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## ***ENERGY RISK MANAGEMENT***

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### **ENERGY MARKET REPORT FOR DECEMBER 18, 2008**

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OPEC Secretary General Abdullah al-Badri said all 11 members bound by OPEC's supply limits will comply with a new cut of 2.2 million bpd. Meanwhile, Qatar's Energy Minister Abdullah al-Attiyah said OPEC is expected to comply fully with its record oil supply cut agreed on Wednesday. However he said prices will take some time to respond. Separately, Angola's Oil Minister Botelho de Vasconcelos, which is OPEC's incoming president, said Angola is aiming for higher prices. Angola's government is relying on an oil price above \$55/barrel to carry out a record \$42 billion spending plan in 2009.

#### Market Watch

The National Oceanic and Atmospheric Administration said above normal temperatures will be centered on Texas and spread throughout the Southwest, extending into the Great Lakes and Mid-Atlantic states in January-March 2009. It said below normal temperatures are expected in the first quarter in the Pacific Northwest inland to Idaho and Montana. It reported that there is no clear temperature pattern in the Northeast US. For January, NOAA's outlook shows above normal temperatures extending into the Northeast in New Jersey and southwestern New York, with the Southeast US showing no clear temperature pattern.

JP Morgan cut its 2009 estimate for WTI crude prices to \$43/barrel from a previous forecast of \$69/barrel due to the continuing deterioration in the world economic environment and the ensuing sharp contraction in world oil demand in both 2008 and 2009.

Deutsche Bank stated that world oil demand will fall by 1 million bpd or 1.2% in 2009 due to the world economic crisis. It expects oil prices to average \$47.50/barrel in 2009, with the risk of prices falling toward \$30/barrel on a temporary basis.

President elect Barack Obama has named former Treasury official Gary Gensler as the head of the Commodities Futures Trading Commission.

The Labor Department reported that the number of US workers filing new claims for state unemployment benefits fell in the week ending December 13 by 21,000 to a seasonally adjusted 554,000. A four week average of new claims reached a 26 year high, rising 2,750 to 543,750.

The Philadelphia Federal Reserve Bank said its business activity index of factory activity in the US Mid-Atlantic region fell to minus 32.9 from minus 39.3 in November.

The US Conference Board's index of Leading Economic Indicators fell to its lowest level in more than four years in November. The index fell by 0.4% to 99, the weakest level since February 2004 when the index stood at 97.8.

China's National Development and Reform Commission said it will cut prices for gasoline, diesel and jet kerosene starting Friday. Gasoline prices will be cut by about 13%, which is 900 yuan/ton or 0.65 yuan/liter. Diesel prices will be cut by about 17%, which is 1,100 yuan/ton or 0.95 yuan/liter and jet kerosene prices will be cut by 32%, which is 2,400 yuan.

Kazakhstan will buy BP's stake in a holding company that owns 1.75% of the Caspian Pipeline Consortium for \$250 million. BP decided to exit the project over a disagreement about its expansion terms approved earlier this week by all other consortium members.

India's Oil Ministry said India plans to ease the subsidy burden on upstream firms by formulating a new system to offset losses from selling fuel at lower prices.

**December Calendar Averages****CL – \$43.96****HO –\$1.4846****RB – \$ 1.0107**

The IEA's executive director, Nobuo Tanaka said OPEC's supply cut has failed to halt the oil market's decline as the market is driven lower by the world recession.

According to Oil Movements, OPEC's crude oil exports, excluding Angola and Ecuador, are forecast to fall by 180,000 bpd in the four weeks ending January 3 to 23.88 million bpd. It said the gradual drop in exports may suggest the series of OPEC cuts are starting to take effect.

Azerbaijan's Energy Minister Natic Aliyev said the country is considering becoming an OPEC member and is willing to artificially cap oil production even after it fixes technical problems at some of its fields. He said the country is prepared to cut production by 300,000 bpd to 540,000 bpd from the current 840,000 bpd level.

The EIA said a combination of declining oil prices, lower crude demand and production cuts will cost OPEC another \$151 billion in lost oil export revenue next year. It said it expects OPEC members to comply with about 60-70% of the 4.2 million bpd cut in the first quarter and about 50% for the year. As a result, the EIA revised down its forecast for OPEC's oil export revenue during 2009 by 25% to \$444 billion.

A senior Iranian oil official said Iran has sold all of its crude oil being stored in Egypt's Sidi Kerir terminal and is sending two additional crude carriers from Kharg Island in the Persian Gulf to be lifted by purchases from the Mediterranean Sea port. This leaves Iran with about 4 million barrels of crude stored in vessels offshore its southern coast. Iran last week had between 10 million and 12 million barrels of crude stored in vessels offshore Kharg Island and in onshore tanks in Rotterdam, Japan and Sidi Kerir.

