



## ***ENERGY RISK MANAGEMENT***

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### **ENERGY MARKET REPORT FOR MAY 12, 2006**

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UN Secretary General Kofi Annan urged the US on Friday to start direct talks with Iran to ease the crisis over Iran's nuclear program. The US vowed not to be drawn into endless talks. A senior US official ruled out US-Iranian contact to help solve the international standoff over Iran's nuclear program. The UN Secretary General said he has asked all sides to lower their rhetoric and intensify diplomatic effort to find a solution. Meanwhile, the EU is expected to urge Iran to suspend all uranium enrichment despite Iran's demand that it must be allowed to enrich uranium for atomic research and development purposes. Separately, diplomats said the UN's IAEA found traces of highly enriched uranium at an Iranian site linked to the country's defense ministry. The diplomats said the findings were preliminary and still had to be confirmed through lab tests.

A pipeline explosion killed up to 200 people in Nigeria's city of Lagos on Friday. The Red Cross reported that the pipeline blew up while thieves were drilling into it. The pipeline was a domestic products pipeline at the Atlas Cove oil storage facility in Lagos.

#### **Market Watch**

The US Agricultural Department said the amount of US corn used for production of ethanol is expected to increase 34% in 2006/07 to 2.15 billion bushels, compared with 1.6 billion bushels in 2005/06 and 1.3 billion bushels in 2004/05.

The CBOT reported that there were 39 delivery notices against the May ethanol contract.

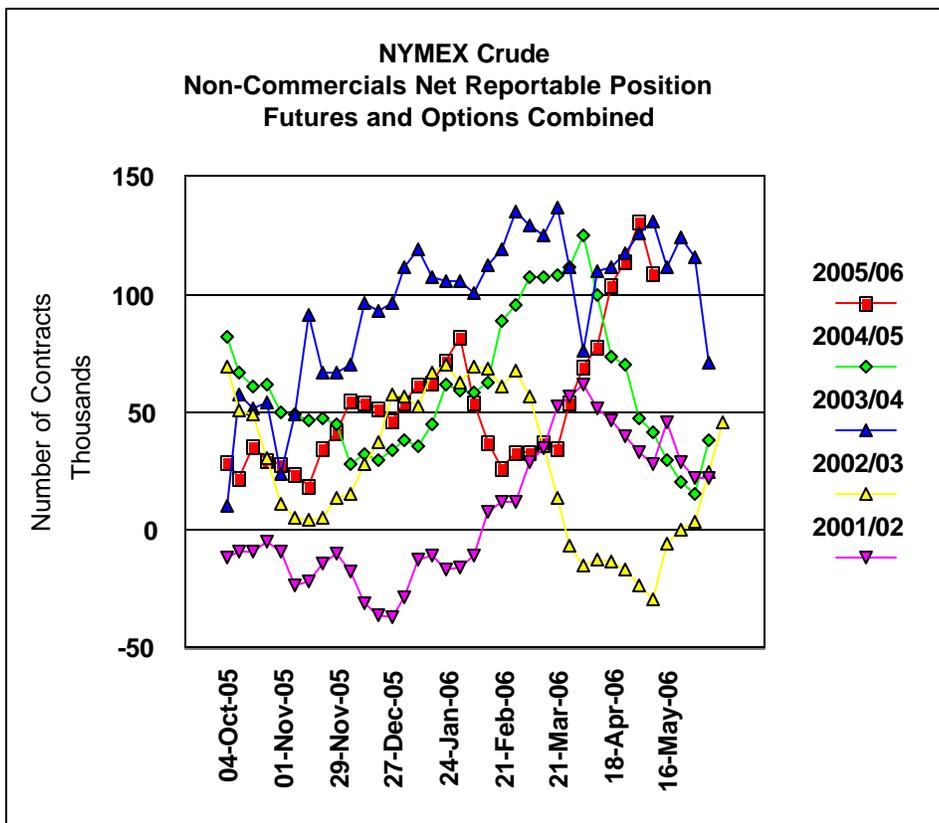
Opponents of Nigeria's President Olusegun Obasanjo blocked changes to the constitution that would allow the President to run for a third term. President Obasanjo's supporters however did not immediately concede defeat and added that they may be able to regain momentum before voting begins next week.

