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ENERGY MARKET REPORT FOR DECEMBER 5, 2006

Iran's nuclear negotiator Ali Larijani said Iran would not bow to pressure to give up its right to its nuclear program. He said Iran was not seeking nuclear weapons. However he said Iran would not give up its inalienable rights. He said any resolution against Iran would not be effective. Meanwhile, senior officials from the permanent members of the UN Security Council and Germany are scheduled to meet on Tuesday to try to agree on a resolution that would impose sanctions on Iran for refusing to suspend its nuclear program.

An OPEC official said OPEC is expected to set aside the issue of how members divide up production under individual quotas when it meets next week.

The chief economist of the IEA, Fatih Birol said oil producers should increase rather than cut their production when they meet next week. He said the market was tight. Most OPEC members favor reducing production at their December 14 meeting to prevent a supply glut. In regards to the weakness in the dollar, the IEA's chief economist said it was hurting the demand of consumers paying in dollars and thus the revenue of oil producing

Market Watch

The Saudi ambassador to the US, Prince Turki al-Faisal said the Saudi Arabian government has canceled a consulting arrangement with Nawaf Obaid, the author of a newspaper article stating the country was considering arming Sunnis in Iraq to resist Iran backed Shiites. He said the article did not represent the country's policy. The article stated that a premature US withdrawal from Iraq would likely lead to a massive Saudi intervention to protect Iraqi Sunnis, including increasing oil production to cut crude prices to curtail Iranian funding of militias.

Goldman Sachs said growth in non-OPEC production in 2007 would do little to ease prices as supplies fail to meet increasing demand. It said that a careful look at the upstream projects that are expected to come on line next year suggested that the real impact on production would be much lower than generally assumed. Goldman Sachs has forecast an average price of crude in 2007 of $75.50/barrel.

According to a survey by Deloitte and Touche, more than 80% of oil and natural gas executives expect the price of WTI crude to be between $60/barrel and $70/barrel by December 2007. It also stated that about 57% of oil and gas executives believe oil prices could increase to $90/barrel before triggering a global recession.

The UK's Met Office said Britain and northern Europe could face outbreaks of colder than average weather during mid to late winter due to the influences of El Nino conditions. The Met Office predicted the UK would see more mild weather throughout December following the warmest autumn on record.

The Commodity Futures Trading Commission announced that it would start publishing an additional Commitments of Traders report in January. The new report would show aggregate futures and options positions of Noncommercial, Commercial and Index Traders in 12 selected agricultural commodities. The new COT-Supplemental report would be published on a two year, pilot program basis. During the course of the pilot program, the CFTC would assess the relevance of the report and study whether it is possible and appropriate to expand the report to include data for other physical commodity futures markets.

countries. However he played down the overall effect on OPEC. Separately, the IEA's executive director, Claude Mandil said world oil stocks are not that high despite recent comments from OPEC ministers. He said inventories could be depleted in 55 days in light of the demand growth and the lack of spare capacity. He said OPEC should not cut its oil production when it meets on December 14. He added that OPEC should wait until winter demand data becomes available at the end of January.

Petrologistics revised up its forecast of OPEC's oil production in November by 200,000 bpd to 27.4 million bpd. Its production was down 1.1 million bpd from a revised October production level of 28.5 million bpd. It did not revise its previous estimate for Saudi Arabian, Iranian and Nigerian production for November, which were kept at 8.8 million bpd, 3.95 million bpd and 2.15 million bpd, respectively. It reported that Kuwait's production was down 50,000 bpd in November to 2.6 million bpd and the UAE's production was down 60,000 bpd at 2.6 million bpd.

