fully loaded, which caused the additional surcharges.

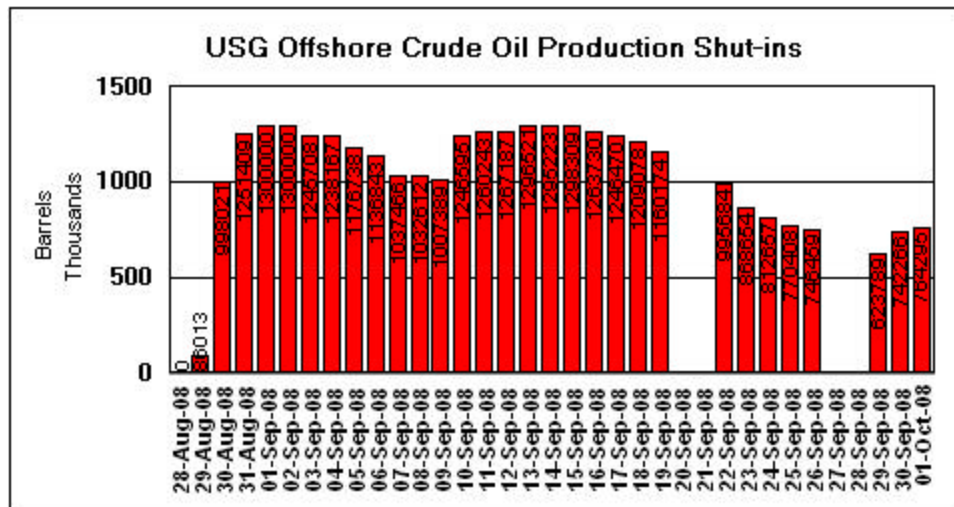
China called on wealthier countries to cut production of greenhouse gases by 2050 and leave developing economies free from the burden of cutting air pollution. It said by 2050 industrialized nations should cut annual emissions 80% to 95% from 1990's level. It seeks cuts of 25%-40% by 2020. China wants US, Britain and Japan to set targets because their industries and vehicles have caused most of the build up of gases.

### DOE Stocks

**Crude** – up 4.3 million barrels  
**Distillate** – down 2.3 million barrels  
**Gasoline** – up 900,000 barrels  
**Refinery runs** – up 5.6%, at 72.3%

next few weeks. It however stated that as refiners resume their recovery, retail gasoline prices are expected to fall to \$3.50/gallon or below by the year end. It reported that gasoline demand in the four weeks ending September 26 averaged 8.867 million bpd, down 4.5% or 422,000 bpd lower than a year ago.

The US Minerals Management Service said about 764,295 bpd of oil production remains shut in following Hurricanes Gustav and Ike. The amount of crude oil shut in increased by 22,029 bpd from Tuesday's level. The MMS also reported that 3.532 bcf/d of natural gas production remained shut in, up 148 mmcf/d from Tuesday's level. It reported the increase in the amount of oil and natural gas production shut in due to failures to report by some operators on September 29<sup>th</sup> and 30<sup>th</sup>.



Venezuela's President Hugo Chavez said the economic crisis in US financial markets will limit growth in Latin America and added that it may send oil prices down to as low as \$80/barrel. Venezuela's President arriving in Brazil for a meeting with Brazil's President Luiz Inacio Lula da Silva said the credit crisis in the US will likely make it more difficult to obtain financing in Latin America. He said Venezuela's government will continue to tap central bank reserves when they increase above \$33 billion to finance investment projects and can also rely on money from a joint investment fund established with China. He added that an oil price between \$80 and \$90/barrel is sufficient and Venezuela is not facing any immediate shortage of funds.

### Refinery News

The DOE delivered 900,000 barrels of crude from the SPR to two refiners, bringing the total delivered crude from the SPR to 5.7 million barrels. On Tuesday, the DOE announced that it would deliver 150,000 barrels to Alon USA's Krotz Springs, Louisiana refinery.

ExxonMobil Corp said power and steam has been restored to its 348,000 bpd refinery in Beaumont, Texas with two lube producing units back on line after their shutdown ahead of Hurricane Ike.

ConocoPhillips reduced rates at some units at its 247,000 bpd refinery in Sweeny, Texas during preventive maintenance.

Firefighters extinguished a fire of burning oil at the Riverside terminal operated by a unit of Kinder Morgan Energy Partners LP on Tuesday. Workers shut down the oil supply line due to the fire.

BP will shut a 200,000 bpd crude distillation unit at its Nerefco refinery in the Netherlands in early October for a month of maintenance work. The closure is expected to last between four weeks and 34 days.

Japan's Nippon Oil Corp shut a 150,000 bpd No. 4 crude distillation unit at its Negishi plant on Wednesday for scheduled maintenance. The maintenance is set to last until October 18.

