



## ENERGY RISK MANAGEMENT

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## ENERGY MARKET REPORT FOR OCTOBER 23, 2008

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Ahead of OPEC's meeting on Friday, OPEC's President Chakib Khelil said OPEC ministers have yet to reach a consensus on how much production should be cut to stabilize the market. He said OPEC has to balance the needs of consumers and producers in its output decision and added that the decision should not leave producer countries in the situation where they will be joining the group of countries which are already suffering from the financial crisis. He said he preferred to see crude at \$90/barrel to

### Market Watch

According to Reuters, analysts expect OPEC to cut its oil production on Friday by 1-1.5 million bpd. Some analysts said oil markets were already pricing in an expected reduction and that OPEC would need to cut production again later in the year.

According to the Labor Department, initial claims for jobless benefits increased by 15,000 on a seasonally adjusted basis to 478,000 in the week ending October 18. It stated that Hurricane Ike added about 12,000 unadjusted claims in Texas last week. The four week average of new claims fell for the first time in seven weeks by 4,500 to 480,250.

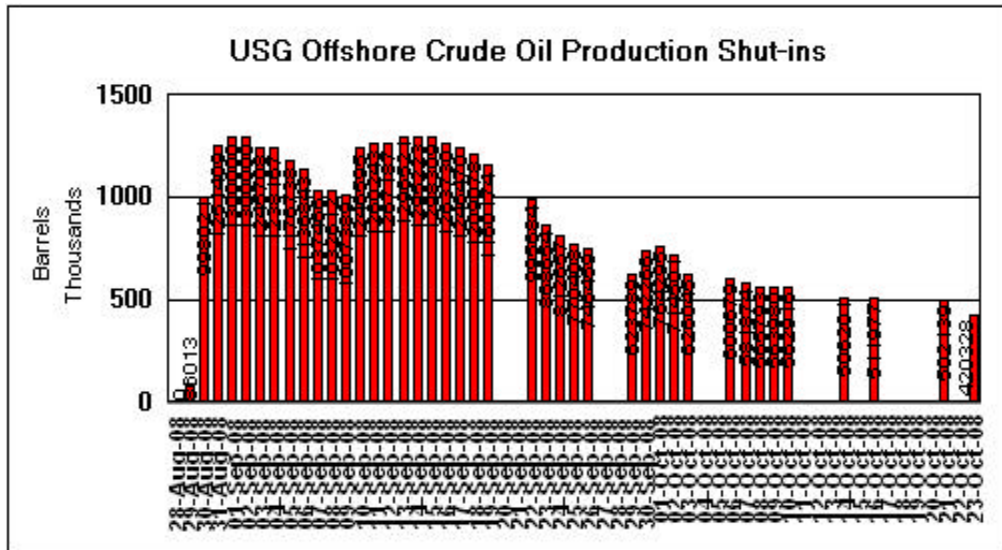
Libya's central bank governor said the country is reducing its forecast for oil prices in next year's budget to between \$45 and \$50/barrel from \$65/barrel.

A Russian energy ministry official said the Russian government may start recalculating oil export duties every two weeks by December instead of every two months. Russian oil companies have urged the government to cut its oil export duty or face lower production as they have to export at a loss.

Venezuela is struggling to maintain basic electrical service, a growing concern for the country's President, Hugo Chavez. Venezuela has suffered three nationwide blackouts this year and continuing power shortages have sparked protests from the western Andean highlands to San Felix. Electrical service is one of Venezuela's top concerns and may be a factor in elections next month for governors and mayors in which Chavez allies are expected to lose key posts, in part due to complaints of poor services. Experts say Venezuela has for years withheld billions of dollars in electrical investments, leaving generation 20% below the level necessary for a stable power grid and increasing the risk of nationwide outages. Even though he has strong support for his oil-financed social development campaign, polls show Venezuela's President Hugo Chavez sympathizers are losing patience with the national and local politicians' inability to tackle basic issues.

ensure oil and gas projects were carried out. He also stated that any OPEC reductions in output could be staggered in several stages. Separately, OPEC's President Chakib Khelil said the world economic crisis will hurt new oil development projects and is already forcing many companies to drop oil projects.

Meanwhile, OPEC's Secretary General Abdullah al-Badri declined to comment on whether OPEC members would agree to cut output but said the world will face an oversupply of oil next year should production remain unchanged. He also said he would welcome closer cooperation with Russia but added that Russian officials are not expected to attend Friday's meeting.



Saudi Arabia's Oil Minister Ali al-Naimi said that oil prices are determined by the market, declining to give a clear view on the state of the world oil markets. However he said that supply and demand for oil may be unbalanced. Meanwhile, Kuwait's Oil Minister Mohammad al-Olaim said OPEC should take into account global financial turmoil when it decides on output policy on Friday. Iran's Oil Minister Gholamhossein Nozari said OPEC needs to cut its output by 2 million bpd when it meets on Friday. The UAE's Oil Minister Mohammad al-Hamli said he was concerned about falling oil prices. He said there is an oversupply of oil in the market. Venezuela's Oil Minister Rafael Ramirez said OPEC ministers have agreed on the need to cut production however the scale of the cut has yet to be fixed. He said OPEC needs to cut its production by at least 1 million bpd to rein in falling oil prices and should decide on another output cut at its next meeting in December. Venezuela's proposal also includes reestablishing a \$80-\$100 price band. The head of Libya's National Oil Co., Shokri Ghanem said OPEC needs to deliver a production cut no less than 2 million bpd as it seeks to rebalance the world oil market.

