



ENERGY RISK MANAGEMENT

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ENERGY MARKET REPORT FOR DECEMBER 17, 2004

Shipping sources reported that Iraq's oil exports were flowing from both northern and southern Iraq on Friday after the Turkish port of Ceyhan reopened. It was previously closed due to storms. Southern exports through the Basra terminal flowed at 1.3 million bpd, unchanged from Thursday. The terminal is however congested, with about 5 days delay in loading for vessels. Separately, saboteurs attacked two domestic Iraqi pipelines on Friday. A bomb went off under a section of a pipeline running near the Dora refinery on the edge of Baghdad and another bomb ripped off a section of another pipeline near the oil center of Baiji in the north.

Oil Movements reported that OPEC's crude oil shipments are expected to increase by 250,000 bpd to 24.31 million bpd. The OPEC 11 oil in transit to world

Market Watch

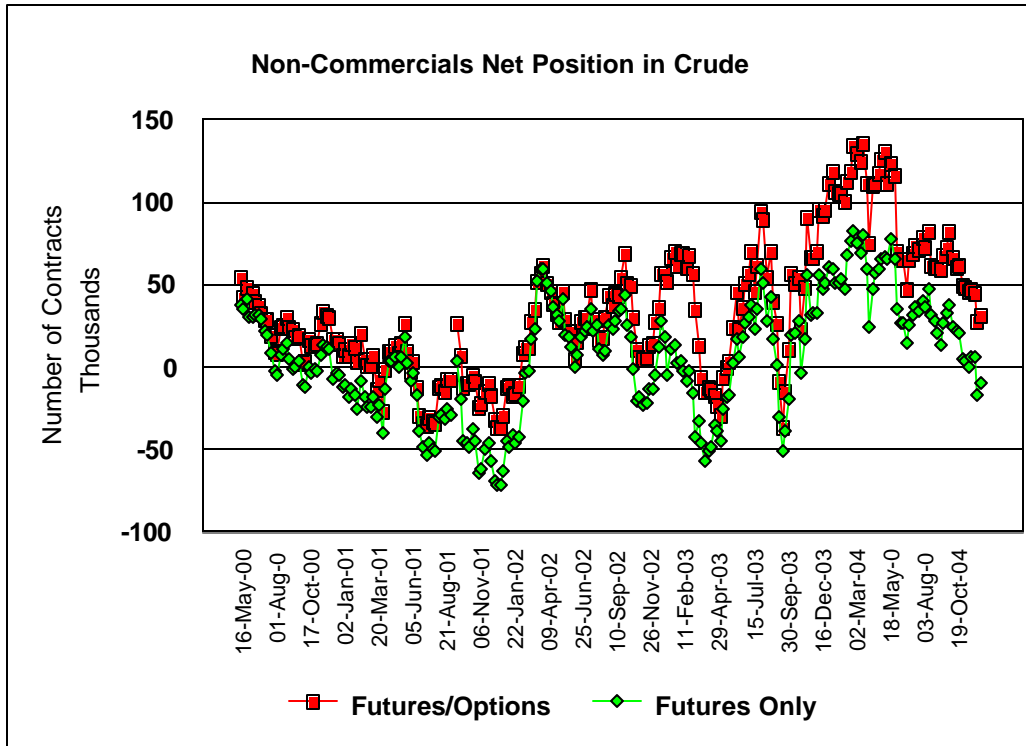
US security teams in Saudi Arabia are reinforcing defenses at US embassies. Likewise, Saudi Arabia is increasing the level of protection at their oil fields following the new audio tape, purportedly from Osama bin Laden, commanding his followers to attack the Saudi regime and its oil industry. Osama bin Laden has urged militants to concentrate their attacks on Iraqi and Gulf oil facilities, saying it was a powerful weapon against the US.

A community leader said the Nigerian government is not serious enough about ending a protest that has cut 120,000 bpd of oil production. Kula villagers had called on President Olusegun Obasanjo to intervene in the dispute over jobs and development in the community, saying promises by the southeast Rivers state government were not enough to lift the blockade. Local chief Anab Sara-Igbe said the community is prepared to wait for the government as long as possible, so long as the facilities remain shut and production is not restarted. The protestors have previously threatened to shut another 100,000 bpd of production unless talks yield some results.

