



ENERGY RISK MANAGEMENT

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ENERGY MARKET REPORT FOR DECEMBER 29, 2008

The US State Department said Secretary of State Condoleezza Rice has spoken to UN Secretary General Ban Ki-moon and other world leaders by telephone to help restore a ceasefire between Israel and Hamas. It said the US is working for a ceasefire that will be fully respected, durable and sustainable as Israeli warplanes attacked Gaza for a third day on Monday in a war on Hamas. The Israeli operation follows days of increasing violence since the expiry of a truce in and around Gaza on December 19. Later the White House said Israel is taking the necessary steps to respond to threats from rocket and mortar

Market Watch

The National Weather Service forecast that US heating demand for the week ahead is expected to average 19.1% below normal as mild temperatures cover most of the country. Demand for heating oil is expected to be about 18.1% below normal this week.

The Securities and Exchange Commission adopted new rules giving investors a more complete picture of the oil and natural gas reserves that a company holds. Under the new rules, oil and gas companies will be allowed to disclose their probable and possible reserves to investors. Current rules require disclosure of only proved reserves. Companies have to comply with the new reporting requirements after December 15, 2009.

Magellan Midstream Partners LP said it has scaled back a \$240 million project to half its original projected cost amid declining demand for gasoline and other refined products. Magellan has scrapped a plan to build an 80 mile pipeline to carry products from Motiva's Port Arthur, Texas refinery to Magellan's pipeline hub in Houston. Instead it will build a 9 mile pipeline to connect its hub to an existing line running from Port Arthur to Fauna, Texas.

The head of China's National Energy Administration, Zhang Guobao said China will take advantage of falling oil prices to increase its oil and gas imports. He said China plans to use the fall in world energy demand to increase its oil reserves as it speeds up development of nuclear and wind power and cuts reliance on coal. China plans to proceed with the building of the second phase of its strategic oil reserves, which could hold up to 170 million barrels of crude. The government has not disclosed if it has fully filled the first phase of the tank farms, which were set up in four locations and can hold 102 million barrels or 29 days of crude imports.

Low water surcharges were again imposed on freight shipping on the Danube River in Germany after water levels fell over the Christmas holiday. Water levels on the Rhine River were at normal levels.

Kazakhstan will set its oil export duty at zero starting January 26. A government source however said that the levy could be raised later if world prices increase.

Venezuela's central bank reported that the country's economy grew 4.9% in 2008.

December Calendar Averages**CL – \$42.07****HO –\$1.4286****RB – \$.9686**

attacks by Hamas in the Gaza strip. President George W. Bush spoke with Jordan's King Abdullah and told him that the US wants to see an end to the violence in Gaza but in a durable way.

OPEC President Chakib Khelil said many OPEC members have started reducing their oil supply in line with the group's agreement to cut production. He said OPEC seeks to stabilize prices and prevent it from falling further and added that he believed prices will stabilize in January-February.

Libya's top oil official Shokri Ghanem said it has told oil firms to cut production by 270,000 bpd from January 1. He said technical reasons meant the reduction was deeper than Libya's target under an agreement by OPEC to cut production by 2.2 million bpd.

Ecuador's President Rafael Correa said Ecuador will lower its oil production from some private companies to comply with OPEC's recent production cut. He said he would reduce production from private oil contracts that have not benefited the country. Ecuador, which produces about 500,000 bpd, agreed to cut its output by 40,000 bpd.

The EIA reported that the US average retail price of diesel fell by 3.9 cents in the week ending December 29th to \$2.327/gallon, the lowest level since June 20, 2005. The EIA also reported that the US retail price of gasoline fell by 4 cents to \$1.613/gallon on the week. It is the lowest price since January 19, 2004.

According to the EIA, US oil demand in October was 598,000 bpd more than previously estimated and down 833,000 bpd on the year. US oil demand in October was revised up by 3.14% to 19.643 million bpd. Gasoline demand for October was revised down by 19,000 bpd or 0.21% to 8.986 million bpd while diesel demand was revised up by 169,000 bpd or 4.22% to 4.173 million bpd.

The IEA's chief economist, Fatih Birol said oil prices may rebound to about \$100/barrel between 2010 and 2015. He said he sees downward pressure on oil prices in 2009 but said he expects prices to recover again in 2010 with a recovery in the world economy.

A Yemen Oil Ministry official said attackers, believed to be disgruntled tribesmen, blew up an oil pipeline in Yemen late Sunday. However the official said there was no disruption to production or exports. Repairs on the pipeline were expected to be completed later on Monday and supply flows were seen resuming before the end of the day.

