



ENERGY RISK MANAGEMENT

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ENERGY MARKET REPORT FOR DECEMBER 12, 2007

Iran's envoy to the UN's IAEA, Ali Asghar Soltanieh said talks with the UN's IAEA on the discovery of traces of weapons grade uranium at a technological faculty of a Tehran university were constructive. He said more talks could follow after the IAEA reviews the case. Separately, UK Prime Minister Gordon Brown said sanctions against Iran are still necessary despite the National Intelligence Estimate report claiming Iran abandoned its pursuit of nuclear weapons in 2003. He said Iran has not offered a full explanation of why it is enriching uranium.

Market Watch

China's official Xinhua news agency reported that China and the US agreed on Thursday to cooperate on the use of their strategic petroleum reserves. China is scheduled to finish building strategic oil reserves at four coastal sites by 2008. The sites could hold 100 million barrels of crude.

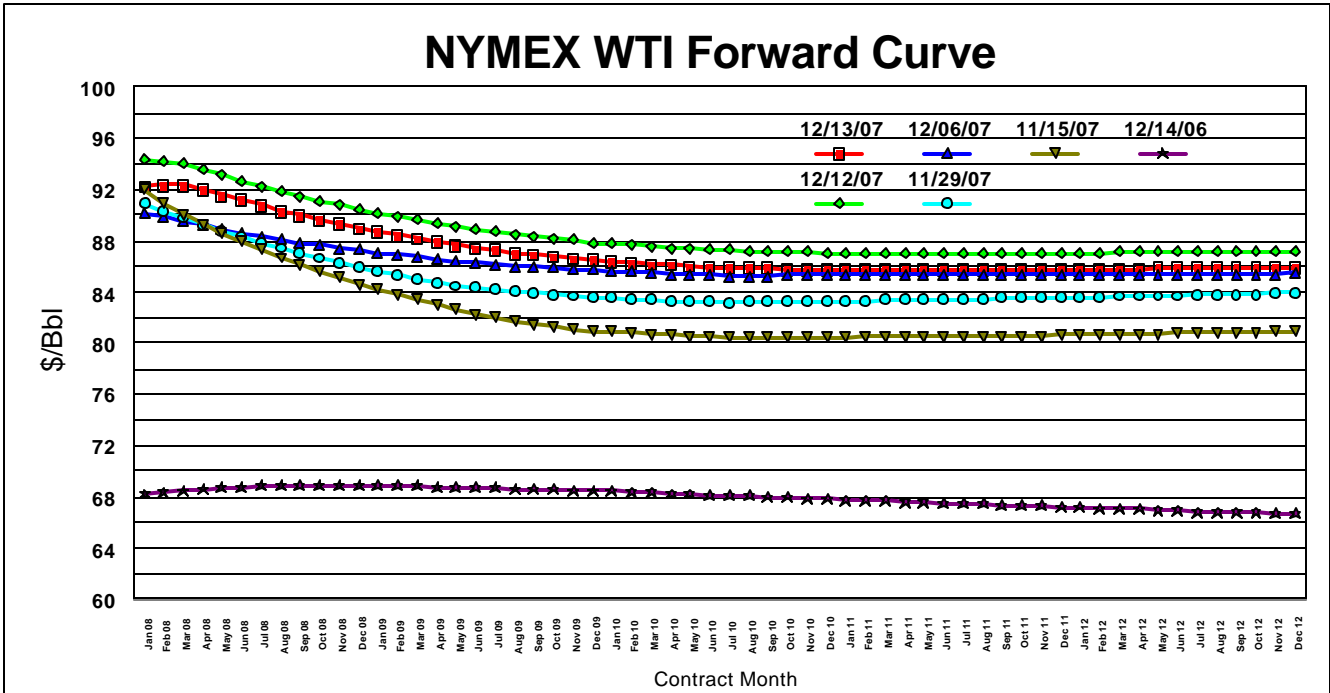
Brazil's Petrobras has reduced the pace of its investment plan on ethanol due to the slower than expected development of the Japanese market. Petrobras has been keen to become a major ethanol exporter with an initial focus on Japan. It previously announced its intention to have a 20-30% stake in 20 ethanol distilleries in Brazil together with Japanese trading house Mitsui.

