



## ***ENERGY RISK MANAGEMENT***

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### **ENERGY MARKET REPORT FOR MAY 16, 2006**

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Iran's Foreign Ministry spokesman Hamid Reza Asefi said Iran would continue to enrich uranium in defiance of UN demands to halt its nuclear program. He said that any European proposal on its nuclear program should not violate this right. The European Union is drawing up incentives and penalties to offer Iran as part of an effort to pass a UN Security Council resolution obliging Iran to stop enrichment. Separately, Egypt's Foreign Minister Ahmed Aboul Gheit said Iran has the right to peaceful use of atomic energy but should not be allowed to have nuclear weapons. He reiterated Egypt's opposition to nuclear weapons in the Middle East and called for a peaceful solution to the stand off over Iran's nuclear program.

Algeria's Oil Minister Chakib Khelil said oil prices have not increased due to any lack of supply. He also stated that adding any more oil in the market would not help. His comments were similar to Saudi Arabia's Oil Minister Ali Naimi's statements that world oil supplies were plentiful.

#### **Refinery News**

Frontier Oil Corp said it suffered a fire late Sunday at its 110,000 bpd refinery in El Dorado, Kansas as a new hydrotreater unit was starting operations.

An alkylation and fluid catalytic cracking unit at PDVSA's Puerto La Cruz refinery remained shut following an outage on Sunday. The refinery was operating at about 70% of capacity.

#### **Market Watch**

The head of commodities research at Deutsche Bank, Michael Lewis, said oil prices are estimated to average \$45/barrel during this decade. He said strong world growth, little spare capacity and geopolitical risks continue to threaten price spikes.

Venezuela's President Hugo Chavez accused the US of "imperial abuse" after the US banned US arms sales to his country. He said would ignore the weapons ban. The US accused Venezuela of being uncooperative in the US war on terrorism. Separately, Venezuela's President Hugo Chavez arrived in Algeria for talks with President Abdelaziz Bouteflika on how to further strengthen ties.

The Norwegian Oil Industry Association said it reached agreements with four key unions late Tuesday following five days of tough negotiations over wages.

China's central bank reported that the country's domestic energy prices in April increased by 11.8% on the year and 0.7% on the month. In April, domestic crude oil prices increased by 26.8% on the year and 0.8% from March. Domestic oil products prices in April increased by 23.9% on the year and 2.7% on the month. The central bank stated that China's April producer prices increased 1% on the year and 0.3% on the month.

Western Refining Inc said it would stop running sour crude at its 107,000 bpd El Paso, Texas refinery as it performs scheduled maintenance work on a sulfur recovery unit. The work is expected to last from May 16 to May 23.

Turkey's Petrol Ofisi said it would build a new refinery in Turkey, which would increase the country's 27.6 million tons a year capacity by at least 18%. The new refinery would produce at least 5 million tons a year or 100,000 bpd.

### **Production News**

Royal Dutch Shell said it expected to return to the Nigerian facilities it was forced to shut down in the face of militant attacks in the coming weeks.

Iran has increased its floating crude oil storage capacity by 75% over the past month, after cutting exports of its Soroush and Nowruz grades. The National Iranian Tanker Company has been using seven Very Large Crude Carriers, with a total capacity of 14 million barrels, up from four VLCCs or 8 million barrels in March.

Lukoil said it would gradually increase its oil production by 2.5 times from the current 26,000 bpd at nine Siberian oilfields, which it agreed to purchase from Marathon for \$787 million.

Brazil's Petrobras expects to start production at its new P-34 offshore oil rig at the end of September. The rig is expected to pump 60,000 bpd of heavy oil from the Jubarte oil field. It currently has a 20,000 bpd rig operating at Jubarte. In 2010, Petrobras is expected to bring its P-57 rig onstream in Jubarte to produce 180,000 bpd of heavy crude oil.

The chairman of Libya's National Oil Corp, Shukri Ghanem, said the US' move towards normalized ties with Libya would give the country greater access to equipment it needs to increase its oil production capacity. On Monday, the US said it would reopen an embassy in Tripoli and remove Libya from its list of state sponsors of terrorism.