Refinery News

Colonial Pipeline froze nominations for cycles 70 and 71 on multi-product line 27 in Virginia as demand for space exceeds capacity. Shippers will not be allowed to increase nominations for cycles 70 and 71 on Line 27. Also, Colonial Pipeline is allocating the first cycle of 2009 on its Linden, New Jersey, multi-product delivery line L2.

The US Coast Guard said ships were moving in and out of the ports of Houston, Galveston and Texas City Monday after intermittent fog halted vessel traffic last week.

Credit Suisse reported that US refining margins increased as crude prices extended losses relative to finished fuels. US Gulf Coast refining margins increased by \$1.39/barrel to \$8.22/barrel while Midwest margins increased by \$3.64/barrel to \$10.31/barrel. West Coast margins increased by \$5.53/barrel to \$28.93/barrel while margins in the Rockies region increased by \$4.88/barrel to \$16.47/barrel and margins in the Northeast increased by 79 cents to \$5.67/barrel.

Valero Energy Corp said its Corpus Christi, Texas refinery resumed full operations on Monday following a power outage on December 18. Valero also said its 325,000 bpd Port Arthur, Texas refinery was returning to planned rates after a brief power interruption on Saturday.

BP Plc may delay the planned restart of a fluid catalytic cracking unit at its 475,000 bpd refinery in Texas City, Texas following the completion of its turnaround. It may be delayed until January 11th.

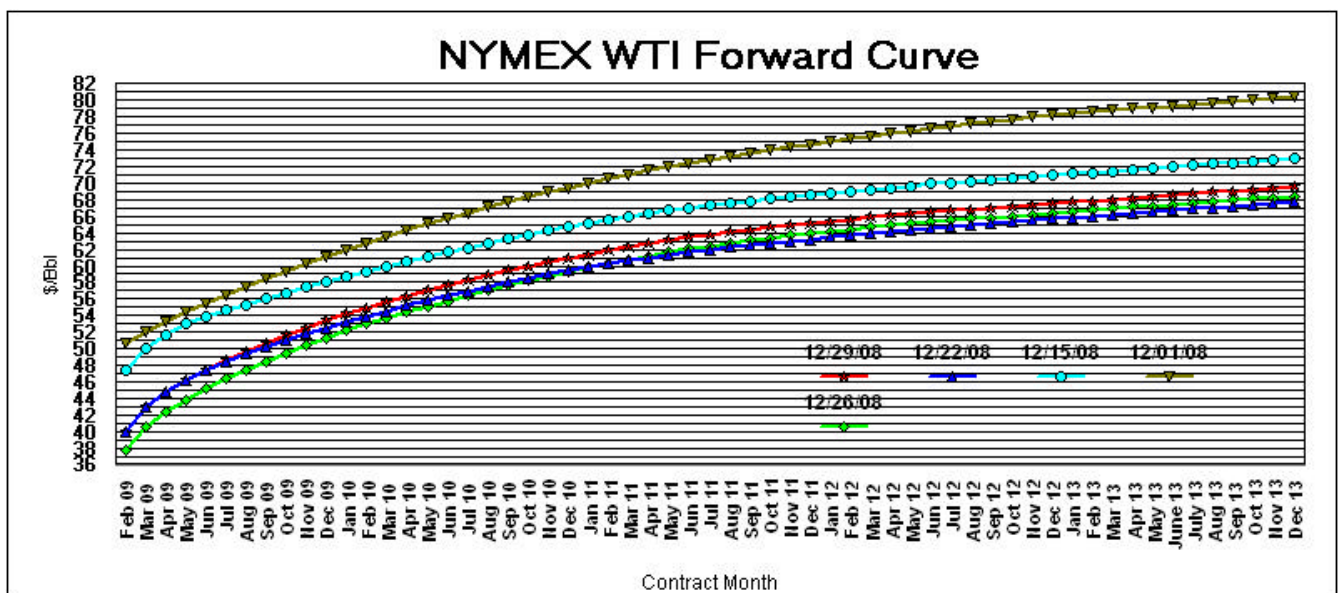
Venezuela's 640,000 bpd Amuay refinery is operating normally following a fire at one of its naphtha units. PDVSA said the fire started on December 23rd.

A power cut shut down indefinitely operations at Iraq's 200,000 bpd Baiji refinery on Monday. Official said exports were not affected by the incident. They were unable to say when operations would resume.

China's Sinopec plans to process more low-grade crude in 2009 as part of measures to lower costs and increase refining profitability. It has revamped many of its refineries in recent years to handle either high-sulfur, acid or heavy feedstocks. Imports of sour and acidic crudes are expected to total about 54 million tons or one-third of Sinopec's crude throughput in 2008.

