



## ***ENERGY RISK MANAGEMENT***

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### **ENERGY MARKET REPORT FOR JULY 19, 2006**

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The conflict between Israel and Hezbollah continued for the eighth day. Israel unleashed air strikes on Lebanon, killing 49 civilians and a Hezbollah fighter while more Hezbollah rockets fell on the Israeli city of Haifa. Israeli troops crossed the border to raid Hezbollah posts. Despite the international diplomatic efforts, there was no sign Israel or Hezbollah were ready to ceasefire. Separately, the European Union's foreign policy chief Javier Solana called for a ceasefire in the fighting between Israel and Hezbollah. He condemned the Hezbollah cross border raid on July 12 that led to Israel's offensive in Lebanon following a meeting with Israel's Foreign Minister, Tzipi Livni. He urged the guerrillas to immediately release the two soldiers they captured. However he said diplomatic efforts to the end the crisis should continue. Meanwhile, UK Prime Minister Tony Blair rejected calls for Israel to declare unilateral ceasefire. He insisted that Hezbollah had to free the Israeli soldiers and stop firing rockets as condition for ending the Mideast conflict.

#### **Market Watch**

OPEC's President Edmund Daukoru is scheduled to travel to the Middle East this weekend to sort out a long running dispute over the Secretary General post. OPEC's President would seek to resolve a conflict between Iran and Kuwait over which country's candidate should be appointed secretary general. He is expected to travel to Saudi Arabia, Iran, Libya and Kuwait, where he is also expected to discuss the latest oil price rally and the Middle East conflict. Separately, OPEC's President stated that the rally in oil prices to the mid-\$70 area due to Middle East instability was unsettling for the world economy and prices were more desirable in the mid-\$60 area.

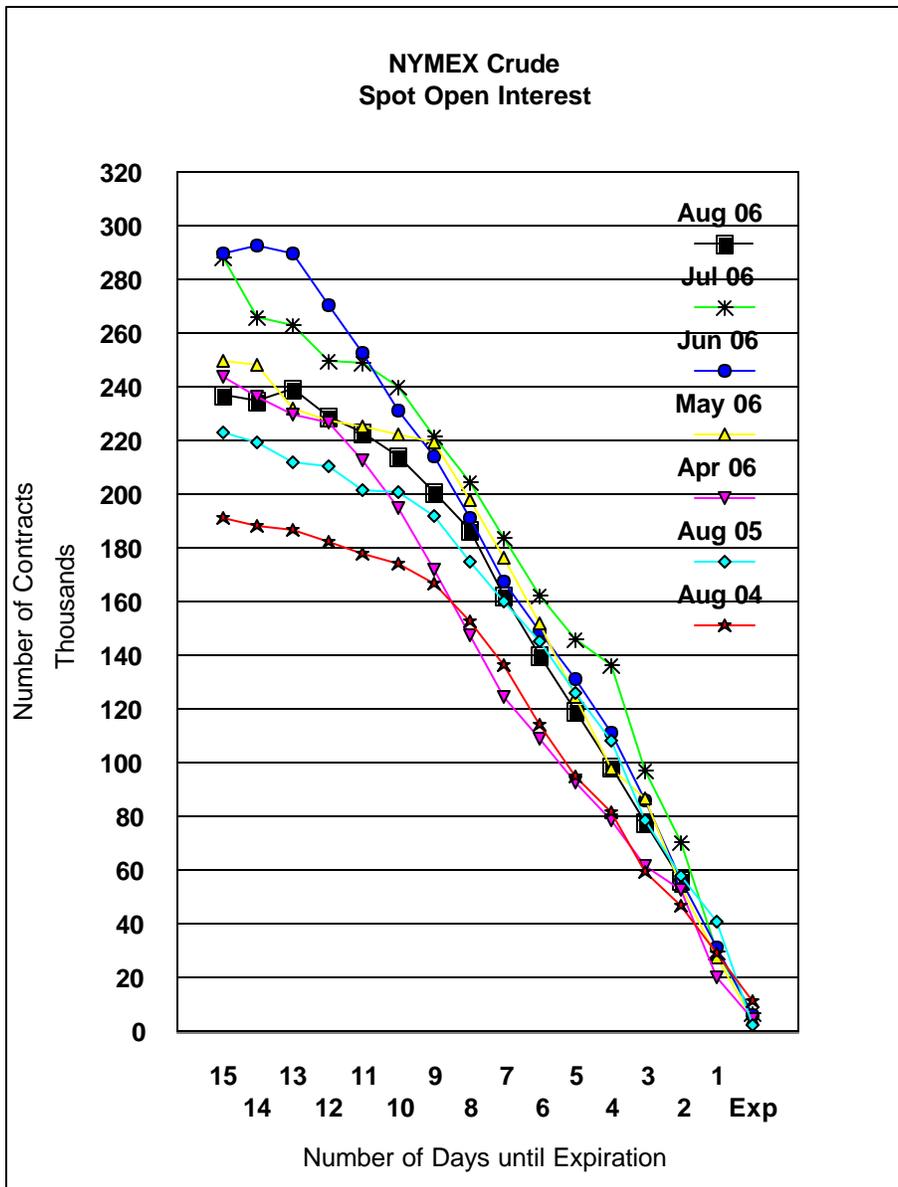
Retaliatory massacres have left more than 130 people dead across Iraq over the last two days, the latest casualties of what some politicians now are calling an undeclared civil war. Since the beginning of May, attacks by Sunni Arab and Shiite Muslims have claimed the lives of more than 6,000 Iraqi civilians. Separately, the International Crisis Group said Iraq could face a local conflict over its northern city of Kirkuk unless the international community acts to resolve mounting tensions. It stated that unless the international community acts soon the result could be another violent communal conflict in Iraq, risking full scale civil war and possibly outside military intervention.

