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Energy Futures Brokerage

ENERGY RISK MANAGEMENT

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ENERGY MARKET REPORT FOR DECEMBER 28, 2004

Iraq's oil exports were halted on Tuesday due to adverse weather conditions. Shipping sources stated that no tankers were loading from the main Basra offshore terminal in the Gulf while loadings remained halted from the Khor al-Amaya terminal for the second day. Oil flows to the Turkish port of Ceyhan also remained halted following the sabotage attacks.

Nigeria oil unions are scheduled to meet management of oil companies on Tuesday afternoon for talks over proposed layoffs that union leaders say could provoke a strike. Union leaders said a panel of union representatives, labor ministry officials and management of Royal Dutch/Shell is scheduled to discuss similar grievances over layoffs later this week. Unions have objected to plans by the Nigerian National Petroleum Corp to layoff 2,355 workers without paying out more

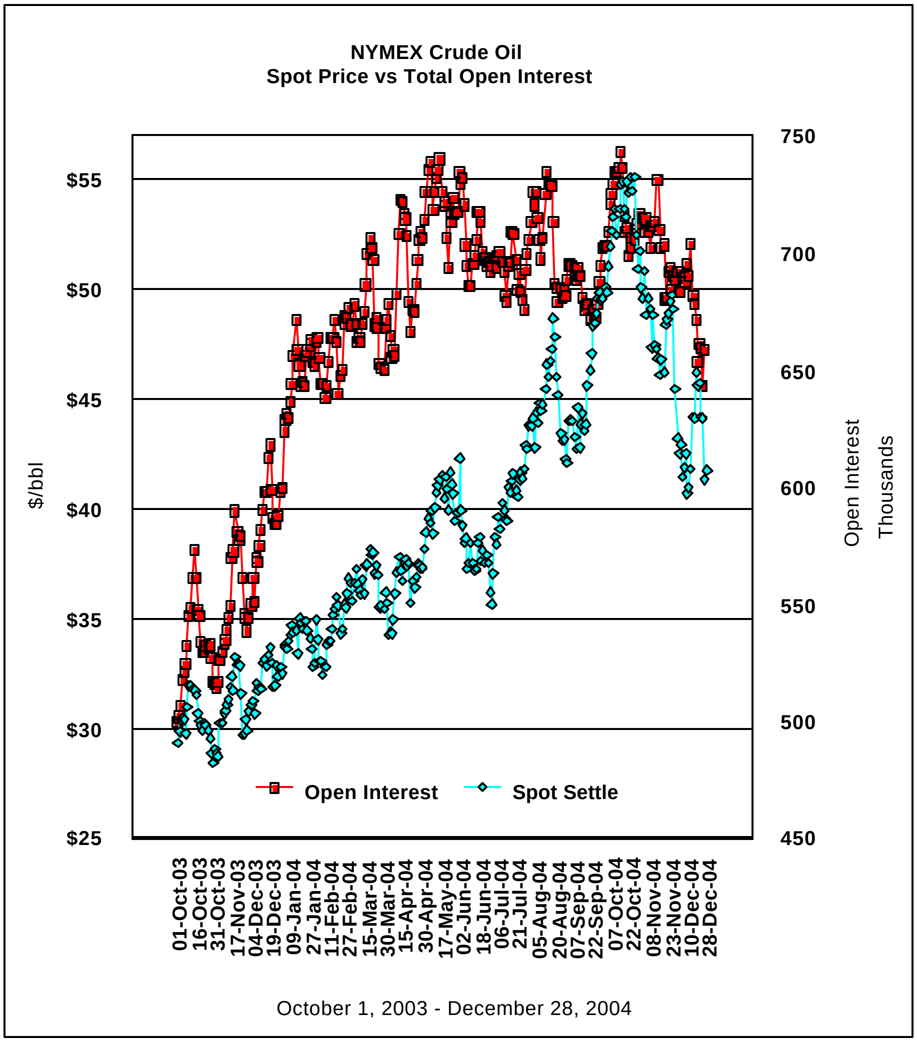
Market Watch

Iraq's Oil Ministry has signed the country's first post war oil field development contract with a consortium of three companies. The ministry awarded last week the contract to develop Khormala Dome oil field to Britain's D.P.S, Turkey's Everasia and Iraq's K.A.R. A second contract to develop the Hemrin oil field would be ready next week for approval by the interim Iraqi cabinet. The capacity of the Khormala Dome field is 100,000 bpd and 100 mmcf/d of natural gas. The Iraqi ministry is also considering offers for another contract to raise the output of the Subba-Luhais oil field in southern Iraq from 50,000 bpd to 140,000 bpd.

