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ENERGY RISK MANAGEMENT

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ENERGY MARKET REPORT FOR DECEMBER 7, 2004

Royal Dutch/Shell has shut an additional 30,000 bpd of oil production in Nigeria due to a protest by villagers over jobs, brining its total cut to 100,000 bpd. The company closed two platforms on Sunday and was forced to close another three on Tuesday due to its inability to access the area for maintenance and repairs. The additional Shell closure brings the total Nigerian crude production shut in to 120,000 bpd. Later, hundreds of protesters ended their three day siege of the oil platforms after Royal Dutch/Shell and ChevronTexaco agreed to talk. The companies, government and representatives of the villagers agreed to hold talks Wednesday on community demands.

Market Watch

Yukos' main production unit, Yuganskneftegaz owes about $1.2 billion in back taxes and fines for 2003. A source stated that the $1.2 billion in back taxes is in addition to the $3.8 billion already claimed against the unit for 2001-2002.

Russia and Iraq have made no progress towards resolving the claims of Lukoil over the license rights for the Iraqi West Qurna oilfield. Iraq scrapped Lukoil's $3.7 billion deal for the West Qurna field late in 2002, months before the US led invasion to topple Iraqi leader Saddam Hussein.

According to UBS, US refining margins fell in the latest week to $4.22/barrel most likely due to the unexpectedly large 2.3 million barrel build in distillate stocks. Refining margins in the East Coast fell from $9.94/barrel to $6.89/barrel while Gulf Coast refining margins fell from $4.23/barrel to $2.30/barrel.

The UAE called for tighter compliance with OPEC's 27 million bpd quota and said OPEC may need to lower its output ceiling later if oil prices continue to fall. The UAE Energy Minister, Mohammed al-Hamili said all options were open at the upcoming meeting on Friday. He also stated that the most suitable price target for OPEC was $30-$38/barrel for its basket price. A senior OPEC delegate said that a call for tighter compliance to official production limits is the probable outcome of Friday's meeting. The delegate said it will address the fall in prices during its meeting on Friday.

According to the EIA's Short-Term Energy Outlook, world petroleum demand growth for 2004 was revised downwards to 2.6 million bpd over 2003 levels from 2.8 million bpd in its previous forecast. It estimated that world petroleum demand in 2004 would total 82.4 million bpd. World oil demand growth is expected to slow to 2 million bpd in 2005 to 84.4 million bpd as global economic growth slows towards more sustainable rates. Lower world oil demand growth also reflects the fact that Chinese oil demand growth in 2005 is expected to moderate from its 2004 rate. US petroleum demand in 2004 is estimated to average 20.5 million bpd, up 2.1% from the 2003 level. It is up from its previous estimate of 20.4 million bpd. It reported an additional 1.4% growth rate is anticipated in 2005 to 20.7 million bpd. Motor gasoline demand is projected to increase 1.3% this year and 1.8% in 2005 to 9.06 million bpd and 9.22 million bpd, respectively. Distillate demand is estimated to increase by 4% to 4.08 million bpd this year, up from its previous estimate of 4.06 million bpd while demand in 2005 is expected to grow more slowly in 2005 by 1.4% to 4.14 million bpd, compared with its previous estimate of 4.10 million bpd. The EIA reported that in response to strong oil demand growth this year and expected in 2005, US oil inventories and inventories in other industrialized countries remain relatively low compared to historical standards. In regards to supply, US crude oil production is expected to increase next year by 160,000 bpd to 5.59 million bpd from 5.43 million bpd in 2004. The EIA stated that heating oil expenditures are expected to averaged 34% above last winter's levels, with residential fuel prices averaging $1.85/gallon compared with its previous estimate of $1.85/gallon. The EIA reported that total OPEC oil production averaged 29.45 million bpd during November, down from 29.855 million bpd in October. Iraq's oil production averaged 1.8 million bpd, down from 2.2 million bpd in October.

The head of the IEA, Claude Mandil, said that high oil prices continue to hurt world economic growth and urged major oil producing countries to disregard unjustified fears that oil markets are awash with excess stocks. He called on OPEC to opt for a reasonable and intelligent policy when they meet later in the week.

OPEC's news agency reported that OPEC's basket of crudes increased by $0.36 on Monday to $34.89/barrel compared with $34.53/barrel on Friday.

Iraqi border guards halted a ship carrying smuggled crude oil on Tuesday and arrested its crew. The Ghanian flagged ship was carrying 1,950 metric tons of oil and was heading to the UAE.

Refinery News

Sunoco Inc's 330,000 bpd Philadelphia refinery, which was processing crude at 50% of its normal rate due to crude shipment delays is likely to improve its rates. A source did not know the refinery's current run but said a shipment of 2 million barrels of crude that arrived on Friday has eased the temporary supply squeeze.

Louis Dreyfus restarted units at its 225,000 bpd Wilhelmshaven refinery in Germany after maintenance. The refinery was shutdown for maintenance on November 12. Some units are expected to remain closed for a few weeks longer while work is completed.