Japan's Cosmo Oil Co Ltd restarted its 80,000 bpd No. 1 crude distillation unit at its Sakai refinery on Wednesday as scheduled. The unit was shut for maintenance work on August 22.

**October Calendar Averages**

**CL – \$98.53**  
**HO – \$2.8469**  
**RB – \$2.3600**

According to the Petroleum Association of Japan, the country's crude oil inventories for the week ending September 27 increased by 7.59 million barrels on the week and by 5.93 million barrels on the year to 104.1 million barrels. Japanese refiners ran their refineries at an average of 71.1%, down 2.4% on the week and 5.8% on the year. Its crude runs fell by 120,000 bpd on the week and by 240,000 bpd on the year to 3.48 million bpd. The Petroleum Association of Japan also reported that the country's gasoline stocks built by 150,000 barrels on the week and by 1.21 million barrels on the year to 12.65 million barrels while kerosene stocks built by 580,000 barrels on the week but fell by 1.89 million barrels to 24.55 million barrels.

China's National Development and Reform Commission cut jet fuel prices by about 6.9% compared with the previous quarter to \$1,133/ton. The cut in jet fuel prices is expected to add further pressure to China's refiners who have been impacted by rising oil prices and cannot pass much of the increase to consumers due to government price controls.

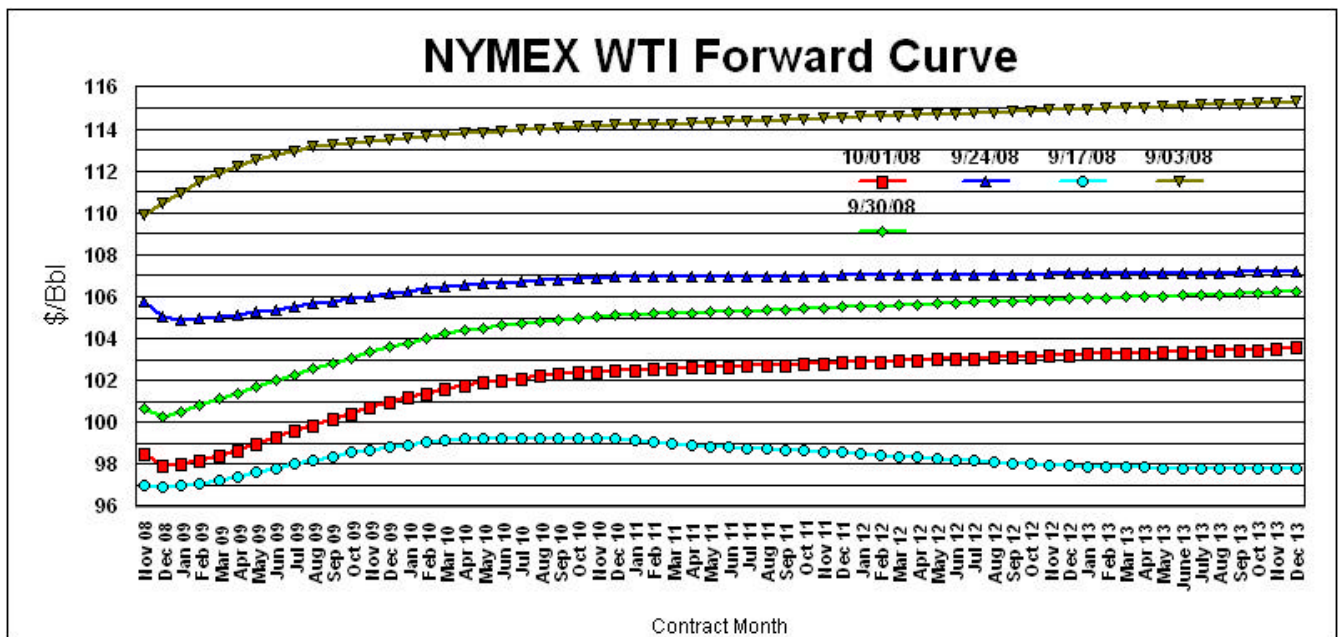
Enbridge Inc said native blockades in Canada's Saskatchewan province forced the company to halt most construction on its Alberta Clipper pipeline project. The pipeline will carry 450,000 barrels of oil sands crude from Hardisty, Alberta to Superior, Wisconsin.

Pacific Ethanol Inc said the US ethanol industry is too fragmented and needs to consolidate. The company's CEO said demand for ethanol would increase at a faster rate than production capacity, creating a supply shortfall in 2010.

Brazil's ethanol exports for September fell to 594.7 million liters from 623.3 million liters in August.

