



ENERGY RISK MANAGEMENT

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ENERGY MARKET REPORT FOR DECEMBER 8, 2008

OPEC's President Chakib Khelil said the group could surprise markets with an output cut at its December 17th meeting. He however did not specify how big the cut would be. Meanwhile, The chairman of Libya's National Oil Corp, Shokri Ghanem said OPEC should make a substantial output cut when it meets next week to support oil prices. He however declined to specify the size of the output cut that he would seek at the OPEC meeting.

The head of the National Iranian Oil Co, Seifollah Jashnsaz said Iran was producing between 4.05 million and 4.08 million bpd. However Iran's OPEC Governor,

Market Watch

T. Boone Pickens said he did not expect oil prices to fall below \$40/barrel. He also said he was concerned about funding for his planned wind power projects.

Iran's Foreign Ministry spokesman Hassan Ghashghavi told US President elect Barack Obama to abandon a "carrot and stick" approach to Iran's nuclear program and to interact with Iran when he takes office. On Sunday, President elect Obama vowed tough but direct diplomacy with Iran.

Separately, President elect Barack Obama said he will not use the recent fall in gasoline prices as an opportunity to increase federal taxes on the fuel to increase the use of ethanol and other forms of renewable energy. He said it would not be wise to increase the federal gasoline tax in the middle of the recession. He said would instead try to get the US auto industry to shift course by pursuing an energy policy that focuses on fuel-efficient cars and that focuses on providing incentives for fuel-efficient cars.

Analysts said the crude market's contango is the largest for a 12-month span of futures since 1998. Stockpiling crude may provide higher returns than commodities, stocks and treasuries as US, Japan and Europe endure simultaneous recessions for the first time since WWII. Royal Dutch Shell has anchored a supertanker holding as much as \$80 million of oil off the UK to take advantage of the higher prices for future delivery. The ship is one of as many as 16 booked for potential storage instead of transporting crude. The tankers, if full, hold about 26 million barrels of oil worth about \$1 billion. Shell and Koch Industries have also hired four supertankers to hold oil in the US Gulf Coast.

The National Weather Service reported that US heating demand for the coming week is expected to be 1.1% above normal levels. Heating demand was about 8.5% above normal nationwide last week. Demand for heating oil is expected to be about half a percent above normal this week.

Hess Corp said it would cut its 2009 capital spending by more than 27% from 2008 levels to protect itself during the economic downturn. Hess' spending in 2009 will fall to \$3.2 billion from the \$4.4 billion planned for 2008.

China may cut gasoline and diesel prices next month as it allows energy costs to reflect world crude prices. The government may cut fuel prices by 600 yuan or \$87/ton or 9% on January 1. Last week, China announced a plan to increase the consumption tax on oil products and abolish fixed road maintenance fees next year to conserve energy use. The gasoline consumption tax will increase to 1 yuan/liter from 0.2 yuan while the diesel levy will increase to 0.8 yuan from 0.1 yuan from January 1.