A Siberian utility, Tyumenenergo reduced its power supplies to Yuganskneftegaz amid confusion over who must pay the electricity bills of Yukos' former unit. The utility reduced its power supplies by 22 megawatts/hour or about 5% of the total volume due to Yuganskneftegaz's debt of 232 million rubles or $8.35 million. Yukos was forced twice before this year to cut output at Yugansk by about 3% or 35,000 bpd after Tyumenenergo implemented a similar power cut. Meanwhile Rosneft promised to pay Yugansk's electricity debt in full after it takes over the unit before the year end.

Separately, Russia's Yukos said it would pursue all legal means to recover damages from anyone or any entity involved in the sale of its Yuganskneftegaz unit, saying the auction was a violation of US bankruptcy law. The company said it would seek damages of over $20 billion.

Mikhail Khodorkovsky accused the Kremlin of stealing his Yukos oil empire by manipulating the law and said in a letter published Tuesday that the ongoing reinstatement of authoritarian controls would ruin the country. He accused the government of shameless tactics on legal norms to wrest Yukos from its former owners.



than standard pensions and gratuities and oppose Shell's severance package which they say has been decided unilaterally.

In its latest Monthly Oil Market Report, OPEC estimates a surplus of 1 million bpd in the fourth quarter of 2004 at the current level of production. It estimated its production in November at 29.76 million bpd. It stated that the perceived risk premium in the oil price has eased following accelerated production capacity expansion in OPEC countries. In regards to demand, lower economic growth in 2005 is expected to lead to an easing of incremental demand for oil from high rates seen in 2004. The demand growth for oil in 2005 is expected to slow to 1.5 million bpd. Total world oil demand is estimated to average 81.77 million bpd in 2004 and 83.28 million bpd in 2005.

OPEC's news agency reported that OPEC's basket of crudes fell to $35.30/barrel on Monday, down from Friday's $36.58/barrel.

Refinery News

ExxonMobil Corp reduced its feed rate to its 113,500 bpd fluid catalytic converter at its 363,100 bpd refinery in Beaumont, Texas on Monday. It reduced feed to the unit because the refinery's high pressure carrier compressor shut following the unexpected shutdown of steam producing boilers at the refinery's Power Plant 3. It was also reported that a crude unit was shutdown on Monday at the refinery.

China's Maoming Petrochemical Corp is expected to maintain near full operating rate in January. The planned January rate of 1.1 million tons would be 97% of the capacity.

Ceylon Petroleum Corp's 50,000 bpd refinery at Kelaniya, Sri Lanka escaped Sunday's tidal waves unscathed and started discharging oil product imports on Monday. The refinery is operating at 80.63% of its capacity.

Production News

Colonial Pipeline announced allocations for shipping orders on its first cycle of 2005 for its main gasoline and distillate lines from Collins, Mississippi to Greensboro, North Carolina. It is the third consecutive 10-day cycle allocated for both distillate and gasoline products.

Russia's Energy Ministry forecast an increase in oil production in 2004 of 9.2% on the year to 460 million tons or 9.36 million bpd. Refining is seen increasing by 1.9% on the year to 193.7 million tons in 2004.

Russia's director of the Economic Development and Trade Ministry stated that oil export duty may be reduced to $83.20/ton on February 1 from the current duty of $101/ton.

Bulgaria, Albania and Macedonia gave political support on Tuesday to a $1.2 billion private trans-Balkan oil pipeline that will allow Russian and Caspian crude to avoid congested Turkish waters. Representatives from the three Balkan states signed an agreement allowing Albanian Macedonian Bulgarian Oil Corporation to launch a pipeline between Bulgaria's Black Sea port of Bourgas to Vlore, a city on Albania's Adriatic coast. The pipeline expected to start operation in early 2008 will be able to transport up to 750,000 bpd of oil.

