

**W** The  
Windham Group



## ***ENERGY RISK MANAGEMENT***

Howard Rennell, Pat Shigueta &  
Zachariah Yurch

**(212) 624-1132 (888) 885-6100**

**[www.e-windham.com](http://www.e-windham.com)**

---

### **ENERGY MARKET REPORT FOR APRIL 19, 2006**

---

Nigerian militants said their suspension of attacks was ending and added that oil companies operating in the Delta should leave while they could. The militants warned that they would resume their attacks with greater force. They said the conditions for an end to the attacks have not been met by the government. The warning comes a day after President Olusegun Obasanjo announced measures aimed at ending the attacks on oil facilities in the Niger Delta. Among the measures announced by President Obasanjo was the construction of a major road network across the entire Niger Delta, aimed at opening up the region. He also announced a plan to recruit 1,000 Niger Delta residents by Nigerian National Petroleum Corp. He said peace was a precondition for a sustainable development in the region.

#### Market Watch

Industry sources stated that Saudi Arabia booked two more Very Large Crude Carriers to the US in May, increasing spot oil exports for the month to 10.4 million barrels. Vela International Marine provisionally booked two vessels to carry 280,000 tons each during May 8-12. The sources said three other VLCCs have been booked for early May loadings.

The EIA said US average retail prices for regular gasoline could reach \$3/gallon this year. It warned that the price of oil is major factor in gasoline prices and the path of prices in the coming weeks remains highly uncertain. It said another factor influencing gasoline prices is the transition from reformulated gasoline containing MTBE to gasoline containing ethanol. It said that gasoline demand generally increases as the summer approaches but increased domestic production, in addition to the expected continuation of significant volumes of gasoline imports should be enough to cause prices to begin to fall again, although not nearly as much as they increased.

Chad's President Idriss Deby said the country wants to use money from oil sales to buy weapons and is expecting a new arms delivery in the next few days. Rebels fighting to end Deby's rule over the country attacked the capital last week and have vowed to disrupt a presidential poll on May 3 in which Deby is standing for a third term. He said Chad needed the weapons to defend itself. The World Bank froze the royalties from oil production because Chad breached an agreement that required some of the revenues to be used for programs to help the poor. Chad has threatened to halt its oil production unless the royalties are released by the end of the month.

Apache Corp is expected to purchase some Gulf of Mexico assets from BP Plc for about \$1.3 billion and \$1 billion worth of stock. The 18 fields in the Outer Continental Shelf have estimated proven reserves of 27 million barrels of liquids and 185 billion cubic feet of natural gas. Apache estimated that they would provide about 7,100 bpd of oil production, 1,500 bpd of natural gas liquids and 108 mmcf/d of natural gas.

### DOE Stocks

**Crude** – down 800,000 barrels  
**Distillate** – down 2.8 million barrels  
**Gasoline** – down 5.4 million barrels  
**Refinery runs** – up 0.7%, at 86.2%

Russia's Foreign Minister Sergei Lavrov said it would not be rushed into agreeing on action against Iran over its nuclear program after the US failed to gain support for sanctions during talks in Russia on Tuesday. A meeting between the five permanent members of the UN Security Council and Germany ended without consensus on sanctions because

some members, including Russia and France, wanted to wait until the UN's IAEA files its report on Iran on April 28. The Security Council has asked the IAEA to report on Iran's compliance with a council demand that it halt uranium enrichment by that date and answer outstanding questions on its nuclear program. However Britain's Foreign Secretary Jack Straw said he doubted Iran would comply with UN demands by the deadline. Meanwhile, Britain's Prime Minister Tony Blair ruled out any imminent military action against Iran. Russia and China have stated that they are not convinced sanctions would work. Separately, Iran's top nuclear negotiator Ali Larijani flew to Russia for talks with European officials over Iran's nuclear program. He left for Moscow after Russia's Foreign Minister Sergey Lavrov extended an invitation to his Iranian counterpart Manouchehr Mottaki to visit Russia.

Iran's President Mahmoud Ahmadinejad said rising oil prices remain way below what they should be and added that there is still room to the upside. He said the price of oil has not yet reached its real value. He called for the creation of a fund from oil producing countries in OPEC and outside of OPEC to help ease the economic burden caused by high energy prices on less developed countries.

The head of the IEA, Claude Mandil said the IEA would be able to fill the oil supply gap with stocks if Iran were to stop exports. He also said there were a number of risks to the outlook for oil prices, including political uncertainty in Iran, Iraq, Venezuela, Nigeria and Chad that could keep prices high. He said there was no shortage of crude but added that if there was a political or technical accident, which cut production there would be no room to maneuver and react.

