



ENERGY RISK MANAGEMENT

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ENERGY MARKET REPORT FOR JULY 11, 2006

The European Union said it was disappointed by talks with Iran. It rejected assertions that it had failed to answer questions on the package. Meanwhile, an Iranian official said that differences persisted following talks with the European Union on

its nuclear program. He stated that the EU's foreign policy chief, Javier Solana, was unable to answer all its questions. He also stated that the incentives package lacked legal guarantees and more clarification was needed. The official added that the two sides continued to differ over whether Iran should suspend its uranium enrichment. Iran's chief nuclear negotiator called on the European Union, the US, Russia and others to give more time to address Iranian concerns over the incentive package. Iran has previously stated that it would reply in late August to an incentive package and an Iranian foreign ministry spokesman suggested its full answer would only emerge later during detailed negotiations on the offer. Iran's deputy foreign minister, Manuchehr Mohammadi said Iran was optimistic about what he called Western flexibility but warned that any resort to sanctions would be counter productive.

Market Watch

Export shipments of spot gasoline from Europe to the US in July are expected to increase amid an increase in demand. Traders and ship brokers estimated that between 1.3 million and 1.5 million tons of gasoline was booked for loading in northwest European, Mediterranean and Baltic ports between July 1 and July 22. Loadings during June totaled 1.8 million-1.9 million tons or 515,000 bpd.

Goldman Sachs lowered the returns forecast for its Goldman Sachs Commodity Index over the next 12 months due to a belief that oil price risk has become less skewed to the upside. It said the Goldman Sachs Commodity Index returned 5.3% in the first half of the year, less than the gain achieved during the first half of last year.

Japan's government said it still wanted a UN resolution sanctioning North Korea for its missile tests after China proposed an alternative nonbinding UN statement with no sanctions. Japan's chief cabinet secretary Shinzo Abe said Japan would continue to seek the resolution in the UN Security Council to sanction North Korea but would wait a while before it seeks a vote on the matter. Meanwhile China has stepped up its diplomatic efforts to persuade North Korea to stop further missile tests and resume international nuclear disarmament talks. The US and Japan have called on China to press on North Korea for concessions.

Iraq has yet to resume pumping Kirkuk oil along the northern pipeline to Turkey. It was unclear when the flow would restart. Crude stopped arriving at the Turkish terminal of Ceyhan on Thursday. On Sunday, Iraq's Oil Minister Hussain al-Shahristani said it halted exports from the north in order to carry out maintenance on the pipeline.

OPEC's Secretary General Mohammed Barkindo said OPEC needed clear demand signals for spare capacity. He said OPEC has an estimated 100 exploration and production projects with investment in the region of \$100 billion to meet rising demand however justifying spare capacity to calm oil market nerves was difficult. He again raised OPEC's request for a clear demand estimate to enhance supply security and cut import costs.

According to the latest Short term Energy Outlook, regular gasoline prices this summer is expected to average \$2.88/gallon, 12 cents higher from last month's estimate and 51 cents higher from last year's average of \$2.37/gallon. It stated that the US may not be able to rely on gasoline imports from Europe this summer that may be caused by hurricanes. It also stated that current high prices of ethanol may not end until September, when peak driving and gasoline demand ends. The EIA stated that in 2006 and 2007, WTI crude spot price is expected to average \$69/barrel, up \$1 from its previous estimate. In regards to world petroleum consumption, the EIA estimated that petroleum consumption growth would remain strong at 1.6 million bpd in 2006 and 1.8 million bpd in 2007. However its estimates were cut by 100,000 bpd. World petroleum demand is estimated to total 85.6 million bpd in 2006 and 87.4 million bpd in 2007. It reported that in 2006 and 2007, petroleum consumption in the US is projected to increase by 0.4% to 20.74 million bpd and 2.1% to 21.18 million bpd, respectively. Its demand estimates are down from its previous estimates of 20.84 million bpd and 21.28 million bpd for 2006 and 2007, respectively. The EIA cut its gasoline demand estimate from 9.2 million bpd to 9.19 million bpd for 2006 and from 9.33 million bpd to 9.28 million bpd. Its distillate demand estimates were also cut from its previous report by 10,000 bpd to 4.2 million bpd in 2006 and by 30,000 bpd to 4.31 million bpd in 2007. In regards to OPEC, the EIA reported that the group's oil production increased by 300,000 bpd on the month in June to 29.605 million bpd. OPEC ten's oil production, excluding Iraq, averaged 27.405 million bpd in June.

Refinery News

Colonial Pipeline allocated the 41st cycle on its main gasoline line north of Collins, Mississippi.

Sunoco is expected to restart a 200,000 bpd crude unit at the Girard Point section of its Philadelphia refining complex this week after completing unplanned repairs to the unit.

Valero Energy Corp restarted a diesel unit at its St. Charles, Louisiana refinery that was shut following a fire on May 20. The fire reduced the refinery's low sulfur diesel output by 55,000 bpd. Meanwhile, Valero is starting a new feedstock unit at its Texas City, Texas refinery on Tuesday and Wednesday. The start-up is not expected to impact the plant's operations.

Separately, Valero Energy Corp agreed to cut emissions of nitrogen oxides at its Delaware City refinery as part of a settlement with the Delaware Department of Natural Resources and Environmental Control. It would result in reductions of about 800 tons per year of nitrogen oxides from the refinery.

Ethanol producer, Altra Inc broke ground on a 60 million gallon/year ethanol plant in Ohio. The ethanol plant is expected to start producing ethanol by October 2007. The company plans to purchase and expand ethanol plants and build new plants to become one of the largest ethanol and biofuels producers.

A turnaround at Royal Dutch Shell PLC's 420,000 bpd Pernis refinery has ended. Its catalytic cracking unit, which has been offline since April for maintenance, resumed operations. Maintenance work on a crude distillation unit was also completed.