Pemex left its January discount on exports of May crude to the US Gulf Coast unchanged at \$3.65 under the monthly adjustment to its oil export price formulas. The discount on Maya crude shipped to the West Coast was increased by 20 cents to \$12.65. The price formulas for its Isthmus crude and Olmeca were left unchanged at a discount of \$4.05 and plus \$1, respectively. The January discount on exports of Maya crude to Europe was left unchanged at \$1 while the discount for Isthmus crude was cut 25 cents to 71 cents. The discount on exports of Maya crude to Asia was increased by \$1.30 to \$11.20 while Isthmus was increased by 40 cents to plus \$1.50.

Russia and Iran have settled all their differences over construction of the Bushehr nuclear power station and agreed on a schedule for completion. Construction at the plant has been delayed amid disputes between Iran and Russia over payment, fuel delivery and other issues. Atomstroiekспорт, the Russian contractor building the nuclear station said details would be released later this month. It also stated that the delivery of nuclear fuel would proceed, although the company's president did not say when.

Dec Calendar Averages

CL – 89.79
HO – 253.56
RB – 229.09



Iraq's State Oil Marketing Organization awarded 6 million barrels in its 11th and final tender of Kirkuk crude this year to five companies. A senior Iraqi official said Total SA and ExxonMobil Corp were among the five companies winning the tender. Iraq's SOMO issued two petroleum product import tenders for delivery from February 1 through June 30. It has requested a total of 120,000 metric tons of unleaded gasoline, 450,000 tons of gasoil, 40,000 tons of kerosene and 45,000 tons of liquid petroleum gas.

According to Oil Movements, OPEC's crude shipments are expected to increase by 460,000 bpd in the four weeks ending December 29 to 24.54 million bpd. Sailings from OPEC's Middle Eastern members are expected to increase by 370,000 bpd in the four weeks to 17.63 million bpd.

Refinery News

The US Coast Guard said ships were moving in both directions on the Houston Ship Channel Thursday morning, the first day this week that the waterway was not shut due to dense fog. About fifteen ships were waiting to enter the waterway.

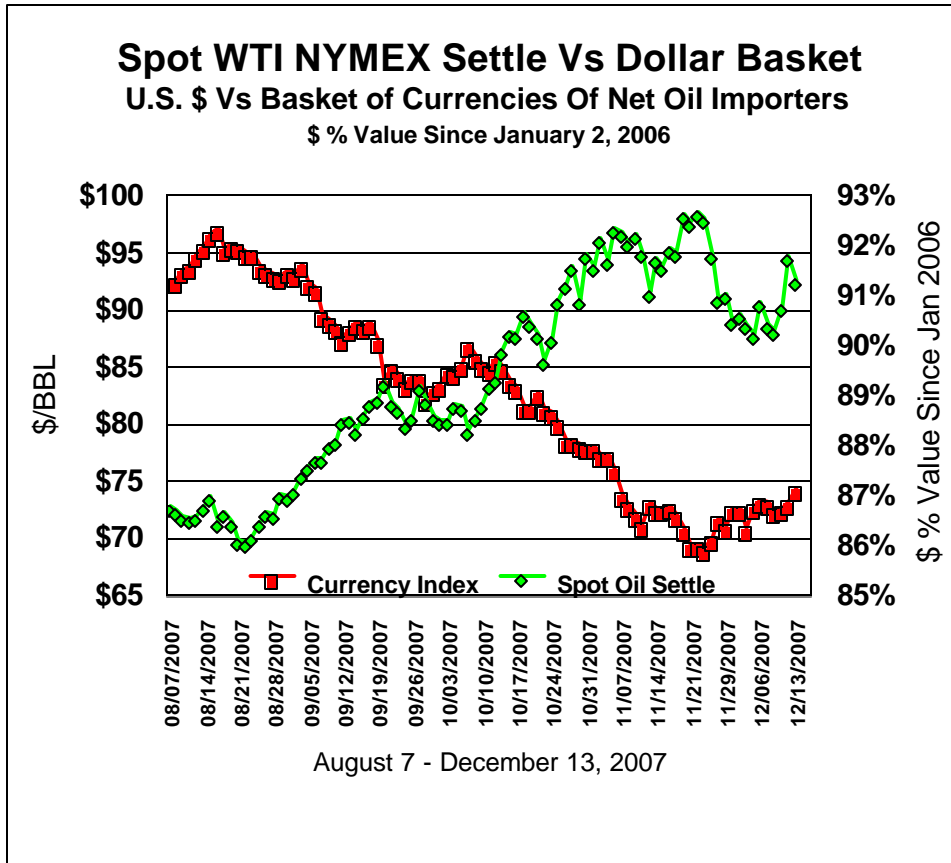
Brazil's Petrobras initiated shipment on 380 million liters of biodiesel from its Alberto Pasqualini refinery this week. The government mandated a 2% mixture of biodiesel or B2, in all traditional diesel fuel starting in January.