The National Iranian Oil Refining and Distribution Co said it is working on expanding and upgrading its refining capacity. It is aiming to increase its refining capacity from 169,100 bpd to 250,100 bpd at its Arak Shazand refinery by mid-June 2010. It is also working to expand its refining capacity at its Bandar Abbas refinery from 232,000 bpd to 320,000 bpd and to increase gasoline production by up to 4.8 million liters with the addition of several new secondary units by 2010. It is also expected to complete the construction of a new 360,000 bpd condensate refinery in the second half of 2010 in Bandar Abbas. It is also seeking to lower production of fuel oil and increase production of light products at its 360,000 bpd Isfahan refinery, increase its gasoline production to 110,000 bpd at its Tehran refinery, increase its gasoline production to 11,000 bpd at its Lavan refinery and increase its gasoline production to 4,500 bpd at its Tebriz refinery.

India's demand for oil products continued to decline in November, amid slower economic growth and a decline in industrial activity. Sales of petroleum products grew 2% on the year to 10.99 million tons in November compared with an average 4.1% growth in the April-October period. However despite the falling demand growth, India's crude oil imports increased by 7.8% to 2.4 million bpd in November.



Indonesia's Pertamina has cut its diesel import requirements for January by 17% and jet fuel requirements by 60% amid a continued decline in demand. It will import 3 million barrels of diesel next month, down from 3.6 million barrels in December and 280,000 barrels of jet fuel, down from 700,000 barrels imported in December.

Production News

Apache Corp was restarting production from two oil fields with combined output of 13,200 bpd off Australia's western coast after a cyclone weakened and no longer posed a danger to operations. Production at the 8,000 bpd Stag oil field was reactivated on Friday while production at the 5,200 bpd Ocean Legendre oil field will be restarted later this week.

Iraq's oil exports from its southern Basra terminal increased to 1.8 million bpd on Monday from 1.03 million bpd on Sunday. On Saturday, Iraq's exports from its southern Basra terminal fell to 552,000 bpd. An official from the South Oil Co said there were no problems with export or production facilities but said flow had slowed on Saturday because storage was full and only one tanker was docked at the Basra port.

Kuwait's official news agency, Kuna reported that the country's crude oil exports to Japan fell by 9% on the year in November to 8.33 million barrels or 278,000 bpd. Kuwait supplied 7.2% of Japan's crude oil in November, compared with 8.1% in October and 7% during the same month last year.

China is expected to produce a total of 189 million tons of crude oil in 2008, up 1.6% on the year.

OPEC's news agency reported that OPEC's basket of crudes fell further to \$33.36/barrel on Wednesday, December 24 from \$34.49/barrel the previous day. It also reported that OPEC's basket of crudes fell by \$5.36/barrel to \$34.92/barrel in the week ending December 26.

