



ENERGY RISK MANAGEMENT

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ENERGY MARKET REPORT FOR NOVEMBER 5, 2008

Iran's OPEC
governor Ali
Mohammad Khatibi said
OPEC may need
to cut its oil output
further but added
that it was too
early to tell if a
further cut was
needed. He said
if oil prices
continue to fall,
then an additional
cut may be
needed. Iran has
already started
informing buyers
that it is cutting
back its sales. Its
share of OPEC's
output cut is
199,000 bpd.
Separately, Iran's
OPEC governor
also stated that
Iran should set its
budget for the
year starting in
March based on a
downward trend in
oil prices. He said the oil market will not have a positive outlook for at least one year. Iranian crude is trading at about \$54-\$55/barrel.

Market Watch

According to ADP Employer Services, US private employers cut a larger than expected 157,000 jobs in October. It revised the number of jobs lost in September to 26,000 from the originally reported loss of 8,000.

The IEA estimates world oil prices will rise to an average of \$100/barrel from 2008 to 2015 and will reach \$200 by 2030. The IEA also forecast that oil companies will have to invest \$350 billion a year until 2030 to offset declining production from existing fields and to meet projected demand growth.

The head of J.P. Morgan Chase & Co's global commodities business, Blythe Masters said the bank aims to join the top ranks in the commodities and energy business and is not pulling back from expansion plans despite the uncertain world economic outlook. She said the bank was continuing to proceed with plans to trade physical crude oil and refined products. She said commodity prices next year will reflect the weak economic climate but beyond that the same supply issues that drove prices upwards could resurface.

The UAE's Economy Minister, Sultan bin Saeed al-Mansouri said the country's economic growth will not be affected by the world financial crisis in 2008 but added that 2009 will be a "testing year."

Finance Minister and top aides from the Group of 20 are scheduled to meet in Washington before leaders from the group gather for talks on the economy on November 15. The White House however has downplayed hopes that major steps will be taken this month, despite calls from some European leaders for an overhaul of the international financial regulatory framework. President-elect Barack Obama is not expected to attend the meeting but the White House said he will have input in the talks.

Russia's Deputy Prime Minister Igor Sechin said the country work with the OPEC. However he added that Russia will continue with its independent policies when setting production and export plans.

The US EIA stated that OPEC members are likely to cut their production by about 1.1 million bpd or about 70% of their pledged output cut by January. It said OPEC, which typically has a 50% compliance rate with its output cuts, could have a higher compliance rate this time. The EIA also stated that US crude oil demand is down about 1 million bpd this year and is expected to fall again by a smaller amount in 2009.

November Calendar Averages CL – \$66.58 HO – \$2.0664 RB – \$ 1.4399

According to Lloyd's Marine Intelligence Unit OPEC's exports, excluding Ecuador, fell by 190,000 bpd in the four weeks ending October 19 to 22.837 million bpd. OPEC's exports fell by 830,000 bpd from its peak in mid-September.

Iran's military urged US forces to steer clear of Iran's borders with neighboring Iraq and warned it would respond to any invasion. It said Iran will take down any overflying aircraft, which fails to respond to warnings. The statement also urged US commanders in Iraq to keep their forces a secure distance from the borders to avoid any risks.

DOE Stocks

Crude – unchanged Distillate – up 1.2 million barrels Gasoline – up 1.1 million barrels Refinery runs – unchanged, at 85.3%
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An explosion hit the Iraqi-Turkey pipeline late Wednesday, causing a large spill. The blast occurred in a section of the pipeline in the mainly Kurdish province of Sanliurfa. Initial

findings blamed the incident on an abrupt change of pressure in the network. It is not immediately clear when the pipeline will reopen.

Refinery News

ExxonMobil said processing units at its 348,000 bpd Beaumont, Texas refinery have resumed normal operations following the facility's shutdown from Hurricane Ike.

BP is expected to restart a 200,000 bpd crude distillation unit at its Nerefco refinery over the weekend after the completion of its maintenance.

Japan's Cosmo Oil Co has cut its crude oil refining volume plans for November and December by an additional 3.5% or 180,000 kiloliters or 18,600 bpd. In September, Cosmo cut its crude runs by 11% or 252,000 kl or 53,000 bpd from a year ago.

Poland's Lotos expects to refine similar volumes in 2009 as this year despite a planned 34 day maintenance shutdown from March 14 to April 18, during which the main installations will undergo maintenance while new capacities will be installed. The company plans to expand its refining capacity to more than 10 million tons annually from just over 6 million tons in 2007.

China's fuel oil imports fell in October to 875,000 tons from 1.046 million tons in September due to lower domestic demand. Demand has declined because of low operating rates of teapot refiners.

Saudi Aramco is seeking to renegotiate contracts for equipment for two new 400,000 bpd export refineries to reflect falling prices for raw materials. An Aramco executive said the projects were in no danger despite uncertainty about future oil demand growth amid a world economic slowdown. The two refineries will process oil from Aramco's heavy oil producing Moneefa field, due for completion in late 2011.