The EIA increased its estimate for world crude prices in 2010 by more than $10/barrel to $57.47/barrel. World crude prices are expected to fall to $49.87 barrels in 2015 and then increase steadily to average $59.12/barrel in 2030. It stated that OPEC producers are expected to have a slightly smaller share of the world oil market by the end of the decade than previously forecast as supplies from the Caspian Sea increase. OPEC is expected to produce 34.72 million bpd in 2010 compared with its previous projection of 36.67 million bpd. It cut OPEC's 2010 market share to 38.1% compared to its previous estimate of 40%. Non-OPEC producers are expected to pump 56.34 million bpd in 2010, up from its previous forecast of 54.33 million bpd. However it stated that OPEC would regain its share by 2030, with a 40.6% share of the world oil market. Its production is expected to average 48 million bpd in 2030. In regards to Saudi Arabia, the EIA stated that the country was on track to meet its goal of expanding its capacity to 12.5 million bpd by the end of 2009. Saudi Arabia currently has an oil production capacity of between 10.5 million and 11 million bpd. The EIA also reported that US ethanol demand is expected to more than double by 2012 to 11.2 billion gallons a year. Ethanol demand by 2030 is seen at 14.6 billion gallons a year. In addition to ethanol, the EIA said demand for other alternative energy sources like biodiesel and liquid fuels made from coal is projected to increase substantially, in part due to higher prices for traditional fuels. Nonetheless, traditional energy sources, such as crude oil, natural gas and burned coal are estimated to provide about the same 86% share of total US energy supply in 2030 as is the current case.

Meanwhile, the head of the EIA, Guy Caruso said he did not expect crude demand to weaken in the second quarter of next year when another OPEC cut may impact the market if the group goes ahead with such a decision at its next meeting.

Refinery News

BP's 131,000 bpd refinery in Toledo, Ohio was seen restarting following a month long maintenance shutdown. The refinery was shut for maintenance in early November.

Murphy Oil said its 37,000 bpd fluid catalytic cracking unit at its Meraux, Louisiana refinery was shutdown for planned maintenance over the weekend. The unit is expected to remain shut for a week to 12 days.

In a report filed with the Texas Commission for Environmental Quality, Flint Hills stated that a leak had been discovered in an offgas line of a benzene, toluene and xylene extraction unit at its 288,000 bpd refinery in Corpus Christi, Texas. It said the leak was being repaired.

ExxonMobil said a brush fire was burning on property owned by ExxonMobil adjacent to its 155,000 bpd refinery in Torrance, California. The fire was in the process of being extinguished.

NYMEX Petroleum Options Most Active Strikes for December 5, 2006								
Symbol	**Month**	**Year**	**Call/Put**	**Strike**	**Exp Date**	**Settle**	**Volume**	**IV**
LO	4	7	P	50	03/15/2007	0.19	10,828	31.71
LO	4	7	P	57	03/15/2007	0.86	10,825	29.26
LO	2	7	C	80	01/17/2007	0.02	5,610	27.59
LO	2	7	C	85	01/17/2007	0.01	5,550	31.42
LO	6	7	P	60	05/17/2007	2.08	3,890	28.87
LO	3	7	C	70	02/14/2007	1.27	3,099	26.90
LO	1	7	P	60	12/14/2006	0.3	2,799	29.23
LO	1	7	C	64	12/14/2006	0.52	2,640	28.74
LO	3	7	C	67	02/14/2007	2.19	2,400	26.99
LO	3	7	C	75	02/14/2007	0.48	2,362	27.43
LO	1	7	C	63	12/14/2006	0.86	2,294	28.61
LO	1	7	P	62	12/14/2006	0.92	2,141	28.84
LO	2	7	P	45	01/17/2007	0.01	1,700	39.11
LO	6	7	P	67	05/17/2007	4.63	1,650	26.87
LO	12	10	C	69	11/16/2010	8.76	1,600	22.89
LO	12	10	C	80	11/16/2010	4.82	1,600	19.76
LO	1	7	C	65	12/14/2006	0.29	1,536	28.69
LO	1	7	P	61	12/14/2006	0.54	1,227	28.79
LO	6	7	C	70	05/17/2007	3.34	1,225	26.42
LO	2	7	P	53	01/17/2007	0.12	1,160	32.32
LO	3	7	C	78	02/14/2007	0.26	1,099	27.86
LO	1	7	C	62	12/14/2006	1.35	1,075	28.86
LO	1	7	P	59	12/14/2006	0.16	1,013	29.99
LO	6	7	C	80	05/17/2007	0.98	1,001	26.01
LO	3	7	C	69.5	02/14/2007	1.39	1,000	26.84
LO	4	7	P	60	03/15/2007	1.47	1,000	28.21
LO	4	7	P	55	03/15/2007	0.58	1,000	29.95
LO	6	8	P	90	05/15/2008	21.09	1,000	28.30
LO	6	8	C	50	05/15/2008	20.77	1,000	37.29
LO	6	8	C	90	05/15/2008	1.68	1,000	22.02
LO	6	8	P	50	05/15/2008	1.61	1,000	28.86
LO	7	7	C	70	06/15/2007	3.92	1,000	26.45
LO	7	7	C	80	06/15/2007	1.31	1,000	25.89
LO	12	7	P	50	11/13/2007	1.23	1,000	31.52
LO	12	7	C	90	11/13/2007	1.25	1,000	25.10
LO	12	7	C	50	11/13/2007	19.85	1,000	38.40
LO	12	7	P	90	11/13/2007	21.63	1,000	30.82
OB	2	7	P	1.5	01/26/2007	0.022	300	34.30
OB	2	7	C	2	01/26/2007	0.0119	158	36.61
OB	1	7	C	1.7	12/26/2006	0.0314	118	34.45
OH	2	7	C	1.83	01/26/2007	0.0899	500	32.49
OH	1	7	P	1.89	12/26/2006	0.1122	410	31.22
OH	2	7	P	1.84	01/26/2007	0.0926	410	32.57
OH	2	7	C	1.93	01/26/2007	0.0532	200	33.41
OH	2	7	P	1.75	01/26/2007	0.0525	175	32.80
OH	2	7	P	1.85	01/26/2007	0.0983	175	32.68