**October Calendar Averages**  
**CL – \$80.78**  
**HO – \$2.3403**  
**RB – \$1.8978**

Iraq's Oil Minister Hussein al-Shahristani said he is concerned by the recent fall in oil prices and that Iraq will have to reconsider some of its proposed projects for 2009. He expects all OPEC members to agree to a cut in oil production at Friday's meeting.

Russia's Energy Minister Sergei Shmatko said Russia should play a bigger role in influencing world oil prices but it will take some time before the country becomes a swing producer. He said Russia is considering creating a state reserve to be able to increase or cut production in the mid- to long-term.

According to Oil Movements, OPEC's oil exports, excluding Angola and Ecuador, is expected to fall by 180,000 bpd in the four weeks ending November 8 to 24.38 million bpd.

The US Minerals Management Service reported that oil and natural gas production shut in the Gulf of Mexico due to Hurricanes Gustav and Ike continued to recover. It reported that 81,811 bpd of oil production was restored since Tuesday, leaving 420,328 bpd of crude production still shut in as of Thursday. The MMS also reported that 164 mmcf/d of natural gas production was restored, leaving 2.553 bcf/d of natural gas still shut in.

Gabon's oil workers' union called an indefinite strike over labor grievances starting on Sunday. However it is not immediately clear how widely the stoppage would be followed. The threat of a strike follows long running talks that have failed to resolve complaints over pay and working conditions.

### Refinery News

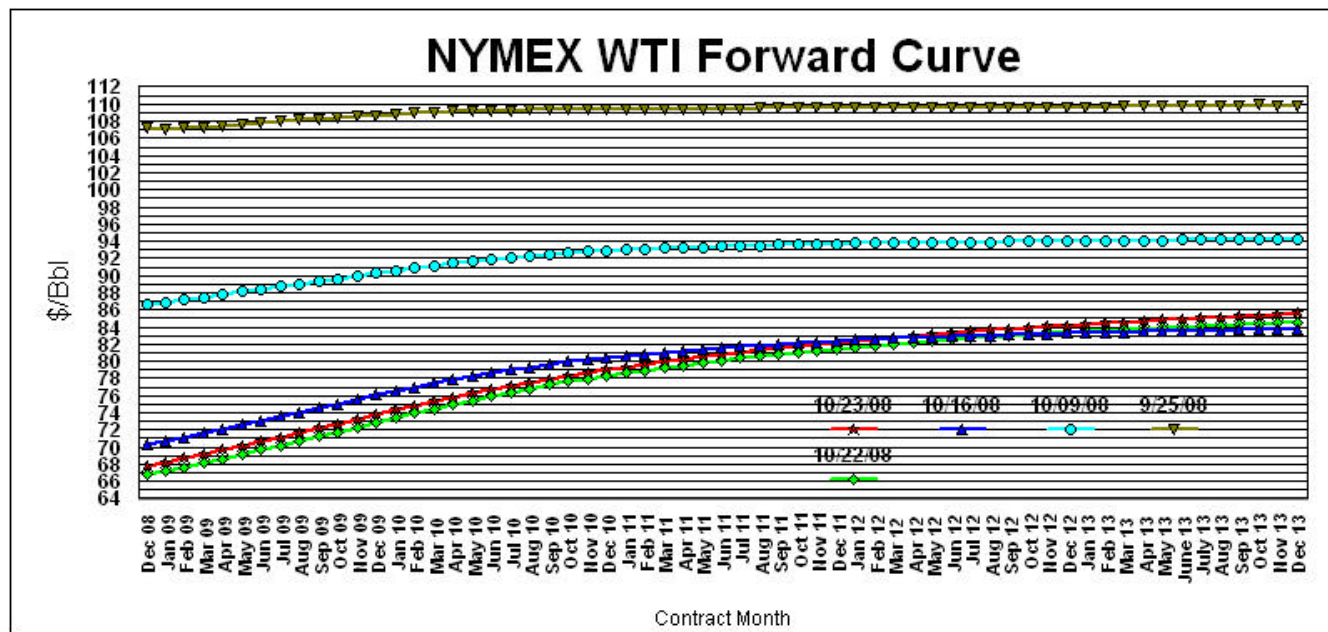
ExxonMobil reported that its 150,000 bpd refinery in Louisiana suffered a malfunction and is undergoing repairs.

Tesoro Corp said a 35,000 bpd fluid catalytic cracking unit at its 100,000 bpd Los Angeles refinery resumed operations on Thursday. The unit was operating at less than full rates due to a coker and a sulfur plant turnaround at the refinery when the FCC malfunctioned on Wednesday afternoon.

Suncor Energy Inc's chief executive, Rick George, said some US refineries could close as gasoline demand in the country continues to fall.