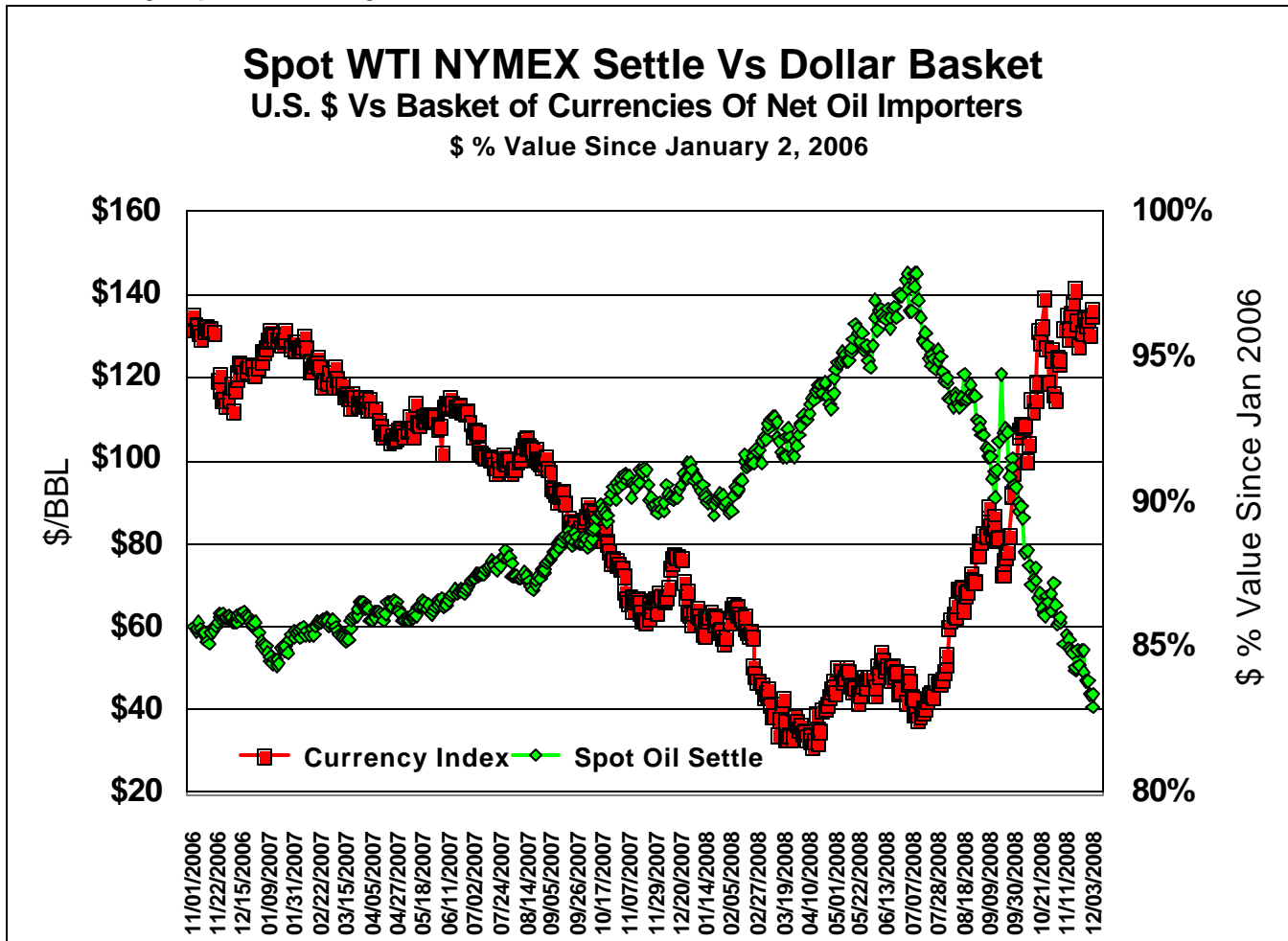
December Calendar Averages

CL – \$45.20
HO – \$1.5347
RB – \$ 1.0073

Mohammad Ali Khatibi said Iran is fully adhering to its OPEC commitment to cut production and added that Iran produced about 3.8 million bpd in November. He said the figure given by the head of the NIOC was the average daily production so far this year and did not refer to current output.

Saudi Arabia's Oil Minister Ali al-Naimi said that while oil demand in the US is down about 1 million bpd, the decline in oil demand will not be permanent. He said he expects US consumers to use oil 30 years from now, even as conservation and alternatives are widely discussed. He also said Saudi Arabia's oil production costs are less than \$2/barrel.

Ecuador's President Rafael Correa said his country wants to organize a meeting of OPEC heads of state if the group's talks in Algeria fail to stabilize the oil market.

