



ENERGY RISK MANAGEMENT

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ENERGY MARKET REPORT FOR JULY 12, 2006

US Secretary of State

Condoleezza Rice said Iran's refusal to accept the incentive offer would force major powers to decide on Wednesday to deal with Iran at the UN Security Council. She however left open the possibility of negotiations. She said that even after the US, Britain, France,

Germany, Russia and China begin focusing on Security Council action, Iran could still choose to negotiate. Later a State Department official said the US hoped a UN Security Council resolution would pass next week that mandates Iran to suspend its uranium enrichment activity. The official said debate on the measure at the UN would start on Monday. Meanwhile, Germany's Foreign Minister Frank-Walter Steinmeier said world powers have kept open the door for talks with Iran following a meeting with his counterparts from the US, Britain, Russia, China and France. He said if Iran failed to react within an appropriate time, the six powers would meet again to discuss further measures, possibly sanctions. Russia's Foreign Minister Sergei Lavrov said Iran still has time to respond to the incentive proposals while work on a UN Security Council resolution is in progress. If Iran implemented the decisions of the IAEA and the UN Security Council and enter into negotiations, the world powers would be ready to hold back from further action in the UN Security Council.

Market Watch

Iraq's Prime Minister Nuri al-Maliki said Iraqis had one last chance for peace as US Secretary of Defense Donald Rumsfeld held talks with Iraqi leaders on the sectarian violence in the country. Iraq's Prime Minister said a national reconciliation plan he has promoted was Iraq's last chance to stem the violence.

Finnish Finance Minister Eero Heinaluoma said high oil prices were reaching the point where growth in the European Union could be hit hard.

ICE stated that physical delivery against the expired July IPE gas oil contract increased to 1,002 lots or 100,200 tons, up from 94,100 tons in June.

Israel launched an air assault and ground invasion in southern Lebanon in response to the Hezbollah militia's kidnapping of two Israeli soldiers. Israeli Prime Minister Ehud Olmert called the soldiers' capture an act of war and his cabinet prepared to approve more military action in Lebanon.

DOE Stocks

Crude – down 6 million barrels

Distillate – up 2.6 million barrels

Gasoline – down 400,000 barrels

Refinery runs – down 2.79%, at 90.5%

Iraqi oil industry sources stated that a leak at an export pipeline linking Kirkuk oil fields with the Turkish port of Ceyhan has prevented Iraq from resuming exports since Friday. A source stated that a few days were needed to fix the leak. Meanwhile, Iraq's Prime Minister Nouri al-Maliki said Iraq was targeting an increase in its oil exports to 1.7 million bpd in July.

The IEA cut its world oil demand growth forecast for 2006 to its lowest level yet of 1.21 million bpd. However it estimated that demand growth would recover to 1.57 million bpd to 86.4 million bpd. It reported that oil demand in China would increase by 5.5% next year, slightly less than expected this year. The IEA stated that China's apparent oil demand increased by 11%. Demand in the Middle East is expected to grow by 5.3% in 2007, almost as fast as a 5.4% increase in 2006. It stated that non-OPEC supply would increase next year by 1.7 million bpd, up from growth of 1.1 million bpd in 2006. The increase would result in lower demand for oil from OPEC. Demand for OPEC oil would fall to 28.4 million bpd next year from 28.8 million bpd in 2006. The IEA stated that OPEC's crude oil production increased to 29.8 million bpd in June, up 200,000 bpd from a revised level of 29.6 million bpd in May. OPEC-ten, excluding Iraq, produced 27.73 million bpd in June, up from 27.68 million bpd the previous month. In a separate report, the IEA stated that demand would rise more quickly in the year to 2011 than in the past decade as high prices fail to derail growth in countries such as China. It said demand would grow on average by 1.8 million bpd or 2% a year to reach 93.7 million bpd in 2011. Dependence on OPEC oil would grow in the years after 2007, with demand for OPEC's oil increasing to 30.2 million bpd in 2011. The IEA also shed further light on reports that Iran was storing close to 20 million barrels of unwanted crude on tankers. It said the latest indication was that there were up to 10 vessels holding 20 million barrels of crude of mostly heavy, sour Soroush/Nowruz crude which has been difficult to market.