Colonial Pipeline said it was freezing nominations immediately for shipping refined products during cycle 60 on its Linden, New Jersey line L2 as demand exceeded line capacity.

Gasoline inventories in independent storage in the Amsterdam-Rotterdam-Antwerp terminal in the week ending October 23 increased by 7.28% on the week but fell by 10.65% on the year to 604,000 tons. Gasoline outflows from the ARA area was bound for Nigeria, Poland, the Mediterranean and South Africa. Inflows into the area came from Finland, France, Russia and the UK. Gas oil stocks fell by 7.13% on the week but increased by 10.23% on the year to 1.81 million tons while fuel oil stocks fell by 13.23% on the week and by 20.76% on the year to 374,000 tons. Naphtha stocks in the ARA area fell by 48.45% on the week and by 39.76% on the year to 50,000 tons while jet fuel stocks increased by 33.33% on the week and by 107.35% on the year to 564,000 tons.



Japan's Ministry of Finance said Japan's customs-cleared crude oil imports in September increased by 1.4% on the year to 18.433 million kiloliters or 3.86 million bpd. It reported that Japan's crude imports from the Middle East, which accounted for 90% of total crude imports, increased by 3.4% in

September. Crude imports for the April-September, the first half of Japan's fiscal year, increased by 3% on the year to 117.434 million kl or 4.04 million bpd. It also reported that Japan's imports of liquefied natural gas totaled 5.869 million tons in September, up 10.8% on the year.

According to Singapore's International Enterprise, the country's residual fuel stocks fell by 466,000 barrels to 19.08 million barrels in the week ending October 22. It also reported that the country's light distillate stocks built by 454,000 barrels to 9.499 million barrels while its middle distillate stocks built by 498,000 barrels to 13.074 million barrels on the week.

### **Production News**

Suncor Energy Inc cut its 2009 capital spending to C\$6 billion or \$4.72 billion in 2009 and pushed back completion of its Voyageur upgrader amid the world economic crisis. Its 2009 plan maintains spending and construction timelines for the third and fourth stages of its Firebag in-situ operations, which is part of the Voyageur project. However Suncor expects to scale back its construction of its Voyageur upgrader, with completion expected to be delayed by about a year.

EnCana Corp said its third quarter profit more than tripled after output increased and energy prices rallied. Its net income increased to \$3.55 billion from \$934 million last year.

OPEC's news agency said OPEC's basket of crudes fell sharply to \$60.82/barrel on Wednesday from a revised level of \$64.35/barrel on Tuesday.

### **Market Commentary**

All eyes and ears were on the upcoming OPEC meeting set for October 24<sup>th</sup> in Vienna. Expectations are for a cut in output of 1-2 million barrels per day. The energy markets gained strength today however economic woes may curtail the effect that such cuts may have on prices. In ordinary times, cuts in production by OPEC, would be viewed as supportive for this market however these are not ordinary times. The stock market tumbled again today, as signs that emerging markets are feeling the impact of this economy. Demand and the effects that the economy will have on it, continue to be at the forefront of this market. OPEC can cut production tomorrow as much as 2 million barrels a day but if demand continues to suffer, these cuts will have little impact on the marketplace. Based on a weekly spot continuation chart, there is an old congestion area between \$68.63 and \$60.63. We would look for prices to trade within this range, looking for a test at the bottom and for an eventual penetration to the downside. Prices should continue to experience peaks and troughs, working towards the \$49.90 support level. The \$50.00 and \$60.00 puts for both December 08, June 09 and December 09 continue gather attraction as this market heads lower. This is an indication of where industry sources believe that the price of crude oil is headed. The December 08 heating oil contract has once again outperformed the December 08 gasoline contract. We would look for continued strength on the heating oil versus the gasoline given the current weather outlook. According to Accuweather, temperatures in the upper Midwest and most of the Northeast are expected to be below normal for the next 10 to 15 days. As mentioned previously, this spread should make an attempt to test .6405, the area from which it broke down. We would continue to look for direction from the stock market and the global economic situation. Until there are positive signs that the global economy is recovering, we would be inclined to sell any weak rallies in this market.

Open interest for crude oil, DEC08 334,975 +7,287, January 09 96,739 +1,361. Totals: 1,047,197 +11,500. Open interest for heating oil; is NOV.08 17,753 -2,641, DEC.08 53,974 +445. Totals: 215,495 +628. Open interest for gasoline is, NOV.08 24,471 -1,173, DEC.08 64,800 +2,534, Totals: 164,715, +2,530.

<b>Crude Support</b>	<b>Crude Resistance</b>
60.68, 52.73, 49.90	68.63, 72.53, 74.30, 76.10, 85.40, 87.10, 98.58, 110.07
<b>Heat support</b>	<b>Heat resistance</b>
1.9730	2.1844, 2.4500, 2.5732, 2.6400, 2.6880, 2.6965, 2.7475, 3.0184
<b>Gasoline support</b>	<b>Gasoline resistance</b>
1.4700, 1.3351	192.85, 2.0270, 2.0690, 2.1400, 2.1980, 2.2865

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