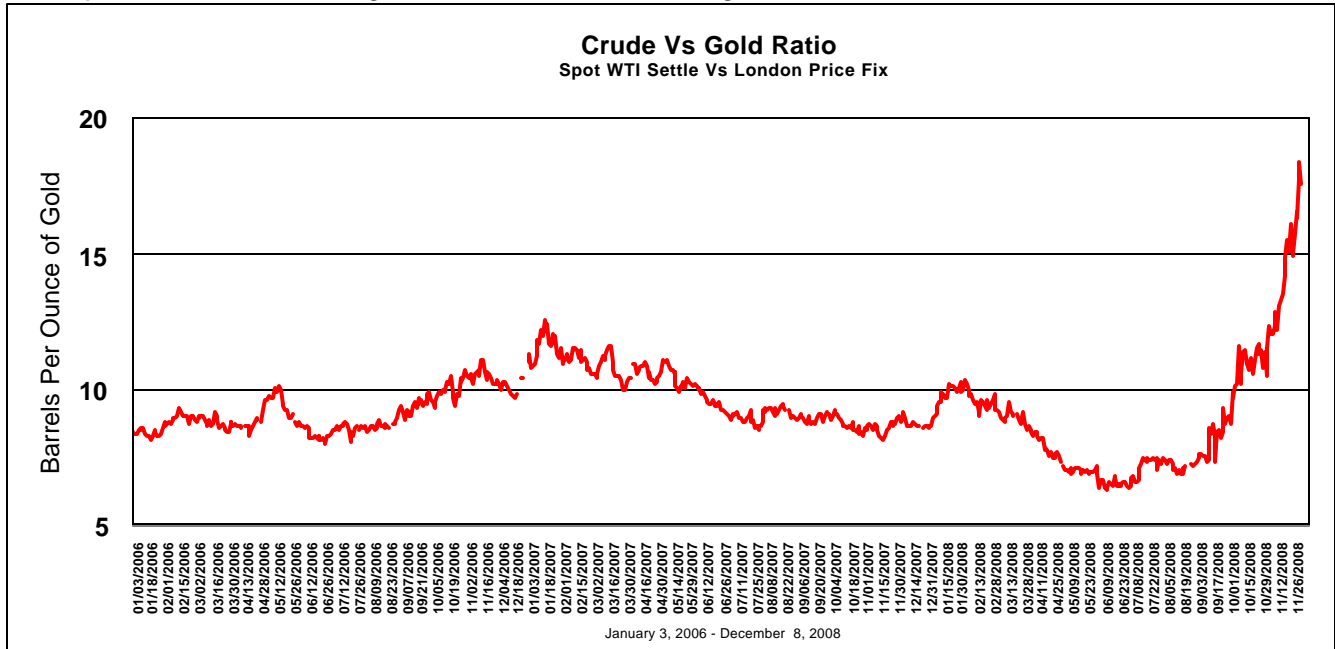


According to Lloyd's Marine Intelligence Unit, OPEC seaborne exports, excluding Ecuador and Angola, fell by 213,000 bpd in the four weeks ending November 23 to 22.604 million bpd. It said supply from Gulf producers fell by 419,000 bpd to 17.034 million bpd. It reported that West African supply increased by 375,000 bpd to 3.715 million bpd.

The head of the IEA, Nobuo Tanaka said world oil demand may fall in 2009 if the economies of non-OECD countries slow further. The IEA forecast that world oil demand would grow by about 220,000

bpd faster than in 2008, a figure far below recent trends of an approximate 1 million bpd annual increase. Meanwhile, the IEA's chief economist Fatih Birol said if the world economy rebounds within the next year or two, the oil market may become very tight and oil prices may exceed the record oil price of \$147/barrel.

The Lundberg Survey showed that the average price of gasoline in the US fell by \$0.219 cents/gallon in the past two weeks ending December 5th to \$1.7526/gallon.



Iran's military test-fired a new surface-to-surface missile from a warship as part of exercises in the Sea of Oman and the Gulf region. Separately, DEBKAfile's military sources said, mock air strikes sank big enemy vessels, a reference to American air carriers, three of which are now present in waters opposite Iran. The exercise is part of Iran's preparations for a US and/or Israeli attack on its nuclear installations and Revolutionary Guards bases.

A Niger Delta security summit on December 10-11 is expected to discuss the terms of a possible peace agreement between some militants and Nigerian authorities.

The EIA reported that the US average retail price of diesel fell by 10 cents/gallon to \$2.515/gallon in the week ending December 8th. It is the lowest price seen since February 19, 2007. It also reported that the US average retail price of gasoline fell by 11.2 cents to \$1.699/gallon on the week.

Refinery News

Colonial Pipeline allocated cycle 70 for its main line bringing gasoline north of Collins, Mississippi as demand for shipping space exceeds capacity. Colonial has again limited the amount of distillate products it will accept from its customers as demand for mainline space continues to exceed capacity.