Sunoco Inc is expected to carry out a major turnaround at its 330,000 bpd Philadelphia refinery starting in February. Traders said the work would include a shutdown of its fluid catalytic cracking unit for eight weeks. Other units at the refinery, including a crude unit are expected to be shutdown for planned maintenance. The catcracker has been undergoing a $400 million overhaul and expansion. The expansion is expected to add 15,000 bpd of new conversion capacity at the refinery as well as allow Sunoco to use lower value heavy feedstocks in the unit.

Unionized workers at Valero Energy's 275,000 bpd Aruba refinery have signed a collective bargaining agreement, ending a brief labor dispute. Workers started a strike on November 29 seeking higher pay and better benefits. The labor dispute did not affect production at the refinery.

China imported about 8.2 million barrels of crude oil for its strategic oil reserve in November, more than double expectations as the country accelerated its stockbuild on lower oil prices. The new imports suggest that at least 11 million barrels of crude are now stored at the facility, taking up a third of its capacity. The extra demand for stockpiling indicated that China would step in to buy on world markets when its sees low prices.

South Korea's SK Corp shut down its 620,000 ton per year No. 2 naphtha cracker from December 1-12. The same unit was shut for about a week in mid-October to fix an unexpected technical problem and continued operating at low rates as the problem persisted.

South Korean refiners are expected to cut their December crude runs by about 4% due to poor refining margins and high inventories. The country's five refiners are expected to cut crude throughput this month by 3.98% or 100,000 bpd to 88% of capacity. Inventory levels by the end of October stood at 74.78 million barrels, up from last year's 65.34 million barrels.

Meanwhile, South Korean refiners are expected to cut their November spot gas oil and jet fuel shipments by 9% and 24% on the month, respectively to meet increased domestic demand for the winter season. Gas oil exports from South Korea are expected to fall to 680,000 tons in December while jet fuel exports are expected to fall to 590,000 tons.

Total exports of gas oil from the former Soviet Union via Baltic and Black Sea ports increased in November by 5.6% on the month and by 22% on the year. Gas oil exports from Baltic ports fell by 280,000 tons on month while gas oil exports from the Black Sea ports increased by 432,000 tons on the month to 1.35 million tons in November. Total fuel oil exports fell by 60,000 tons or 1.6% on the month to 3.61 million tons.