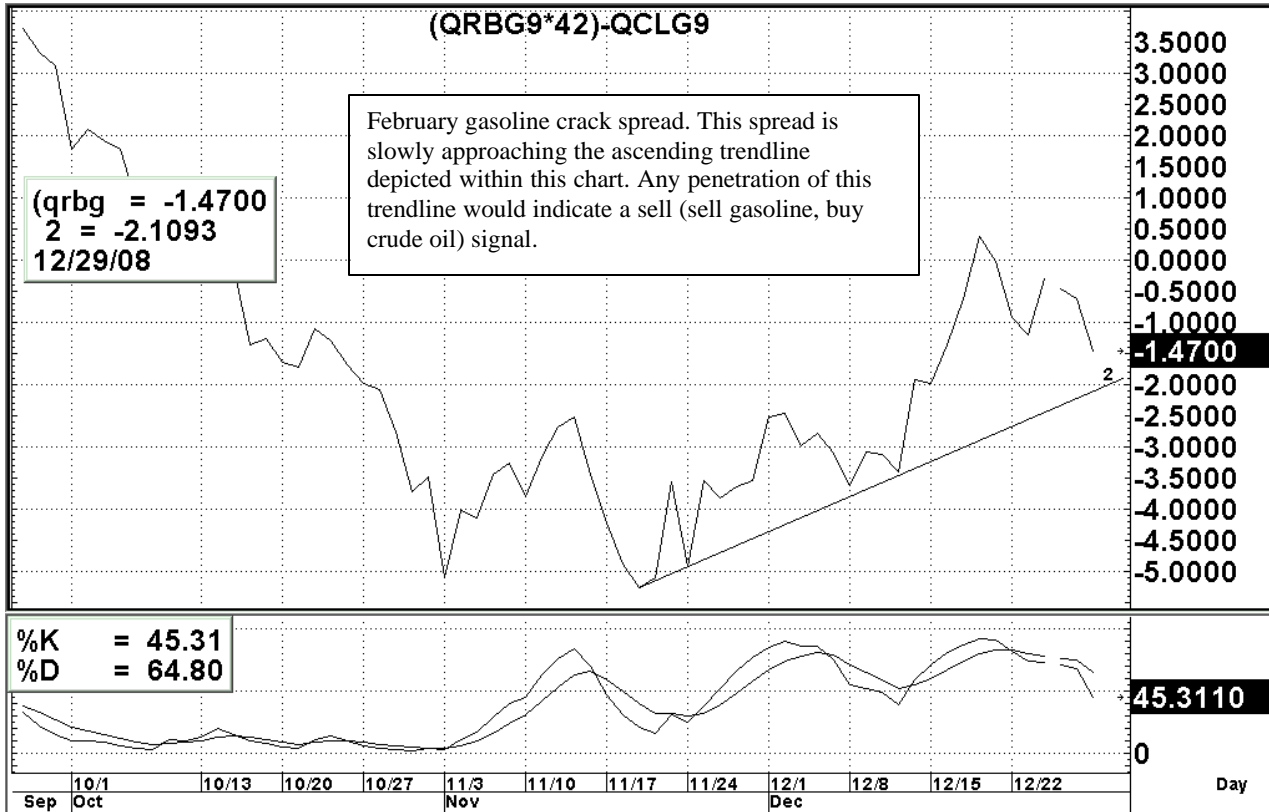
Market Commentary

Crude oil rose today in response to heightened tension in the Middle East between Israel and the terrorist group Hamas. Hamas is backed by Iran, which holds the second largest oil reserves in the world. Prices initially traded over \$4.00 higher on the day, however the demand factor once again kicked in, stemming early gains. A late session rally propped up prices to trade above \$2.00 from Friday's close. The shape of the forward curve still reflects a market that is in deep contango, making the appeal for storing prompt barrels strong. While global demand is still suffering due to economic woes, this recent rash of tension may support prices in the near term. Currently, there is resistance in the February contract at \$43.35. Should this level become penetrated by settlement, we would look for a test at the \$50.05 resistance number. The February gasoline crack spread came under pressure and should continue to do so. With China stating that it is looking to replenish stockpiles while prices are low, this crack spread could suffer additional weakness. Fuel demand continues to suffer due to the sluggish economy, adding further pressure on this spread. Heating oil gained along with the crude oil aided by predictions of colder temperatures across the United States. This should momentarily lead to near term demand growth for heating oil and temporary gains for heating oil prices.

Open interest: Crude FEB.09 279,313 +448 MAR.09 125,794 APR.09 57,722 -438 MAY.09 34,293 +168 Totals: 1,146,031 +3,479 Heating oil (HO) JAN.09 14,850 -2,707 FEB.09 51,004 -707 MAR.09 29,907 +10 APR.09 19,774 +182 Totals: 227,545 -3,055 NEW YORK HARBOR RBOB GASOLINE (RB) JAN.09 16,101 -2,341 FEB.09 74,505 +905 MAR.09 27,503 +249 APR.09 19,497 +15 Totals: 197,252 - 871

The Commitment of Traders report for the week ending December 22nd, showed non-commercials in the crude market increased their net long position by 8,450 lots to 72,570 lots. The combined futures and options report showed little change with an increase in their net long position of just 100 contracts

to 128,240 contracts. It is likely that the following report will also show a slight increase their net long position given the market's move higher in the shortened trading week due to the holidays. Meanwhile, the combined futures and options report showed that non-commercials in the heating oil market cut their net long position by 2,857 contracts to 6,072 and non-commercials in the RBOB market cut their net long position by 1,562 contracts to 50,257 contracts on the week.



Crude Support	Crude Resistance
33.75, 32.25, 29.66, 28.63, 26.65, 25.50	42.51, 44.93, 47.50, 50.07, 52.95, 53.75, 57.20
Heat Support	Heat resistance
1.3005, 1.1895	1.4953, 1.5400, 167.15, 171.85, 176.70
Gasoline support	Gasoline resistance
7760, .6840	1.0134, 1.0500, 1.0866, 115.75, 120.50, 121.90, 136.14

Please note the NYMEX floor will be closed Thursday for New Year's holiday. Normal trading hours will be observed on Friday. Electronic trading on Globex will close at 5:15 pm EST on Wednesday and reopen at 6pm EST on Thursday for the Friday session.

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