Iraq's State Oil Marketing Organization said its sales of its northern Kirkuk crude have been postponed until further notice due to sabotage which halted the flow on its export pipelines 10 days ago. An Oil Ministry official said a sabotage attack along Iraq's northern oil export route to Turkey 10 days ago fractured both pipelines and repairs would take at least another week.

#### **DOE Stocks**

**Crude** – up 200,000 barrels  
**Distillate** – up 1.2 million barrels  
**Gasoline** – up 1.5 million barrels  
**Refinery runs** – up 2.65%, at 92.9%

The DOE reported that US inventories of propane totaled 53.052 million barrels in the week ending July 14, up 1.71 million barrels on the week. It reported that propane stocks



in the East Coast increased by 288,000 barrels to 4.84 million barrels while inventories in the Midwest increased by 866,000 barrels to 21.951 million barrels and inventories in the Gulf Coast increased by 375,000 barrels to 24.118 million barrels on the week.

**Refinery News**

BP Plc's Texas City refinery has returned to nearly 50% of its capacity or 220,000 bpd, three months after resuming gasoline production. The refinery is expected to reach 300,000 bpd by the end of the month and increase to its full capacity of 460,000 bpd by the end of the year. The refinery had been shutdown following Hurricane Rita.

Japan is expected to return 500,000 bpd of crude refining capacity by late July as refineries resume operations following the completion of regular maintenance.

Nippon Oil Corp is expected to increase its crude oil refining volume in August by 8% on the year following a

surge in gasoline demand in July amid tight supply. Nippon Oil is expected to run its refineries at 99% of their capacity in August. The planned August volume would be about 4.86 million kiloliters or 986,000 bpd.

South Korea's crude processing rates are likely to fall by 2% on the month in August due to near record low fuel oil margins and scheduled maintenance. GS Caltex Corp is expected to cut its operations by 70,000 bpd next month amid the shutdown of its 100,000 bpd No. 1 crude unit for 30 days of maintenance. Caltex is expected to cut its runs to 550,000 bpd from July's 620,000 bpd. Meanwhile, Hyundai Oilbank Corp has planned to operate its 390,000 bpd refinery at 340,000 bpd for July and August. It may reduce it further due to poor fuel oil margins.

Saudi Aramco said a shipment of Arab Light crude would be delivered in August for a new 160,000 bpd refinery in China's Hainan. The refinery received its first cargo in May, a 2 million barrel Very Large Crude Carrier load of Angolan oil.

## **Production News**

BP PLC has shut down 12 producing wells at its Alaskan operations after BP workers told the Financial Times that about 57 wells had leaked a crude oil or diesel fuel based insulating agent. Of the 57 wells, 12 wells that were in production were shutdown as a precautionary measure. The wells produce a combined 8,000 bpd.