France's Energy Minister stated that the country's oil product demand in October increased by 9.9% year on year to 8.32 million tons due to lower oil prices. Its heating oil sales increased by 35% on the year to 1.47 million tons while its diesel sales increased by 7.5% to 2.8 million tons. Gasoline demand fell by 1.4% to 870,000 tons in October.

Production News

Saudi Arabia cut the official selling price for its Arab Light bound for Europe in January to BWAVE minus $5.10, down 10 cents on the month. It also cut the prices of its Arab Heavy to BWAVE minus $8.75 from BWAVE minus $8.15. It cut the price of its Arab Light crude loading from Ras Tanura to BWAVE minus $5.75 from BWAVE minus $5.55 in December. Meanwhile it raised the January official selling price for Arab Light crude bound for Asia. It increased the price of Arab Light to a premium of 15 cents to the Oman/Dubai average compared with a discount of 10 cents in December.

Nexen said the Buzzard oilfield is expected to come online later in December following weeks of delays due to bad weather conditions. The company forecast Buzzard production to reach 200,000 barrels of oil equivalent/day by mid 2007. Output from the new stream would be exported through BP's Forties pipeline system.

Indonesia's BPMIGAS said the country's crude oil production increased by 0.9%on the month to 862,000 bpd in November. Its condensate production fell slightly to 124,200 bpd in November from 125,700 bpd in October.

Separately, Indonesia's President Susilo Bambang Yudhoyono urged Pertamina to increase its oil production and to optimize refinery operations. Indonesia's Energy Minister Purnomo Yusgiantoro said Pertamina planned to increase its oil production from the current 140,000 bpd to 450,000 bpd in 2014.

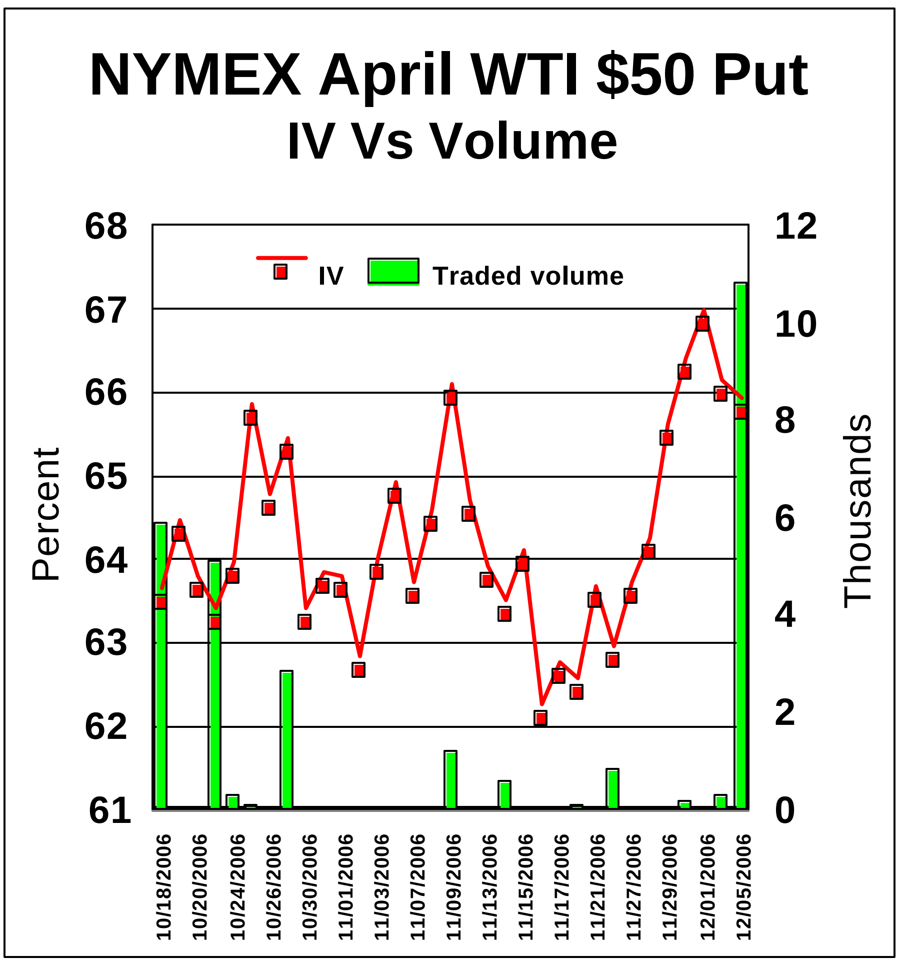
Russia's Surgutneftegas is expected to add 605 million barrels of new oil reserves in 2006 or 23% more than its forecast production. The company's oil production would depend on many factors next year. It has forecast production at 67.5 million tons.

