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Energy Futures Brokerage

ENERGY RISK MANAGEMENT

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ENERGY MARKET REPORT FOR OCTOBER 28, 2008

OPEC officials said OPEC will take further steps to support the oil market and could call for another meeting before the group's next scheduled meeting in December. OPEC Secretary General Abdullah al-Badri said if prices continued to fall, OPEC would call another extraordinary meeting. Meanwhile Libya's most senior oil official Shokri Ghanem said OPEC may need to cut production further. Kuwait's Oil Minister Mohammad al-Olaim said OPEC would monitor the market closely and would act to prevent a build up of surplus stocks. He said OPEC was seeking a balance of supply and demand in oil markets and would not hesitate to act if the market needed it.

Market Watch

Economists at the Oil & Money conference warned that oil prices are expected to remain depressed amid a world economic slowdown but will also provide a deterrent to industry investment, ultimately paving the path for higher longer term prices. In the longer term, the combination of market tightening due to capacity constraints on the supply side and the continued increase of emerging economies on the demand side will likely support prices.

BP Plc said oil prices could fall further as the world enters a recession. BP's CEO said the current turmoil may create opportunities for BP and added that the company will take a look at those carefully. He also stated that BP expects to increase its production in the fourth quarter. Meanwhile BP's chief economist Christof Ruhl said world oil prices are likely to remain low for another 12-18 months if the world economic crisis continues to cut demand for oil. However he said he did not see prices falling back to levels seen five or six years ago due to strong demand in emerging markets.

Italy's Eni SpA said it sees no major cuts in oil projects due to the financial crisis. Eni's CEO said $70 to $80 is the right oil price as it allows development of even more expensive projects. She said the price of oil could fall further if the financial crisis spreads.

Vitol's chief executive, Ian Taylor, believes current market conditions favorable for the purchase of assets or companies. He said the company is interested in investing in oil terminals and shipping.

Occidental Petroleum Corp expects to have a smaller capital expenditure program in 2009 than this year's projected $4.7 billion. The reduction in its 2009 capital program is due to an expected decrease of costs and the slowdown of some projects that are not economical when oil prices are below $90/barrel or when natural gas prices trade near $6/mmbtu. It reported a net income of $2.27 billion in the third quarter, up from $1.32 million a year earlier.

The lower house of Mexico's Congress started voting on energy reform that aims to strengthen the state oil company, Pemex, and expand the role of private investment despite protests. Left wing lawmakers stormed the podium ahead of the session in an attempt to block the voting but lower house authorities started the session regardless. The reform bill has seven chapters that will be voted on separately.

In the first concrete evidence OPEC was acting on its output decision, Abu Dhabi National Oil Co said it had notified customers it was cutting contracted volumes for its Upper Zakum crude in November and December by 5%, its Lower Zakum by 10% in December and its Murban crude by 15% in December. It will also cut supplies of Umm Shaif in December by 5%.

October Calendar Averages
CL – $78.17
HO –$2.2779
RB – $1.8337

Qatar's Oil Minister Abdulla al Attiyah said construction work on its energy projects continues despite the fall in oil prices. He said $70 to $80/barrel is a reasonable price for WTI crude. Earlier in the week, he said Qatar needs oil prices at a level of $55/barrel to maintain its budget in the current financial year.

The IEA's executive director Nobuo Tanaka said he is concerned about potential delays to upstream oil projects as a result of the recent fall in crude prices. He however did not specify the level of oil prices that would sustain enough investment.

Saudi Arabia said there was a need to achieve balance and stability on the oil markets to guarantee continuous investment in the sector. The cabinet said in a statement after a weekly meeting chaired by King Abdullah that Saudi Arabia is committed to cooperation with all OPEC and non-OPEC producer and to continue dialogue with consumers.

Venezuela's President Hugo Chavez suggested that Russia could soon coordinate oil output cuts in line with OPEC. He also suggested that a price of $70 or $80/barrel is enough for Venezuela to comfortably move forward with its spending plans.

