



ENERGY RISK MANAGEMENT

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ENERGY MARKET REPORT FOR DECEMBER 12, 2008

OPEC ministers could make their deepest oil production cut ever when they meet on Wednesday. OPEC may lower its output target by at least 2 million bpd. OPEC Secretary General Abdalla Salem El-Badri said OPEC would like to see a substantial production cut from non-OPEC nations like Russia in conjunction with another OPEC output reduction expected during its meeting on Wednesday. He said he believed the world oil market was oversupplied by about 100 million barrels but did not indicate how much OPEC may need to cut by to reduce the oversupply. Separately, OPEC President Chakib Khelil said OPEC will discuss if an expected oil production cut will be spread over three or 12 months. He said OPEC will likely need to meet again before March. He said the market is oversupplied by about 400 million barrels and added that oil demand is expected

Market Watch

OPEC President Chakib Khelil said crude oil stored on tankers around the world may equal the equivalent of one day's total world oil output.

A senior Iranian oil official said Iran has a stockpile of up to 12 million barrels of unsold crude stored offshore its southern coast, in the Netherlands, Japan and Egypt amid increasing signs of weakening world oil demand.

The EIA is reinstating the 10:30 am ET release time for its weekly petroleum and natural gas reports in early January after resolving technical concerns. The Weekly Petroleum Status Report will return to its 10:30 am ET release time on January 7 while the Weekly Natural Gas Storage report will return to that release time on January 8.

Water levels on the Danube River remain low and freight surcharges are still being imposed for cargo shipping. Meanwhile, water levels on the Rhine River have also declined but still remain above the minimum levels needed to operate normally.

The deputy head of Russia's Finance Ministry's customs payment department Alexander Sakovich said Russia will set the export duty on oil at \$119.10/ton starting January 1.

According to China's National Bureau of Statistics, the country's industrial production in November increased by 5.4% from a year earlier, making it the fifth consecutive month of slowing growth. It is lower than the average 6.6% forecast. In the January-November period, industrial output increased by 13.7% on the year.

December Calendar Averages

CL – \$45.05

HO –\$1.5007

RB – \$ 1.0129

to average 500,000 bpd in 2009 amid a worsening economic recession. He said Saudi Arabia has already cut its supply in anticipation of OPEC agreeing on further cuts. He added that he hoped Russia would join OPEC. Russia's President Dmitry Medvedev previously said Russia was ready to join forces with OPEC to stem a further decline in oil prices and could even

become part of OPEC if membership were in the country's interest. Kuwait's Oil Minister Mohammad al-Olaim said OPEC will cut its production at its meeting this week. However he did not state how much OPEC should cut its production. Iran's OPEC governor, Mohammad Ali Khatibi said oil stocks were rising because of an oversupply and reiterated Iran's call for a 1.5 million to 2 million bpd cut. Qatar's Oil Minister Abdullah bin Hamad al-Attiyah, Venezuela's Rafael Ramirez and Libya's Shokri Ghanem have also stated that they are prepared to cut their supplies. An OPEC delegate said that non-OPEC producers, may contribute to an oil production cut totaling between 300,000 to 500,000 bpd in addition to OPEC's production cut. The chief executive of Russia's OAO Lukoil said OPEC expects Russia to cut its production of between 200,000 and 300,000 bd.

The IE's chief economist Fatih Birol believes world oil production will peak much earlier than expected due to a collapse in investment.

The Centre for Global Energy Studies said a new OPEC output cut of 1 million bpd would prevent oil prices from falling further in 2009. It said a larger cut risked undermining the world economy and further depressing world oil demand, which it now expects to fall by 500,000 bpd next year. Full compliance with a new 1 million bpd cut would take OPEC's official ceiling down to 26.308 million bpd. It however said that even with full compliance, prices would not return to the \$75/barrel level favored by Saudi Arabia. It forecast the average oil price will fall to \$41/barrel next year.

A Scottish man working for an oil service company in Nigeria was freed on Monday, two weeks after gunmen kidnapped him in Port Harcourt.