Japan's Meteorological Agency said the weather in northern Japan may be milder than expected in the next month, suggesting fuel demand will remain soft. Traders said the mild winter would continue to curtail demand for kerosene, prompting concerns about a supply glut.

Tokyo Electric Power Co said it will close two thermal power generation units in eastern Japan on December 20. It will shut a 265,000 kilowatt fuel oil fired power generation unit at its Yokosuka plant and a 175,000 kilowatt generation unit at its Yokohama plant, which runs on fuel oil, crude oil and liquefied natural gas.

Baker Hughes Inc said it recently received a request from the SEC to provide a written statement and some information regarding its participation in the UN Oil-for-Food Program. It received a subpoena regarding goods and services delivered by Baker Hughes to Iraq from 1995 to 2003.



consumers increased by 6.83 million barrels to 435.65 million barrels, a new all time record. It is up from 428.82 million barrels in the previous four week period. Spot shipments from the Gulf fell by 755,000 bpd to 8.11 million bpd for the month of December compared with 8.865 million for November. It said long haul shipments were expected to fall by year end, with the all important long haul arrivals into the US falling in the first

half of January.

OPEC's news agency reported that OPEC's basket of crudes increased to \$36.84/barrel on Thursday, up from Wednesday's \$36.47/barrel.

Petrologistics reported that total OPEC crude production averaged 30.2 million bpd in November, down 400,000 bpd from its previous estimate. Iraq's crude oil production fell to 1.96 million bpd in November compared with 2.19 million bpd in October. Saudi Arabia produced 9.47 million bpd in November while Iran produced 4.05 million bpd in November.

Refinery News

Venezuela's Sincor synthetic crude project plans to restart exports next week after recent maintenance on an upgrading unit.

Japan's Nippon Oil Corp said it had reduced crude processing rates by 3.6% in December as mild weather cut demand for winter kerosene fuel. Nippon Oil said it would refine 5.4 million kl or about 1.095 million bpd of crude in December, 200,000 kl less than originally planned. Nippon Oil is expected to cut its crude throughput in January to 5.1 million kl.

Production News

Baker Hughes reported that the number of rigs searching for oil and gas in the US fell by 16 to 1,234 in the week ending December 17th. The number of rigs searching for oil in the US increased by 4 to 182 while the number of rigs searching for natural gas fell by 20 to 1,050.

Russia's effort to increase its oil production are stalled as its campaign against OAO Yukos takes a toll on the company, prompting some analysts to warn Russia's output may start to fall amid a slowdown in investment. Despite Yukos' effort to block the sale of its Yuganskneftegaz unit, Russia's government has indicated that it will go ahead with the sale of the unit on Sunday. Russia's Foreign

Minister Sergei Lavrov said Yukos will be judged by Russian laws despite the US court decision to freeze the sale of its Yuganskneftegaz unit. The recent slowdown in Russia's production marks a turnaround. The overall rate of growth continued during the first six months of the year. However in July, Russian production started slowing down. Following the 5% increase in the first half of 2004, total Russian production has increased by less than a tenth of that rate so far in the second half of the year. Separately, Gazprom does not intend to pull out of this weekend's auction of Yukos' Yuganskneftegaz unit despite the US court decision to block the sale. Gazprom has put down a deposit of 49.35 billion rubles or \$1.77 billion, required to participate in the bidding. It has also received the required preliminary approval from Russia's antitrust authorities. Russia's Federal Property Fund said the sale is proceeding.

According to the Shetland Islands Council, Brent crude liftings from the Sullom Voe terminal increased to 469,927 tons in the week ending December 12, up from 271,674 tons the previous week. The crude liftings are bound to the US.

The Danish Energy Authority stated that Denmark increased its planned North Sea oil production forecast on Friday by 3% on average in the years 2005-2008 but lowered its 2004 forecast by 4%. Denmark expects its production to total 141.5 million barrels in 2004 and 144.7 million barrels in 2005. Production is seen at 130.8 million barrels in 2006, 122.6 million barrels in 2007 and 106.9 million barrels in 2008.

A Royal Dutch/Shell led group, Sakhalin Energy, increased crude oil production at its Sakhalin 2 project in Far East Russia by 13.5% to 11.69 million barrels in 2004. It said it completed its sixth production season at its Vityaz offshore platforms on December 11. It halts its output during the winter due to harsh conditions.

