



## ENERGY RISK MANAGEMENT

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## ENERGY MARKET REPORT FOR OCTOBER 9, 2008

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US President George W. Bush is scheduled to meet with finance ministers from the Group of Seven countries Saturday morning at the White House amid the economic crisis. White House spokeswoman Dana Perino said the president would emphasize the importance of nations working in a coordinated way to address the crisis, while respecting the different conditions in each economy. The meeting will follow Friday's meeting of G7 finance ministers and central bankers in Washington. The White House spokeswoman also said US Treasury Secretary Henry Paulson is considering making capital injections in troubled banks. The White House however denied reports that

### Market Watch

As credit lines tighten and large financial companies restructure or depart the market entirely, trading activity in NYMEX's energy derivatives complex has declined in recent weeks, which is likely to increase volatility. There is already a noticeable difference in crude price movements compared to the summer. Price ranges for crude contracts averaged \$7.88 per day for the week ending October 3, up from \$5.56 per day for the week ending July 11, when crude prices reached a high of \$147/barrel. The Chicago Board Options Exchange's Crude Oil Volatility Index, which measures expectations of price volatility, was on average 3.4% higher in September than in July. In October, the index so far is 20% higher than September.

Touradji Capital Management said the world financial crisis is likely to lead to a sharp contraction in the number of hedge funds. The head of the fund said the number of hedge funds had increased sharply from several hundred in the 1990s to about 10,000. He said the number would decline substantially to about 7,000 or 5,000.

The EIA stated that OPEC could earn \$1.084 trillion of net oil export revenues in 2008. Through September, OPEC has earned an estimated \$821 billion in net oil export earnings in 2008. The EIA also said OPEC could earn \$1.084 trillion in 2009.

The US CFTC said it would permit the Chicago Mercantile Exchange to clear ethanol contracts traded in the over-the-counter market. Separately, the CFTC issued a statement on the treatment of customer funds related to cleared only positions held by a futures commission merchant in the event the FCM goes bankrupt.

Traders said freight surcharges remained in force for cargo shipping amid continuing low water levels on the Rhine River in central and south Germany and on the Danube River in Germany. Surcharges were imposed in late September to compensate vessel owners for lost revenues when their ships have to sail partially loaded due to low water levels.

US President George W. Bush had called a G8 summit to be held next Tuesday.

**October Calendar Averages**

**CL – \$91.40**  
**HO – \$2.5873**  
**RB – \$2.1460**

OPEC had decided to hold an extraordinary meeting on November 18 in Vienna to discuss the impact of the world financial crisis on the oil market. In a statement OPEC reiterated that it is determined to ensure that oil market fundamentals are kept in balance and market stability is maintained. This follows calls from OPEC members this week for action to halt the fall in oil prices. Meanwhile, OPEC’s President Chakib Khelil said OPEC is very likely going to cut production when it meets on November 18.

According to Oil Movements, OPEC’s exports, excluding Angola and Ecuador, will increase 320,000 bpd to 24.69 million bpd in the four weeks ending October 25. The majority of the export increase was heading to Western consumers.

The US Minerals Management Service reported a slight improvement in the amount of oil and natural gas production returning to the market following hurricanes Gustav and Ike. It reported that 1,813 bpd of crude returned to the market, still leaving 563,980 bpd of crude production shut in the Gulf of Mexico. It also showed that 7 mmcf/d of natural gas resumed production, leaving 2.853 bcf of natural gas production shut in.

Iraq halted its crude exports through its northern pipeline to Turkey on Thursday. About 3.75 million barrels of Iraqi Kirkuk crude was stored in tanks at the Ceyhan terminal in Turkey.

