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## ***ENERGY RISK MANAGEMENT***

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### **ENERGY MARKET REPORT FOR JUNE 21, 2006**

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Iran's President Mahmoud Ahmadinejad said Iran would respond to the incentive package by mid-August. He said Iran was studying the proposals. Iran's ruling hierarchy has been divided over how to respond so far. While some leading figures have called for an

outright rejection, others have said parts of the package are acceptable but certain points should be changed. Meanwhile, Iran's Foreign Minister Manouchehr Mottaki is scheduled to travel to Germany this weekend to meet his German counterpart to discuss questions of mutual and international interest. He also stated that US President George W. Bush should not be in a hurry for a response to an international package of incentives.

During the US-European Union summit, US President George W. Bush accused Iran of dragging its feet on the incentive package following the earlier statement by Iran's President that it would respond to the package by mid-August. President Bush stated that the mid-August timetable seemed like a long time to wait for an answer. The US, Britain, Germany, France, China and Russia set an informal deadline of mid-July, when the G-8 summit is scheduled to be held. Meanwhile, Germany's Chancellor Wolfgang Schuessel stressed US-European cooperation in various areas, including the efforts to persuade Iran to give up its nuclear program. Javier Solana, the EU's foreign and security affairs chief said the EU hoped Iran would not make a mistake and ignore an incentive package. He called for a rapid response. In regards to North Korea, President Bush stated that the country faced further isolation from the international community if it test fired a long range missile believed capable of reaching the US. Separately, North Korea said that its self imposed moratorium on testing long range missiles, no longer applied because it no longer was in talks with the US, suggesting that it would hold off any launch if the US agreed to new talks.

US Energy Secretary Sam Bodman said the Bush Administration hopes to settle the dispute over Iran's nuclear program diplomatically. Separately, US Energy Secretary said the US needed to expand the kind of energy it uses as well as look to other places for supplies.

#### Market Watch

The return of Iraq's Kirkuk crude to the Mediterranean is expected to add more pressure to a spot market with sufficient supplies. Traders stated that the full impact of Kirkuk crude on the physical market would be felt only if Iraq is able to complete a few successful tenders.

Kinder Morgan Energy Partners LP said it planned to invest about C\$133 million or \$120 million to build a crude oil storage facility in Canada through its subsidiary. Construction is expected start this summer with service expected to start in the third quarter.

### **DOE Stocks**

**Crude** – up 1.4 million barrels

**Distillate** – up 1.7 million barrels

**Gasoline** – up 300,000 barrels

**Refinery runs** – up 0.65%, at 93.3%

Saudi Aramco CEO Abdallah Jum'ah said speculation on oil futures markets was one of the reasons prices remained around \$70/barrel despite supply and demand being in balance.

### **Refinery News**

According to a report filed with the Texas Commission on Environmental Quality, Alon USA reduced the processing rate of its 25,000 bpd fluid catalytic cracking unit at its 70,000 bpd Big Spring, Texas refinery for about an hour Wednesday following an equipment problem.

Western Refining is expected to reduce operations on a fluid catalytic cracking unit at its El Paso, Texas refinery this week while a seal oil leak in the unit's wet gas compressor is repaired. The unit is expected to operate at minimum rates. The work is scheduled for June 21-24.

Shell's 142,000 bpd Petit Couronne refinery was operating on Wednesday despite suffering a small fire in a crude unit earlier in the week. A Shell spokesman was unable to say if the fire affected the refinery's output.

Shell is expected to restart its crude distillation unit and fluid catalytic cracking unit at its 412,000 bpd Pernis refinery soon. The units were damaged by a utility failure in January. Shell has kept gasoline flowing through its Rotterdam hub by importing cargoes and unloading them onto barges for delivery farther up the Rhine.

Kuwait's 460,000 bpd Mina al-Ahmadi refinery shut an 18,000 bpd continuous catalytic reformer unit in early June for planned work. The unit is expected to resume operations in early July.

China's Sinopec postponed the launch of a trial run of its 8 million ton/year Greenfield refinery and petrochemical complex in China's Hainan province to mid-July. The company had originally planned to start trial operation this month. For the trial run, Sinopec had already secured a sweet crude cargo of 274,173 metric tons in May.

Nippon Oil Corp is expected to keep its crude oil refining volume in July relatively unchanged at 4.5 million kiloliters. It processed 4.6 million kiloliters or 933,000 bpd last year.

India's government reported that the country processed 11.58 million tons of crude oil in May, up 12% from 10.35 million tons a year earlier. Crude oil production increased by 1% to 2.86 million tons in May from 2.83 million tons reported last year.

The Petroleum Association of Japan reported that gasoline stocks fell by 18,998 kiloliters or 0.94% to 1.995 million kl or 12.55 million barrels on the week. On a year on year basis, gasoline stocks were down 5.9%. It reported that commercial crude stocks were largely steady at 19.14 million kl or 120.4 million barrels, down 0.54% on the week. Japan's kerosene stocks increased by 3.61% on the week to 2.06 million kl or 12.96 million barrels. It reported that gasoline production fell by 28,384 kl to 985,841 kl or 886,000 bpd as Japanese refineries operated at 71.4% of their total capacity of 4.77 million bpd.