According to Credit Suisse, US refining margins in most regions increased last week as crude prices fell. Margins in the Northeast increased by 80 cents to \$7.72/barrel in the week ending December 5 while margins in the Midwest increased by 90 cents to \$34 cents. Margins in the Rocky Mountain region increased by \$2.84 to \$9.01/barrel while margins in the Gulf Coast fell by \$1.09 to \$1.32/barrel and margins in the West Coast fell by 23 cents to \$8.86/barrel.

ConocoPhillips started work on electrostatic precipitators on two units associated with the fluid catalytic cracking units at its 146,000 bpd refinery in Borger, Texas on Sunday. It expects to complete the maintenance on December 19th.

BP shut the resid hydrotreater 300 train at its Texas City, Texas refinery on Friday after a heater upset caused flaring.

Valero Energy Corp restarted a hydrocracker unit at its 140,000 bpd Corpus Christi, Texas refinery over the weekend, slightly ahead of schedule. The unit was shut on December 2.

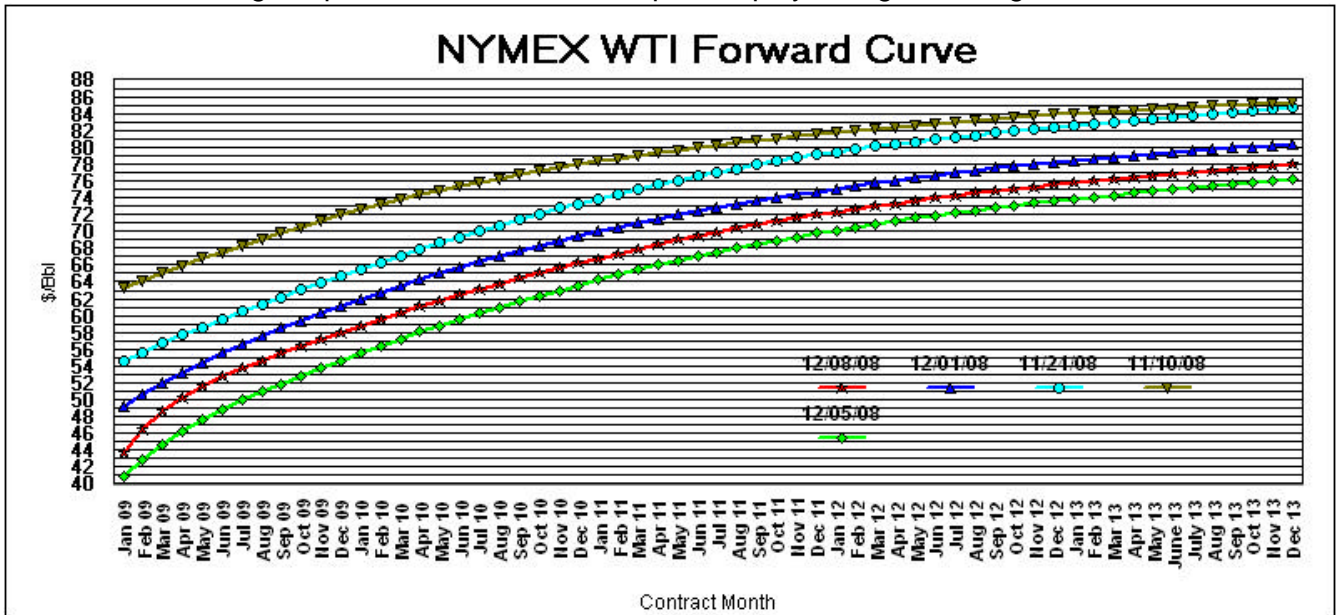
Delek US Holdings Inc's refinery in Tyler, Texas will likely remain shutdown for at least 90 days following a fire on November 20 at its saturates gas unit.

Pine Lake Corn Processors LP is ceasing operations at its ethanol production facility nearly Steamboat Rock, Iowa to avoid increasing financial losses. It cited high costs for corn and falling prices for ethanol that have hit profitability.

PDVSA plans to shutdown a fluid catalytic cracking unit at its 135,000 bpd El Palito refinery early in 2009 for maintenance work. It did not say how long the unit will be out of service. It however said the work would lead to increased output at the refinery.

