



## ***ENERGY RISK MANAGEMENT***

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### **ENERGY MARKET REPORT FOR OCTOBER 10, 2007**

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Turkey's government said it started preparations for its army to cross the border in pursuit of rebels belonging to the Kurdistan Workers Party. Turkey's Prime Minister Recep Tayyip Erdogan said a decree to allow cross border military operations into Iraq may be sent to the Parliament on Thursday. On Turkey's side of the border, the military launched a major offensive backed by air power against the rebels in Sirnak province, close to the Iraqi border. In the event that parliament gives its approval, the military could choose to launch an operation immediately or wait to see if the US and its allies decide to crack down on the rebels.

#### **Market Watch**

According to a report by MasterCard Advisors LLC, US gasoline demand increased by 0.1% or 68,000 barrels to 66.75 million barrels or 9.536 million bpd in the week ending October 5. Demand was up 1.3% on the year. The four week average demand level was 66.583 million barrels or 9.512 million bpd, up 3.6% on the year. It also reported that the average retail price of gasoline stood at \$2.78/gallon, down 3 cents on the week.

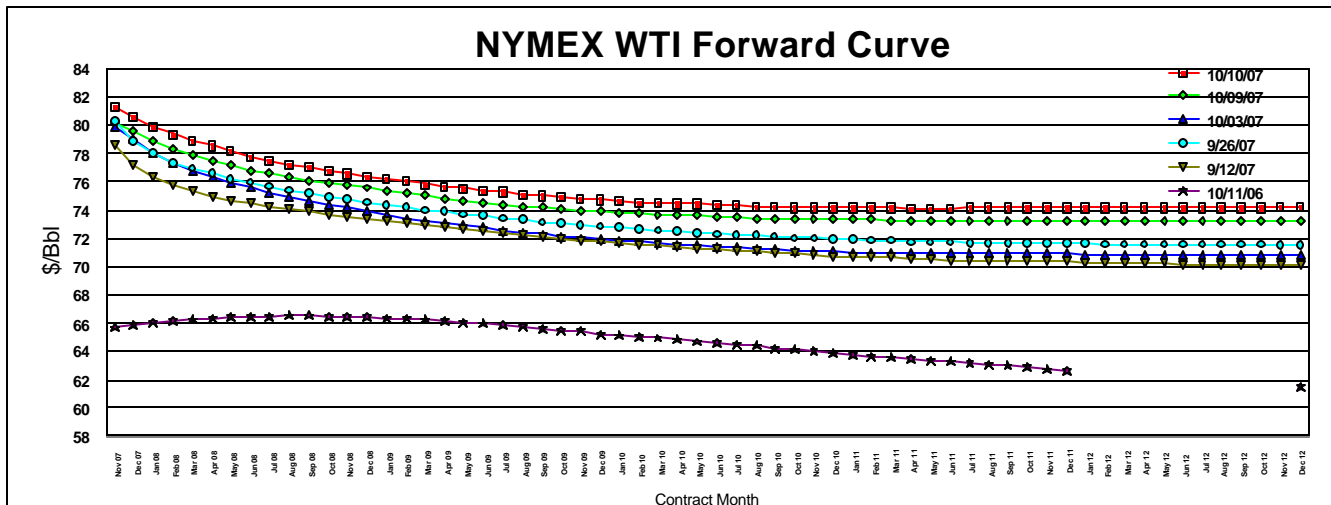
Total said the chances of oil falling below \$60/barrel were limited.

Lehman Brothers said it was launching a new commodities index, the Lehman Brothers Pure Beta Index. It said the index would provide investors with exposure to the commodity asset class with a more accurate reflection of true commodity prices.

Former US Federal Reserve chairman Alan Greenspan said that while US economic data looked good in the third quarter, the growth rate would continue to slow and the housing market would weaken further. He said the economic growth rate should continue to slow through the rest of the year and into the first quarter of 2008. He said given the current climate, the odds that the US would avoid a recession was now better than 50/50.

US Energy Secretary Sam Bodman said the US will have plenty of heating oil supplies this winter to meet demand. However he added that the Bush administration was concerned about higher prices for the fuel. According to the EIA, heating oil expenditures this winter in the Northeast would increase by 22% or \$328 on the year to \$1,827 for the season.

The US State Department said senior officials from six world powers are scheduled to meet to discuss new UN sanctions against Iran over its refusal to halt its nuclear work. US Secretary of State Condoleezza Rice and Defense Secretary Robert Gates are scheduled to visit Russia on Friday for talks with their Russian counterparts on Iran and other issues. Russia has voiced public skepticism over a third round of sanctions against Iran. China is also reluctant to impose new sanctions.