An OPEC source said OPEC ministers would consult informally on the sidelines of any energy forum in Qatar on April 24. Several OPEC ministers have said there is nothing more the group could do to lower oil prices.

The DOE reported that US inventories of propane totaled 30.473 million barrels, down 380,000 barrels in the week ending April 14. It reported that propane inventories increased by 151,000 barrels to 3.034 million barrels. It also reported that inventories in the Midwest increased by 924,000 barrels to 12.575 million barrels while inventories in the Gulf Coast fell by 1.454 million barrels to 14.29 million barrels on the week.

According to the API, US oil demand fell by 2.6% on the year in March to 20.198 million bpd due to high oil prices. It said gasoline demand fell 0.6% to 8.946 million bpd while distillate fuel fell by 5.8% to 4.07 million bpd. Total demand during the first quarter fell by 1.5% to 20.326 million bpd. It said total oil imports in March accounted for 65.3% of petroleum use, up from 61.8% a year earlier. Refineries operated at 86.7% of capacity during the month, down from 90.2% a year ago.

### Refinery News

Gasoline differentials in the LA spot market fell 9 cents on Wednesday as refiner buying eased. Demand by refiners had pushed differentials up 19 cents on Tuesday in the LA spot market on Tuesday.

Venezuela's Citgo Petroleum Corp agreed settle a dispute with Lyondell Chemical Corp and proceed with the sale of their jointly owned refinery in Texas. Earlier this month, the two companies announced plans to sell their 268,000 bpd Lyondell-Citgo refinery. Lyondell claimed that Citgo's parent, PDVSA,

had violated a long term crude supply contract to the plant. Venezuela's Oil Minister Rafael Ramirez said Lyondell demanded a sum that was too high as compensation for disrupted Venezuelan crude supplies during the 2002-2003 oil strike.

Separately, Lyondell-Citgo started work on a magnaformer unit at its refinery in Houston. The work is expected to last 20-24 days.

Japan has lost about 7% of its oil refining capacity due to some problems at its refineries. The unplanned outages would exacerbate oil product supply tightness in May, when this year's heavier than usual maintenance schedule peaks, and may force Japan to curb exports of petrochemical products. The head of the Petroleum Association of Japan, Fumiaki Watari, said refiners had sufficient stocks to meet domestic gasoline demand for the rest of the quarter and summer despite four fires over the past three months that have cut into production rates. The Petroleum Association of Japan estimated that 400,000 bpd of capacity was off line due to maintenance or fires last week.

South Korea's Lotte Daesan Petrochemical Corp shut its 650,000 ton per year naphtha cracker for the next three days due to a technical problem caused by a thunderstorm early on Wednesday.

### **Production News**

Royal Dutch Shell has yet to assess its EA offshore oilfield in Nigeria, a step required before it can restart its production that was shut in following militant attacks in February. Shell previously said it hoped the appraisal of the EA field could take place last week.

Iraq resumed oil exports from its southern Basra oil facility late on Tuesday after terminal operators were forced to suspend operations late Monday due to poor weather conditions. The loading rate at the terminal was 56,000 barrels per hour. Prior to the disruption, the terminal was pumping at about 70,000 bph. Separately, the head of the State Oil Marketing Organization, Falah Alamri said Iraq was targeting an average of 1.5 million bpd of oil exports during April and May and aims to increase that gradually in the coming months. Exports through the country's northern oil pipeline to Turkey's port of Ceyhan briefly resumed on April 9. He said its terminal in the north would not resume normal operations until there was security in place.

Russia's Transneft has increased its second quarter Urals oil export plan for the Baltic Sea port of Primorsk and the Black Sea port of Yuzhny by 1.5 million tons. Primorsk would get 1 million tons or 81,000 bpd during the three months in addition to 15.83 million tons or 1.275 million bpd already scheduled for loading. Meanwhile, Ukraine's Yuzhny port would get an extra 500,000 tons in addition to the initial 1.49 million tons.

OPEC's news agency reported that OPEC's basket of crudes increased by 78 cents/barrel to \$65.80/barrel on Tuesday.

China's Unipet has offered to resell at least 7 million barrels of crude. Company sources said the move was due to high domestic inventories and a desire to showcase its ability to play both sides of the market.

Sinopec is expected to start a new oil products pipeline in southern China in June, a six month delay. The 240,000 bpd pipeline in Guangdong province would be the largest by capacity among the refined fuel pipelines Chinese oil companies have completed in the last few years to increase energy security and replace railway and barge transportation. The pipeline would carry mostly gasoline and diesel.

China Aviation Oil Trading has bought by tender 80,000 tons of jet fuel for May, increasing imports to 365,000 tons.

