



ENERGY RISK MANAGEMENT

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ENERGY MARKET REPORT FOR DECEMBER 2, 2008

OPEC President Chakib Khelil said he wished Russia, Norway and Mexico would become members of OPEC to help support oil market stability. Meanwhile, Qatar's Oil Minister, Abdullah al-Attiyah said he is concerned about an oversupply of oil in the market. He said OPEC may cut output at its December meeting.

A Reuters survey showed that OPEC's oil production fell in November for the third consecutive month to 31.2 million bpd from 32.17 million bpd in October. The 11 members bound by output quotas pumped 28.07 million bpd, down from 29.06 million bpd in October. That represents

Market Watch

US refiners have relied on exporting surplus gasoline and distillates to help offset falling domestic demand. Record product exports have averted a much deeper crisis within the industry. However as the economic slowdown cuts demand in key export markets across Europe, Asia and Latin America, the export window is set to close. Gasoline exports have increased by 12 million barrels to 50 million barrels in the first nine months of the year while distillate exports have increased by 94 million barrels to a record 146 million barrels. Refiners are under pressure to react with early run cuts or start the maintenance season earlier and take more capacity offline for a longer time. Prospective runs cuts heighten the risk of a very large build up in crude oil inventories in the second quarter of 2009, adding to the downside price risks in the near term.

The European Union's statistics office said euro zone producer prices fell more than expected month on month in October. A drop in the cost of energy and intermediate goods pulled down prices in the 15 country area by 0.8% to an annualized rise of 6.3%. Euro zone consumer price inflation fell to 2.1% in November from 3.2% in October.

Iran's government and a parliament committee have agreed to base next year's budget on an oil price of \$45/barrel.

Nigeria's President Umaru Yar'Adua proposed a \$2.87 trillion naira or \$24 billion budget for 2009 on Tuesday, a reduction of about 13%. The 2009 draft budget assumes a crude oil benchmark price of \$45/barrel, down from \$59/barrel in 2008. Oil production is forecast at 2.3 million bpd next year, down from 2.45 million bpd in the 2008 budget. He said the average oil production this year was about 2 million bpd.

Iran and Malaysia have signed three memorandums of understanding aimed at increasing cooperation in the oil and gas sectors. Iran's Oil Minister Gholam Hossein Nozari said the MoUs cover buyback agreements worth \$5 billion-\$6 billion for the upstream sector and \$6 billion -\$8 billion for the downstream sector. Iran is expected to export 250,000 bpd of heavy crude and 120,000 bpd of gas liquids to Malaysia.

VeraSun Energy Corp said it would cancel nearly all its contracts to buy corn for its US BioEnergy plants for deliveries through January 15. It also said it would cancel contracts to buy corn for its Welcome, Delaware plant through January 31. However contracts for its US BioEnergy plant in Marion, South Dakota were not included in the cancellation plans. VeraSun's eight US BioEnergy plants are ready to operate but not currently producing ethanol.

Venezuela's President Hugo Chavez's surprise call to end term limits appears to be anticipating a future loss of popularity as the economy slows. His second term ends in 2012. On Monday he suggested the change could be put to a vote as early as January.

December Calendar Averages**CL – \$48.12****HO –\$1.5992****RB – \$ 1.0848**

66% compliance with OPEC's pledge to lower supply by 1.5 million bpd from November 1.

According to the MasterCard Advisors LLC, US gasoline demand increased by 1.7% to 9.359 million bpd in the week ending November 28. Gasoline demand in the latest week was down 0.3% on the year. Demand in the last four weeks averaged 9.123 million bpd, down 2.1% on the year. On a nationwide average, retail gasoline prices fell for the 10th consecutive week, falling 16 cents to \$1.85/gallon.

Iran said it started six days of naval war games on Tuesday in the Gulf and the Strait of Hormuz. An Iranian official said the aim of the maneuver is to increase the level of readiness of Iran's naval forces and also to test and to use domestically made naval weaponry. There will be more than 60 combat vessel units participating in the war games, including destroyers, missile-equipped battleships, submarines, special operations teams, helicopters and fighter planes.

India's Oil Secretary R.S. Pandey said India wants world oil prices to stabilize at current levels and said volatility in prices bad for both consumers and producers. Meanwhile, Japan said lower oil prices was preferable during the worst economic crisis in generations following Saudi Arabia's suggestion that \$75/barrel was a fair price for oil.