India's Reliance Industries Ltd said a fire started in a waste storage site of a 580,000 bpd refinery that is being built. It said it may start trial runs at its new refinery this month and added that it will take up to four months to fully commission the refinery. Reliance said it may advance a partial maintenance shutdown at its 660,000 bpd Jamnagar refinery to utilize the workforce in the construction of its new adjacent refinery.

French port workers at France's Fos-Lavera terminal are holding rolling 24 hour strikes to protest over the implementation of a port reform voted earlier this year, blocking a total of 42 ships. The strike blocked 11 oil tankers, 22 oil product vessels, three chemical vessels, five gas tankers and a refueling tanker from entering the port. French unions and port employers signed an agreement on October 30,



opening the way to privatize seven ports, including the Fos-Lavera terminal.

Production News

Saudi Arabia will make even larger supply cuts to some of its Asian and European customers next month. While Saudi Arabia was not expected to make any further cuts ahead of its meeting this month, at least two oil refiners in Asia were told by Saudi Aramco that they would get less crude in January than in December. Volume to a Japanese refiner was cut by about 10% while a Taiwanese refinery was cut by about 7%, up from 5% in December. Saudi Arabia has also deepened its oil supply cuts in January to some European refiners.

The BP led Baku-Tbilisi-Ceyhan pipeline is expected to pump about 568,000 bpd in January, down from 780,000 bpd in December. Crude oil shipments in January are scheduled to total 17.6 million barrels.

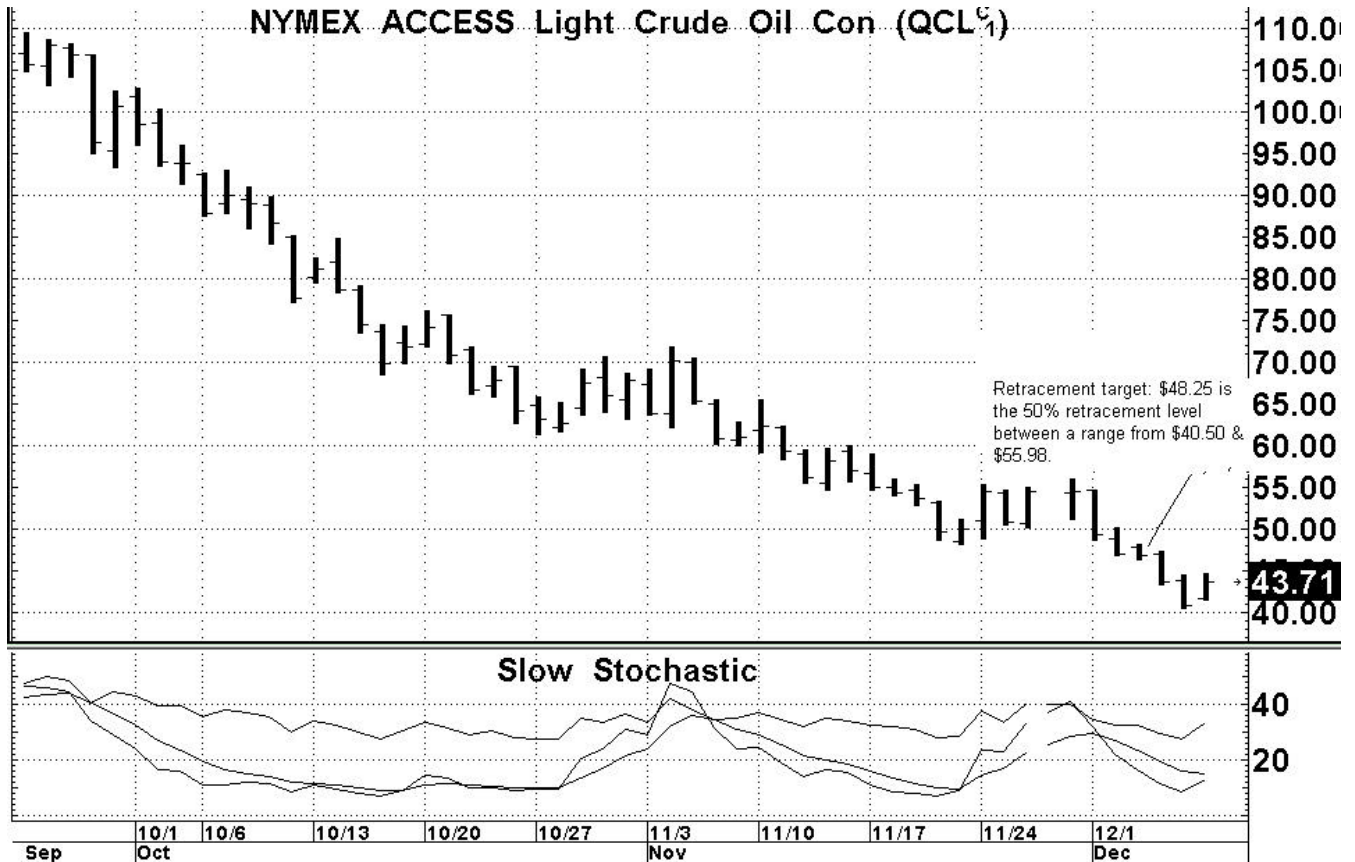
Petroecuador reported that it exported 64.83 million barrels of oil between January and October, up 15% from 56.35 million barrels reported last year.