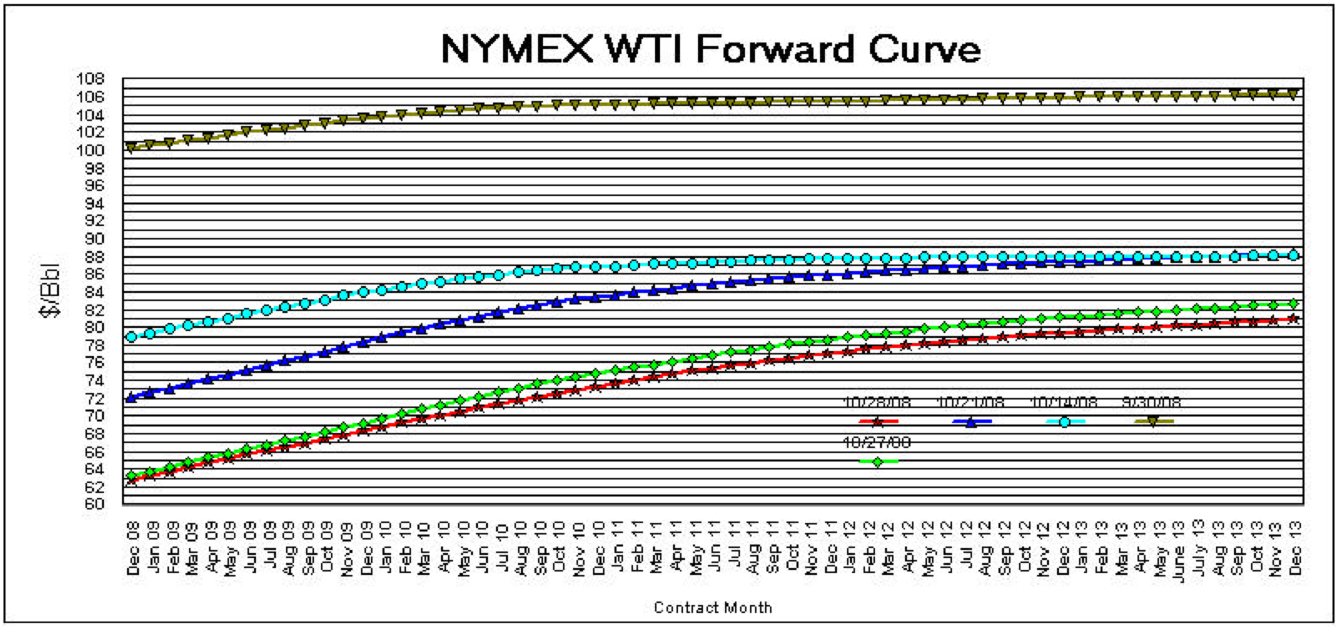
Gabon's main oil workers' union, the National Organization of Oil Employees, suspended a strike on Tuesday to allow for further talks with the government on working conditions. The union started its strike on Sunday. The strike had been partially followed as many workers were awaiting the outcome of continuing negotiations with the government on pay and conditions. The government has mandated the regional governor or Ogooue Maritime province, where the majority of Gabon's oil installations are located, to negotiate on behalf of the state in the latest round of talks with oil unions.

Iran has opened new naval facilities east of the Strait of Hormuz. An Iranian official said the base in the town of Jask would enable Iran to block the entry of an enemy into the Gulf. Iran has previously threatened to close the Strait of Hormuz in response to a potential military strike over its nuclear activities.

According to MasterCard Advisors LLC, US gasoline demand fell by 1% to 8.897 million bpd in the week ending October 24. Demand was down 6.4% on the year. In the latest four weeks, demand was down 8% on the year at 8.818 million bpd. The US average retail price of gasoline fell by 27 cents or 8.7% on the week to $2.82/gallon.

About half the investors in T. Boone Pickens' BP Capital hedge fund have withdrawn their investments following losses of about 60% this year. A source said the BP Capital hedge fund had lost $2 billion since peaking in late June. Performance tracking group, Hedge Fund Research said the average industry wide losses through September totaled 9.41%, with energy and basic materials hedge funds down 20.84%.