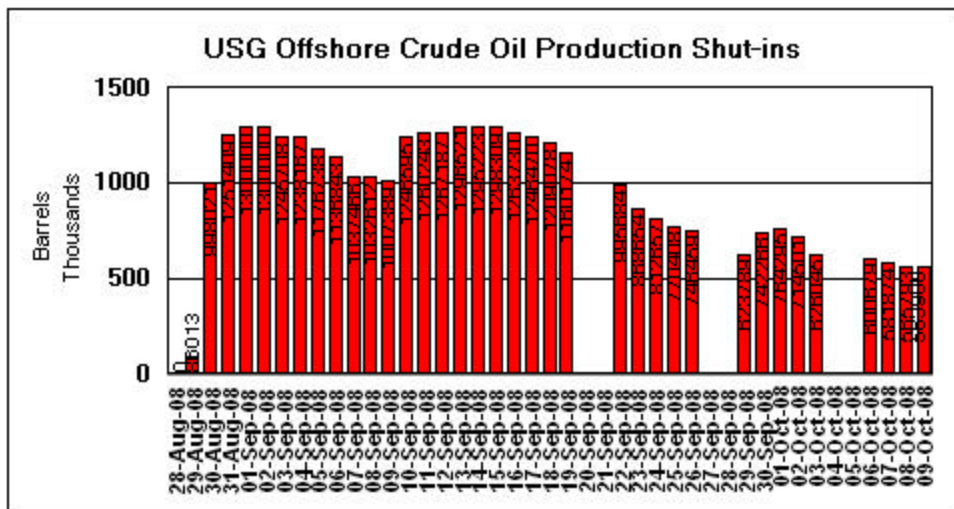
Iraq’s Oil Minister, Hussein al-Shahristani, is holding a meeting in London on Monday to brief international oil companies on Iraq’s first licensing round for long term contracts to develop Iraq’s oil fields. He will address representatives of 35 oil companies qualified to participate in the first bidding round which covers six oil fields and two gas fields. The six oil fields, which contain more than 43 billion barrels of oil reserves, are Kirkuk, Bai Hassan, South and North Rumaila, West Qurna phase-I, Zubair and Missan. Sources said companies will be given until March 2009 to present their offers and contracts will be signed mid –year 2009.