Separately, Iran's former top nuclear negotiator, Hasan Rowhani, said that Iran's President Mahmoud Ahmadinejad's policies were turning more countries against Iran and had failed to fix the country's economy.

Iraq halted the flow of Kirkuk crude through its northern pipeline to Turkey on Tuesday due to technical reasons but was expected to restart exports on Thursday. Iraq on Monday sold nearly 5 million barrels of Kirkuk crude to buyers in Europe and the US and planned to issue a new sales tender in the coming days. An Oil Ministry official said a new tender for 5 million barrels of Kirkuk crude would be announced in the next few days. Iraq's SOMO has sold about 12.5 million barrels of Kirkuk crude.

Chevron Corp said employees of some of the companies providing labor workforce to Chevron and belonging to the National Union of Petroleum and Natural Gas Workers, started a strike on October 9 at Chevron's Escravos, Warri, Port Harcourt, Abuja, Onne and Lagos locations. Chevron said the strike is illegal. It added that the Nigerian government and the union's national leadership have been asked to intervene.

Two oil workers kidnapped by gunmen in Nigeria were released overnight after 12 days in captivity. The two oil workers were kidnapped by gunmen disguised as soldiers from an oil industry construction yard on September 27 in Port Harcourt.

### Refinery News

ConocoPhillips' Sweeny, Texas refinery cut crude oil throughput rates on October 9 by an unspecified amount to facilitate repairs to a coke drum.

Separately, ConocoPhillips said inspection and repairs were continuing on a shut hydrocracker at its 139,000 bpd refinery in Wilmington, California. It said no date has been set for the restart of the unit. The unit was shut by an area electrical power outage on October 3. Refinery production has been reduced by an undisclosed amount while the hydrocracker is shut.

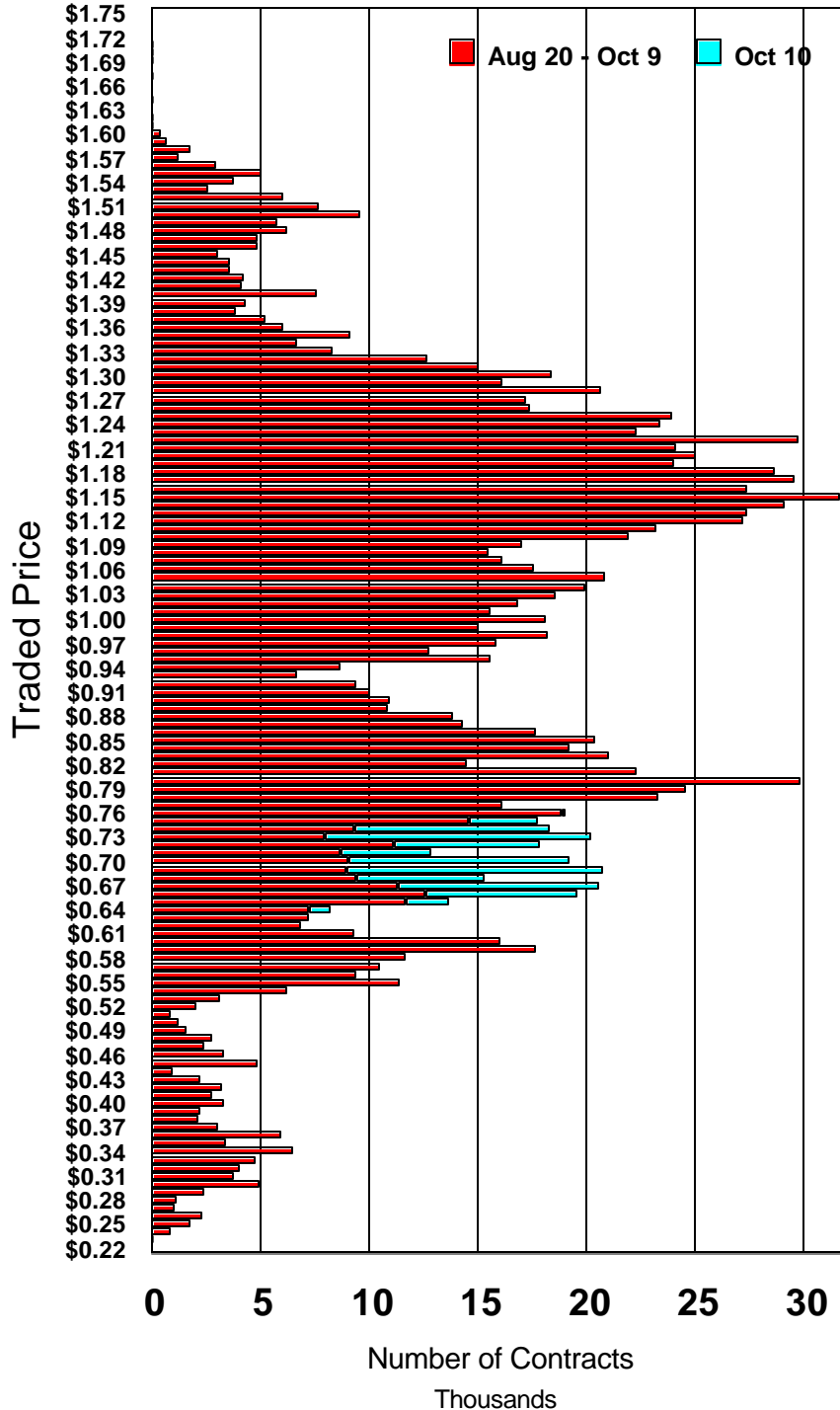
Total Petrochemicals USA said it would begin work Wednesday at unit 805 at its Port Arthur, Texas refinery that would result in flaring during the shutdown process. A report filed with the Texas Commission on Environmental Quality said the unit would be shut briefly however it listed the maintenance end date as October 25.

