



## ***ENERGY RISK MANAGEMENT***

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### **ENERGY MARKET REPORT FOR JULY 26, 2006**

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US, European and Arab officials held talks on Lebanon but failed to agree on an immediate plan to force an end to the fighting between Israel and Hezbollah guerillas. US Secretary of State, Condoleezza Rice said any cease fire must be sustainable while the UN Secretary General Kofi Annan called for the formation of a multinational force to help Lebanon assert its authority and implement UN resolutions. The US continued to support Israel's demand that the violence must end with the Hezbollah militia disarmed or at least removed from its border. The position has set the US as well as the UK apart from most of the others, who while supporting the goals, want Israel's offensive to end first. Meanwhile, the hostilities, which entered its third week, intensified. Israeli jets raided targets in Beirut. Israel has targeted Hezbollah facilities around the country with air strikes while staging a limited land incursion into southern Lebanon. A Hezbollah leader said it would extend its rocket attacks beyond Haifa.

Indonesia's OPEC Governor Maizar Rahman said OPEC has lost control of oil prices. He said OPEC was not comfortable with high and volatile prices.

The EIA stated that US gasoline demand is expected to reach a second monthly record in July. Gasoline demand for the first three weeks of July averaged 9.588 million bpd, up from 9.507 million bpd reported for the four weeks ending June 30. The EIA also stated that US gasoline prices are expected to remain in the vicinity of \$3.00/gallon for the rest of the summer. It stated that significant price declines were not likely to occur before September.

#### **DOE Stocks**

**Crude** – unchanged

**Distillate** – up 800,000 barrels

**Gasoline** – down 3.2 million barrels

**Refinery runs** – down 0.43%, at 92.5%

#### **Market Watch**

According to traders and brokers, investment bank Morgan Stanley had cut its physical gasoline trading volume in the New York Harbor market following the departure of its Atlantic Coast gasoline trader last week. Meanwhile, they reported normal trading volume in Gulf Coast gasoline cash market. Some traders said that the overall gasoline trading volume was still healthy and not showing any signs of a slowdown.

Senators Charles Schumer and Lindsey Graham said they would demand a vote on legislation for steep US tariffs on Chinese exports unless China significantly raised the value of its currency by September 30.

The DOE reported that US inventories of propane built by 2.21 million barrels to 55.262 million barrels in the week ending July 21. It reported that inventories in the East Coast fell by 345,000 barrels to 4.495 million barrels while stocks in the Midwest built by 454,000 barrels to 22.405 million barrels and inventories in the Gulf Coast built by 2.187 million barrels to 26.305 million barrels.

## **Refinery News**

Murphy Oil Corp's 125,000 bpd refinery in Meraux, Louisiana is expected to return to normal rates by the end of July as its alkylation unit returns to service. The alkylation unit is expected to return to service by the end of the week.

PDVSA stated that repairs to a unit of the Amuay refinery would take two months following a fire last week. A fire struck a crude distillation unit at the 64,000 bpd Amuay refinery, forcing PDVSA to reduce the facility's crude runs.

Suncor Energy Inc has started producing ultra low sulfur diesel fuel from a new unit at its refinery in Sarnia, Ontario. The diesel desulfurization unit is the first part of a \$702 million investment in its 70,000 bpd refinery. Diesel sold at Canadian retail outlets as of September 1 must meet the sulfur threshold of 22 parts per million. After 2006, the threshold is expected to fall to 15 parts per million.

Singapore Petroleum Co Ltd said it would shut a cracker complex for 30 days of maintenance from September to October.

Japan's Ministry of Finance stated that the country's crude oil imports fell 3.4% on the year in June to 19.257 million kiloliters or 4.04 million bpd. It reported that refinery runs fell to a two year low of 69.1% in the week ending June 3. The Ministry of Finance also reported that for the January-June period, Japan imported 125.16 million kiloliters of crude, up 4.4% on the year.

Separately, the Petroleum Association of Japan reported that the country's gasoline stocks fell to their lowest level in 22 month on increased sales. Gasoline stocks fell 2.5% on the week, to 1.86 million kl or 11.69 million barrels in the week ending July 22. It reported that refineries operated at an average 81.8% of capacity, up from the previous week's level of 80.6%. Commercial crude oil stocks were steady at 18.19 million kl or 114.41 million barrels. Inventories of kerosene increased 6.7% to 2.71 million kl or 17.04 million barrels.

China's National Development and Reform Commission stated that China would fill its emergency reserves gradually since current prices are high. An official did not state at what price China would consider buying crude for its storage tanks nor did he indicate when the stockpiling would begin. China completed the first crude oil storage tanks at its first reserve site in eastern Ningbo almost a year ago but had yet to start pumping crude into the facility. A tank farm, expected to hold 33 million barrels, is due to be completed next month.

