



ENERGY RISK MANAGEMENT

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ENERGY MARKET REPORT FOR NOVEMBER 19, 2008

OPEC's President Chakib Khelil said OPEC is worried by the worsening economic slowdown and the falling oil price. However he said OPEC is unlikely to act on output during a meeting in Cairo on November 29th because members will not know whether their previous reductions have been applied.

He said OPEC's meeting in December would be the most important because data on members' compliance would be available, enabling them to make a credible decision on how to balance the market.

Nigeria's Oil Minister Odein Ajumogobia said that Nigeria was not pushing for a further OPEC production cut but added that OPEC's meeting later this month would consider all options to address falling prices. He said he did not yet know whether he would attend the meeting as he was awaiting presidential approval. He said Nigeria's oil production was currently 2 million bpd, which is in line with OPEC's latest production cut.

Iraq's Oil Minister Hussein al-Shahristani said OPEC should cut its production further. He said he was worried the oil price could fall further.

An Omani Oil Ministry source said the country has no plans to cut its production to support OPEC's efforts to halt the decline in oil prices. The source also stated that Oman's Oil Minister Mohammad al-Rumhy had no plans to attend the talks in Cairo.

The head of the IEA, Nobuo Tanaka said OPEC must act more promptly in raising its oil production in case of a shortage.

Market Watch

Deutsche Bank stated that oil prices could fall to as low as \$40/barrel next year as more efficient refining capacity comes online and production costs for some regions fall. It said new refining capacity additions will use 20% less crude to make gasoline and distillate than older capacity, cutting the need for crude and pressuring prices. It also said that increases from non-OPEC producers should also weigh on prices.

A senior Saudi Aramco executive said its oil and gas field development projects will not be impacted by the world financial crisis. He said the crisis will not impact its projects because they are long-term and not short-term.

China will roll out a new oil pricing mechanism in 20 days, according to the China Daily. It said the aim is to complete China's fuel tax reform and to encourage energy conservation and emission control. The tax would be slightly above 1 yuan or 14.7 cents/liter.

November Calendar Averages**CL – \$59.82****HO – \$1.9158****RB – \$ 1.299**

Somali pirates that hijacked the Saudi oil supertanker, Sirius Star, have demanded a ransom. The owners of the hijacked tanker with a \$100 million cargo are in negotiations over a possible ransom payment. There was no indication on the amount that was requested. Separately, a maritime official in Kenya said Somali pirates have hijacked three ships since capturing the Saudi tanker over the weekend. A Thai fishing boat, a Hong Kong-registered cargo and a Greek bulk carrier had been seized Tuesday in the Gulf of Aden.

According to the API, US crude oil and petroleum stock demand in October fell by 4.1% or 848,000 bpd on the year to 19.628 million bpd. In the first 10 months of the year, total petroleum demand fell by 5.2% on the year to 19.614 million bpd. Gasoline demand in October increased by 1.2% or 115,000 bpd to 9.351 million bpd while distillate demand fell by 7.4% or 310,000 bpd to 3.903 million bpd. Jet fuel demand in October fell by 9.3% to 1.485 million bpd while residual fuel demand fell by 36.3% to 399,000 bpd. The API also reported that crude and petroleum product imports increased by 5.8% on the year to 13.684 million bpd. It reported that crude production fell by 5.1% to 4.785 million bpd.

The AAA Daily Fuel Gauge showed that retail gasoline prices fell below \$2/gallon in 21 states while another 8 states have prices within 5 cents of falling below that threshold. It reported that the US average retail price of gasoline on Wednesday fell by 2.1 cents on the day to \$2.047/gallon. Meanwhile the US average retail price of diesel fell by 1.4 cents on the day to \$2.947/gallon.

The US Transportation Department said American drove 10.7 billion miles less in September than they did a year earlier, down 4.4% as the economy weakened. This was in spite of the declining gasoline prices. It said that during the first nine months of the year, highway travel was down 79.2 billion miles or 3.5% less from a year ago.

