PVM OIL REPORT

FUNDAMENTAL

TO: CRUDE AND PRODUCT TRADING DEPTS

DATE: Monday, March 31, 2008

PVM 1630 BFOE ASSESSMENTS			DATED TO FRONT LINE ASSESSMENTS			
21-Day May BFOE:	103.42	(-1.21)	Mar	-74	3Q 2008	22
April / May	+0.40	(+0.00)	Apr	12	4Q 2008	16
May / June	+0.25	(+0.00)	May	11	CAL 09	14
June / July	+0.36	(+0.00)	Jun	25	CAL 10	-4
July / August	+0.37	(+0.00)	2Q 2008	16	CAL 11	-10

It was another normal week in the oil markets, which is to say that it was volatile. All contracts ended the week higher but it was far from a one way direction for prices which were pushed and pulled around by the ebb and flow of the dollar, miserable economic data, fighting in Basra, unexpectedly bullish US oil stock figures, refinery incidents, a series of low level industrial actions and the bombing of a pipeline supplying Iraq's southern export terminals. Between Monday's and Friday's closes WTI ranged $8.25 bbl, heating oil 30 cts/gal and RBOB 18.5 cts/gal.

Friday was a down day as it became clear that the damage to key pipelines taking crude to Iraq's southern loading ports was minimal. The potential loss of 1mbpd of supplies suddenly became no loss at all. However, the market has been warned that Basra's oil infrastructure is back in the firing line and last week's incident appears to have been only a few metres from causing a major supply interruption. There are conflicting reports this morning on whether a ceasefire is in operation between government forces and those of the Mahdi army but, whatever the temporary outcome, the Iraqi oil security situation appears to have worsened.

End of quarter fund book tidying and profit taking may also have been behind Friday's selling with the possibility of more today. In the week to March 25 non-commercials had already cut net crude length from 86,352 to 53,892 contracts, continuing a liquidation that began earlier in the month from a high of 113,307 contracts. Some interesting light has been shed on fund flows in general in 1Q with Emerging Portfolio Fund Research reporting outflows of $100 bn from equity funds, inflows of $140bn to money market funds and further $3bn flow into commodity funds. In the context of total fund movement the commodities figure looks small but it is 3 times the level of net inflows in 1Q last year.

The bearish forces leaning on oil prices come from recession fears, doubts on Asian decoupling and the impact of credit tightening on speculative activity. The bullish forces come from oil's role as a dollar hedge, its non-correlation to equity markets, its role as a geopolitical hedge, its favourable fundamentals, the fragility of its infrastructure and the underlying conflicts of interest between producers and consumers. Every week we see these various forces wax and wane in impact. The reality is that the growth in the demand for oil as a means of transportation, heat and power is below expectations and falling as the global economic situation deteriorates. However, this is more than offset by the growth in demand for oil in its other roles. There is little hope of any relief from high oil prices until this latter source of demand falls away.

Strikes are back in vogue and there are a whole slew of threats potentially impacting on oil. The strike against Shell in Gabon, currently shutting in 60,000bpd, could be extended to all companies affecting some 200,000bpd of production. The Nigerian union's dispute with Exxon/Mobil is not resolved and there are threats of it being extended industry wide. French port unions meet the government on April 1st to discuss port reform plans and we are approaching Norway's biennial round of negotiations with oil workers which normally results in a few days of stoppages and alarmist talk.

David Hufton

PVM 1630 BFOE CFD ASSESSMENTS :		CLOSING FUTURES PRICES :		
31/3-4/4	MAY -20	Nymex May WTI	105.62	(-1.96)
7-11/4	MAY +6	Nymex Apr Heating Oil	310.50	(-4.33)
14-18/4	MAY -5	Nymex Apr RBOB	271.70	(+0.07)
21-25/4	MAY -11	ICE May Brent	103.77	(-1.23)
28/4-2/5	MAY -17	ICE Apr Gasoil	962.00	(-0.75)
ALL Apr	MAY -8	Daily OPEC Basket	27 Mar	100.36