Production News

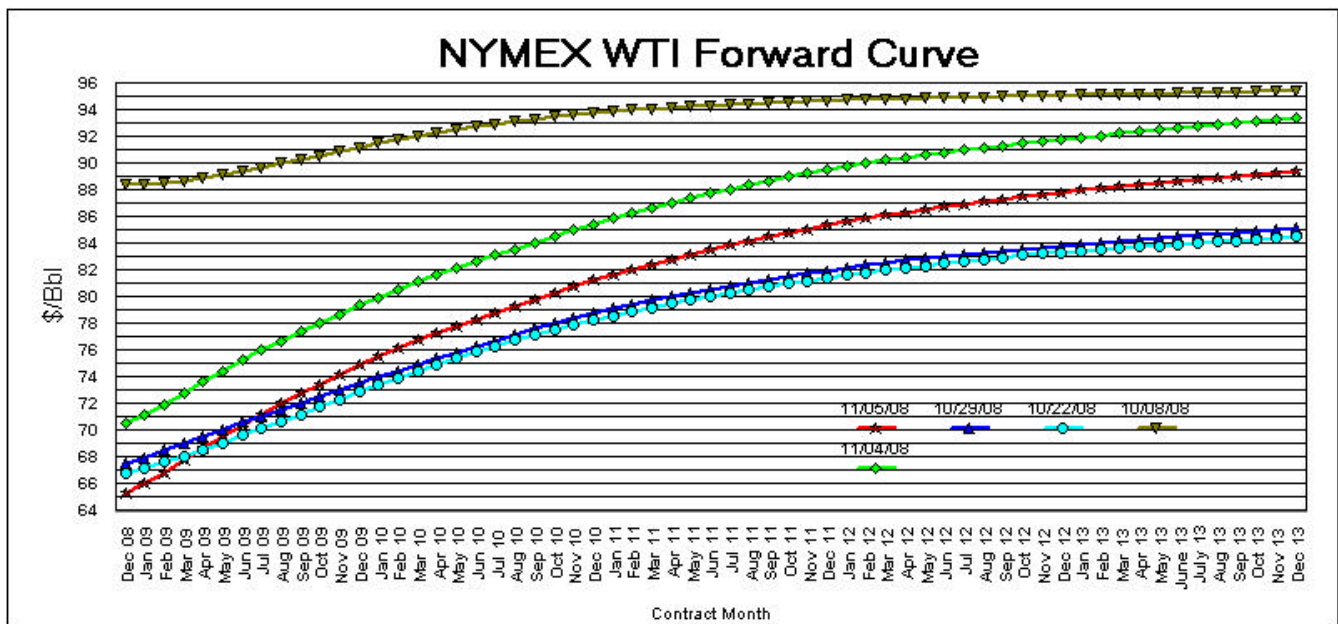
The US Minerals Management Service reported that crude oil and natural gas production shut in the Gulf of Mexico continued to be restored. It reported that a total of 113,647 bpd of crude production returned to the market since last week, leaving 246,103 bpd of crude production still shut in as of Wednesday. It also reported that a total of 304 mmcf/d of natural gas production returned, leaving 2.135 bcf/d of natural gas production still shut in. It reported that it will no longer provide its report twice a week and instead will release its report weekly on Wednesdays.

Royal Dutch Shell Plc is currently producing 375,000 bpd of oil equivalent in the Gulf of Mexico, 75% of its peak output following Hurricane Ike.

Nigeria's crude oil export schedules for the coming months reflect the country's drive to cut its production in line with OPEC's 1.5 million bpd cut. Traders said five cargoes will be cut from the November plan in addition to a 5% cut from the total volume. For December, up to 8 cargoes will be cut, in addition to a 5% cut from total volume.

Separately, Royal Dutch Shell said it would not be able to meet all Nigerian crude supply obligations in November and December following OPEC's decision to cut exports.

Angola cut its oil production by 99,000 bpd on November 1 in line with OPEC's decision to cut its production by 1.5 million bpd. However, an Angolan oil official said Angola is gradually reducing its output by 50,000 bpd with the remainder of the 99,000 bpd cut effective in January.



A major Western oil company said it has not yet been asked to cut its production in the UAE despite the country's announced intent to comply fully with OPEC's output cut.

Russia's Energy Ministry reported that Russia's oil production increased to 9.86 million bpd in October, up 0.3% from 9.83 million bpd in September. It also reported that exports via pipeline monopoly Transneft increased by 1.8% to 4.21 million bpd. Russia's seaborne crude exports supplied to ports by Transneft increased to 2.8 million bpd in October, up 3.9% on the month.