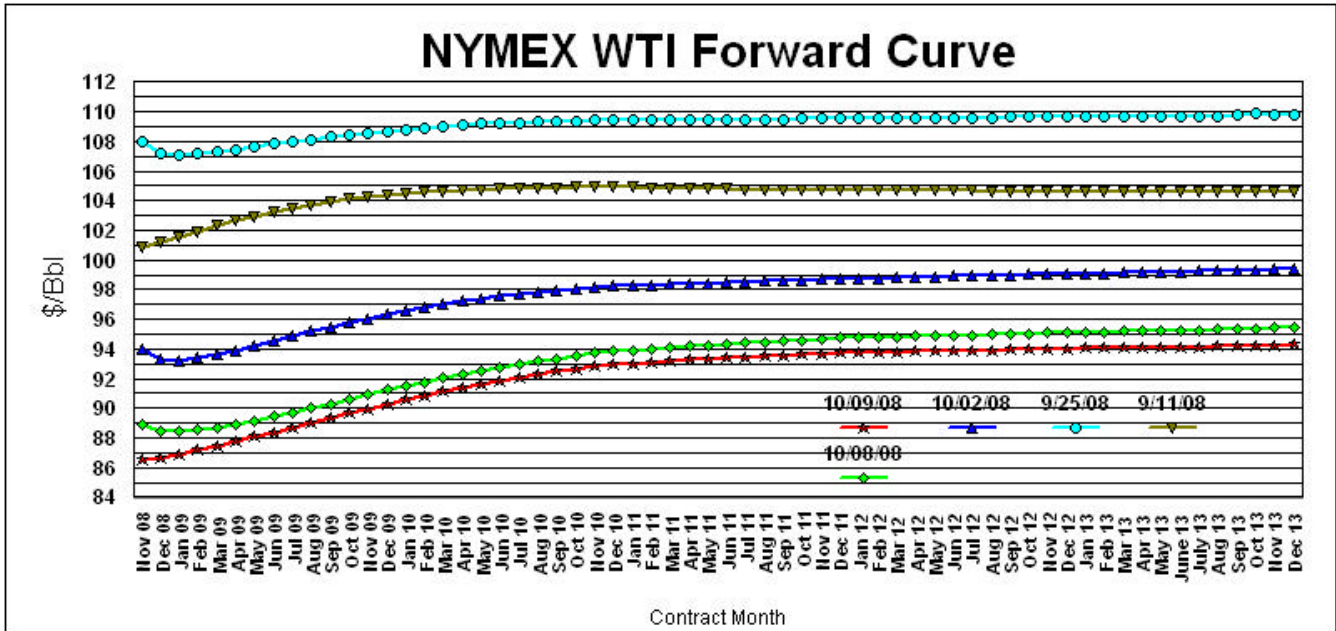
**Refinery News**

ExxonMobil Corp reported another flaring at its 150,000 bpd Torrance, California refinery. It stated that the refinery continued to operate despite the flaring event.

Valero Energy Corp said a small fire was extinguished early Thursday at its 130,000 bpd refinery in Houston, Texas. The fire occurred during the restart of the fluid catalytic cracking unit. The restart of the unit was not affected and is proceeding as planned.

According to Euroilstock, total European oil and oil product stocks in September fell by 0.4% on the month but remained unchanged on the year at about 1.119 billion barrels.





It showed that crude stocks increased by 1.1% on the month and by 1.3% on the year to 478 million barrels while gasoline stocks fell by 2.1% on the month but increased by 1.2% on the year to 125.21 million barrels. It also showed that middle distillate stocks fell by 2% on the month and by 2.6% to 369.38 million barrels while fuel oil stocks built by 0.6% on the month and by 1.2% on the year to 117.85 million barrels. It reported that refinery utilization rate fell to 89.6% in September from 90.42% in August.

Singapore's International Enterprise reported that the country's residual fuel stocks built by 3.237 million barrels to 17.747 million barrels in the week ending October 8. It also reported that Singapore's light distillate stocks built by 310,000 barrels to 8.404 million barrels and middle distillate stocks fell by 331,000 barrels to 12.093 million barrels on the week.

### **Production News**

Mexico's Pemex said it restored its oil production to normal levels, reversing a 250,000 bpd cut implemented after Hurricane Ike. It cut its output after US refineries damaged by the storm deferred or canceled purchases of Mexican crude oil. The export problems saturated Pemex's storage facilities, forcing the company to cut production.

Exports of Nigerian crude oil Forcados for November will be delayed by up to 10 days. A trader said loading for third and fourth decade cargoes would be delayed due to short term production issues but expected the program to return to normal by the end of November.

Angola's oil production has declined to 1.959 million bpd after reaching 2 million bpd earlier in 2008. A senior official cited production problems in one of Angola's oil developments for the fall in production.

Azerbaijan's Socar said Azeri crude production is expected to fall to 45-50 million tons in 2018 after production peaks at 60 million tons in 2015.

Ecuador signed a service deal with Canada's Ivanhoe Energy to exploit an oilfield. Ivanhoe plans to invest up to \$5 billion over 30 years to extract oil from the Pungarayacu field. Ecuadorian oil officials have stated that the company could produce up to 120,000 bpd within five years.