Mexico's Pemex reported that Mexico's crude oil exports averaged 1.951 million bpd in November, down from 1.981 million bpd in October. It said crude production averaged 3364 million bpd in November, down from 3.451 million bpd in October.

International Enterprise Singapore said the value of Singapore's oil exports increased by 54.4% in November from a year ago to \$3.067 billion, due largely to sharply higher oil prices compared with a year ago. The volume of oil exports also increased by 13.3% on year.

Egyptian Suez Canal authorities are attempting to direct a crude oil spill away from Port Said where it could damage ships and equipment. An official said six ships were in Port Said on Friday but added that it was not possible to say if the port would have to be closed if the oil spill reached it.

Brazil's Petrobras expects to pump the first light oil from its Golfinho field by mid-2006, a first step in substituting imported light crude with domestic output. A 100,000 bpd vessel based floating rig will be installed on the field in the Espirito Santo basin for the first phase of the project.

Market Commentary

The crude market ended the session sharply higher, as the market soared on reports that an audio tape, purportedly from Osama bin Laden, urged attacks on Iraqi and Gulf oil facilities. The oil market gapped higher from 44.50 to 44.80 on the opening, as the market continued its upward trend amid the cold weather forecasts. The market traded mostly sideways within a range from 45.25 to 44.80, before it partially backfilled its gap as it posted an intraday low of 44.65. However the market later broke out of its sideways pattern, backfilled its previous gap at 45.35 and rallied to a high of 46.20 amid the news of the audio tape calling for militants to concentrate their attacks on Iraqi and Gulf oil facilities, even

though this news was reported by BBC on Thursday. The market once again settled in a range for most of the afternoon before some further buying ahead of the weekend pushed the market to a high of 46.35. The January crude contract settled up \$2.10 at 46.28. Volume in the crude was good with 225,000 lots booked on the day. Meanwhile, the heating oil market which opened 2.68 cents higher at 140.80 posted an intraday low of 140.50 and never looked back. The market extended its gains to over 8.6 cents as it rallied to a high of 146.80 amid the weather forecasts calling for colder than normal temperatures. The market however erased some of its gains and settled up 5.83 cents at 143.95. The gasoline market also settled up 5.23 cents at 119.01 after the market bounced off its low of 114.30 and traded to a high of 119.90 ahead of the close. Volumes in the product markets were good with over 49,000 lots booked in the heating oil and 46,000 lots booked in the gasoline market.

According to the latest Commitment of Traders report, non-commercials cut their net short position from 17,440 contracts to 9,072 contracts in the week ending December 14th. The non-commercials cut their total short positions by 11,581 to 77,382 contracts. Meanwhile the combined futures and options report showed that non-commercials increased their net long position from 28,028 contracts to 32,175 contracts on the week. Given the market's move during the last few trading sessions, non-commercials have continued to cut their net short positions and have likely reversed their position altogether. Non-commercials in the heating oil market increased their net short position from 21,423 contracts to 21,822 contracts while non-commercials in the gasoline market switched to a net short position of 1,892 contracts from a net long position of 1,743 contracts the previous week. However similar to the crude market, non-commercials in the product markets have likely cut their short positions.

The crude market on Monday will be driven by headlines seen over the weekend. Also, if weather forecasts calling for colder than normal temperatures are proven wrong, the market is likely to retrace some of today's sharp gains. The crude market is seen finding support at 45.50, its gap from 44.65 to 44.50 followed by 43.00. Resistance is seen at its high of 46.35 followed by 46.52, its 62% retracement level. More distant

resistance is seen at 47.50 and 48.20.

Technical Analysis			
		Levels	Explanation
CL	Resistance 46.28, up \$2.10	46.52, 47.50 46.35	62% retracement level (50.40 and 40.25) Double top, Backfills gap (Dec 2)
	Support	45.50, 44.65 to 44.50 43.00	Remaining gap (Dec 17) Previous low
HO	Resistance 143.95, up 5.83 cents	146.95, 148.50, 149.90 146.80	Previous highs Friday's high
	Support	143.10 140.50, 136.00	Friday's low, Thursday's low
HU	Resistance 119.01, up 5.23 cents	122.82 119.90	62% retracement (132.90 and 106.50) Friday's high
	Support	117.50 114.40, 111.60	Friday's low, Thursday's low