OPEC's news agency reported that OPEC's basket of crudes increased by 4 cents to $59.70/barrel on Monday.

		Levels	Explanation
		63.50, 63.75, 64.70	Previous highs
	Resistance	63.20	Tuesday's high
CL	62.43, down 1 cent		
	Support	62.15, 61.55	Tuesday's low(38% retracement)
		61.20, 60.88, 60.35	Previous low, 50%, Previous low
		182.80, 185.10, 187.25	Previous highs
	Resistance	181.00, 182.50	Tuesday's high
HO	179.83, down 1.06 cents		
	Support	179.50, 178.20	Tuesday's low
		176.20, 176.06, 173.50	Previous low, 62%(169.15 abd 187.25), Previous low
		168.50, 171.00	Previous high, Double top
	Resistance	168.00	Tuesday's high
RB	164.39, down 1.92 cents		
	Support	164.00, 163.00, 160.75	Tuesday's low
		160.25, 158.70, 157.71	50% retracement (149.50 and 171.00), Previous low, 62%

Market Commentary

The oil market gapped higher from 62.80 to 63.00 as it retraced some of its previous losses. It quickly rallied to a high of 63.20 on the opening. The market, which failed to maintain its gains and test its previous highs, erased its gains and sold off sharply. It retraced 38% of its move from a low of 58.00 and a high of 63.75 as it posted a low of 61.55 within the first hour of trading amid the lack of any news. The market bounced off its low and retraced its early losses. It traded above the 63.00 level before the market once again found some selling pressure ahead of the close. It ended a choppy trading session relatively unchanged at 62.43 as traders awaited the release of the weekly petroleum stock report on Wednesday. Volume in the crude market was light with 120,000 lots booked on the day while volume on Globex was better with over 223,000 lots booked during the open outcry session. Similarly, the heating oil market ended a choppy session, down 1.06 cents at 179.83. The market quickly posted a high of 182.50 on the opening before it extended its losses early in the session. The heating oil market retraced 50% of its move from a low of 169.15 to a high of 187.25 as it sold off to a low of 178.20. The market later bounced off its low and traded back towards the 182.00 level. The market erased its gains and traded lower ahead of the close. The RBOB market also traded to a high of 168.00 on the opening before it sold off to a low of



160.75 within the first hour of trading. The market later bounced off its low and retraced most of its losses as it traded above the 166.00 level and settled in a sideways trading pattern ahead of the close. It settled down 1.92 cents at 164.39. Volumes in the products were light with 20,000 lots booked in the heating oil and 20,500 lots booked in the RBOB market.

NYMEX crude options continued to attract the majority of the trading interest again today. The April $50 put led all strikes with over 10,000 lots booked on the day as this strike in our mind remains an attractive strike to sell at this time on any flat price declines in the underlying futures market.

The oil market, which held its support level, will seek further direction from the weekly petroleum stock reports. The reports are expected to show small builds in crude stocks of less than 500,000 barrels, draws in distillate stocks of 500,000 barrels and builds in gasoline stocks of less than 300,000 barrels. If the reports show builds in crude and gasoline stocks, the market will likely trade lower. However the market's losses will be limited amid the continuing reports that OPEC members are expected to consider a further cut in production during their meeting next week. The market is seen finding support at its low of 61.55 followed by 61.20, 60.88 and 60.35. Meanwhile resistance is seen at 63.20, 63.50 and 63.75. More distant resistance is seen at 64.70.