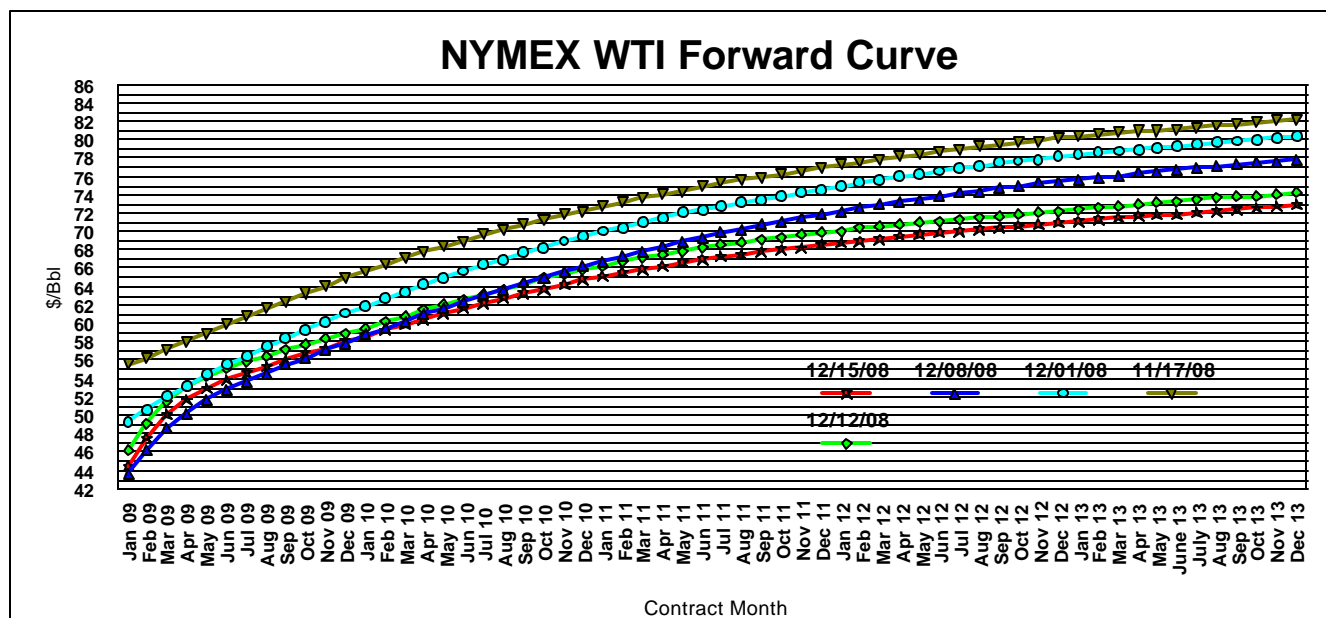
The EIA reported that the US average retail diesel price fell by 9.3 cents to \$2.422/gallon in the week ending December 15th. It also reported that the US average gasoline price fell by 4 cents to \$1.659/gallon on the week.

Refinery News

Colonial Pipeline on Saturday issued its thirteenth consecutive distillate nomination restriction and its seventh for gasoline nominations by enacting the Capacity Allocation Program or CAP, for the 72nd cycle starting Friday, December 19.

Valero Energy Corp reported a problem with its fluid catalytic cracking power train at its 170,000 bpd McKee, Texas refinery. It however added that it would not impact the unit's operations.

Sunoco Inc will convert its Tulsa, Oklahoma refinery to a refined products terminal if it cannot find a



buyer for the plant. It said the conversion process would take place by the end of 2009. Sunoco also said an upgrade at its 335,000 bpd Philadelphia refinery should be completed by mid-2009.

Port authorities said a strike at the Fos-Lavera oil terminal near Marseille ended as talks between the CGT union and harbor management and operations are due to resume on Monday. Port authorities said 61 oil, gas and chemical tankers were waiting at the port.

India's Mangalore Refineries and Petochemicals Ltd are in talks with Iran to renew its diesel supply agreement, which is valid up to the end of December.