The Petroleum Association of Japan reported that Japan's commercial crude oil stocks fell to 17.24 million kiloliters or 108.44 million barrels in the week ending April 15 from the previous week's 18.18 million kl. It said gasoline stocks increased to 2.3 million kl or 14.47 million barrels, up from the previous week's 2.29 million kl. Kerosene stocks totaled 1.78 million kl or 11.2 million barrels last week, down from 1.89 million kl. The average operating rate of Japanese oil refineries was 86.2% in the week ending April 15 compared with 89.7% the previous week.

Nippon Oil Corp is expected to increase its product exports by 50% by the end of the business year ending March 2007 while domestic demand is expected to fall. A company spokesman said it would invest 1.1 billion yen or \$9.4 million to increase product shipments overseas to 120,000 bpd from the current 80,000 bpd.

Indonesia's Pertamina's oil product stocks fell to 22.5 days from 23 days earlier this month. Pertamina aims to reduce oil product stocks to 20-22 days.

Brazil's Petrobras discovered a new field containing light oil off the coast of Espirito Santo state. It estimates reserves at the new field at about 280 million barrels of oil equivalent. The company also found more oil in a well directly adjacent to the Golfinho field. It estimates reserves at that find between 60 million and 80 million barrels, lifting potential reserves at Golfinho to between 310 million and 330 million barrels.

Ecuador's central bank reported that the country's oil export revenues totaled \$521.78 million in February, up from \$326.17 million reported last year. It exported 11.57 million barrels in February, up 14% from the 10.19 million barrels shipped a year ago.

### **Market Commentary**

The oil market settled sharply higher as the market was supported by the DOE report, which showed draws across the board. The market was further supported ahead of the close amid the reports stating that Nigerian militants were warning that the suspension of their attacks was ending. They stated that oil companies operating in the Niger Delta should leave the region while they could. The crude market, which opened up 15 cents at 70.50 following Tuesday's rally, traded to a high of 71.75 in light of the

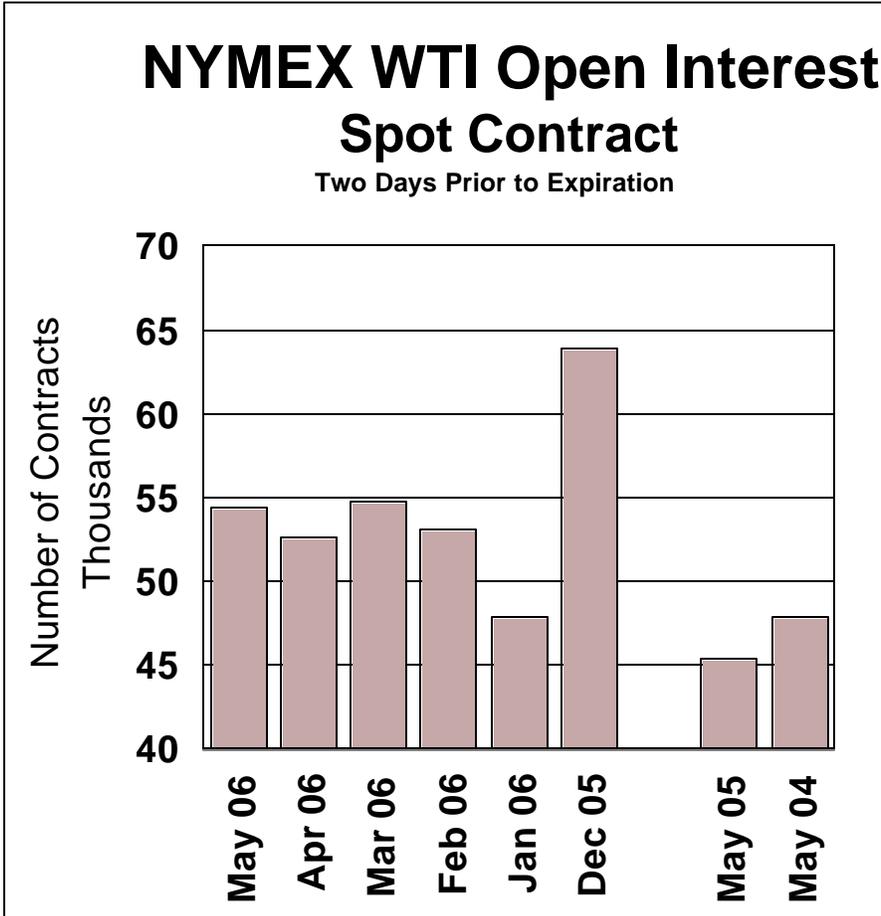
supportive DOE and API reports. However the market retraced its gains and sold off to a low of 70.70 despite the reports showing