Somalia's insurgent Islamist leader Sheikh Hassan Dahir Aweys called on pirates Tuesday to immediately release a Saudi oil tanker and other foreign vessels being held in Somali waters. The Saudi tanker is one of more than a dozen foreign merchant vessels and their crew being held by gunmen on the lawless Somali coast.

Refinery News

Colonial Pipeline has allocated cycle 69 for its main line transporting diesel, jet fuel and heating oil north of Collins, Mississippi as demand for shipping space exceeds capacity. It announced shipping restrictions on its Linden, NJ delivery line as current nominations for product movement on cycles 64 through 67 exceed the line's capacity.

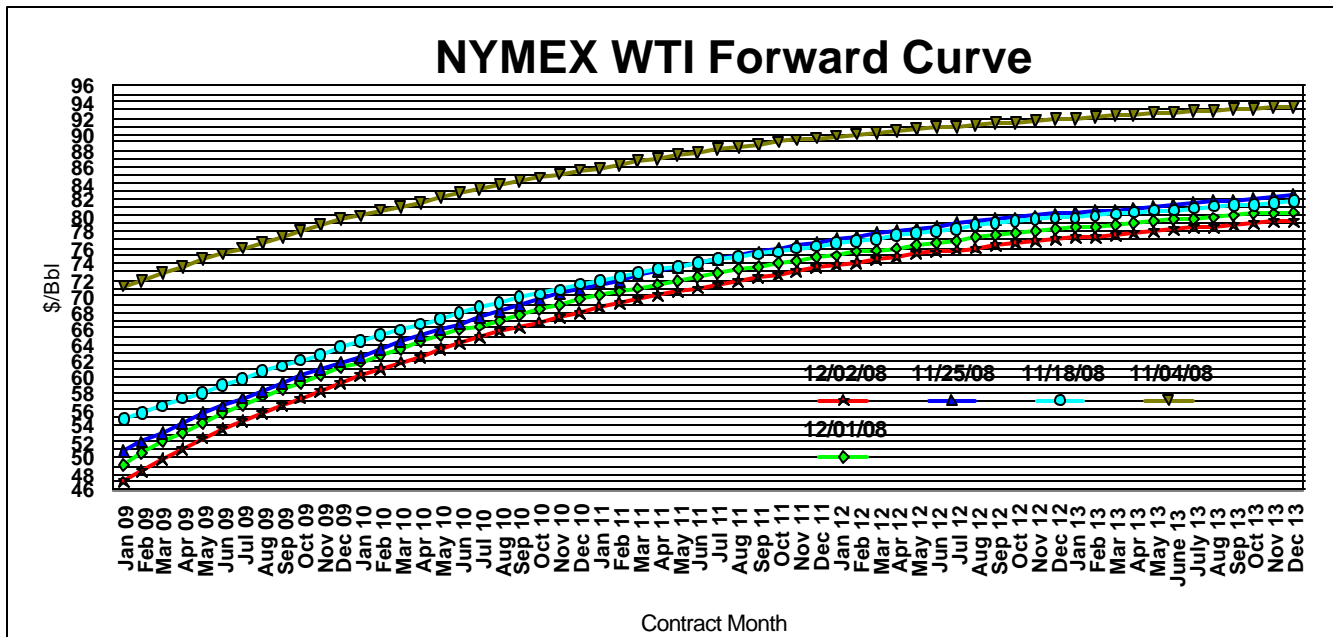
ExxonMobil Corp said production at its 150,000 bpd refinery in Torrance, California would be cut by an undisclosed amount following a unit shutdown on Monday. It later stated that it expects operations at the refinery to return to normal later on Tuesday. Among the units shut at the refinery was its 100,000 bpd fluid catalytic cracking unit. The units were shut due to an electrical power interruption.

Royal Dutch Shell Plc said its 155,000 bpd Scotford oil sands upgrader is operating at reduced levels as the company completes maintenance work on one of the facility's units. The work is expected to be completed by the end of the month. It is producing more heavy oil than usual.

Bayernoil will start the operation of a new mild hydrocracker unit to increase diesel output at its 120,000 bpd Neustadt refinery in southern Germany later in December.

An analyst said Enbridge Inc's decision to limit crude oil flows this month is unusual and a sign that capacity expansions are needed to meet growing demand. Enbridge said December flows of conventional light and synthetic crude on Enbridge lines 2b and 13b are apportioned 24%, meaning shippers can only send 76% of what they nominated this month. The last time Enbridge imposed such limits was 2004.