China's National Bureau of Statistics reported that the country's November crude runs fell by 2.3% on the year to 27.27 million tons or 6.66 million bpd. It reported that diesel and gasoline output totaling 10.89 million tons and 5.7 million tons in November, up 3.3% and 12.8% on year, respectively. It also reported that China's oil production increased by 4.9% on year in November to 15.86 million tons or 3.88 million bpd. China's coal output increased by 5.2% on the year in November to 230 million tons while electricity generation fell sharply for the second month, with November output down 9.6% on the year. Meanwhile, China's General Administration of Customs reported that the country exported 280,000 tons of gasoline in November, up 27.8% on the year. Refiners did not import gasoline last month, likely due to rising inventories as China's oil demand slows along with the domestic economy. China's diesel imports fell by 79.4% on the year in November to 40,000 tons.

Production News

The loading rate of nine of the main North Sea crude streams will total 75.96 million barrels in January, down 2.73% on the month from 78.09 million barrels in December. The North Sea Brent crude system is scheduled to load 4.22 million barrels in December, down 14.6% on the month; the North Sea Forties crude stream is scheduled to load 20.4 million barrels, unchanged on the month; the North Sea Oseberg crude stream is scheduled to load 7.2 million barrels, down 2.04% on the month; the North Sea Ekofisk crude stream is scheduled to load 13.5 million barrels, up 1.12% on the month; the DUC crude stream is scheduled to load 5.4 million barrels, up 12.5%; the Flotta crude stream is scheduled to load 1.95 million barrels, down 25%; the Gullfaks crude stream is scheduled to load 10.3 million barrels, up 9.57%; the Staffjord crude stream is scheduled to load 6.84 million barrels, unchanged on the month and the Troll crude stream is scheduled to load 6.15 million barrels, up 8.21% on the month.

Brazil's Oil Workers Federation said oil workers at Brazil's Petrobras will go on strike on Tuesday to protest this week's 10th round concession auction. It said oil workers in nine states would go on strike to protest the Brazilian government's decision to auction oil exploration and production blocks. The union said it would attempt to secure court injunctions to halt the auction.

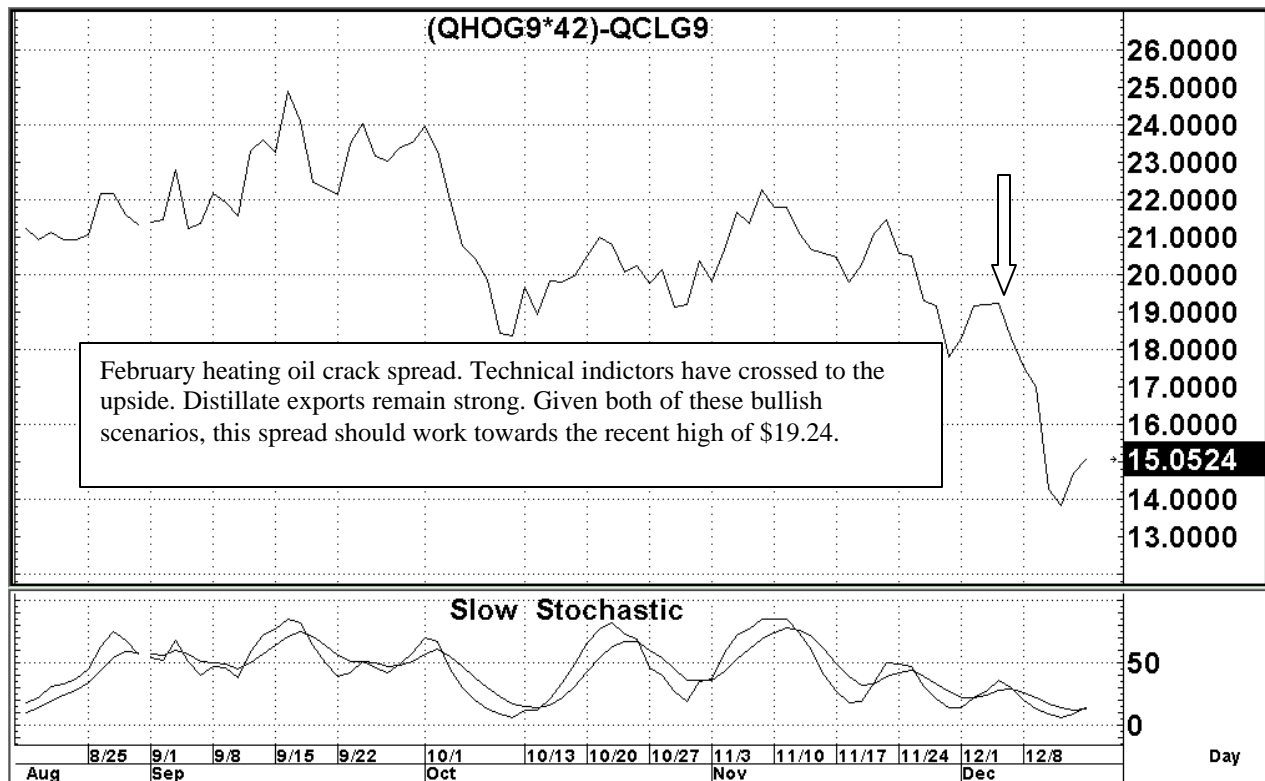
The National Iranian Oil Co cut the price of its Iran Light crude bound for Northwest Europe by \$1.20 to BWAVE minus \$5.90. It also cut the price of its Iran Heavy crude and Forozan crude by 70 cents to BWAVE minus \$7.45 and BWAVE minus \$7.50, respectively. Iran also cut the price of its Iran Light crude bound for the Mediterranean by 70 cents to BWAVE minus \$6.15. It cut the price of its Iran Heavy crude and Forozan crude bound for the Mediterranean by 65 cents each to BWAVE minus \$8.30 and BWAVE minus \$8.35, respectively. Meanwhile, the price of Iran Light crude bound for Asia increased by 35 cents to the Oman/Dubai average minus 60 cents, the price of Iran Heavy crude was increased by 69 cents to the Oman/Dubai average minus \$3.18 and the price of Forozan crude was increased by 69 cent to the Oman/Dubai average minus \$3.11.