**Production News**

Royal Dutch Shell said about 87% of production from its platforms in the Gulf of Mexico is still offline after it evacuated and shutdown production ahead of Hurricanes Gustav and Ike. Shell's platforms are currently producing 65,000 boe/d, down from about a peak rate of 500,000 boe/d. It said its Mars platform is back online and that its West Delta 143 and Ursa platforms will come back on line later this week.



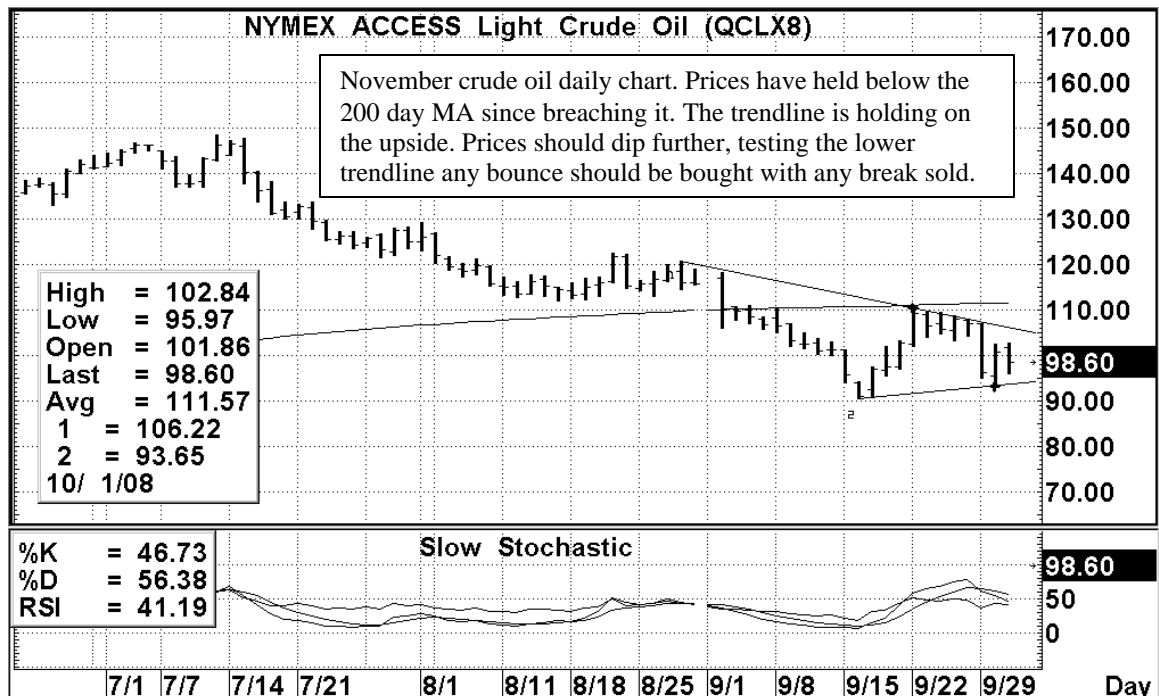
Pemex said bad weather conditions at Mexico's oil export terminals that has delayed export shipments and has prevented the company from reversing a 250,000 bpd output cut imposed last week after Hurricane Ike. Previously, Pemex expected to restore normal operations by the end of last week. Meanwhile, Mexico's Pajaritos or Coatzacoalcos oil terminal remained closed on Wednesday after it was reopened early Tuesday. The terminal was previously shut due to bad weather. Separately, Pemex has launched a tender for a 70,000 bpd pipeline that will mainly handle imported fuel arriving at the Tuxpan terminal in the Gulf of Mexico. Mexico imports more than 40% of its gasoline and other fuels and expects this to reach 50% in the coming years as domestic demand continues to grow. Mexico's gasoline imports are expected to increase by 5.4% in 2009 to 390,000 bpd.