Valero Energy Corp said processing units at its 275,000 bpd refinery in Aruba was in start up mode following a power outage on Friday. Operations are expected to return to normal by early next week.

# NYMEX WTI: November December Spread

Price Vs Volume for August 20 - October 10, 2007

Trade Weighted Avg: 10/10 .70 10/9 .77 10/8 .58 10/5 .67 10/4 .83



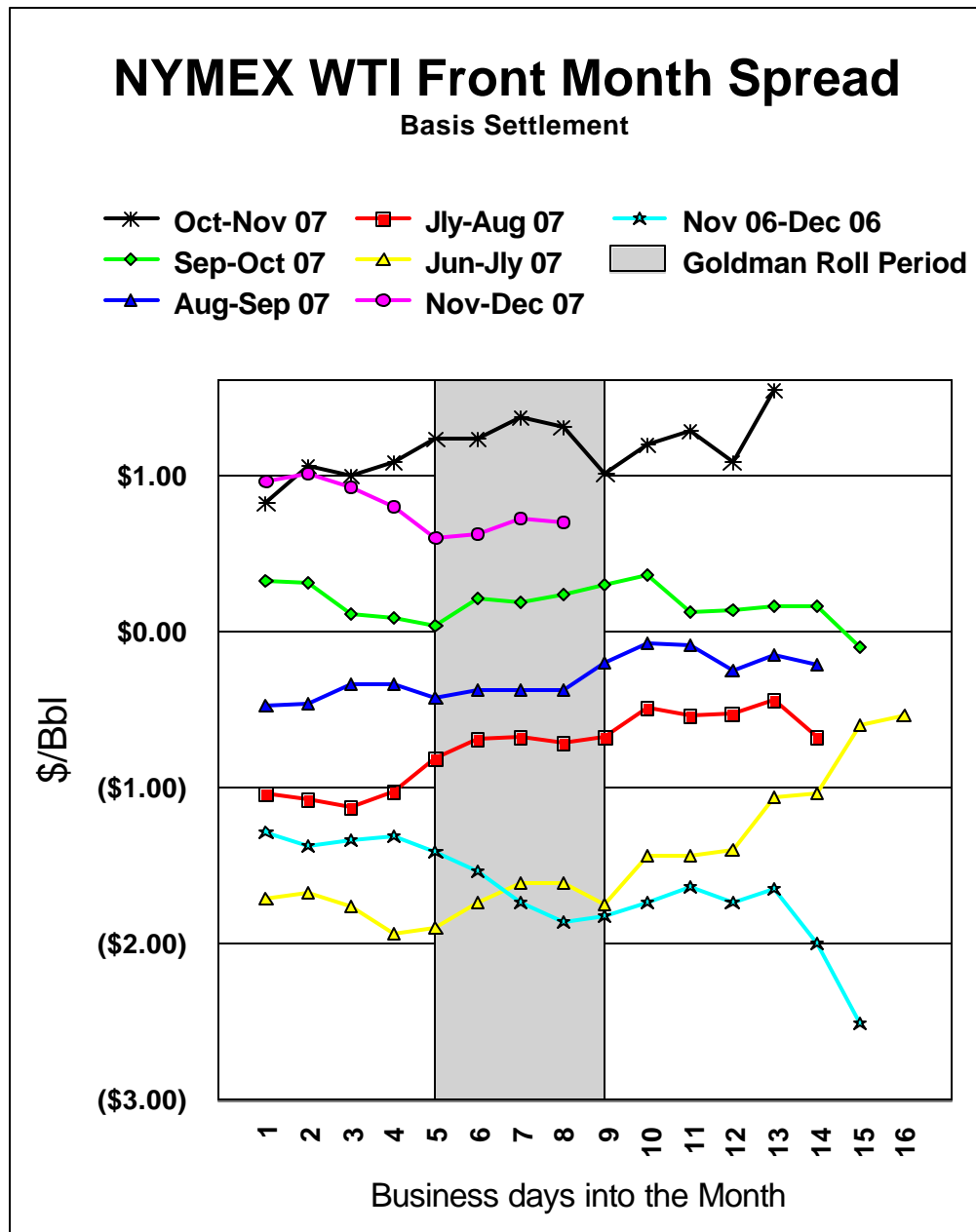
Separately, Valero Energy Corp said it expected its third quarter profit to fall sharply, becoming the latest US refiner to warn that substantially lower margins would cut quarterly earnings. It said refining margins on the US West Coast fell more than 50% in the quarter from record levels reached months earlier while margins in the Gulf Coast were also much lower. It said increased feedstock costs should lower third quarter throughput margins by about \$700 million from last year.