Separately, a wave of hedge fund redemptions threaten to dilute one of the most profitable income streams for equity and derivative exchanges. The exchange reporting season that starts with CME Group on Wednesday will provide some guidance as to whether they will have to live with less of the



high volume trading strategies provided by the funds. Hedge Fund Research estimates that investors have pulled an estimated $31 billion out of hedge funds at the end of the third quarter, cutting the industry's assets by 11% to $1.72 trillion. The danger for exchanges is that two more months of global equity market declines will produce an even greater round of hedge fund redemptions at the end of the year when investors look to reallocate their portfolios which would further weaken hedge funds' role in driving volume to exchanges.

Refinery News

The United Steel Workers union, which represents 30,000 refinery workers has authorized a strike should upcoming negotiations with oil companies fail. The union contract is set to expire on February 1, 2009 and negotiations are expected to begin in December. The union is seeking a wage increase, fully paid health benefits for employees and future retirees and additional holidays.

ExxonMobil Corp said nearly all the repairs at its 348,500 bpd Beaumont, Texas refinery have been completed after it was shut ahead of Hurricane Ike. The refinery is in the process of ramping up its crude oil processing capability. Its gasoline and diesel production facilities are fully operational and blending product for distribution to Texas and east coast markets.

BP Plc's Texas City refinery should be back at full capacity before the end of the year after it resumes operations of ultraformer #3. BP also stated that the ramp up of production at the Thunder Horse platform is going well, with the third well expected to start producing oil in November and the fourth well by the end of the year. Overall oil and gas production for the year should be close to the 2007 level of 3.8 million bpd of oil equivalent.

Valero Energy Corp's 30,000 bpd fluid catalytic cracking unit and 12,000 bpd hydrocracking unit at its 90,000 bpd Ardmore, Oklahoma refinery are currently undergoing planned work. The turnaround at the refinery started last week and will continue into next month. Planned maintenance has not started yet on a 180,000 bpd crude unit at Valero's refinery in Delaware City, Delaware, which is scheduled to start this month and last for 25 days. Valero cut rates at reformer units at its refineries in an effort to increase returns on gasoline production. It is the second company to cut rates at reformer units due to weak margins. Previously, Sunoco shut a reformer at its Philadelphia refinery amid weak margins. Valero plans for its Gulf Coast refineries to process between 1.275 million bpd and 1.475 million bpd in the fourth quarter. It also said it plans for its Mid-Continent refineries to process between 410,000 and 420,000 bpd while its Northeast refineries are forecast to refine between 560,000 and 570,000 bpd. Its

West Coast refineries are forecast to refine 270,000-280,000 bpd. In the third quarter, Valero's 15 North American refineries had a combined throughput of 2.6 million bpd, down 259,000 bpd.

Separately, Valero Energy Corp posted a 9.4% drop in third quarter earnings, as a sharp drop in oil prices has not translated into higher margins. It reported net income of $1.15 billion, down from $1.27 billion last year. It cut its capital spending plans for 2008 and 2009 amid continued economic uncertainty. Its cuts include a coker project at is Port Arthur, Texas refinery. It also cut a petrochemical project for its St. Charles plant in Norco, Louisiana and had deferred several other projects that were scheduled for 2009 and 2010 to 2011. Meanwhile, Valero also said it planned significant turnarounds in 2009 despite an effort to rein in capital spending. It said it would carry out a heavy oil cracker overhaul at its 340,000 bpd Corpus Christi, Texas refinery in January. It has also planned a crude unit and coker turnaround at its 245,000 bpd Texas City, Texas refinery in February.

Pasadena Refining will restart a fluid catalytic cracking unit at its 100,000 bpd Pasadena, Texas refinery after it was shut for unplanned work on Friday. The refinery will likely occur on Wednesday.

Mexico's Transport Ministry reported that bad weather conditions forced the closure of the Dos Bocas and Coatzacoalcos oil exporting ports

Production News

The US Minerals Management Service reported that shut in oil and natural gas production in the Gulf of Mexico continued to come back to the market. It reported that a total of 58,415 bpd of crude production returned to the market since last Thursday, leaving 361,913 bpd of production still shut in as of Tuesday. Meanwhile a total of 77 mmcf of natural gas production returned to the market, leaving 2.476 bcf/d still shut in.

Kuwait Oil Co said it found an oil leak in an export pipeline located north of Al Ahmadi. The leak, which occurred in an export pipeline near storage tanks, has not cut exports as the pipeline was quickly isolated and fixed.