Total SA's chief executive Christophe de Margerie reaffirmed his company's commitment to building a large new refinery with Saudi Arabian Oil Co at Jubail.



Spain's energy companies said that plans to upgrade refineries and reduce the country's deficit in diesel are on track despite the credit crunch. There is a total of 6 billion euros or \$7.57 billion earmarked to upgrade six of Spain's nine refineries operated by Repsol, Cepsa and BP.

China's Sinopec and CNPC's gasoline and diesel stockpiles reached record highs in October. The companies' gasoline stocks increased to 33.1 million barrels from 30.9 million barrels in the prior month while diesel stocks reached a record high of 51.6 million barrels in October, up from 46.8 million barrels in September.

Production News

Kuwait has notified four term customers in Asia that it will supply full crude term volumes for January. It initially told some lifters their supplies would be cut by 5% for November and December.

The UAE's Abu Dhabi National Oil Co will increase term crude oil supplies to many major Asian customers next month. While the full scale allocations appeared to reverse the 5-15% export cuts that ADNOC announced after OPEC decided to cut its production in late October, traders said ADNOC could be making more discreet, targeted cutbacks to specific customers instead of across the board cuts.

Crude oil output from Iraq's main export terminal of Basra was restored on Tuesday, with oil flowing at a rate of 1.7 million bpd, up from 840,00 bpd on Monday. However a technical fault has halted flow through the country's main northern export pipeline. Oil flow is expected to restart soon, according to a Turkish Energy Ministry source.

Separately, a senior Iraqi oil official said Iraq's oil exports could fall by as much as 13% next year as maintenance problems undermine the country's export capacity. Exports this year are seen averaging 1.8 million to 1.9 million bpd but are expected to fall to a level of 1.65 million to 1.8 million bpd in 2009.

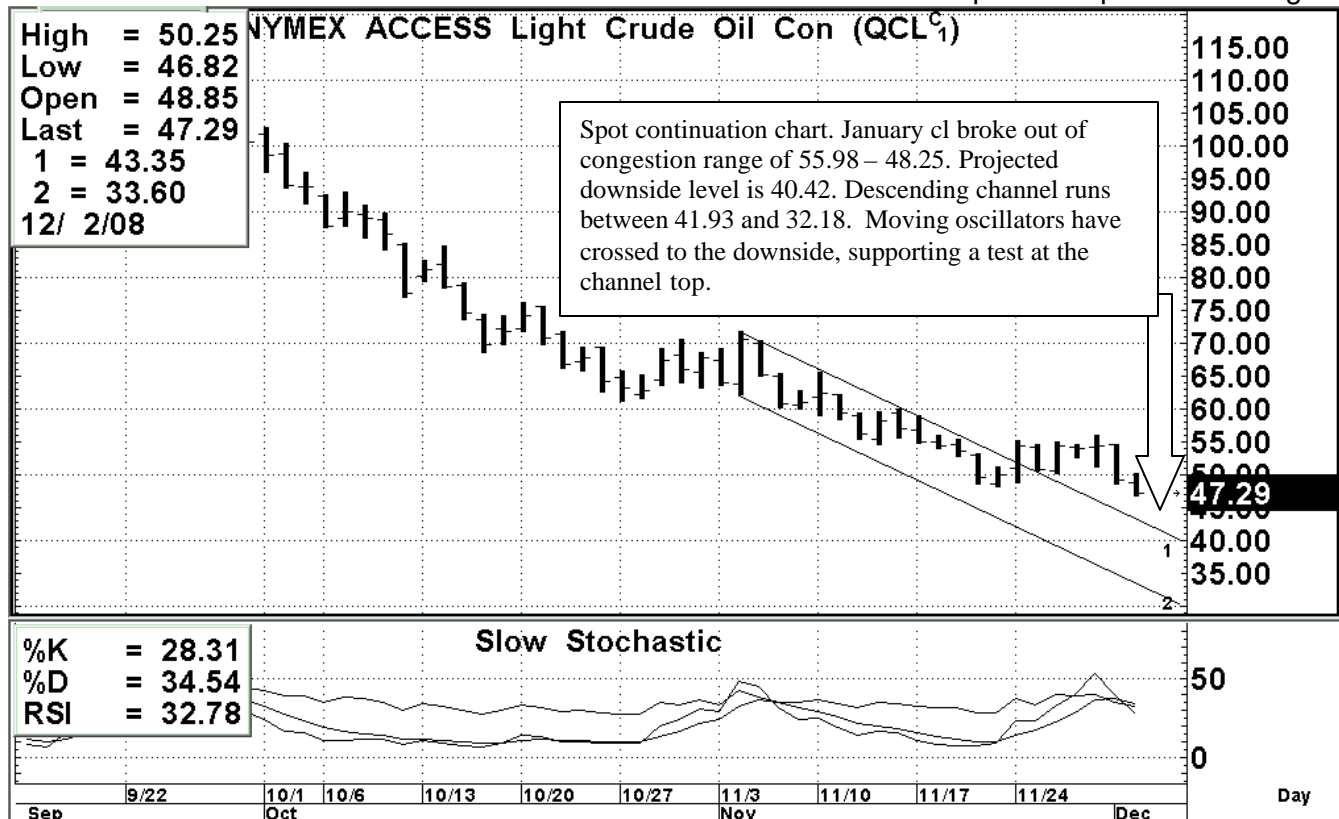
Russia's Energy Ministry reported that the country's oil production fell 0.4% to 9.82 million bpd in November from 9.86 million bpd in October. Oil production has declined by 0.8% this year to 9.79 million in January-November from 9.87 million bpd reported last year. It also reported that Russia's oil exports via pipeline monopoly Transneft fell by 12% to 3.7 million bpd as oil producers cut deliveries amid falling oil prices and rising export duties. Russia's gas oil exports increased by 19.2% on the

