



## ***ENERGY RISK MANAGEMENT***

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### **ENERGY MARKET REPORT FOR AUGUST 16, 2006**

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Iran's Foreign Minister Manouchehr Mottaki said Iran was ready to discuss the issue of suspending uranium enrichment with the EU but would seek to explain Iran's belief that any halt would be illogical. Separately, Iran's President Mahmoud Ahmadinejad said he wanted a new Middle East but added that his idea of a new region was one without the hegemony of America and the UK.

France's Defense Minister Michele Alliot-Marie said France was willing to lead the enlarged UN force in Lebanon until at least February. The Defense Minister said its peacekeepers would need to have enough resources and a clear mission. The force is expected to increase from the current 2,000 troops to 15,000 troops under a new resolution. An estimated 15,000 Lebanese troops are expected to join the strengthened UN force. The resolution passed on Friday authorizes the force known as UNIFIL, to use all necessary action to ensure that its area of operations is not utilized for hostile action of any kind.

OPEC stated that world oil demand would increase more slowly than previously expected in 2006. It reported that demand would increase by 1.3 million bpd, 80,000 bpd less than expected to 84.5 million bpd. Its 2007 demand growth estimate was unchanged at 1.3 million bpd, with demand totaling 85.82 million bpd. It reported that the group

#### **Market Watch**

California's undersecretary for energy affairs, Joseph Desmond, said no evidence of market manipulation was found by the California Energy Commission in an investigation of an April-May rally in retail gasoline prices. He said unplanned refinery shutdowns, declining inventories, lower fuel shipments to the region and clogged ports combined to increase California's gasoline prices. Refineries had 175 days of unplanned work in the first six months of 2006 compared to 58 days of unplanned work in the same period of 2005. Meanwhile, California Attorney General Bill Lockyer's investigation of possible criminal activity in the price spike is still underway.

Barclays Bank Plc said it launched an exchange traded note that would track the Goldman Sachs Crude Oil Total Return Index. The ETN, which would trade under the symbol OIL on the NYSE was designed to allow small investors access to commodity futures trading.

Traders stated that funds were buying European gas oil futures as attention switches from gasoline to winter fuels and as several refiners prepare for autumn maintenance shutdowns. Front month September ICE gas oil futures was down 0.4 % at \$647/ton on Wednesday. Its premium to crude has been as high as \$14.14/barrel, its strongest level since July 6.

Singapore's largest power generator Senoko Power said the use of biofuel to replace fuel oil in power generation was too costly. It said the firm had reduced its oil fired generation to marginal levels with such capacity mainly used as backup and it was not looking to replace that further with biofuels.

Authorities in Iraq's Basra imposed an indefinite curfew on Wednesday. This followed clashes, which broke out when members of the Bani Assad tribe attacked the governor's office, believing provincial officials were behind the killing of a tribal leader on Tuesday.

It reported that the group

### **DOE Stocks**

**Crude** – down 1.6 million barrels

**Distillate** – up 800,000 barrels

**Gasoline** – down 2.3 million barrels

**Refinery runs** – down 0.11%, at 91.5%

produced 29.51 million bpd in July, down 230,000 bpd from June. The call on OPEC crude was revised up by 200,000 bpd for the third quarter and by 300,000 bpd for the fourth quarter, partly driven by the fall in oil production in Alaska's Prudhoe Bay field. It stated that demand for OPEC crude in 2007 would fall by 800,000 bpd to 28.3 million bpd. Non-

OPEC supply is estimated to increase by 1.8 million bpd next year to 53 million bpd.

The head of the Iranian Oil Ministry's OPEC department, Javad Yarjani said there were no plans to bring Iraq back into OPEC's quota system in the near future. He said Iraq's production has not returned to normalcy and the conditions are not conducive to Iraq's return to the quota system any time soon.

### **Refinery News**

ConocoPhillips has booked an Aframax tanker to ship crude from South Korea to the US West Coast. The tanker is expected to load around the end of the month.

According to a report filed with the Texas Commission for Environmental Quality, a sulfur recovery unit train at Citgo's 165,000 bpd Corpus Christi, Texas refinery tripped on Tuesday.

Officials stated that pipelines and refineries in the Casper, Wyoming area were not affected by a large fire that broke out on Casper Mountain on Tuesday. Among the Casper-area oil facilities is a large tank farm that is part of Kinder-Morgan's Express/Platte crude oil pipeline system that connects the oil fields of Alberta with the southern Illinois refining hub of Wood River. Officials with Sinclair Oil Corp said operations at its refineries in Casper and Rawlins, Wyoming were not disrupted by the fire.

PDVSA shut a fluid catalytic cracking unit at its 300,000 bpd Cardon refinery late Tuesday.

BP is scheduled to shut its 80,000 bpd Lingen refinery in Germany for about five weeks of maintenance in late August.

Lithuania's Mazeikiu refinery has been operating at full capacity since August 11. Mazeikiu Nafta was forced to decrease its oil refining to 13,000-14,000 tons/day due to an oil spill along one of the pipelines of Russia's Druzhba oil export pipeline system in July. Since early August, Mazeikiu Nafta has been forced to import all its crude by sea.