The Canadian Association of OilWell Drilling Contractors said the number of oil and gas wells to be drilled in Canada is expected to fall this year and next, partly due to a focus on unconventional prospects that is lengthening the time it takes to complete a well. It reduced its estimated 2008 well count to 15,223, down 20% on the year. It also cut its 2009 well count to 14,325, down 6% on the year.

Kazakhstan's Energy Minister Sauat Mynbayev said the country hopes to sign a final deal with an Eni-led consortium developing the Kashagan oilfield later this week. The government and the oil companies agreed in July to set 2013 as the deadline for the start of commercial output at the Caspian Sea Kashagan oilfield.

Russia and China signed a deal to build a new Siberian oil pipeline to increase energy exports to China during a visit to Moscow by China's Prime Minister Wen Jiabao. The pipeline would run from the East Siberia-Pacific Ocean trunk pipeline, which is still under construction, to the Chinese border. Its capacity is expected to be about 15 million metric tons/year. Separately, Russia's Deputy Prime Minister Igor Sechin said China may give considerable loans to Russian oil companies in exchange for increased oil supplies.

Brazil's Petrobras and Portugal's Galp Energia signed memorandums of understanding to jointly develop energy projects. The companies signed an agreement with the government of the northeast Brazil state of Bahia to study the development of plantations for palm oil and sunflower seed oil which are raw materials for biodiesel. They are expected to sign an MOU to evaluate possible partnerships to develop shallow water oil exploration blocks in the Campos, Santos and Espirito Santos basins. Separately, Petrobras said it does not hold any speculative hedges against oil prices or currencies.

OPEC's news agency reported that OPEC's basket of crudes fell to $56.80/barrel on Monday from $57.57/barrel on Friday.

Market Commentary

As U.S. consumer confidence fell to its lowest level on record, energy prices retreated. Despite a higher stock market, the energies could not sustain any gains made early in the session. This market will continue to be economically sensitive, adjusting accordingly. Crude oil continues to trade within a previous congestion area of $60.70 and $66.65. The shape of the forward curve remains the same, but has moved lower on the scale. We would look for this market to experience volatile sessions and for prices to fluctuate within the aforementioned range. The December/January spread is mirroring that of previous spreads, trading within the gravitational range of -.47 to -.61. We would continue to trade this range by selling failures, selling the December, to trade above the –47 resistance level, buying breaks above it, buying failures to weaken below -.61 and selling penetrations below -.61. The RBOB posted an inside trading days as the market positioned itself ahead of the release of the weekly petroleum stock reports. The RBOB market sold off to a low of 143.47 late in the session before it retraced some of its losses ahead of the close. The heating oil market, which seemed ready to post an inside trading day, sold off from its overnight high of 196.75 and breached its previous low as it posted a low of 188.80 in a late bout of selling. However the market bounced off its low and continued to retrace its earlier losses in late afternoon trading. With builds expected across the board for tomorrow's API/DOE reports, we would look for continued pressure. Expectations for tomorrow are for builds of 1.6 million barrels in crude, 1.3 million barrels in gasoline, 700,000 barrels in distillate stocks and an increase in refining of 300,000 bpd. Technically in the RBOB, support is seen at 146.00, 143.47, 142.03 and 133.51 while in the heating oil, support is seen at 192.20, 188.80, 178.80, 176.63 and 176.38.

Open interest for crude oil, DEC08 326,108 -3,416, January 09 96,574 +2,464. Totals: 1,064,044 +2,075. Open interest for heating oil; is NOV.08 13,643 –1,457, DEC.08 56,253 +770. Totals: 218,544 +934. Open interest for gasoline is, NOV.08 17,232 -5,275, DEC.08 67,262 +1,984, Totals: 163,559, -376.

Crude Support	**Crude Resistance**
60.68, 52.73, 49.90	65.90, 68.63, 72.53, 74.30, 76.10, 85.40,
Heat support	**Heat resistance**
1.7880, 176.63, 1.7638, 1.6055, 1.4530	2.1844,2.4500, 2.5732, 2.6400, 2.6880, 2.6965, 2.7475 3.0184
Gasoline support	**Gasoline resistance**
1.4345, 142.00, 1.3351	192.85, 2.0270, 2.0690, 2.1400, 2.1980, 2.2865

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