



## **ENERGY RISK MANAGEMENT**

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### **ENERGY MARKET REPORT FOR AUGUST 1, 2005**

Saudi Arabia's next ambassador to the US, Prince Turki al-Faisal, Saudi Arabia will stand by the same policy under King Abdullah following the death of King Fahd. There are unlikely to be any changes in Saudi Arabia's foreign and oil policy. Crown Prince Abdullah was swiftly appointed monarch ensuring a smooth transition. Top OPEC officials also expressed confidence that newly appointed King Abdullah would stay the course he has charted over the past decade. OPEC's President said a rise in oil prices after the death of King Fahd would not last because Saudi Arabia's new king would

#### **Market Watch**

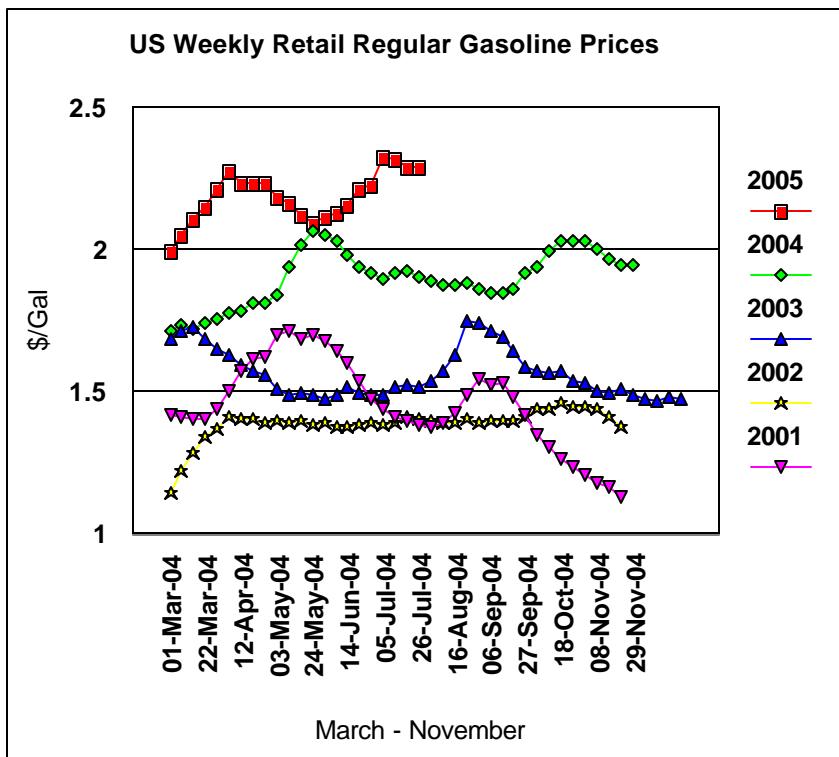
Despite spending more than \$9 billion into rebuilding Iraq over the past two years, the US has only made limited progress in key areas such as oil and power. Increasing security costs are a major stumbling block. The Government Accountability Office said that power generation in Iraq was at a lower level than before the US invasion in March 2003. Iraq's oil production has also dropped in the past two years. The US special inspector general for Iraq reconstruction said two key concerns were whether the US government could accurately predict how much it would cost to complete projects and whether Iraq's government could sustain US funded work after it was handed over.

National Assembly officials in Iraq argued on Sunday on whether to seek a delay of the August 15 deadline for completing Iraq's constitution. The drafters of Iraq's constitution are questioning whether Kurds and Shiites should control their own regions and the oil revenue they generate. Kurdish leaders want the constitution to ratify and strengthen its autonomy by creating a federal system with strong regional governments entitled to a proportion of regionally derived oil income. Meanwhile, Shiite leaders say it is only fair for them to get the same autonomy as the Kurds so they can create a comparable region in the south. One draft acceptable to many of the country's Shiite leaders and to some Kurds, featured a detailed section that would allow provinces to join together to form semi autonomous regions.

According to shipbroker E.A. Gibson, the cost of shipping oil on 2 million barrel crude tankers from the Middle East to refineries worldwide may fall for a second consecutive week due to a surplus of vessels available for hire at the end of August. It said 54 VLCCs will be available to load in the Persian Gulf in the next 30 days. Freight rates for VLCCs fell 15% last week on the benchmark routes to Asia because of an increase in vessel capacity in the Persian Gulf.