**Refinery News**

Colonial Pipeline said it was allocating Line 2, the main distillate line, for the first cycle in 2009 as demand for space was greater than capacity.

Maritime traffic has been suspended at the Houston Ship Channel due to dense fog. There are about 19 vessels waiting to leave Port of Houston and 39 waiting to enter the port. The waterway that serves the refining hub of Beaumont and Port Arthur, Texas has been closed to vessel traffic since Tuesday morning due to dense fog. Meanwhile the Lake Charles Pilot Association said ship traffic through the Calcasieu Ship Channel in Louisiana has been suspended since Wednesday. At least a total of 62 vessels were waiting for weather conditions to improve in the Gulf Coast.

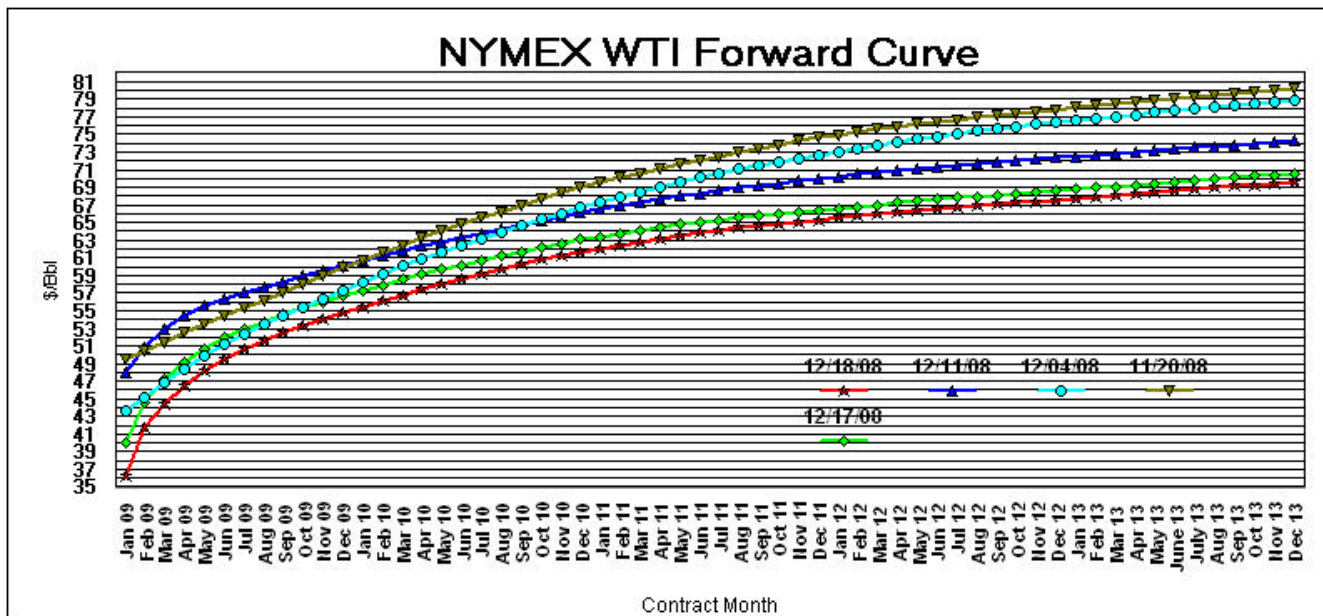
PDVSA said it was working to restart its 305,000 bpd Cardon refinery, which was shutdown due to a power outage. It said the Amuay refinery was initially affected by the electricity failure but was operating normally. It said it will continue to supply clients normally despite problems at the refinery.

Indonesia's Pertamina said its 125,000 bpd Balongan refinery will reach full capacity next week following the completion of maintenance.

Iran will halt spot exports of fuel oil in the first quarter of 2009 as it looks to meet domestic demand for power generation during the winter. The National Iranian Oil Co, which typically exports about three to four fuel oil cargoes monthly between January and March, will offer spot cargoes only if domestic requirements ease.

Gas oil stocks in independent oil storage in the Amsterdam-Rotterdam-Antwerp hub in the week ending December 18<sup>th</sup> increased by 9.77% on the week and by 42% on the year to 2.022 million tons.

There were no gas oil exports from the ARA tanks during the week while imports came from Canada, India, Norway, Russia, Taiwan and the US. Gasoline stocks fell by 11% on the week and by 12.33% on the year to 718,000 tons while fuel oil stocks increased by 4.84% on the week but fell by 8.58% on



the year to 650,000 tons. Naphtha stocks increased by 17.4% on the week and by 31.07% on the year to 135,000 tons while jet fuel stocks fell by 5.65% on the week but increased by 178.24% on the year to 637,000 tons.