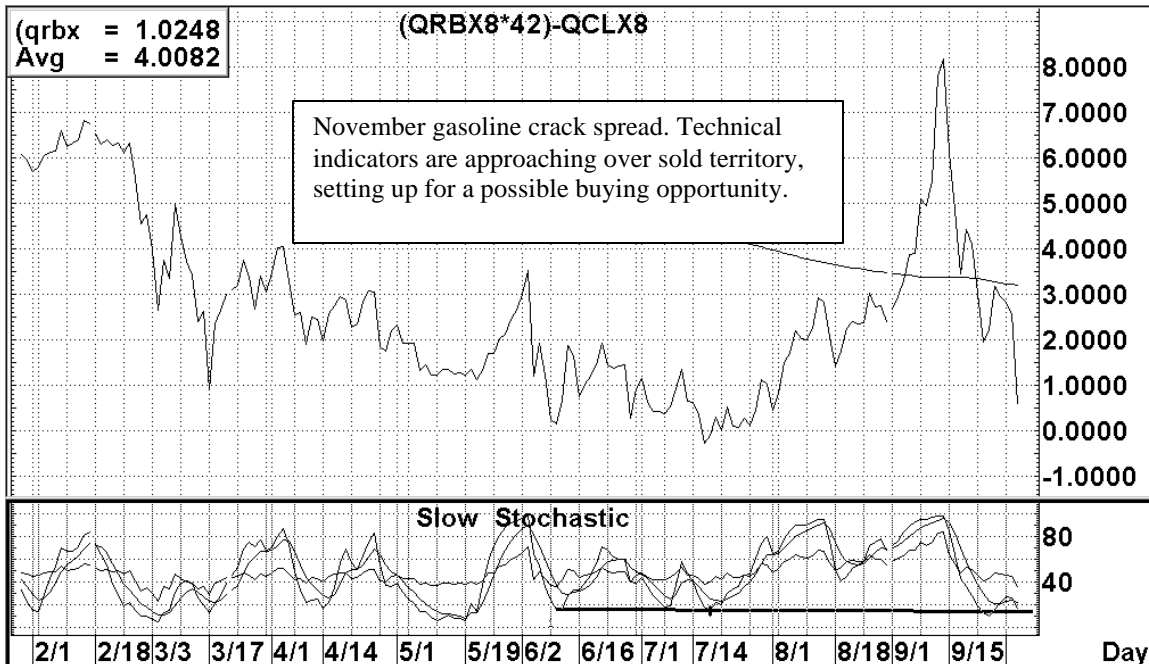
Iran's Oil Ministry said Iran has agreed to export 1 billion cubic feet/day of natural gas from its Kish natural gas field to Oman. The two sides reached an agreement after an Omani workgroup traveled to Iran Sunday for talks.

**Market Commentary**

The fundamentals of the market painted a bearish picture for energy prices as larger than expected inventory numbers were released. Crude oil inventories increased last week by 4.3 million barrels, gasoline inventories jumped 900,000 barrels and distillate stocks grew by 2.5 million barrels. Crude oil imports are starting to rise in the Gulf of Mexico, increasing by 1.9%. Adding to a bearish outlook are the demand figures. Gasoline demand slide 4.5% based on a four-week average and heating oil demand decreased 8.4% for the same four-week period. Total fuel use is at its lowest level since October 2001 and based on a four-week average is pegged at 19 million barrels per day. Imports should continue to rise, with refinery capacity picking up in the aftermath of Hurricane Gustav. Based on the spot continuation chart, November crude oil settled just below the \$98.58 50% retracement between \$147.27 and \$49.90. Any attempt made to penetrate the 200-day moving average has been weak since being penetrated back on 9/02. This number is currently set at \$111.57. Technical indicators are trending lower in neutral territory, supporting further downside movement in prices. Gasoline continues to be the weaker of the markets, settling .0977 lower on the day. Demand is taking a hit both locally and globally, as consumers tighten the reigns on their wallets. From a technical standpoint, this market is in a bearish trend and is approaching the downward trendline which is set at \$2.2584 for tomorrow.

Gasoline crack spreads continue to lose value and appear headed towards negative territory. Technical indicators for the November gas crack are approaching oversold territory. The





last time the slow stochastics were at current levels, this gasoline crack spread rebounded. Percent K is set at 17.47 with percent D set at 21.91. There is support for percent K set at 14.01. Each

time this oscillator got down to this level, the gasoline crack rebounded. Should the technical indicators hold at this level we would look to buy the crack on a technical play but wouldn't expect large gains.

Open interest for crude oil, NOV.08 262,031 -14,043, DEC.08 198,687 +5,038. Totals: 1,092,411 - 10,439 Open interest for heating oil; is NOV.08 56,687 +1,129 DEC.08 27,337 +237 Totals: 203,017 - 2,370 Open interest for gasoline is, NOV.08 74,165 +3,361, DEC.08 28,892 -173, Totals: 170,701 - 4,096.

<b>Crude Support</b> 93.95, 87.10, <b>85.40</b> , 78.35, 68.63	<b>Crude Resistance</b> 105.62, 111.57 (November 200 day MA), 118.60, 122.45, 132.75, 140.30, 144.00, 147.90,
<b>Heat support</b> 2.6880, 2.6712, 2.4040	<b>Heat resistance</b> 3.1050, 3.1937, 3.3684, 3.4574. 3798, 3.6135, 3.8215
<b>Gasoline support</b> 2.3385, 2.2883, 2.2265, 2.1720	<b>Gasoline resistance</b> 2.5266, 2.8521, 2.9600, 2.9989, 3.1050, 3.1460, 3.1840, 80003.2620