PDVSA's 135,000 bpd El Palito refinery has not begun the restart of units taken offline by a power outage last week. Meanwhile, Venezuelans formed long lines to buy gasoline. According to a gasoline business chamber official in Venezuela, the long lines to purchase gasoline in the city of Barquisimeto on Wednesday was due to restricted fuel supply following a recent refinery problem. However a military general in the area said the problem was caused by rumors and nervous buying. He said about 250 trucks were headed to the area to distribute gasoline.

UK's SONHOE Development Co said it was planning to build a refinery at Teesside in northeast England. The plant would process 200,000 bpd of heavy crude into low sulfur diesel, petrochemical

feedstock naphtha and kerosene for us in the UK and export. A company official said he was

confident the project would receive planning permission as it met the latest UK and EU standards and also had local political support.



Indonesia's Pertamina said it was seeking additional crude oil supplies for a 300,000 bpd refinery it plans to build with Iran. Pertamina said Iran would be able to supply 100,000 bpd of crude for the refinery which would be built in either West Java or East Java province. A Pertamina official said there was no timeframe for when construction of the refinery would begin.

India's Essar group said it would increase its total refining capacity to 680,000 bpd by June 2010 by setting up a new plant and expanding capacity at an existing unit. It is expected to build a new 360,000 bpd refinery by June 2010, up from a previous 320,000 bpd. It is also expected to expand the capacity of the current refinery to 320,000 bpd by December 2009.

#### Production News

BP Plc reported that a fire at one of six gathering centers at the Prudhoe Bay oil field in Alaska on October 6 has forced it to cut production by 30,000 bpd for two weeks. It was the fifth fire in two months in the North Slope fields. The fire occurred at Gathering Center 2 on the west side of the field, which recently returned from a three week long maintenance shutdown.

Industry sources stated that Saudi Arabia would keep its crude supply steady to Europe in November. However it is expected to increase its shipments to Asia. Earlier this month, Saudi Arabia cut its November official crude selling prices to Europe and the US but increased the prices for crude bound for Asia.

Kuwait raised the official selling price for its crude oil bound for Asia in November by 50 cents/barrel to the Oman/Dubai average minus 85 cents/barrel.

The National Iranian Oil Co set its official selling price of its Iranian Heavy crude oil bound for Europe from Sidi Kerir in November at BWAVE minus \$4.25/barrel, down \$1.25. Meanwhile, its official selling price of its Iranian Heavy crude from Kharg Island was set at BWAVE minus \$5.50, down \$1.70.

Britain's North Sea Brent crude oil system is scheduled to load about 204,500 bpd in November, down 2,000 bpd from the previous month.

Norway's North Sea Statfjord crude system is set to load about 285,000 bpd in November, unchanged on the month. The North Sea Gullfaks crude system is scheduled to load about 313,500 bpd in November, up from about 303,400 bpd in October. The North Sea Forties crude system is scheduled to load 627,000 bpd in November, down from 690,000 bpd in October. The North Sea Ekofisk crude system is set to load 465,000 bpd of crude in November, up from 440,000 bpd in October.