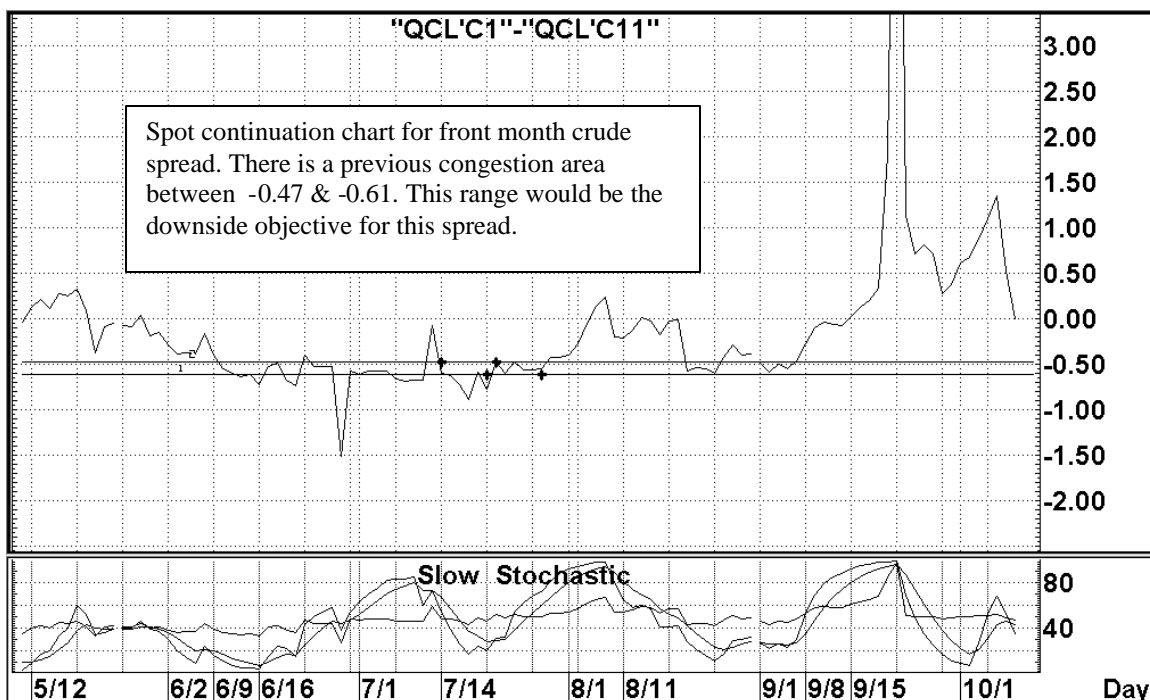
Libya has halted deliveries of crude oil to Switzerland amid a diplomatic dispute between the countries. Libya threatened to cut Swiss crude deliveries after a son of its leader Muammar Gaddafi was arrested in Geneva in mid-July.

OPEC's news agency reported that OPEC's basket of crudes fell to \$77.38/barrel on Wednesday from \$80.04/barrel on Tuesday.

### Market Commentary

Despite the fact that the central banking industry cut interest rates yesterday, energy prices continued to tumble. Fear that an economic recession is or will be upon us, brought with it concerns regarding demand. OPEC, concerned about a shrinking global economy, will hold an emergency meeting in Vienna on November 18. OPEC had been scheduled to meet next on Dec. 17 in Oran, Algeria. The November crude oil contract penetrated key support at \$85.40. Based upon a previous period of consolidation, should prices dip below \$84.26, the next level to the downside is \$73.52. The November/December spread once again came under pressure, settling down .52 points on the day. Technical indicators are pointing to the downside and should this spread trade below the -7 support level, we would look for a run at the -.47 to -.61 in neutral territory. With U.S. demand for fuel averaging 18.7 million barrels a day the past four weeks and the lowest level since June 1999, it appears that this spread will continue to weaken in contrary to what we had originally thought. With gasoline demand slipping 8.6% on the year and supplies rising by 4%, gasoline stockpiles increased the most in seven years. These two factors coupled with the global economic situation, should drive prices lower still. Based on a spot continuation chart support is set \$1.8560.

Open interest for crude oil, NOV.08 188,177 -21,884, DEC.08 261,043 +24,131. Totals: 1,092,172 +4,603,726  
 Open interest for heating oil; is NOV.08 44,978 -6,077 DEC.08 34,639 +3,080. Totals: 207,696 -743.  
 Open interest for gasoline is, NOV.08 53,965 -5,642 DEC.08 37,031 +4,086, Totals: 160,961 -2,280.



<b>Crude Support</b>	<b>Crude Resistance</b>
<b>85.40, 79.30</b> , 78.35, 68.63	105.62, 111.57 (November 200 day MA), 118.60, 122.45, 132.75, 140.30, 144.00, 147.90,
<b>Heat support</b>	<b>Heat resistance</b>
2.4040	3.1050, 3.1937, 3.3684, 3.4574. 3798, 3.6135, 3.8215
<b>Gasoline support</b>	<b>Gasoline resistance</b>
192.85, 1.9050, 1.8560, 1.8452	2.5266, 2.8521, 2.9600, 2.9989, 3.1050, 3.1460, 3.1840, 80003.2620