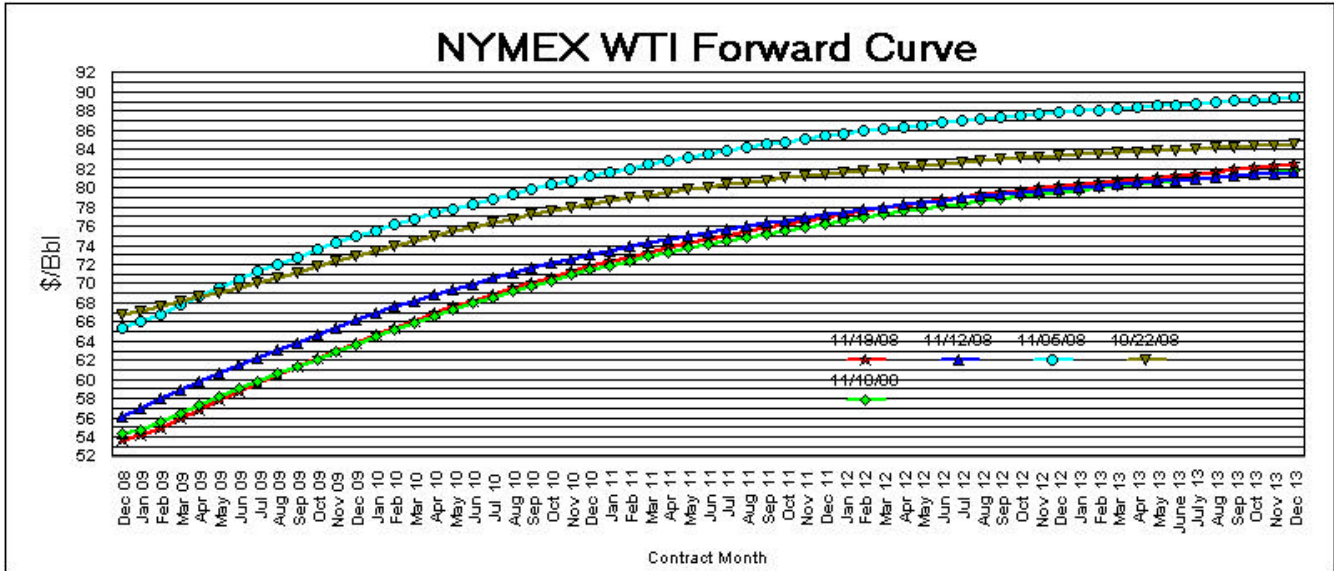
The EIA reported that US retail heating oil prices fell for the sixth consecutive week by 10 cents to \$2.84/gallon. It is down 37 cents on the year and down 83 cents since the start of this year's heating season in early October. The EIA estimates that the average heating oil price this winter in the Northeast will be \$2.74/gallon, down 57 cents or 17% on the year. Household heating oil costs in the region will average \$1,741, down 13% from \$1,998 last winter.

A senior UN official said the IAEA inquiry into alleged nuclear weapon research by Iran has degenerated into a silent standoff. The IAEA presented its latest report on Iran, saying it planned to start installing another 3,000 centrifuges early next year, in addition to the 3,800 already enriching uranium and 2,200 being gradually introduced. However it showed that Iran had not increased the number of centrifuges regularly refining uranium after it reached 3,800 in September. Even though the IAEA's non-proliferation investigation is in a standstill, the agency continues its dealing with Iranian officials with respect to inspecting Iran's nuclear sites.

Iraq, Turkey and the US agreed to form a joint committee to combat the Kurdistan Workers' Party or PKK. An Iraqi government spokesman said the committee will track the threat represented by PKK to the security and the stability of Turkey and Iraq. It will also enact forceful measures to stop all activities undertaken by the organization inside Iraqi territory or in any region adjacent to the Turkish-Iraqi border.

Refinery News

ConocoPhillips plans to perform maintenance on pollution devices linked to a fluid catalytic cracking unit at its 146,000 bpd Borger, Texas refinery starting on Wednesday. On Tuesday, it announced that



it was starting work on electrostatic precipitators on fluid catalytic cracking unit 29 at its Borger, Texas refinery and maintenance on electrostatic precipitators at its 247,000 bpd Sweeny, Texas refinery.

Marathon Oil Corp's 52,000 bpd crude unit No.5 at its 76,000 bpd Texas City, Texas refinery is operating normally on Wednesday after it was shut down on November 3 following a small fire at an associated pump.

Trade sources said Total reduced runs at its 328,000 bpd Gonfreville refinery by 10% to cut its gasoline production amid the week import demand from the US. A Total spokesman was unable to confirm at what capacity the refinery is operating.

Japan's Cosmo Oil Co Ltd said it restarted its 90,000 bpd No. 5 crude distillation unit at its Yokkaichi refinery earlier in the day following the completion of planned maintenance.

China National Petroleum Corp said Costa Rica is considering a new joint refinery with China that is eight times the size of its existing refinery. CNPC and Recope would conduct a feasibility study for the new facility, capable of processing 10 million tons/year of crude or 200,000 bpd. This follows Monday's announcement that CNPC would help Costa Rica increase the capacity of its 25,000 bpd refinery to 60,000 bpd by 2013.

China is scheduled to start building oil and gas pipelines through Myanmar next year, enabling it to cut the journey time for crude oil imports from the Middle East. The pipeline into China's southwestern Yunnan province would cut oil cargoes' long detour through the Malacca Strait as well as strengthen China's access to energy reserves in Myanmar. It is expected to start construction in the first half of 2009. The project will include a \$1 billion gas pipeline and a \$1.5 billion oil pipeline.