Denmark's North Sea DUC crude oil system is scheduled to load 220,000 bpd in November, up from 194,000 bpd the previous month.

Latvia's oil terminal Ventspils Nafta said it reloaded 10.1 million tons of crude oil and petroleum products in the first nine months of 2007, up 6.2 million tons on the year.

Petroecuador's crude oil exports increased by 10.2% to 206,409 bpd in September compared with the previous month.

ConocoPhillips has agreed on its first oil storage lease in Singapore. It is expected to lease 250,000-350,000 cubic meters or 1.572-2.201 million barrels of storage capacity from Royal Vopak. Conoco has joined several private companies seeking more access to storage tanks in Singapore, hoping to profit from expectations of growing regional demand.

OPEC's news agency reported that OPEC's basket of crudes fell further to \$74.47/barrel on Tuesday from \$75.37/barrel on Monday.

		<b>Explanation</b>	
<b>CL</b>	<b>Resistance</b>	81.75, 82.02, 83.85, 84.10, 84.58, 86.70	Previous highs
	81.30, up \$1.04	81.35	Wednesday's high
	<b>Support</b>	80.40, 79.72	Wednesday's low
		78.35, 77.92, 77.30, 76.79, 76.11, 75.70	Previous low, 38% (68.46 and 83.76), Previous lows, 50%, Previous low
<b>HO</b>	<b>Resistance</b>	221.96, 223.90, 224.25, 228.25	Previous highs
	221.72, up 3.19 cents	221.95	Wednesday's high
	<b>Support</b>	219.75, 219.00, 217.37	Wednesday's low
		214.15, 212.88, 209.75, 209.25	Previous low, 50% (197.50 and 228.25), Previous low, 62%
<b>RB</b>	<b>Resistance</b>	204.40, 204.52, 206.71, 208.40	Previous highs
	203.36, up 1.34 cents	203.64	Wednesday's high
	<b>Support</b>	202.00, 199.51	Wednesday's low
		199.33, 198.05, 197.65, 194.85	Basis trendline, Previous lows

### **Market Commentary**

Speculation that Turkey may send troops over the border into Iraq sent November crude oil higher, causing it to break and settle through the top of the pennant formation (80.43) we wrote about yesterday. Based on the aforementioned pennant, the initial upside objective is 82.20 with an ultimate objective of 85.74. Technically speaking this very well may happen. The November/December spread once again appears to be detached from the rest of the market. This, we believe, is indicative of

current stock levels for crude oil, which remain at the upper end of the 5-year average. There are expectations for a build in tomorrow's release of the API/DOE numbers, which should weigh further on this spread. Possibly adding to the run up in prices is, according to MasterCard, gasoline demand rose 0.1% in the past week, up 1.3% for same time last year. This pushed gasoline to the positive side. Gasoline is poised to penetrate the top of its own pennant formation, which is 204.03. A slight draw in gasoline stocks is expected but we would more likely focus our attention on the demand number at this time of year. Total open interest in crude oil is 1,440,924 up 31,696, November 219,178 down 19,411 and December 309,505 up 26,919. Support for November, comes in at 78.35, 77.30, 76.79 and 75.70. Resistance is set at 82.00, 83.85, 84.10, 84.58 and 86.70. The RBOB market continued to trade sideways and posted an inside trading day once again as traders await the release of the weekly petroleum stock reports on Thursday. The market posted its low of 199.51 early in the session and traded mostly sideways. It later breached its early highs amid the gains posted in the crude market and extended its gains to over 1.6 cents as it posted a high of 203.64. The RBOB market settled up 1.34 cents at 203.36. The RBOB crack spread continued to hold resistance at its trendline and settled at \$4.11. It is still seen trending lower, with support seen at \$4.00 followed by \$3.00. Meanwhile resistance is seen at \$4.81. The heating oil market also traded lower early in the session and posted a low of 217.37. However the market bounced off its low and rallied over 3.4 cents as it posted a high of 221.95 ahead of the close. It settled up 3.19 cents at 221.72. The product markets will seek further direction from the weekly petroleum stock reports on Thursday. The markets are likely to retrace some of its latest gains amid the expectations that the reports would show builds in stocks. The RBOB market is seen finding support at 202.00, 199.51, 199.33 followed by 198.05, 197.65 and 194.85. Meanwhile resistance is seen at 203.64, 204.40, 204.52, 206.71 and 208.40.