Two former Iraqi Oil Ministers said Iraq would not be able to increase its oil production to 3 million bpd by the end of the year. Issam al-Chalabi and Thamer al-Ghadban were responding to a statement made by US Energy Secretary Samuel Bodman, who stated that Iraq would be able to produce that level by the end of the year.

Nigeria's Minister of State for Petroleum Edmund Daukoru said last week's attack on a convoy of boats supplying oilfields in the western delta was a setback in restoring the country's production. Militants killed four soldiers protecting Chevron's supply barges in the Chanomi Creek area. He stated that Nigeria's production was still curtailed by 500,000 bpd due to militant attacks in February.

Pemex reported that its production fell to 3.29 million bpd last month, compared with 3.33 million bpd in May and 3.43 million bpd in June of last year. Its crude oil exports fell to 1.78 million bpd in June from 1.83 million bpd in May and 1.8 million bpd in June 2005.

India is scheduled to begin building its first strategic crude oil storage facility in January 2007 at Vizag as part of its plan to build strategic oil reserves. The storage facility would have the capacity to store 1 million tons of crude oil and would be ready in January 2010.

Ecuador's Energy Minister Ivan Rodriguez said Ecuador may call off a deal to swap crude oil with Venezuela for petroleum products and instead auction off the crude. In the auction, Petroecuador would offer about 15 million barrels of Napo crude or the total output of Occidental Petroleum's former fields until February.

OPEC's news agency reported that OPEC's basket of crudes fell by \$1.14/barrel to \$70.29/barrel on Tuesday.

## **Market Commentary**

The oil complex settled in negative territory in light of the weekly petroleum stock reports, which showed builds across the board. The oil market traded to a high of 73.60 early in the session following the release of the DOE report which showed a smaller than expected build in crude stocks. However it quickly retraced its gains and sold off to a low of 71.65 amid the losses seen in the product markets.

The market later retraced some of its losses and settled in a sideways trading pattern. The August crude contract settled down 88 cents at 72.66. The market was also pressured as traders liquidated their positions ahead

<b>Technical Analysis</b>		
	<b>Levels</b>	<b>Explanation</b>
<b>CL</b> 72.66, down 88 cents	<b>Resistance</b>	76.55 Tuesday's high
		73.00, 73.60 Wednesday's high
	<b>Support</b>	72.00, 71.65 Wednesday's low
<b>HO</b> 196.51, down 1.83 cents		71.60, 70.40, 70.05 Double bottom, Previous lows
	<b>Resistance</b>	207.00 Tuesday's high
		198.50 Wednesday's high
<b>HU</b> 222.98, down 3.72 cents	<b>Support</b>	193.00, 191.50 Wednesday's low
		190.60, 189.50 Previous lows
	<b>Resistance</b>	234.60, 235.00 Tuesday's high, Monday's high
	227.50 Wednesday's high	
	<b>Support</b>	219.75 Wednesday's low
		218.00, 216.25 Previous lows

of Thursday's expiration. Volume in the crude market was excellent with 299,000 lots booked on the day. Open interest in the crude market fell by a total of 7,790 contracts, with open interest in the August contract falling by 21,302 contracts amid the liquidation ahead of its expiration on Thursday. The gasoline market settled down 3.72 cents at 222.98 after the market remained pressured following the release of the weekly petroleum stock reports. The market traded to a high of 227.50 early in the session but quickly sold off in light of the larger than expected builds reported in gasoline stocks. The market traded to a low of 219.75 and settled in a sideways trading pattern ahead of the close. Similarly, the heating oil market posted a high of 198.50 early in the session before it sold off to a low of 191.50 amid the build in distillate stocks reported by the DOE. The market however bounced off its low and retraced some of its losses ahead of the close. It settled down 1.83 cents at 196.51. Volumes in the product markets were good with 45,000 lots booked in the gasoline and 59,000 lots booked in the heating oil market.

The oil market is seen retracing its earlier losses ahead of the August crude contract's expiration at the close. The market will also remain concerned over the continuing conflict in the Middle East as no end is in sight. The crude market is seen finding support at its 72.00 followed by its low of 71.65. More distant support is seen at 71.60, 70.40 and 70.05. Meanwhile resistance is seen at 73.00, 73.60 and its previous high of 76.55.

For the second day in a row a far out of the money call in crude oil options recorded the highest volume. Yesterday it was the September \$105 call which traded over 11,600 times, today saw September \$100 call which traded nearly 7,000 times between 10 and 18 cents. The option settled at 14 cents.