The Baku-Supsa pipeline reopened on Wednesday after being shut for almost three months following the Russian-Georgian conflict. The Azeri state oil company has said the pipeline will pump 90,000 bpd after re-opening and is likely to remain at this level until the end of the year.

Georgia's Black Sea port of Batumi shipped 437,200 tons of crude oil and refined products in October, down 45% on the year, as some crude was re-routed to the Baku-Tbilisi-Ceyhan pipeline.

Saudi Arabia raised its official selling price of Arab Light crude for December to customers in the US and Europe. It increased the price of Arab Light bound for the US by 65 cents to WTI minus \$4.60 while it increased the price of Arab Light crude bound for Northwest Europe by 30 cents to BWAVE minus \$4.15. The price for its Arab Extra Light crude bound for the US was increased by 80 cents to WTI minus \$2.60, the price for its Arab Medium crude was increased by 25 cents to WTI minus \$7.75 and the price of its Arab Heavy crude was unchanged at WTI minus \$10.15. Meanwhile, the price of its Arab Extra Light crude bound for Northwest Europe was increased by 45 cents to BWAVE minus \$1.15, the price of its Arab Medium crude was increased by 10 cents to BWAVE minus \$7.20 and its Arab Heavy crude price was unchanged at BWAVE minus \$9.20. The price of its Arab Super Light crude bound for Asia was cut by \$1.55 to the Oman/Dubai average minus 35 cents, its Arab Extra Light was cut by 70 cents to the Oman/Dubai average plus 50 cents, its Arab Light crude price was cut by 60 cents to the Oman/Dubai average minus \$1.25, its Arab Medium crude price was cut by \$1.00 to the Oman/Dubai average minus \$3.65 and its Arab Heavy crude price was cut by \$1.30 to the Oman/Dubai average minus \$6.30.

OPEC's news agency reported that OPEC's basket of crudes fell to \$57.77/barrel on Tuesday from \$59.03/barrel on Monday.

Market Commentary

Despite bullish technicals, the energy markets could not sustain their gains from yesterday. The DOE/API reports were mildly bearish with crude oil inventories coming in unchanged, gasoline increasing by 1.1 million barrels and distillate inventories increasing 1.2 million barrels. Prices also fell because of concern that the US economy, the world's biggest energy consumer, will continue to contract. Companies in the U.S. cut an estimated 157,000 jobs in October, the most in almost six years, according to an independent report. Having the greatest impact on prices was the fact that gasoline stocks, which were expected to draw by 650,000 barrels, actually increased by 1.1 million

barrels. This build comes at time when gasoline demand is running at 9.6 million barrels per day, a decrease of 2.3% on the year. Impacting the build in gasoline stock levels

		Explanation	
CL	Resistance	71.77, 72.53, 74.30, 76.04, 76.24	Previous highs
	Support	66.98, 68.50, 70.46	Wednesday's high
HO	Resistance	65.30, down \$5.23	65.00
	Support	62.25, 62.03, 61.30, 60.68, 56.19, 52.73, 49.90	Wednesday's low
RB	Resistance	2.0547, down 10.69 cents	2.2113
	Support	2.0266	2.0775, 2.104, 2.15
RB	Resistance	1.4244, down 10.83 cents	1.943, 1.9396, 1.9089
	Support	1.4200	1.58, 1.582, 1.6373, 1.7240, 1.7334
RB	Resistance	1.4625, 1.5333	1.4625, 1.5333
	Support	1.3215	1.4200
			Previous low

is the strong refining margins refiners are receiving for distillate and jet crack spreads. Reluctant to cut

crude oil runs due to these wide margins, refiners are turning out more gasoline than what current demand warrants and pipeline capacity can handle. Stockpiles of gasoline continue to clog the Colonial Pipeline, leading to the limiting of shippers' ability to move product along the pipeline. The profit margin, or crack spread, for making three barrels of crude into two of gasoline and one of heating oil, based on futures prices, has dropped 81 percent to \$3.3842 a barrel since Sept. 12. The margin for refining crude into gasoline has been negative since Oct. 21. The heat crack spread however continues to widen and seems ready to test its resistance at over the \$28 level. The oil complex will continue to be driven by the economic news following today's mostly bearish inventory reports. The crude market, which posted an inside trading day today, is seen testing its support at \$62.25. More distant support is seen at 62.03, 61.30 followed by 60.68. In the RBOB, support is seen at its low of \$1.42 followed by its previous low of \$1.3215 while support in the heating oil market is seen at its low of \$2.0266, \$1.943, \$1.9396 and \$1.9089.

Open interest for crude oil, DEC08 286,862, +4,149, January 09 126,510 +6,351. Totals: 1,125,366, +12,058. Open interest for heating oil; is DEC.08 52,540 -3,566. Jan09 37,101 +183 Totals: 218,867 -3,752. Open interest for gasoline is, DEC.08 67,790 -864, Jan09 32,260 +1,806. Totals: 159,174 +1,978.

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