OPEC's news agency reported that OPEC's basket of crudes fell by \$1.75/barrel to \$39.02/barrel in the week ending December 12th.

Market Commentary

Despite proposed output cuts by OPEC, market participants appear to be more concerned about the global economy and its impact on demand, believing that any cuts will not be enough to compensate for demand destruction. Early gains were short-lived as weekend longs liquidated. The shape of the forward curve indicates a reluctance to buy the front end. This market is still oversupplied at time when demand is low. Any length put on, appears to be from December09 on back. The January crude oil contract topped out at \$50.05, the 50% retracement between the most recent high of \$55.98 and low of \$40.50. The overall outlook for prices is to head lower but with the upcoming OPEC meeting, crude oil should maintain slight strength. We would look for the January crude oil contract to trade between \$50.00 and \$43.00 until something definitive comes out of this Wednesday's OPEC meeting. We would look to buy and sell at the listed support and resistance numbers, until it is clear how this market will further assess any output cuts by OPEC and their impact on the market. From a technical standpoint, gasoline can still rebound, working towards the \$1.2050 resistance level. Heating oil is building a rounded bottom, with technical indicators calling for higher prices. With this in mind and distillate exports remaining firm, we would look for heating oil to continue to gain against the crude oil. With the January crude oil contract expiring on Friday, we would focus our attention on the February heating oil crack spread. Slow stochastics for this spread have crossed to the upside today, adding technical support for higher prices. The upside objective for this spread is \$19.24.

Open interest: Crude oil (JAN.09 118,828 -10,600 FEB.09 226,202 +13,143 MAR.09 101,338 +15 APR.09 51,315 +1,396 Totals: 1,164,703 +5,608, Heating oil (HO) JAN.09 32,827 -2,156 FEB.09 42,828 +63 MAR.09 29,752 +4 Totals: 223,596 - 664 NEW YORK HARBOR RBOB GASOLINE (RB) JAN.09 50,250 -5,151 FEB.09 57,401 +2,766 MAR.09 25,262 +254 Totals: 201,306 -1,633.



Crude Support	Crude Resistance
43.30, 40.45, 38.20, 36.75	47.50, 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, 120.50, 121.90, 136.14

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