Germany's Mineraloelwirtschaftsverband reported that Germany's total oil product sales fell by 10.4% on the year to 6.46 million tons in November. Germany's gasoline sales fell by 3.3% to 1.79 million tons while diesel fuel sales fell by 5.2% to 2.52 million tons, heating oil sales fell by 21.7% to 1.68 million tons and fuel oil sales fell by 15.3% to 470,000 tons.

According to Singapore's International Enterprise, the country's residual fuel stocks fell by 564,000 barrels to 13.02 million barrels in the week ending December 12. Singapore's light distillate stocks built by 44,000 barrels to 7.334 million barrels while middle distillate stocks built by 254,000 barrels to 6.924 million barrels on the week.

Japan's Cosmo Oil Co said it planned to restart a 13,500 bpd continuous catalyst regeneration platforming unit at its Yokkaichi refinery in western Japan around mid-December.

Japan's Kyushu Oil Co Ltd said it planned to temporarily shut its 136,000 bpd No. 3 crude distillation unit at its Oita refinery in May-June 2008 for maintenance.



China's National Bureau of Statistics said refinery runs increased by 3.8% in November to 27.67 million tons or 6.73 million bpd. It also reported that throughput in the first 11 months of the year increased by 6.4% on the year to 297.71 million tons or 6.5 million bpd. It reported that China pumped 15.31 million tons or 3.73 million bpd in November while China pumped 171.05 million tons in the first 11 months of the year.

China's Sinopec Corp has agreed to purchase 160,000 bpd of crude from Iran next year, up from this year's 60,000 bpd.

Indonesia is expected to cut its fuel imports as

refineries resume operations and Pertamina anticipates a seasonal slow down in demand. Pertamina is expected to cut its overall imports by about 20% on the month in January to 9.48 million barrels.

Russia's Federal Tariff Service said the country would likely decide on a tariff increase for oil transport by Friday. Russia's Transneft has requested a tariff increase of 20.1% next year.

Production News

The North Sea Flotta crude oil system is scheduled to load about 63,000 bpd in January, down from 84,000 bpd in December.

Kazakhstan's State Statistics Agency said the country's combined crude oil and gas condensate production increased by 4.2% on the year in January-November to 61.658 million tons. It also reported that Kazakhstan's crude oil production increased by 2.1% to 50.669 million tons while gas condensate production increased by 14.9% to 10.989 million tons. Kazakhstan's crude oil and gas condensate exports increased by 11.3% to 50.75 million tons in January-October while oil product exports increased by 10.2% to 3.229 million tons.

OPEC's news agency reported that the OPEC basket price increased sharply to \$86.71/barrel on Wednesday from Tuesday's \$84.64/barrel.

Market Commentary

With the January options going off the board today, the \$95.00 and \$92.50 strike prices traded quite actively. Calls were sold heavily as thoughts of a sluggish economy loomed over the market once again. With the coming of a new year, it is quite possible that a psychological play could be made towards the \$100.00 level. Today's sell off could lead to lower levels, providing an opportunity to be a buyer. Based upon the weekly spot continuation chart for crude oil, \$91.30 is the top of the upward channel and a settlement below this number could bring with it another sell off in prices back down to the \$84.65 support area. Fibonacci retracement numbers based on the low of \$68.22, and the recent high, \$99.29, are as follows; 38.2% - \$87.42, 50% - \$83.76 and 61.8% - \$80.09. Total open interest in crude oil is 1,395,979 up 15,072, JAN.08 167,628 down 27,383, FEB.08 271,397 up 31,026.

The product markets gave up some of yesterday's sharp gains on profit taking. The heating oil market sold off from a high of 266.86 and extended its losses to 3.24 cents as it sold off to a low of 261.08.

		Explanation	
CL	Resistance	95.25, 96.35, 97.60, 98.12, 99.29	
	92.25, down \$2.14	94.70, 94.85	Thursday's high
	Support	91.86	Thursday's low
HO	Resistance	268.61, 270.57	Previous highs
	261.47, down 2.85 cents	266.86	Thursday's high
	Support	261.08	Thursday's low
		251.28, 246.24, 244.50, 243.61	Previous lows
RB	Resistance	241.98, 243.29, 248.40	Previous highs
	237.44, down 3.84 cents	241.79	Thursday's high
	Support	236.16	Thursday's low
		227.71, 224.50, 223.20	Previous lows