Industry sources stated that about 300,000 tons of fuel oil has been stranded offshore Singapore for over a week amid heavy regional imports and falling demand. Singapore's inventories, which increased to 13.24 million barrels last week are likely to have increased further towards its 15 million barrel capacity.

Thailand stated that it aimed to use alternative fuels such as ethanol for motor vehicles to replace 230,000 bpd of oil demand by 2020. It is increasing its production of ethanol to mix with gasoline to make gasohol.

## **Production News**

Eni SpA reported a significant cut in the amount of oil being treated at its Ogbainbiri facility in Nigeria following an attack on the facility late Tuesday. The company normally exports 200,000 bpd through its Brass tanker terminal in Bayelsa. A commander of Nigeria's armed forces in the western delta said he received information suggesting that the attack stemmed from a dispute between the local

community and Agip. The locals were demanding payment for a boat seized from them by the Nigerian Navy. There was no indication of any link between the attack on the flow station and the campaign of attacks by the militant Movement for the Emancipation of the Niger Delta. Separately, the MEND has threatened to extend its attacks to the eastern side Niger Delta as of mid-August.

Royal Dutch Shell Plc's Nigerian unit has declared force majeure on loadings of Bonny Light crude after a pipeline leak cut its production. It has declared a force majeure on 203,000 bpd.

Iraq's Oil Minister Hussein al-Shahristani told President George W. Bush that Iraq's oil production is expected to increase through the end of the year from its current production level of about 2.5 million bpd. He would like to see Iraq produce 3 million bpd by the end of the year. He was part of a delegation meeting President Bush with Iraqi Prime Minister Nouri al-Maliki. He also briefed President Bush on steps the Iraqi government was taking to protect the country's infrastructure and safeguard oil for export from the north of the country. He also discussed the need to upgrade its refining capacity.

OPEC's news agency reported that OPEC's basket of crudes increased to \$68.71/barrel on Tuesday from \$67.99/barrel on Monday.

**Market Commentary**

The crude market opened down 15 cents at 73.60 but quickly bounced off its low amid reports that an oil flowstation had been shutdown overnight following an attack. The market continued to trend higher following the release of the mostly supportive DOE report, which showed that crude stocks were unchanged on the week while a larger than expected draw was reported in gasoline stocks. The crude market was further supported amid reports that a force majeure was declared on Nigeria's Bonny crude loadings. The crude market rallied to a high of 74.80 amid the supportive news and weekly petroleum stock reports. The market however retraced some of its gains and posted an inside trading day as it failed to breach its previous trading range. The crude market settled up 19 cents at 73.94. Volume in the crude market remained light with 168,000 lots booked on the day. The gasoline market also posted an inside trading as it opened at its low of 226.00. The market bounced off its low and rallied to a high of 231.75 following the release of the DOE and API reports, which showed larger than expected draws in gasoline stocks of 3.2 million barrels and 2.191 million barrels, respectively. The market however erased some of its gains and settled up 1.13 cents at 229.62. The heating oil market opened 14 points lower at 194.25 and quickly posted a low of 193.90. However the market bounced off that level and rallied sharply higher to 198.20 amid the strength in the rest of the complex and the lower than expected build in distillate stocks. The market later retraced some of its gains and settled up 1.59 cents at 195.98. Volumes in the product markets were better with 45,000 lots booked in the gasoline market and 56,000 lots booked in the heating oil market.

The crude market will continue to trade within its recent

Technical Analysis		
	Levels	Explanation
CL 73.94, up 19 cents	<b>Resistance</b> 75.30, 75.55, 78.15 74.80	Double top, Previous highs Wednesday's high
	<b>Support</b> 73.60, 73.55 73.51, 72.55	Wednesday's low, Double bottom Previous lows
HO 195.98, up 1.59 cents	<b>Resistance</b> 198.50, 198.99, 201.30, 203.61 197.00, 198.20	Previous high, 38% (211.10 and 191.50), 50% and 62% Wednesday's high
	<b>Support</b> 195.50, 193.90 193.60, 193.30, 192.80, 191.50	Wednesday's low Previous lows
HU 229.62, up 113 cents	<b>Resistance</b> 232.80, 233.00, 234.60, 235.00 230.00, 231.75	Previous highs Wednesday's high
	<b>Support</b> 226.00 225.00, 223.25, 219.75	Double bottom Previous lows

trading range as it seems to have found good support at its lows. The uncertainty in the Middle East and the supply concerns amid the problems in Nigeria will help keep the market supported. The market is seen finding support at its lows of 73.60, 73.55 and 73.51. More distant support is seen at 72.55. Meanwhile resistance is seen at its high of 74.80 followed by 75.30 and 75.55. More distant resistance is seen at a previous high of 78.15.