The LA Times reported that thousands of displaced Kurds have been returning to Kirkuk, demanding that their old houses be vacated by Arab who moved there under former Iraqi President Saddam Hussein's ethnic policies, increasing tensions. The former Iraqi President forced about 250,000 Kurdish residents to give up their homes to Arabs in the 1970s. US and Iraqi officials estimate that nearly all those Kurds have returned to Kirkuk along with as many as 100,000 newcomers.

A man was arrested after shooting at guards at the US consulate in Saudi Arabia's city of Jeddah on Friday. A source said police chased a car and arrested the man after the drive by shooting.

The American Trucking Association's seasonally adjusted truck tonnage index fell 2.9% in March to 110.4 following a 3.6% decline in February. Its non-seasonally adjusted truck tonnage index increased by 15.8% to 119.1 in March. On a year on year basis, the seasonally adjusted index continued to fall by 2.3% from March 2005.

A domestic products pipeline at the Atlas Cove oil storage facility in Lagos.



Three foreign oil workers taken hostage in Nigeria's Port Harcourt were released after a day in captivity. The employees of Italy's Saipem were abducted by members of a community where Saipem was working and which was in dispute with the company over compensation for environmental damage. A Bukuma community leader, Mbaka Harmony, said the community was demanding 300 million naira or \$2.3 million in compensation for damage caused by Saipem's laying of a pipeline through the area. The community has threatened more kidnappings unless the company pays the

compensation. Meanwhile, the Movement for the Emancipation of the Niger Delta threatened to attack the Nigeria Liquefied Natural Gas plant. It stated that it would launch a warning raid on an oil facility beforehand.

### Refinery News

Flint Hills Resources is scheduled to start up a sulfur recovery unit at its Corpus Christi, Texas refinery on Friday. The unit has been shut due to planned maintenance.

A fluid catalytic cracking unit at Alon USA Energy Inc's 70,000 bpd Big Spring, Texas refinery was shut early Friday. The unit went offline after a charge pump in the unit shut. The pump was repaired later in the morning and the refinery began to restore the unit at that time.

Kazakhstan's Atyrau oil refinery has completed a \$370 million upgrade that would allow it to produce 4.3 million tons of fuel a year, up from 3.5 million tons. The refinery would start producing fuel meeting European environmental standards known as Euro-4 in the second half of the year.

### Production News

The IEA cut its forecasts for world oil demand this year, stating there were signs that high energy prices were eating into demand and that this trend could well accelerate. It cut its 2006 forecast for demand growth by 220,000 bpd to 1.25 million bpd. Total demand is estimated to total 84.83 million bpd. It cited mild winter temperatures as another factoring slowing consumption growth. It also cut its demand estimate for OPEC crude by 200,000 bpd to 29.2 million bpd for the year. It increased its estimated 2006 non-OPEC supply forecast by 30,000 bpd to 51.3 million bpd. The IEA also stated that supplies to world markets increased by 485,000 bpd in April to 85.1 million bpd. It reported that OPEC's production increased to 30.04 million bpd last month.

Baker Hughes reported that the number of rigs searching for oil and gas in the US increased by 2 to 1,627 in the week ending May 12<sup>th</sup>. The number of rigs searching for oil in the US remained at 259.

The June loading program for North Sea Ekofisk crude is scheduled to load 16.6 million barrels, down from 17.95 million barrels in May. It is scheduled to load 555,000 bpd in June, down 22,000 bpd on the month. The North Sea Flotta crude system is scheduled to load 65,000 bpd in June, up 2,000 bpd on the month. Meanwhile, Norway's North Sea Troll system is expected to load 269,000 bpd in June, up 4,000 bpd on the month.

Norway's government estimated that oil and gas production would increase by 16% from 2006 to 2010, mainly due to increasing natural gas exports. It said the oil production would average 2.8 million bpd in 2006. Combined oil and gas production would be 250 million standard cubic meters of oil equivalent in 2006, down from 256 million in 2005. Oil and gas production is forecast to increase to 289 million standard cubic meters of oil equivalent in 2010.

Germany's MWV said German oil product sales in April 2006 stood at 6.01 million tons, down 6% on the year. It said gasoline sales fell by 11% on the year to 1.83 million tons while light heating oil sales increased by 9% to 1.5 million tons. Diesel sales fell 13.4% to 2.18 million tons in April.

China's General Administration of Customs reported that China's imports of crude oil fell for the first time this year in April. China's imports of crude totaled 12.03 million tons or 2.93 million bpd. It was slightly below the 3 million bpd of crude imports reported in March.