South Korea's SK Incheon Oil Ltd is expected to increase its crude processing rates to 190,000 bpd in September from August's 180,000 bpd level. Meanwhile, SK Corp said it planned to maintain its September crude processing rate at 750,000 bpd, unchanged on the month.

Brazil's government is expected to tighten controls over the distribution of ethanol in the country, with measures that could limit ethanol exports at times when local supplies are short. Under the regulations, anhydrous ethanol would become a government regulated fuel and it would obligate producers to sign formal contracts to supply predetermined volumes of anhydrous sugarcane alcohol for mixing into gasoline.

The Shetland Island Council reported that Brent crude loadings fell to 88,323 tons in the week ending August 15, down from 261,119 tons the previous week.

Iraq and Jordan have signed a memorandum of understanding under which Baghdad would supply Amman with crude oil at a preferential price. Iraq and Jordan also agreed to set up an oil pipeline from an Iraqi oil pumping station to the Jordanian refinery in al-Zarqa near Amman.

Thailand's Energy Ministry stated that the country's crude oil imports fell by 2.3% on the year in the first seven months of 2006 to 834,000 bpd. Exports of crude in the same period increased by 8.9% to 61,000 bpd while oil product exports increased by 25.4% to 128,000 bpd. Demand for gasoline in the first seven months fell by 2.1% to 19.7 million liters/day while demand for ethanol blended gasoline or gasohol increased to 3.5 million liters/day.

Russia's Transneft stated that Russia may never reopen its oil pipeline to Lithuania because it is too old. Russia earlier this month halted flows on the pipeline blaming a pipeline leak. However market players have said the move could have been an attempt by Russia to exert pressure on Lithuania, which chose Polish energy firm PKN Orlen as the new owner of Mazeikiu. Transneft is expected to reroute volumes it had planned to export via Lithuania to ports on Ukraine's Black Sea coast and to Primorsk on the Baltic Sea.

### **Production News**

Crude oil storage caverns leased by the Royal Dutch Shell operated Mars oilfield are full, forcing producers to sell production at sharply lower prices. Differentials for Mars crude have fallen by \$2/barrel in the last week to \$8.50 below WTI amid heavy selling. Industry sources stated that Mars has about 6 million barrels of storage capacity on the LOOP.

Sources stated that another foreign oil contractor was kidnapped in southern Nigeria on Wednesday. The kidnapping of worker from his car on a road close to the border between Rivers and Bayelsa states brings the total number of workers held hostage this month to 17. Nine workers have so far been released.

OPEC's news agency reported that OPEC's basket of crudes fell further to \$69.01/barrel on Tuesday from \$69.54/barrel on Monday.

### **Market Commentary**

The oil market continued to trend lower as it remained pressured following the news earlier this week of the ceasefire between Israel and Hezbollah. OPEC also cut its estimate for world oil demand growth for the year. The market gapped lower on the opening from 73.00 to 72.72 and quickly backfilled it as it rallied to a high of 73.15 following the release of the weekly petroleum stock reports. The market was initially supported by the DOE and API reports, which showed larger than expected draws in crude and gasoline stocks. Surprisingly, the market seemed to have shrugged off the reports and continued to trend lower. The crude market traded to a low of 71.70 and settled in a sideways trading pattern ahead of the close. It settled down \$1.16 at 71.89, its lowest settlement since June 23. Volume in the crude market was better with 226,000 lots booked on the day. The gasoline market also settled down 1.35 cents at 197.81 after the market sold off despite the supportive draws in gasoline stocks. The market rallied to a high of 202.25 following the release of the DOE and API reports, which showed draws of 2.3 million barrels and 1.8 million barrels, respectively. However the market erased its gains and continued to sell off. It posted a low of 196.50 before it settled in a range ahead of the close. Similarly, the heating oil also posted a high of 204.05 early in the session and held some support at 202.00. However it breached that level and sold off to a low of 201.00 late in the session before it erased some of its losses ahead of the close. It settled down 66 points at 201.69. Volume in the product markets were good with 28,000 lots booked in the gasoline market and 43,000 lots booked in the heating oil market.

The oil market will likely continue to trade lower as the market failed to sustain its gains despite the mostly supportive DOE report. The market however is seen finding support at its lows of 71.70, 71.45-7140 and 70.90. Even though its stochastics are starting to indicate an oversold market, they still have some room to the downside. Resistance is however seen at 72.60, its high of 73.15 followed by 73.90 and 74.55. More distant resistance is seen at 75.60 to 76.20.

Technical Analysis		
	Levels	Explanation
<b>CL</b> Resistance 71.89, down \$1.16 Support	73.90, 74.55, 75.60 to 76.20 72.60, 73.15 71.70 71.45, 71.40, 70.90	Previous highs, Remaining gap (August 10th) Wednesday's high Wednesday's low Previous lows
<b>HO</b> Resistance 201.69, down 66 points Support	205.00, 207.30 to 210.00 203.40, 204.05 201.00 198.80, 197.70, 197.60, 197.30	Previous high, Remaining gap (August 10th) Wednesday's high Wednesday's low Previous lows
<b>HU</b> Resistance 197.81, down 1.35 cents Support	203.20, 206.80, 212.00 to 216.50 200.00, 202.25 196.50 195.50, 195.00, 193.00, 192.50	Previous highs, Remaining gap (August 10th) Wednesday's high Wednesday's low Previous lows