Technical Analysis			
		Levels	Explanation
CL	<b>Resistance</b>	72.62, 73.00	Basis trendline
	72.17, up 82 cents	72.40	Wednesday's high
	<b>Support</b>	71.80, 70.70	Wednesday's low
		70.15, 69.30	Previous lows
HO	<b>Resistance</b>	209.00, 213.50	Previous highs
	206.23, up 1.15 cents	208.20	Wednesday's high
	<b>Support</b>	205.50, 203.70	Wednesday's low
		201.40, 197.50	Previous lows
HU	<b>Resistance</b>	237.00	Previous high
	223.94, up 1.55 cents	225.00	Wednesday's high
	<b>Support</b>	222.50, 220.00, 218.75	Wednesday's low
		216.10, 209.70	Previous lows

an unexpected draw of 800,000 barrels in crude stocks. The market was also pressured as the gasoline market failed to sustain its gains despite the large draw of 5.4 million barrels reported by the

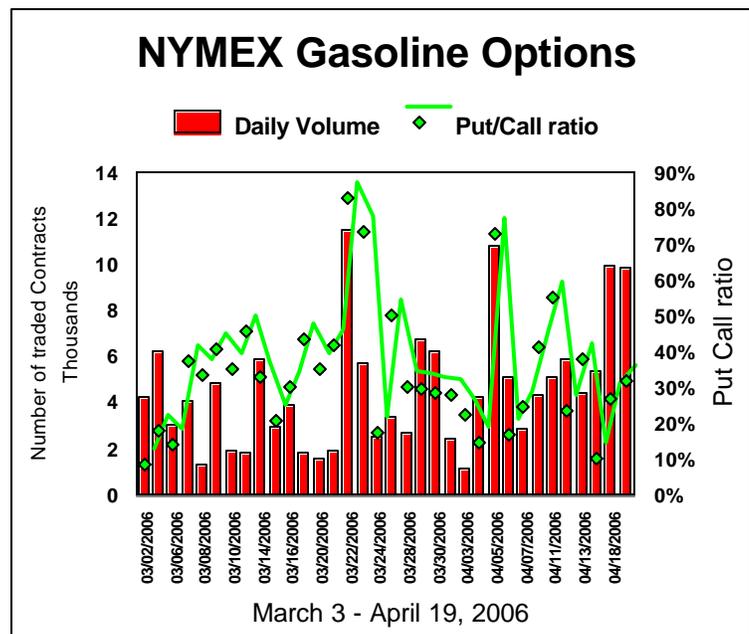
DOE. The oil market later bounced off its low and traded mostly sideways before further buying ahead of the close pushed the market to its high of 72.40. The market was well supported following the

warning by Nigerian militants. It settled up 82 cents at 72.17. Volume in the crude market was excellent with 338,000 lots on the day. The gasoline market opened more than 1 cent lower at 221.25 and quickly rallied to 224.00 following the release of the DOE report, which showed the large draw in gasoline stocks. However the market erased its gains and sold off to a low of 218.75 as it failed to sustain its gain despite the supportive report. The market later bounced off its low and rallied to a high of 225.00 late in the session. It settled up 1.55 cents at 223.94. The heating oil market also settled up 1.15 cents at 206.23 after it rallied to a high of 208.20 ahead of the close. Volumes in the product markets were good with 54,000 lots booked in the gasoline market and 56,000 lots booked



in the heating oil market.

The oil market on Thursday will remain supported ahead of the May contracts expiration at the close, amid the continuing geopolitical problems, including the situation with Iran's nuclear program and the latest news from Nigeria. The market may retrace some of today's sharp gains, however its losses are seen limited amid the supportive news. The market will also remain supported by the latest weekly petroleum stock report, showing draws in oil and product stocks. The oil market is seen finding support at 71.80 and its low of 70.70. More distant support is seen at 70.15 and 69.30. Meanwhile resistance is seen at 72.40 followed by 72.62 and 73.00.



The NYMEX option market saw good activity again today, with over 100,000 option contracts changing hands in the crude oil market, with gasoline options seeing almost 10,000 lots traded for the second straight day. The most active gasoline call traded on the day was the September \$2.50 call which traded over 2100 times at 9 cents.. Despite the strong gains registered in crude over the past two weeks the bias towards calls was not evident today at first glance with volumes between calls and puts basically equal. But when examining the volume breakdown, the interest in the puts is in out of the money strikes while calls are closer in. On a delta weighted volume basis, calls continue to account for 70-75% of the daily volume for the past week.