The South Korean government said it would increase its oil reserve capacity to 123.5 million barrels this year. The government said it would increase its capacity by expanding its storage facility in the country's southeast. As of the end of 2005, the facility had the capacity to hold up to 116 million barrels of crude oil and oil products.

Husky Energy Inc's White Rose oil field off the coast of eastern Canada produced at its peak capacity of 100,000 bpd for the first time on May 9. However it stated that production was reduced to 85,000 bpd while a fifth production well was drilled. The fifth well is expected to be completed at the end of June, with production exceeding 100,000 bpd.

Petroecuador exported 21.85 million barrels of crude oil in the first four months of the year, up 24% from 17.64 million barrels reported last year.

OPEC's news agency reported that OPEC's basket of crudes increased to \$67.02/barrel on Thursday from \$65.61/barrel on Wednesday.

### **Market Commentary**

The crude market opened down 47 cents at 72.85 after the IEA cut its forecast for world oil demand. The IEA stated that high energy prices were cutting into demand. The market also traded lower in follow through selling seen in overnight trading following reports that the foreign oil workers taken hostage in Nigeria on Thursday were released. However militants in Nigeria were threatening to destroy a natural gas export plant and warned they would launch a raid on an oil facility beforehand. The oil market posted a high of 73.05 before it continued to erase its recent gains and sold off to a low of 71.65. The market later retraced some of its losses ahead of the weekend and settled in a sideways trading pattern. It settled down \$1.28 at 72.04. Volume in the crude market was good with 197,000 lots booked on the day. The product markets also retraced its recent gains, with the gasoline market settling down 4.11cents at 217.85 and the heating oil market settling down 4.97 cents at 204.67. The gasoline market opened down 3.46 cents at 218.50 and traded in a sideways trading range from

220.00 to 216.75. The market traded off its low and rallied to a high of 221.40 ahead of the close. Meanwhile, the heating oil market posted a high of 208.75 on the opening before it continued to retrace its previous gains. The market sold off to a low of 204.25 late in the session. Volumes in the product markets were good with 35,000 lots booked in the gasoline market and 45,000 lots booked in the heating oil market.

The Commitment of Traders report showed that non-commercials in the crude market cut their net long positions by 7,750 contracts to 86,342 contracts in the week ending May 9<sup>th</sup> amid the market's sell off. The combined futures and options report also showed that non-commercials cut their net long positions by 21,373 contracts to 109,362 contracts on the week. Meanwhile, non-commercials in the product markets also cut their net long positions. Non-commercials in the heating oil market cut their net long positions by 7,420 contracts to 5,843 contracts while non-commercials in the gasoline market cut their net long positions by 9,146 contracts to 14,259 contracts on the week.

The crude market on Monday will be driven by news seen over the weekend. Barring any bullish news over the weekend, the market is seen continuing to trade lower. The market is seen finding some support at its low of 71.65 followed by 71.05, 70.39 and 69.65. Meanwhile resistance is seen at 72.60, 73.05 and

73.85. More distant resistance is seen at 74.55, 74.90 and 75.35.

| Technical Analysis                   |   |  |
|--------------------------------------|---|--|
|                                      | Levels  | Explanation  |
| <b>CL</b><br>72.04, down \$1.28      | <b>Resistance</b><br>73.85, 74.55, 74.90, 75.35       | Previous highs   |
|                                      | <b>Support</b><br>71.65                               | Friday's high  |
|                                      | <b>Support</b><br>71.05, 70.39, 69.65                 | Friday's low<br>50% and 62% retracement(68.25 and 73.85), Previous low |
| <b>HO</b><br>204.67, down 4.97 cents | <b>Resistance</b><br>210.80<br>206.90, 208.75         | Previous high<br>Friday's high   |
|                                      | <b>Support</b><br>204.25                              | Friday's low   |
|                                      | <b>Support</b><br>203.43, 201.15, 198.87, 197.50      | 38%, 50% and 62% retracement(191.50 and 210.80), Previous low          |
| <b>HU</b><br>217.85, down 4.11 cents | <b>Resistance</b><br>222.50, 223.00<br>220.00, 221.40 | Previous highs<br>Friday's high  |
|                                      | <b>Support</b><br>216.75                              | Friday's low   |
|                                      | <b>Support</b><br>214.60, 212.57, 209.50, 206.43      | Previous low, 38%, 50% and 62% retracement(196.50 and 222.50)          |