StatoilHydro said it will postpone projects in Norway, including Lavrans and Trestakk, due to the financial crisis and lower oil prices.

Apache Corp said it arranged \$350 million financing for its Van Gogh and Pyrenees oil developments offshore Western Australia. The two projects are expected to add a total of 40,000 bpd to Apache's worldwide net oil production over the next 18 months.

Market Commentary

Today's run-up in energy prices was inspired by a statement from U.S. President elect, Barack Obama. Obama put forth a promise to roll out the biggest public works spending project in fifty years. This spurred enthusiasm that there would be great demand for raw materials such as crude oil. After six straight sessions of lower prices, the January crude oil traded back above the \$40.90 trend line basis a spot continuation chart. Given how hard and how fast prices have come off, this run-up in prices is not surprising. The question is, can it last? According to some economists, the U.S. is and has been in a recession since December of 2007 and doesn't show any signs of recovering in the near term. Giving credence to this is the fact that the January/February spread did not gain strength. This is an indication that immediate demand is still lacking. Based upon an examination of the spot WTI contract versus the basket of currencies, the basket appears to be stabilizing. Previously, when the basket of currencies stabilized, crude oil extended its gains an additional \$20.00. With this in mind, and the basket of currencies appearing to be stabilizing, it is quite possible that the crude oil can extend its losses an additional \$20.00. The front of the forward curve remained under pressure, however, from the second half of 2009 on back the curve strengthened. This is yet another sign of an oversupplied market amid waning demand. Technical indicators, although moving higher, have not given an indication that the trend is turning. Not until concrete signs that the economic outlook is changing to a more optimistic one, would we believe that the market trend is turning. We could possibly see this market retrace back to \$48.25 prior to turning to the downside again. Gasoline prices followed crude oil higher today, but at a slower pace. Today's move higher ended five straight days of lower prices. The January gasoline contract traded above the top of the descending channel, basis a spot continuation chart. Moving oscillators appear to be trending sideways, which could indicate that this move higher is limited. Heating also moved higher today, but failed to trade outside of the previous trading session. Moving oscillators have crossed to the upside in oversold territory. As with the gasoline and the crude oil, we would look for heating oil to rebound slightly, prior to continuing lower.



Open interest: Crude oil (JAN.09 268,114 -35,673 FEB.09 139,197 +29,585 MAR.09 81,164 +6,432 APR.09 46,176 +1,510-Totals: 1,194,533 +3,621, Heating oil (HO) JAN.09 55,465 -6,739 FEB.09 27,503 +2,711 MAR.09 23,938 +1,461-Totals: 219,900 -1,978 NEW YORK HARBOR RBOB GASOLINE (RB) JAN.09 73,899 -4,632 FEB.09 29,832 +4,523 MAR.09 18,633 +2,101 -Totals: 186,745 +2,665

Crude Support	Crude Resistance
40.45, 38.20, 36.75	46.40, 48.25, 50.07, 52.75, 53.75, 57.23, 60.01, 62.79, 65.56, 67.00, 72.53, 74.30,
Heat Support	Heat resistance
1.3450, 1.3005, 1.1895	167.15, 171.85, 176.70, 2.2796, 2.3720
Gasoline support	Gasoline resistance
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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