Indonesia's Pertamina restarted its Dumai refinery on Tuesday after it was shutdown on June 21 due to a problem with the cooling water system. Its 120,000 bpd refinery is currently operating at 70% of its capacity and is expected to operate at full capacity over the next few days.

According to Euroilstock, European gasoline inventories fell by 1.7% on the month in June to 134.98 million barrels amid high export volumes. It reported that middle distillate stocks increased by 0.5% on the month to 383.63 million barrels. European crude inventories fell by 0.3% on the month to 489.32 million barrels. Capacity utilization increased to 93.6% in June, up from 91.82% in May.

Indonesia was a net importer of crude oil for the second month in a row in June as its production continued to fall. Indonesia imported 382,000 bpd of crude in June, up 39% on the month as its production fell to 900,000 bpd in June from 918,000 bpd in May due to the shutdown of several oil fields for maintenance.

China's General Administration of Customs reported that China's exports of crude oil and oil products fell sharply in the first half of the year. It exported 3 million tons or 121,492 bpd of crude oil in January-June, down 17% on the year while its oil products exports in the first half of the year totaled 6.2 million tons, down 18.3% on the year.

Production News

The North Sea loading plans for Brent, Forties and Oseberg crude showed loadings would fall by 192,000 bpd to 741,000 bpd in August from 933,000 in July. The North Sea Forties crude system is expected to load 9.1 million barrels in August, down from 13.48 million barrels in July. The North Sea Oseberg crude system is scheduled to load 228,000 bpd in August, down from 235,000 bpd in July. Meanwhile, the North Sea Statfjord crude system is scheduled to load 8.55 million barrels in August, down 855,000 barrels from 9.405 million barrels scheduled in July.

Credit Suisse Group stated that China's coal-to oil projects could meet half of the country's new demand for refined products by 2011. It stated that there would be new supply of oil products starting in 2010 and between 2010 and 2014, China may be able to produce about 1 million bpd of oil products from coal.

The National Iranian Oil Co raised the price of its Iran Light crude in NW Europe by 28 cents to BWAVE minus \$5.62, while it also increased the price of its Iran Heavy crude by 15 cents to BWAVE minus \$7.60 and its Forozan crude was increased by 15 cents to the BWAVE minus \$7.50. It also increased the price of its Iran Light crude bound to Asia by 15 cents to the Oman/Dubai average plus 47 cents. Its Iran Heavy crude and its Forozan crude were unchanged at the Oman/Dubai average minus \$3.09 and the Oman/Dubai average minus \$3.04, respectively.

Iraq has cut the official selling price of its Basra Light crude bound for Europe in August to dated BFO minus \$7.95/barrel, down 10 cents on the month. The price for its Basra Light crude bound for the US was set a discount of \$8.65 to the second month of WTI, up 10 cents on the month. Its price for Basra Light crude bound for Asia was set at the Oman/Dubai average minus \$2.80/barrel, up 5 cents on the month.

OPEC's news agency reported that OPEC's basket of crudes fell by 87 cents to \$67.90/barrel on Monday.

Market Commentary

The oil market gapped higher from 73.95 to 74.10 as Iran stood firm on its nuclear program and rejected calls for an immediate response on the incentive package ahead of its meeting with the EU.

The market traded to 74.60 before it retraced its gains and backfilled its opening gap as it posted a low of 73.95. The market later bounced off its low and rallied to its high once again following the meeting between the EU and Iran over its nuclear program. Iran stated that the incentives package lacked legal guarantees and more clarification was needed. An Iranian official added that the two sides continued to differ over whether Iran should suspend its uranium enrichment. The market, which failed to breach its high, retraced some of its gains ahead of the close and ended the session near its opening price. It settled up 55 cents at 74.16. Volume in the crude market was good with 209,000 lots booked on the day. Meanwhile, the gasoline market posted an inside trading day after failing to find the momentum to breach its previous trading range. The market opened at its low of 218.50 and quickly rallied to a high of 221.75. The market later retraced some of its gains and settled in a sideways trading pattern. It settled up 1.78 cents at 219.25. The market traded mostly sideways as it awaited Wednesday's release of the weekly petroleum stock reports. The heating oil market opened up 3.35 cents at 199.80 in follow through buying seen in overnight trading. The market traded to 201.50 and settled in a sideways trading pattern after it sold off to a low of 199.50. The market later bounced off its low and rallied to a high of 202.10 ahead of the close. It settled up 4.61 cents at 201.06. Volumes in the product markets were good with 35,000 lots booked in the gasoline and 56,000 lots booked in the heating oil market.

The oil market on Wednesday will seek further direction from the weekly petroleum stocks reports. The reports are expected to show draws in crude stocks of about 1 million barrels, builds in distillate stocks of 1.5 million barrels and small draws in gasoline stocks of about 500,000 barrels. If the reports do show the draws in crude and gasoline stocks, the complex will remain supported and trade back towards its highs. However the market technically is still seen trading lower as stochastics are trending lower. The market is seen finding resistance at 74.60 followed by 75.55 and 75.85.

Meanwhile support is seen at 73.95, 72.90, 72.50 and 72.15.

| Technical Analysis | | |
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| | Levels | Explanation |
| CL 74.16, up 55 cents | Resistance | 75.55, 75.85 |
| | Support | 72.90, 72.50, 72.15, 71.60, 71.35 |
| | | 73.95 |
| HO 201.06, up 4.61 cents | Resistance | 208.50 |
| | Support | 199.50, 195.30 |
| | | 202.10 |
| HU 219.25, up 1.78 cents | Resistance | 222.50 to 223.25 |
| | Support | 216.25, 214.23, 214.00, 210.57 |
| | | 221.75 |