South Korea's Korea National Oil Corp said oil product demand increased 4.3% on the year to 1.96 million bpd in May. Crude oil inventories remained steady in May at 13.5 million barrels due to an increase in both refinery runs and imports. Commercial product inventories increased to 50.8 million barrels compared with 51.9 million barrels last year.

Russia's Transneft is expected to increase its Urals crude exports from all Black Sea ports in July and cut them from the Baltic ports. Russia's Baltic Sea port of Primorsk is scheduled to undergo pipeline maintenance on July 16-20 and load 5.5 million tons of crude during the month compared with 5.675 million tons in June.

### **Production News**

Shell reported that a crude pipeline in its Bonny system that was shut in early June following a leak has been fixed. It restored 50,000 bpd of oil production. A leak in a trunk line had forced Shell to close four flow stations at Nembe in the southern state of Bayelsa. Traders said the closure of the line cut two cargoes of 950,000 barrels from Bonny export schedule in July.

Oilfield service workers on rigs off Norway started a strike on Wednesday. However the Norwegian Oil Industry Association said oil and gas production would not be affected unless the action lasted longer. A spokesman for the Norwegian Oil Industry Association said that production on some fields could be affected if the strike lasts for long. It was not clear how long it would take to have an impact. Separately, about 1,500 power utility workers in Norway began a strike on Wednesday at 19 companies. The Norwegian Electricity Industry Association said it could hamper power generation or distribution if repairs are needed. However the strike had no immediate impact on the power system.

Algeria's Energy and Mines Minister Chakib Khelil said Algeria was producing 1.5 million bpd, up from 1.4 million bpd reported last year.

OPEC's news agency reported that OPEC's basket of crudes increased by 31 cents/barrel to \$62.95/barrel on Tuesday from \$62.64/barrel on Monday.

### **Market Commentary**

The oil market settled in positive territory following two consecutive days of losses. The market was well supported by the diminishing prospect of an agreement on nuclear talks between Iran and the west after Iran stated that it would respond to the incentive package by mid-August, while the US, Britain, Germany, France, China and Russia informally set a deadline to mid-July. The market was also supported by the strength in the gasoline market following the release of DOE report, which showed a smaller than expected build in gasoline stocks. The oil market opened down 9 cents at 69.25 and sold off to a low of 68.80 following the release of the DOE report, which showed a build in crude stocks of 1.4 million barrels. Even though the report was relatively bearish, the oil market bounced off its low and never looked back as the market was buoyed by strength in the gasoline market.

The crude market extended its gains to over \$1.40 as it posted a high of 70.75 ahead of the close. It later retraced some of its

<b>Technical Analysis</b>			
	<b>Levels</b>	<b>Explanation</b>	
<b>CL</b>	<b>Resistance</b> 70.33, up 99 cents	72.55 70.75 to 70.90	Previous high Remaining gap (June 13th)
	<b>Support</b>	70.00 68.80, 68.75, 68.60, 68.10	Wednesday's low, Previous lows
	<b>HO</b>	<b>Resistance</b> 193.71, up 2.97 cents	196.00, 196.25 to 198.60 195.30
<b>Support</b>		193.00, 191.00 189.10, 188.70	Wednesday's low, Previous low
<b>HU</b>		<b>Resistance</b> 206.60, up 6.04 cents	210.50 to 212.00 208.50
	<b>Support</b>	205.00 199.00, 198.50, 196.50	Wednesday's low, Previous lows

gains and settled up 99 cents at 70.33. Volume in the crude market was light with 195,000 lots booked on the day. The gasoline market, which lent support to the rest of the complex following the release of the DOE report, settled up 6.04 cents at 206.60. The market traded to a low of 199.00 early in the session and quickly bounced off that level in light of the report. The gasoline market extended its gains to over 7.9 cents as it rallied to a high of 208.50 ahead of the close. The heating oil market also posted a low of 189.10 and quickly bounced off that level amid the strength in the gasoline market. It traded to a high of 195.30 late in the session before it retraced some of its gains on profit taking ahead of the close. The heating oil market settled up 2.97 cents at 193.71. Volumes in the product markets were better today with 36,000 lots booked in the gasoline market and 43,000 lots booked in the heating oil market.

The oil market on Thursday is seen trading in its recent trading range as it further retraces its gains early in the session. However its losses will be limited amid the concerns over Iran's nuclear program after Iran stated that it would respond to the package by mid-August. The market is seen finding support at 70.00 followed by its lows of 68.80, 68.75, 68.60 and 68.10. Meanwhile resistance is seen at its remaining gap from 70.75 to 70.90 followed by further resistance at its previous high of 72.55.