The Institute for Supply Management on Monday reported that its index increased to 56.6 in July compared with 53.8 in June.

According to a study by a climate researcher at MIT, the strength of hurricanes in the North Atlantic and North Pacific has nearly double over the past 30 years due to human induced global warming. MIT climate researcher, Kerry Emanuel contends the storm are growing larger and reaching maximum wind speeds than in the past. However hurricane forecaster William Gray of Colorado State University said he is leaping to conclusions based on imprecise information about the strength of hurricanes.



supporters seek to make its market on the new reign.

The EIA reported that the average retail price of gasoline increased by 0.2 cents/gallon to \$2.291/gallon in the week ending August 1. It also stated that the average retail price of diesel increased by 0.6 cents/gallon to \$2.348/gallon on the week.

### **Refinery News**

Exxon Mobil Corp shut its 245,000 bpd oil refinery in Joliet, Illinois over the weekend due to a problem with the plant's cooling water system. According to a trading source, the refinery is expected to be down for seven days while the reformer unit is due back tomorrow.

BP Plc shut a fluid catalytic cracker for maintenance on Sunday at its Texas City, Texas refinery. The catcracker is expected to restart in the next few days. The move follows a fire on July 28 in a resid hydrotreater that forced crude run cuts and a reduction in gasoline production at the 435,000 bpd refinery. The fire occurred when an eight inch pipeline failed, releasing a 75 foot burning jet of hydrogen gas.

Premcor Inc is planning testing on a fluid catalytic cracking unit at its Port Arthur, Texas refinery on August 4-6. A surge test will be performed on a wet gas compressor at the fluid catalytic cracking unit, which will result in flaring.

Murphy Oil said it plans to restart an 18,000 bpd kerosene hydrotreater at its 110,000 bpd refinery in Meraux, Louisiana early next week.

Lyondell-Citgo Refining reported a problem on two coker drums over the weekend at its Houston refinery.

maintain the country's energy policy. Iran's Oil Minister Bijan Namdar Zanganeh expressed similar sentiment. He said the death of Saudi Arabia's King Fahd will only have a temporary upward impact on prices. Meanwhile, sources stated that oil loading operations at Saudi Arabia's oil terminals have not been affected by the death of King Fahd and continue as normal. Separately, while western governments are confident of stability in Saudi Arabia in the short term, they are still worried about the country's longer term future. Saudi Arabia is a major target for al-Qaeda leader Osama bin Laden, who hopes to overthrow the royal family. New activities by al-Qaeda in Saudi Arabia can therefore be expected in the near future as Bin Laden's

Total said its 149,000 bpd Vlissingen refinery in the Netherlands was fully operational after last week's shutdown, which was caused by a power outage.

Shell expects its 420,000 bpd Pernis refinery to be fully operational by early August following a July 14 power outage that shut the plant.

China's Jinling refinery will cut its crude runs further this month due to maintenance. It will cut its crude processing rates by 11% in August from July to 200,000 bpd. Meanwhile, the Gaoqiao plant will maintain a 4% production cut in August to 200,000 bpd. Separately, China's Qilu Petrochemical Corp is maintaining its crude processing rates steady at 207,000 bpd in August. It operated at full capacity last month at 210,000 bpd.

Iraq issued a tender for a new 140,000 bpd refinery in central Iraq at a cost of \$1 billion. Iraq's Oil Minister Bahr al-Uloum said the ministry will also build another refinery with a capacity of 300,000 bpd in southern Iraq. Iraq is currently suffering a small shortage of products with domestic refineries producing less than 400,000 bpd compared with 600,000 bpd before the war. Its three main refineries in Baiji, Baghdad and Basra are currently operating below capacity due to power cuts and crude shortages.

### **Production News**

The US Coast Guard plans to close a section of the Houston Ship Channel for four hours on Tuesday. It said there should be minimal impact on shipping.

Iraq exported a total of 1.58 million bpd of crude oil in July, up 160,000 bpd from June. Sources stated that about 44.6 million barrels of crude were exported from the southern Basra and Khor al-Amaya terminals in July, up from 41 million barrels in June. At least 17 million barrels were bound for the US while at least 15.5 million barrels were bound for Asia. Iraq sold 4.3 million barrels of oil from storage at the Turkish port of Ceyhan in July compared to 1.55 million barrels in June.