month and 11.8% on the year to 115,035 tons/day in November while domestic supplies and exports of fuel oil increased by 13.9% and 6.2% on the month.

OPEC reported that its basket price fell to \$45.57/barrel on Monday, down from Friday's \$47.22/barrel level.

Market Commentary

Energy prices came off again today, pressured once again by economic woes. The January crude oil contract broke out of the congestion area between \$55.98 and \$48.25, reaching the lowest level crude oil prices have been since May of 2005 when prices hit a low of \$46.20. Tomorrow's DOE/API report is calling for builds in crude oil of 1.2 million barrels, 1.4 million barrels in gasoline and distillate stocks are expected to come in at unchanged. Should crude oil stocks build, this will be the tenth straight week that stock levels have increased. If product demand shows signs of decreasing, this will surely set the stage for lower prices. Technical indicators for the January crude oil contract have crossed to the downside, with %K crossing below %D and the RSI turning to the downside. This is an indication that prices will continue lower. We would look for a test at the descending channel depicted on the chart below. This channel begins tomorrow's trading session set at \$41.93 and \$32.18. Gasoline also came under pressure, but did not make a new near term low. Technical indicators appear to be getting ready to cross to the downside, as % K has moved lower and %D moved higher. The RSI has also moved lower, supporting further downside potential. For tomorrow, we would focus our attention on the demand factor for gasoline, as we believe that this will determine market direction. Gasoline continues to out pace the crude oil. This is the third week in a row that gasoline has gained on crude oil. There is currently support set at -2.95 on the January gasoline crack spread. Should tomorrow this level come into play and hold a buying opportunity will present itself. Likewise, should this level fail to hold, a selling opportunity would arise. Heating oil continues to sustain unseasonable weakness, being dragged down with the rest of the complex and a lack of demand for diesel. As with the gasoline, we would focus our attention on the demand factor in tomorrow's DOE/API report. The price of heating oil



has not been this low since January of 2007, when prices were trading at a low of \$1.4530. For tomorrow, we would look for price to work towards this level.

Open interest: Crude oil (CL) JAN.09 303,711 -6,245 FEB.09 86,524 +2,530 MAR.09 63,415 -1,868
 Totals: 1,134,879 -6,457, Heating oil (HO) JAN.09 66,914 -1,20 FEB.09 20,784 -462 MAR.09 22,553
 +336 Totals: 216,864 -2,179 NEW YORK HARBOR RBOB GASOLINE (RB) JAN.09 77,494 -3,504
 FEB.09 18,642 +1,900, MAR.09 15,784 +60 Totals: 171,981 -2,296

Crude Support	Crude Resistance
, 46.85, 40.45, 38.20, 36.75	52.75, 53.75, 57.23, 60.01, 62.79, 65.56, 67.00, 72.53, 74.30,
Heat Support`	Heat resistance
1.4530, 1.3450	167.15, 171.85, 176.70, 2.2796, 2.3720
Gasoline support	Gasoline resistance
103.50, 94.10, 7760, .6840	115.75, 119.90, 121.90, 136.14, 1.8240, 192.85, 2.0270, 2.0690, 2.1400, 2.1980, 2.2865

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