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Energy Futures Brokerage

ENERGY RISK MANAGEMENT

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ENERGY MARKET REPORT FOR DECEMBER 28, 2005

Iran's Oil Minister Kazem Vaziri Hamaneh said OPEC should consider cutting its production by 1 million bpd when it meets on January 31. However he did not specify whether the reduction should be made in actual production or the output ceiling, which is currently at 28 million bpd. Meanwhile, the semi-official Fars News Agency quoted Deputy Oil Minister for International Affairs Hadi-Nejad Husseinian as saying that Iran would support a cut in OPEC's production ceiling at its January meeting. He said he expected world oil prices to fluctuate between $50 and $60/barrel.

Market Watch

The EPA said it expects the US oil industry to meet the EPA's new standard that requires 2.78% of gasoline sold next year to be renewable fuel, such as ethanol. It said it expects the renewable fuel standard for 2006 to be met collectively by the oil industry. It will not hold an individual oil refinery, blender or importer responsible for meeting the 2.78% standard for the specific gasoline it produces. The Energy Department estimates that 141.6 billion gallons of gasoline will be sold next year in the US market, requiring 3.94 billion gallons of renewable fuel to be consumed to meet the 2.78% standard.

Iraqi officials stated that Iraq's southern oil exports remained shut in due to strong winds on Wednesday. Iraqi officials have stated that they expect to defer more than 20 million barrels from December to January.

Refinery News

Valero is expected to perform turnaround on a 64,000 bpd hydrotreater unit at its Wilmington, California refinery in January. It is expected to shut the unit for 28 days.

Production News

Louisiana's Department of Natural Resources stated that restored oil production in the state was 60.4% of normal capacity on Wednesday, unchanged from Tuesday. It said output remained at 122,629 bpd.

Nigeria has scheduled to export about 2.2 million bpd of crude oil in January, down 40,000 bpd from December. January shipments could be less than estimated after a pipeline blast last week that temporarily cut 180,000 bpd of Bonny Light crude. As of Wednesday, less than 15,000 barrels remained shut in. Before the incident, about 10.5 Bonny Light cargoes were expected to load in January, totaling 9.8 million barrels or 322,000 bpd. Meanwhile, an oil official said the fires that broke out on Tuesday along a pipeline have been put out but there was no word on what caused the fires.

Abu Dhabi is scheduled to supply full crude term volumes for February to at least four Asian refiners after cutting 10% off Murban term supplies for January. Term lifters said at least one refinery would receive 500,000 barrels of additional crude.

Crude oil exports from Russia's Black Sea port of Novorossiisk increased to 1.017 million tons in the week ending December 24 as calmer weather reduced loading delays. Shipments from the CPC loading terminal were steady at 574,000 tons compared with 569,000 tons the previous week.

Delays for oil tankers transiting the Turkish Straits increased to 23 days for a round trip on Wednesday. Local shipping agent Leth Mastership said oil tankers were facing delays of 12 days to pass north through the Dardanelles and the Bosphorus and 11 days south.

Brazil's Petrobras has declared an area of its BC-20 offshore block in the Campos Basin as commercially viable. It said the block has an estimated 700 million to 1 billion barrels of oil reserves.

OPEC's news agency reported that OPEC's basket of crudes fell by 39 cents/barrel to $51.14/barrel on Tuesday. It also reported that the basket of crudes fell by $2.26/barrel to $51.93/barrel in the week ending December 22nd, down from $54.19/barrel the previous week.

The Petroleum Association of Japan reported that Japan's average refinery operating rate fell to 92$ of capacity in the week ending December 24 from 92.3% in the previous week. It also reported that Japan's commercial stocks of kerosene fell by 8.6% last week to 3.744 million kl compared with 4.096 million kl the previous week. Meanwhile, Japan's Ministry of Economy, Trade and Industry stated that the country's oil imports in November fell by 3.8% on the year to 20.05 million kl. Japan's commercial crude oil stocks totaled 17.65 million kl at the end of November, down 12.4% on the year. It also stated that Japan's total oil product exports increased by 98.9% to 2.38 million kl or 499,000 bpd in November from the same month a year ago. It reported that kerosene inventories fell by 6.5% to 4.85 million kl as of the end of November from 5.19 million kl in October.

Indonesia's Pertamina and ExxonMobil should reach agreement in early January on the development of the Cepu oil block.

Industry sources stated that Pertamina bought a total of 10.96 million barrels of oil products for January, down from about 12.36 million barrels for December.

China is expected to cut diesel exports to 10,000 tons in January from December's estimate of 60,000 tons while it keeps a small volume of imports to meet higher

Technical Analysis			
		Levels	**Explanation**
CL	**Resistance**	60.80 to 61.00	Remaining gap
		60.45	Wednesday's high
	59.82, up $1.66		
	Support	59.00	
		58.35 to 58.20	Remaining gap
HO	**Resistance**	172.10, 177.25	Previous highs
		168.50 to 170.00	Remaining gap (December 27th)
	168.25, up 4.55 cents		
	Support	166.00, 165.50	
		164.50, 163.00	Previous lows
HU	**Resistance**	160.20 to 160.75, 167.00	Remaining gap, Previous high
		160.10	Wednesday's high
	159.11, up 7.77 cents		
	Support	158.00, 156.00	
		153.00	Wednesday's low

demand for the Lunar New Year holidays.

Market Commentary

The oil complex settled sharply higher as the markets retraced their previous losses. The crude market gapped higher this morning from 58.20 to 58.35 as it continued to retrace Tuesday's earlier losses. The market was supported amid the call by Iran's Oil Minister for OPEC to consider cutting its production by 1 million bpd at its meeting in January. The market never looked back and breached its resistance at its highs of 59.00 and 59.30. It extended its gains to over $2.29 as it rallied to a high of 60.45 ahead of the close. The February crude contract settled up $1.66 at 59.82. Volume in the crude market was light with 129,000 lots booked on the day. The oil markets were driven higher by the gasoline market, which settled up 7.77 cents at 159.11. The market opened at a low of 153.00 and never looked back. The market rallied over 8.7 cents as it posted a high of 160.10 late in the session. The market seemed to have been supported ahead of the release of the DOE and API reports which are expected to show draws in product stocks. The market was supported amid talk of a tight summer driving season. Meanwhile, the heating oil market posted its low of 164.50 early in the session and never looked back. The market rallied 4.8 cents and partially backfilled its previous gap as it posted a high of 168.50 ahead of the close. The market settled up 4.55 cents at 168.25. Volumes in the product markets were light with 39,000 lots booked in the gasoline and 43,000 lots booked in the heating oil market.

The crude market on Thursday will be driven by the weekly petroleum stock reports which are expected to show draws across the board with draws of 500,000 barrels to 1 million barrels in crude stocks, draws of less than 500,000 barrels in distillate stocks and draws of about 500,000 barrels in gasoline stocks. The market is seen holding its support after it rallied to its high ahead of the close. The market is seen finding initial resistance at 60.45 followed by more distant resistance at 60.80 to 61.00. Meanwhile, support is seen at 59.00 followed by its gap from 58.35-58.20.