BP expects to restart crude output from its 120,000 bpd North Sea Schiehallion oilfield in days after a fire forced a shutdown last week. Production will remain shut in until the repair work is completed.

Norway's Statoil reported a 50% increase in second quarter pretax profit on Monday, due to high oil prices. Total oil and gas liftings increased to 1.142 million barrels of oil equivalent/day in the quarter from 1.058 million boe/d a year earlier. It reiterated its 2005 target for oil and gas production of 1.175 million boe/d and its 2007 output target of 1.4 million boe/d.

Azerbaijan's SOCAR tendered to sell a 142,000 ton or 1 million barrel cargo of Urals crude for loading at Russia's Black Sea port of Novorossisk in late August. The cargo will load on August 29-30.

The Azerbaijan International Operating Co has halted oil exports via the Baku-Supsa pipeline for 10 ten days due to maintenance work at the oil terminal in Supsa. An official said the shutdown of oil transportation via the Baku-Supsa pipeline would not affect the oil exports from the Azeri-Chirag-Gunesli field.

Indonesia will assume crude oil and condensate production of 1.075 million bpd in its 2006 budget. Indonesia has said it will miss its 2005 oil production target of 1.125 million bpd in the current budget, while estimating output this year at about 1.075 million bpd of crude oil and condensate.

Russia's Tomskneft said its oil production may fall 23.8% on the year to 13.373 million tons this year.

Ukrainian companies exported 91,800 tons of crude oil in January-June, down 58.9% on the year. Its oil imports increased by 11.7% on the year to 7.99 million tons in the same period.

OPEC's news agency reported that OPEC's basket of crudes increased by \$1.07/barrel to \$54.20/barrel on Friday. It also reported that its basket of crudes increased \$0.49/barrel to \$52.51/barrel in the week ending July 28.

Abu Dhabi National Oil Corp has posted the retroactive official selling price of its Murban crude oil at \$57.10/barrel for July, up \$1.65/barrel from June.

### **Market Commentary**

The oil complex settled sharply higher after the oil market rallied above the 62.00 level ahead of the close. The crude market opened 43 cents higher at 61.00, its intraday low, as it was initially supported by the death of the ailing Saudi monarch. The market also seemed to be supported by the refinery reports stating that ExxonMobil's Joliet, Illinois refinery was shut on Sunday. The market was well supported by the death of Saudi Arabia's King Fahd despite assurances by Saudi Arabia that it would not make changes to its oil policy. The market rallied to 61.85 and held good support at 61.50. It later breached its resistance and rallied to a high of 62.30 amid the strength in the product markets in light of the refinery news. The crude market however saw some profit taking ahead of the close, which pushed it back towards the 61.50 level. It settled up \$1.00 at 61.57. Volume was good with 195,000 lots booked in the crude market. The heating oil market settled up 4.07 cents at 171.69 after it opened up 1.63 cents at 169.25, its intraday low. The market bounced off its low and rallied to a high of 173.25 amid the refinery news. It retraced more than 62% of its move from a high of 181.60 to a low of 159.40. However it too saw some profit taking ahead of the close. The gasoline market posted a mostly neutral trading day after the market gapped higher as it opened at 174.70 and settled up 2.10 cents at 174.71. It rallied to a high of 179.20 before it retraced its early gains ahead of the close. Volumes in the product markets were good with

Technical Analysis			
		Levels	Explanation
CL 61.57, up \$1.00	Resistance	62.80 62.00, 62.30	Previous high Monday's high
	Support	61.50 61.00, 60.10	Monday's low, Friday's low
HO 171.69, up 4.07 cents	Resistance	173.75, 174.47 173.25	Previous high, Basis trendline Monday's high
	Support	171.00 169.25, 166.80	Monday's low, Previous low
HU 174.71, up 2.10 cents	Resistance	179.20 176.00, 178.00	Monday's high
	Support	174.30 173.00, 171.00	Monday's low Backfills opening gap, Previous low

35,000 lots booked in the heating oil and 45,000 lots booked in the gasoline market.

The oil market will likely continue to retrace some of today's early gains and remain rangebound as traders await for the release of the weekly petroleum stock reports. The market is seen finding support at 61.50 followed by 61.00 and its previous low of 60.10. Meanwhile resistance is seen at 62.00, 62.30 followed by 62.80.