Japan's Ministry of Economy, Trade and Industry stated that Japan's crude oil imports increased for the fifth consecutive month in November year on year by 17.5% to 20.85 million kiloliters or 131.14 million barrels. An official stated that the year on year increase in crude imports was partly due to the closure of Idemitsu Kosan Co's 140,000 bpd refinery in Hokkaido. The average operating rate at refineries was 88% in November compared with 82.6% a year earlier and 79.1% in October. Japan's METI reported that crude oil throughput at Japanese refineries in November increased by 2.5% year on year to 20.05 million kl or 4.2 million bpd. It reported that kerosene stocks at the end of November totaled 4.8 million kl or 30.19 million barrels, down 5.5% on the year but up 13.3% on the month. Kerosene demand fell by 19.9% to 1.93 million kl in November.

Ecuador's National Hydrocarbons Department stated that the 14 private oil companies and consortia operating in Ecuador have produced an estimated 118.4 million barrels of oil this year, about 62% of the country's total estimated 2004 production. Meanwhile Petroecuador produced 72.6 million barrels this year, down 3.5% on the year.

Market Commentary

The oil markets, which were due for a bounce following Monday's sharp sell off, opened higher and remained supported amid some short covering. The oil complex however posted inside trading days as traders awaited Wednesday's release of the weekly petroleum stock reports. The crude market opened 33 cents higher at 41.65 in follow through buying seen in overnight trading, when the market held good support at the 41.00 level. The market posted an intraday low of 41.55 before the market continued to retrace Monday's sharp losses as the January crude contract breached the 42.00 level and rallied to a high of 42.32. However as the market failed to find the momentum to test Monday's high, the market erased some of its gains and traded back towards its low and settled in a trading range during the remainder of the session amid the light volume trading. The crude market settled up 45 cents at 41.77. Volume in the crude remained light with only 83,000 lots traded on the day. Meanwhile the heating oil market which posted losses of more than 12 cents during Monday's session, retraced some of its move as it opened more than 2 cents higher at 123.10. The market traded to a low of 122.50 before it continued to retrace Monday's losses. The market rallied to a high of 124.90 in a technical bounce. However the market later erased its gains and posted an intraday low of 122.00 on the close. The market settled up 1.13 cents at 122.21. The gasoline market opened more than 1 cent higher at 105.20 and traded to a low of 104.50. However the market rallied to a high of 107.00 early in the session before it erased its gains and sold off to its low of 103.60 ahead of the close as it attempted to test its low of 103.50. The market settled up 45 points at 104.57. Volumes in the product markets were light with 44,000 lots booked in the heating oil and 32,000 lots booked in the gasoline market.

Open interest in the crude market built by a total of 15,564 contracts to 658,951 on Monday. The February and March crude contracts saw builds of 1,690 contracts and 4,357 contracts, respectively as traders were adding new shorts amid the sharp sell off.

The crude market will seek direction from the weekly petroleum stock reports on Wednesday. The reports are expected to show small draws in crude stocks of less than 500,000 barrels, a draw of less than 1 million barrels and a small build of about 200,000 in gasoline stocks. The crude market is seen finding support at its low of 41.55 followed by 41.20 and 40.90. More distant support is seen at 40.50. Meanwhile resistance is seen at 42.15, 42.32 followed by 42.83 and 43.75, where it would backfill its gap.

Technical Analysis			
		Levels	**Explanation**
		42.32, 42.83 to 43.75	Tuesday's high, Remaining gap (December 27th)
	Resistance	42.15	
CL	41.77, up 45 cents		
	Support	41.55, 41.20	Tuesday's low, Monday's low
		41.10, 40.90	Previous lows
		126.20, 128.70 to 132.50	Remaining gap (December 27th)
	Resistance	124.90	Tuesday's high
HO	122.21, up 1.13 cents		
	Support	122.00, 120.50	Tuesday's low, Monday's low
		120.15, 118.00, 117.90	Previous lows
		110.80 to 112.50	Remaining gap (December 27th)
	Resistance	107.00	Tuesday's high
HU	104.57, up 45 points		
	Support	103.60, 103.50	Double bottom
		100.35	Previous low