Refinery News

A Coast Guard official stated that a 45,000 ton gasoline tanker was finally cleared by the coast guard for cargo discharge at the port of Los Angeles following a delay of six days. The tanker chartered by Glencore to deliver gasoline from South Korea to California. Cargo discharging from the tanker was suspended last week in response to safety concerns about the high oxygen content in some cargo tanks.

A sulfur recovery unit at BP's Texas City, Texas refinery suffered a leak on Tuesday. A report filed with the Texas Commission on Environmental Quality however did not state whether the leak impacted production at the refinery.

Murphy Oil Corp's 125,000 bpd Meraux, Louisiana remained at 80% of its capacity, several weeks past initial estimates of a return to full operations. The refinery has been processing about 100,000 bpd of crude oil while the alkylation unit remains down with no estimate for its return to operation.

Kuwait's Mina al-Ahmadi refinery shutdown an 18,000 bpd gasoline unit following a technical problem. The unit is expected to resume operations at the end of next week.

Citgo Petroleum Corp announced late Tuesday that it planned to reduce the number of Citgo branded gasoline stations by 14% or about 1,800. Analysts stated that its decision to stop supplying gasoline to US stations over the next nine months is a strategic one in line with its previous efforts to streamline its business.

Petrobras' CEO, Jose Gabrielli de Azevedo said a sharp increase in ethanol demand could be a problem for the company. He stated that supplying ethanol to the US was not its main priority as Brazil consumes most of its actual production.

China's General Administration of Customs reported that China's crude oil imports increased by 4.8% on the year in June, down from a 19% increase in May. China's crude imports in June stood at 11.79 million tons or 2.87 million bpd. Crude oil processing at the country's top refineries fell 4.5% on the month due to lower production at PetroChina's Lanzhou refinery and Sinopec's Maoming and Jinling

refinery. Meanwhile, net imports of oil products, excluding liquefied petroleum gas were up 80% from a year earlier at 3.17 million tons.

The Petroleum Association of Japan reported that the country's commercial crude oil inventories were unchanged at 18.45 million kiloliters or 116.04 million barrels in the week ending July 8 from the previous week. Gasoline stocks increased to 2.01 million kl or 12.64 million barrels, up from the previous week's 1.95 million kl. Kerosene stocks totaled 2.42 million kl or 15.22 million barrels last week, up from 2.12 million kl the previous week. The average operating rate of Japanese oil refineries was 80.3% in the week ending July 8 compared with 82.5% the previous week.

Germany's MWV reported that oil product sales in June 2006 totaled 6.53 million tons, up 2.8% on the year. It reported that gasoline sales fell by 6.8% in June to 1.89 million tons while light heating oil sales increased 32.8% on the year to 1.8 million tons. Diesel sales in June were down 3.8% on the year at 2.4 million tons.

Russia's Energy Ministry reported that the country's refining runs fell in May as Russian firms sought to export more crude oil before a further increase in export duties in June. Russian refineries processed 4.15 million bpd in May, down from 4.43 million bpd in April. It also reported that gasoline exports in May increased by 15.8% to 617,000 tons while fuel oil exports fell by 4.2% to 3.127 million tons and jet kerosene fell by 15.7% to 118,000 tons.

The Korea Energy Economics Institute estimated South Korea's 2006 domestic petroleum product demand at 761.1 million barrels, relatively unchanged from last year's level of 761.4 million barrels.

Production News

According to Reuters, the average daily loading rate of the nine North Sea crude oil systems is scheduled to fall about 11% in August from July. August crude loadings totaled 2.376 million bpd, down 288,000 bpd from 2.664 million bpd in July.