The Petroleum Association of Japan reported that Japan's crude oil inventories in the week ending November 15 built by 3.04 million barrels on the week and by 8.75 million barrels on the year to 111.01 million barrels. It reported that Japan's gasoline inventories built by 370,000 barrels on the week and by 530,000 barrels on the year to 13.51 million barrels despite the drop in production as domestic demand continued to fall. It reported that domestic gasoline sales fell by 12.5% on the week and by 10% on the year. The PAJ also reported that Japan's kerosene stocks fell by 570,000 barrels on the week and by 4.05 million barrels on the year to 24.09 million barrels while naphtha stocks fell by

540,000 barrels on the week to 13.64 million barrels. Domestic kerosene sales increased by 3.2% on the week but increased by 30% on the year. Japanese refiners ran their facilities at an average of 76.8% of total capacity of 4.9 million bpd, unchanged on the week. Meanwhile, Japan's Oil Information Center reported that the average retail price of gasoline in Japan was 132 yen or \$1.36/liter or \$5.15/gallon as of Monday, down from 136.6 yen the previous week.

Production News

The US Minerals Management Service reported that the amount of shut in production in the Gulf of Mexico continued to return to the market. It showed that in the week ending November 19, a total of 32,816 bpd of shut in crude production returned to the market, leaving 212,216 bpd of crude still shut in. It also reported that the amount of shut in natural gas production fell by 257 mmcf/d, leaving 1.805 bcf of production still shut in.

Oil production through the Royal Dutch Shell operated Forcados terminal in Nigeria was cut following a fire or explosion at a work site. International shipping logistics company GAC said there will be delays to Forcados liftings. It said no force majeure will be issued.

Yemen's Oil and Mineral Resources Minister Amir al-Aidarous said about 25,000 bpd of oil production in Yemen was shut in following torrential rain last month. He said Yemen's oil production is currently at about 287,000 bpd.

Turkey's TPAO and ExxonMobil Corp have signed a partnership deal for oil exploration in the Black Sea. TPAO is giving 50% of its oil rights in exploration fields in the northern Turkish Black Sea cities of Kastamonu, Bartin and Samsun, in return for ExxonMobil taking high exploration risk.



OPEC's news agency reported that OPEC's basket of crudes fell further to \$46.55/barrel on Tuesday from \$47.96/barrel on Monday.

Market Commentary

Expectations of cold weather in the eastern part of the U.S. led energy prices higher for most of the session today, despite a somewhat bearish inventory report. Product demand, a key issue, continues to be at the forefront of this market. It appears that a battle will ensue between seasonality and the global economy. Will consumers try to hang on to their purse strings, or will they prefer to stay warm as cold weather moves in? In the short term, prices may react in a bullish manner to the spate of cold weather expected to loom over the eastern part of the U.S. from now until December 2nd. Although prices may move higher, the upside potential is not that aggressive. For now we would look for prices to continue to trade within the two descending trendlines on a spot continuation chart. These trendlines will begin tomorrow's session set at \$56.14 and \$50.34. A near term upside potential for crude oil rests at \$61.30. Heating oil reacted the strongest today, in response to the aforementioned cold weather. Current stock levels for distillate are running 3% lower than last year, with demand running 3.3% lower. On the surface it appears that immediate stock levels for distillate are scarce and any long-term cold weather could lead to a scramble for inventory. This may provide support for both the near term outright contract for heating oil and for the nearby crack spread. The January 09/June09 heating oil spread, which penetrated a trendline set at -0.0431, is approaching support set at -0.385. Based on the expected cold weather and shortages of near term inventory, this spread may hold this level and bounce. We would look to buy the January09 contract and sell the June09 contract, looking for this spread to gain strength.

Open Interest: Crude Oil (CL) DEC.08 68,730 -46,264 JAN.09 280,642 +9,736 FEB.09 60,796 +4,302 MAR.09 50,050 +1,904 Totals: 1,122,604 -25,346 N.Y. Heating Oil (HO) DEC.08 28,615 -2,738 JAN.09 58,138 +1,581 FEB.09 21,471 -14 Totals: 230,248 - 480 NEW YORK HARBOR RBOB GASOLINE (RB) DEC.08 38,277 -3,737 JAN.09 66,403 +1,874 FEB.09 11,862 +526 Totals: 183,988 + 509

Crude Support	Crude Resistance
52.73, 51.03, 49.90, 46.85, 40.45, 36.75	65.56, 67.00, 72.53, 74.30, 75.91, 79.35 85.50, 90.51
Heat Support`	Heat resistance
1.6055, 1.4530	2.2796, 2.3720, 2.3806, 2.4500, 2.5732, 2.6400, 2.6880, 2.6965, 2.7475 3.0184
Gasoline support	Gasoline resistance
10350, .7760, .6840	1.8240, 192.85, 2.0270, 2.0690, 2.1400, 2.1980, 2.2865

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