Singapore's International Enterprise reported that the country's residual fuel stocks fell by 1.91 million barrels to 18.036 million barrels in the week ending December 17<sup>th</sup>. It reported that Singapore's light distillate stocks fell by 302,000 barrels to 8.455 million barrels while its middle distillate stocks fell by 852,000 barrels to 11.013 million barrels on the week.

Indonesia's Pertamina will buy 1 million tons/year of liquefied natural gas, from LPG trading firm Petredec over a 10-year period. Indonesia has gradually replaced kerosene used by households with LPG from late 2007 to reduce the country's high cost of subsidized fuel.

### **Production News**

BP Plc production from the third and fourth wells at is Thunder Horse field resumed and is now in excess of 200,000 bpd of oil equivalent. It plans to start up additional production from Thunder Horse north field in the first half of 2009.

Nigerian National Petroleum Corp said Nigeria will definitely cancel some January loading cargoes in light of the latest OPEC mandated production cuts. A source at NNPC said he expects production to total 1.85 million bpd in January as a result of the latest cuts.

Russia's Deputy Energy Minister Anatoly Yanovsky said declining world demand for oil and gas will lead to a natural decline in Russian production.

According to Russia's shipping schedule, Russia will cut its oil exports by 3.4% or 140,000 bpd in the first quarter of 2009 by reducing deliveries to the port of Primorsk and Odessa. A quarterly export schedule showed that overall volumes of Russian exports and transit of Azeri, Kazakh and Belarus crude would fall to 3.94 million bpd from 4.08 million bpd in the fourth quarter. The schedule also confirmed the plan by pipeline monopoly Transneft to cut exports of Russian only crude by 4.5% or

160,000 bpd in the first quarter. Exports through Russia's port of Primorsk will fall by 72,000 bpd or 4.7% while exports from Ukraine's Odessa port will fall by more than 50% or 86,000 bpd.

Kazakhstan's State Statistics Agency reported that the country's crude oil and gas condensate production totaled 64.3 million tons during January-November 2008, up 4.7% on the year. It reported that crude oil production in November totaled 4.813 million tons, up 4.3% on the year.

Colombia's Ecopetrol plans to invest \$6.22 billion in 2009, up from the estimated \$4.62 billion invested in 2009. It plans to invest \$2.72 billion in oil and gas production, \$1.05 billion in exploration, \$814 million in refining facilities and \$870 million in acquisitions. The company plans to increase its production to an average 457,000 bpd of oil equivalent in 2009, up from 446,000 bpd of oil equivalent in the first 10 months of 2008. Ecopetrol expects the price of WTI crude to average \$50/barrel in 2009.

Louis Dreyfus Commodities' ethanol unit, LDC Bioenergia, plans to increase its ethanol production in Brazil. It expects to expand the crushing capacity at its eight mills to almost 20 million metric tons in 2009-10 from 15 million tons in 2008-09.

OPEC's news agency reported that OPEC's basket of crudes increased to \$40.95/barrel on Wednesday from \$40.74/barrel on Tuesday.