A fluid catalytic cracking unit at PDVSA's 320,000 bpd La Isla refinery in Curacao is expected to return to full capacity this week following a brief power failure last month. A 3,200 bpd reformer unit is however expected to return to service in early January.

A 26,000 bpd reformer at ORL's 170,000 bpd Haifa refinery resumed operations following a delayed restart from maintenance.

Production News

ChevronTexaco's oil production in the Gulf of Mexico remains down 50,000 bpd in the wake of Hurricane Ivan. However the company said 25,000 bpd could resume before the end of the year. It however did not indicate when normal production would resume. Separately, a government official said extensive pipeline damage triggered by mudslides and waves are the main reasons for the slow return of oil and gas production in the Gulf of Mexico. Oil and gas production in the Gulf of Mexico is still 10% below normal levels. The MMS reported that oil output in the Gulf is expected to reach 96% of its normal rate of 1.7 million bpd in February.

Murphy Oil said today that it has started production from its Front Runner field in the USG finally. The start up had been delayed due to the impact of Hurricane Ivan. The first of 8 wells started production on December 4th and its output will soon reach 13,000-15,000 b/d. The project's spar facility is capable of handling 60,000 b/d of crude oil and 110 Mmcf/d of natural gas. Oil and natural gas volumes are expected to rise throughout 2005.

Delays for daylight restricted oil tankers transiting the Turkish Straits shortened to 9 days for a round trip from the Black Sea on Tuesday. Oil tankers have been waiting about four days to pass north through the Dardanelles and Bosphorus passages and about five days to pass south again.

Russia's Surgutneftegaz said its oil output in the first 11 months of the year increased by 10% to 54.17 million metric tons.

Indian oil firms held 6.7 million tons of crude oil stocks at the end of November. India's Petroleum Minister Mani Shankar Aiyar said refiners also held stocks of 908,000 tons of petrol, 1.35 million tons of kerosene, 494,000 tons of jet fuel and 4.2 million tons of diesel.

Brazil's Petrobras stated that its new offshore oil rig will start production on December 18 and added that another platform is likely to start operating in January.

Ecuador's central bank said Ecuador exported 108.29 million barrels in the first ten months of the year, up 47% from 73.59 million barrels shipped last year. Its oil export revenues totaled $3.301 billion between January and October, up 74% on the year.

Market Commentary

The energy complex ended lower amid expectations that the weekly petroleum inventory reports will show builds across the board. The oil market gapped lower from 42.73 as it opened down 43 cents at 42.55 amid the belief that the situation in Nigeria was improving in light of the news that hundreds of protesters ended their siege of the oil platforms. The market traded lower despite the news that an additional 30,000 bpd of crude production was shut in, bringing the total shut in production to 120,000 bpd. The January crude contract traded to a high of 42.65 on the opening but sold off after failing to backfill its gap. It traded to a low of 41.40, where it held good support. The market settled in a range from 41.40 to 41.90 before it saw some further selling ahead of the close which

Technical Analysis			
		Levels	**Explanation**
CL		43.60	Double top
	Resistance	42.00, 42.65 to 42.73	Remaining gap
	41.46, down $1.52		
	Support	41.38	Tuesday's low
		41.00, 40.85	Previous lows
HO		127.50	Previous high
	Resistance	124.70 to 124.80	Remaining gap
	122.36, down 2.61 cents		
	Support	121.80	Tuesday's low
		120.00, 118.00	Previous lows
HU		115.70	Previous high
	Resistance	111.80 to 112.65	Remaining gap
	108.67, down 4.29 cents		
	Support	108.50	Tuesday's low
		107.65, 107.40, 106.20	Basis trendline, Previous lows

pushed it to a low of 41.38. It settled down $1.52 at 41.46, the lowest settlement since late August. Volume in the crude market was good with 214,000 lots booked on the day. The product markets also settled sharply lower, with the heating oil market settling down 2.61 cents at 122.36 and the gasoline market settling down 4.29 cents at 108.67. The heating oil market also gapped lower from 124.80 to 124.00 and partially backfilled its gap as it posted a high of 124.70. The market sold off to a low of 123.00, where it held so me support. However it later breached that level and traded in a one cent trading range from 122.00 to 123.00 before it posted its intraday low of 121.80 on the close. The market seemed to have been pressured amid forecasts calling for mild weather. However a private weather forecaster has called for colder temperatures. The gasoline market gapped lower from 112.65 to 111.55 on the opening and partially backfilled the gap as it posted a high of 111.80. Similar to the heating oil, the gasoline market traded to a low of 108.50 ahead of the close. Volumes in the product markets were good with 55,000 lots booked in the heating oil and 56,000 lots booked in the gasoline market.

The oil market is seen trading sideways as traders await the release of the weekly petroleum stock reports. If the market does see larger builds in product stocks once again, compared with market expectations of a 1.5 million barrel build in distillate stocks and 2 million barrel build in gasoline stocks, the oil market is seen breaching its support and testing the 41.00 level. More distant support is seen at 40.85. Meanwhile, resistance is seen at 42.00 followed its remaining gap from 42.65 to 42.73.