BP stated that seasonal maintenance at the North Sea Forties oilfield would reduce August crude production. The reduction in Forties output has reduced the combined loadings of North Sea Brent, Forties and Oseberg crude to a record low. In August the Forties crude system is expected to load 294,000 bpd, down from 456,000 bpd in July.

Meanwhile, the North Sea Flotta crude system is scheduled to load 63,000 bpd in August, unchanged on the month.

The Saudi ambassador to the US, Prince Turki al-Faisal said Saudi Arabia's oil production was between about 9.5 million to 10 million bpd. He stated that the expansion of the country's oil production to 12.5 million bpd by 2009 was proceeding well.

The Norwegian Petroleum Directorate said Norway's oil production fell to an average of 2.26 million bpd in June from 2.36 million bpd in May.

The head of Libya's National Oil Corp, Shokri Ghanem said Libya hoped to more than double its oil production over the next few years to 3.7 million bpd. Libya currently produces crude at a rate of 1.6 million bpd. He stated that Libya hoped to increase its output to 2 million bpd by mid-2007.

Kazakhstan's state statistics agency reported that its oil and gas condensate production increased by 1.2% on the year to 31.3 million tons in the first half of 2006. Oil production alone increased by 5% to 28.6 million tons in the first six months of the year.

OPEC's news agency reported that OPEC's basket of crudes increased to \$68.10/barrel on Tuesday from \$67.90/barrel on Monday.

Market Commentary

The oil complex settled in positive territory in light of the news that permanent members of the UN Security Council have decided to continue working on a UN Security Council resolution forcing Iran to halt its uranium enrichment. The oil market opened 19 cents higher at 74.35 and quickly rallied to 74.95 following the release of the weekly petroleum stock reports. The DOE and API reports showed larger than expected draws in crude stocks of 6 million barrels and 3.04 million barrels, respectively. The market however erased its gains and sold off to a low of 73.80. The market later bounced off its low and settled in a sideways trading pattern before it rallied to an intraday high of 75.05 ahead of the close in light of the decision of the world powers to resume their work on a UN resolution to force Iran to halt its nuclear program. The crude market settled up 79 cents at 74.95. Volume in the crude market was good with 215,000 lots booked on the day. The gasoline market also opened 1.15 cents at 220.40 and traded above 222.00 following the release of the DOE report which showed a draw in gasoline stocks of 400,000 barrels. The market however gave up its gains and sold off to a low of 218.00. The market later retraced its losses traded back towards its earlier higher before further buying pushed the market to a high of 226.00 ahead of the close. It settled up 6.34 cents at 225.59. Meanwhile, the heating oil market opened 36 cents lower and extended its losses to 2.86 cents as it sold off to a low of 198.20. The market however bounced off its low and retraced its losses. It rallied to a high of 202.00 ahead of the close and settled up 78 points at 201.84.

The oil market, which traded higher in light of the draws in stocks will likely hold its support as it also remains supported in light of Iran's refusal to accept the incentive package. Also its stochastics, which had crossed to the downside, now look ready to cross back to the upside. The market will seek further direction from the reports regarding the Iranian issue. The market is seen finding support at 74.50 followed by its low of 73.80. More distant support is seen at 72.90, 72.50, 72.15 and 71.60.

Meanwhile resistance is seen at 75.05 followed by 75.55 and 75.85.

Technical Analysis		
	Levels	Explanation
CL 74.95, up 79 points	Resistance 75.55, 75.85	Previous highs
	Support 75.05	Wednesday's high
	Support 74.50, 73.80	Wednesday's low
HO 201.84, up 78 points	Resistance 208.50	Previous high
	Support 202.00, 202.10	Wednesday's high, Tuesday's high
	Support 200.00, 198.20 195.30, 193.20, 193.00, 192.25	Wednesday's low Previous lows
HU 225.59, up 6.34 cents	Resistance 226.90, 227.50, 229.70	Previous highs
	Support 226.00	Wednesday's high
	Support 223.75, 219.75 218.00, 216.25	Wednesday's low, Previous low