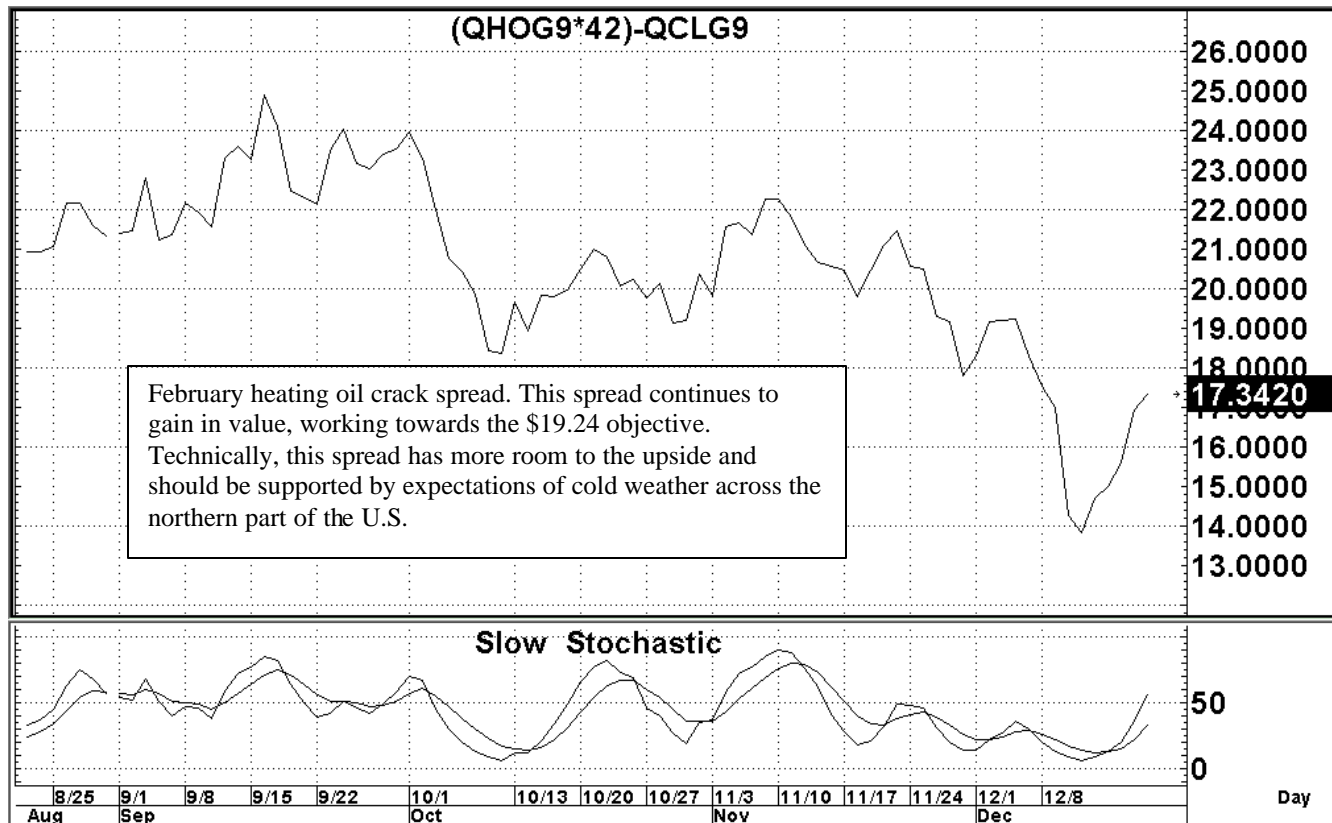
### **Market Commentary**

Crude oil fell below \$36.00 a barrel today for the first time since 2004. Demand destruction continues to plague the market place, as the global economic situation shows no signs of recovery. The January crude oil contract, which expires this Friday, hit a low of \$35.98. The January/February crude spread reflects an over supplied market, hitting a low of \$-6.09. With this spread this low, offshore storage is currently holding some 45 million barrels of crude oil as oil companies stockpile crude oil at today's prices in hopes of selling it further on down the curve. This bearish scenario comes at a time when the U.S. Energy Department issued a report on December 9, stating that global demand will decline 0.5% to 85.3 million barrels a day. In the meantime, OPEC has said that world oil consumption next year will drop by 0.2% to 85.68 million barrels a day. We would continue to look for crude oil to come under pressure and for inventories both offshore and onshore to build. As stockpiling continues, supplies of product could start to become depleted, thereby propping up crack spreads for both gasoline and heating oil. Although the overall sentiment is for the entire complex to come under additional pressure, the products, for now, should fair better than the crude oil. The February heating oil crack spread continues to gain strength, working towards the \$19.24 objective.

CL F/G weighted avg for 12/18/08 4.933

CL G/H weighted avg for 12/18/08 2.796

Open interest: Crude oil JAN.09 56,415 -17,025 FEB.09 270,596 +16,234 MAR.09 112,813 +1,893  
APR.09 54,382 +1,798 Totals: 1,173,705 +6,795 Heating oil (HO) JAN.09 28,829 -1,222 FEB.09  
43,111 -924 MAR.09 29,143 -528 Totals: 224,654 + 981 NEW YORK HARBOR RBOB GASOLINE  
(RB) JAN.09 41,812 -2,634 FEB.09 63,000 +1,258 MAR.09 26,206 +736 Totals: 204,308 +1,915



<b>Crude Support</b>	<b>Crude Resistance</b>
33.75, 32.25, 29.66, 28.63, 26.65, 25.50	36.75, 44.93, 47.50, 50.07, 52.75, 53.75, 57.20
<b>Heat Support</b>	<b>Heat resistance</b>
1.3450, 1.3005, 1.1895	167.15, 171.85, 176.70, 2.2796, 2.3720
<b>Gasoline support</b>	<b>Gasoline resistance</b>
7760, .6840	115.75, 120.50, 121.90, 136.14