Venezuela's PDVSA calculated its 2006 budget according to average oil production of 2.9 million bpd, lower than recent estimates of 3.3 million bpd. PDVSA used a conservative 2006 oil price target of \$26/barrel to calculate its budget. The average price to date is \$55.67/barrel. PDVSA reduced its export target for 2006 by 107,000 bpd to 2.55 million bpd. The budget showed sales to the domestic market increasing by 42,000 bpd, a 4.7% increase over last year.

OPEC's news agency reported that OPEC's basket of crudes fell sharply to \$64.67/barrel on Monday from Friday's \$67.02/barrel.

The chief executive of asset management fund Diapason Commodities Management SA said world oil production could reach its peak by 2010, leaving increasing emphasis on the use of agricultural products for energy supply. He said until 2010, the world consumption of bio-oils and fats is forecast to increase by 2.5% annually.

Ecuador ruled out nationalizing the country's energy sector as industry officials held talks in the offices of Occidental Petroleum after the government moved to seize control of the company's assets. Ecuador on Monday terminated its contract with Occidental over accusations that the company illegally transferred part of an oil block without government authorization. Energy Minister Ivan Rodriguez said Ecuador is studying the possibility of a joint venture with other Latin American state oil companies to operate Occidental's oil fields.

Mexico's Energy Secretary Fernando Canales said the country may attempt to modify its constitution to allow private firms to work in the energy sector following the July 7 presidential election. He said the government was studying foreign companies sharing the responsibility with state owned oil company Pemex and the electricity company CFE. Mexico's constitution bars private companies from participating in the energy sector.

**Market Commentary**

The oil market, which posted an outside trading day, opened 19 cents higher as it retraced some of Monday's sharp losses. The market initially traded higher on a technical bounce following its sharp sell off. The market was also supported by Iran's insistence that it would continue to enrich uranium in defiance to the UN's demands. The market however gave up some of its gains and traded to a low of 68.90, breaching its previous low of 69.30. The market later bounced off its low and quickly rallied to a high of 70.70 in afternoon trading before it once again erased its gains and traded below the 70.00 level ahead of the close. It settled up 12 cents at 69.53. The market seemed to have been pressured ahead of Wednesday's release of the weekly petroleum stock reports. Volume in the crude market was good with over 277,000 lots booked on the day. The product markets ended mixed, with the gasoline market settling down 2.79 cents at 202.61 and the heating oil market settling up 65 points at 195.15. The gasoline market also opened up 80 points at 206.20 as it retraced some of Monday's losses. The market posted an early high of 206.50 before it erased its gains and sold off to a low of 201.00 within the first hour of trading. The market however bounced off its low and rallied to a high of 206.75. The gasoline market settled in a sideways trading pattern before it traded lower ahead of the close. The heating oil market also opened in positive territory following Monday's sharp sell off. The market however sold off to a low of 193.70 before it retraced its losses and rallied to a high of 198.25. Similar to the rest of the complex, the heating oil market retraced some of its gains as traders positioned themselves ahead of Wednesday's release of the stock reports. Volume in the product markets were good with 40,000 lots booked in the gasoline market and 43,000 lots booked in the heating oil market.

The oil market on Wednesday seek further direction from the weekly petroleum stock reports, which are expected to show a small draw in crude stocks of less than 500,000 barrels, a build of about 2 million barrels in gasoline stocks and a build of 1 million barrels in distillate stocks. If the reports continue to show builds in product stocks, the market will continue to trade lower. The market will also be driven by the expiration of the June crude option expiration at the close on Wednesday. The market may gravitate towards the 70.00 level ahead of expiration. Technically, the market is seen finding support at 68.90, 68.88, 68.25, 67.90 and 67.35. Meanwhile resistance is seen at 70.00, followed by

its gap from 70.70 to 71.65.

Technical Analysis		
	Levels	Explanation
<b>CL</b> 69.53, up 12 cents	<b>Resistance</b> 70.70 to 71.65	Remaining Gap (May 15th)
	<b>Support</b> 70.00	
<b>HO</b> 195.15, up 65 points	<b>Resistance</b> 199.55 to 204.25	Tuesday's low Gap (May 15th) Tuesday's high
	<b>Support</b> 197.50, 198.25	
<b>HU</b> 202.61, down 2.79 cents	<b>Resistance</b> 213.00 to 216.75	Tuesday's low Previous low, Remaining gap (April 10th)
	<b>Support</b> 206.75	
	<b>Resistance</b> 201.00	Tuesday's low Previous lows
	<b>Support</b> 199.30, 196.50, 193.30	