



## ***ENERGY RISK MANAGEMENT***

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### **ENERGY MARKET REPORT FOR APRIL 12, 2006**

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Iran's Deputy Nuclear Chief, Mohammad Saeedi said that Iran intends to move towards large scale uranium enrichment involving 54,000 centrifuges, signaling the country's resolve to expand its nuclear program. On Wednesday, Iran announced it successfully enriched uranium using 164 centrifuges. He said Iran has informed the UN's

IAEA that it planned to increase to 3,000 centrifuges at Natanz by late 2006 and then expand to 54,000 centrifuges. US Secretary of State Condoleezza Rice said Iran's announcement that it had enriched uranium would require strong steps from the UN Security Council. Meanwhile, Germany's government said Iran's enrichment of uranium was another step in the wrong direction. Germany's Foreign Minister, Martin Jaeger, said Germany still hoped the leadership in Iran would indicate it was ready to return to negotiations. France also expressed similar sentiment, stating that it considered the announcement a step in the wrong direction. Russia's Foreign Minister Sergei Lavrov said the use of force could not solve the stand off over Iran's nuclear program. He however urged Iran to halt all enrichment work. IAEA chief Mohamed ElBaradei is due to visit Iran on Thursday to seek full Iranian cooperation with the council and IAEA inquiries, a trip that has been clouded by Iran's announcement.

#### Market Watch

ICE said physical delivery against the expired April gas oil contract increased to 1,810 lots or 181,000 tons, up from 90,800 tons in March.

Goldman Sachs said positive economic momentum bodes well for commodity returns for the remainder of 2006. It forecast a 9.5% return for its Goldman Sachs Commodity Index over the next 12 months and maintained its overweight allocation to energy. Energy makes up 75% of the GSCI that has about \$50 billion invested in it. Goldman Sachs' commodity research team estimates that WTI crude would average \$68.35/barrel in the second quarter of 2006 and reach \$70.15/barrel in the fourth quarter.

The IEA warned in its oil market report that world oil markets are expected to remain tight this year, leaving little margin to deal with supply shocks. It said the first quarter was particularly tight, with the call on OPEC running between 700,000 bpd and 1 million bpd above OPEC's production. For 2006, the call on OPEC was revised up by 400,000 bpd to 29.4 million bpd. The second quarter call stands at 28.4 million bpd, 700,000 bpd higher than initially forecast. Meanwhile world supply fell by 125,000 bpd in March on the month to average 84.5 million bpd.

OPEC's production in March fell by 215,000 bpd to 29.7 million bpd. The IEA also stated that it cut its forecast for world oil demand growth this year to 1.47 million bpd, with demand of 85.1 million bpd now expected. It also made a negligible downward revision to China's forecast oil demand growth this year to 360,000 bpd, bringing demand to 6.95

#### DOE Stocks

**Crude** – up 3.2 million barrels  
**Distillate** – down 4.2 million barrels  
**Gasoline** – down 3.9 million barrels  
**Refinery runs** – down 0.35%, at 85.6%

million bpd.

Separately, the head of the IEA, Claude Mandil, said oil supplies from Russia are expected to fall short of expectations over the next four years. He said expectations for growth in Russian oil supply was too optimistic and added that OPEC would have to make up the difference.

Indonesia's OPEC governor Maizar Rahman said OPEC's production is already at its peak and cannot do anything to stop oil prices from rising. He said OPEC was producing nearly 30 million bpd of crude. He also stated that the increase in oil prices was being fueled by geopolitical issues, not demand-supply factors.

The DOE reported that US inventories of propane totaled 30.853 million barrels in the week ending April 7, up 1.889 million barrels on the week. It reported that inventories in the East Coast increased by 324,000 barrels to 2.883 million barrels, while inventories in the Midwest increased by 443,000 barrels to 11.651 million barrels and inventories in the Gulf Coast increased by 1.222 million barrels to 15.744 million barrels.

### **Refinery News**

A small fire was extinguished overnight in a sulfur pit at BP's Texas City, Texas refinery. The incident had no effect on the plant's attempt to restart units, which have been shut for more than six months following damage from hurricanes last year. It is planning to resume gasoline production as early as Saturday.

### **Production News**

Royal Dutch Shell said it has yet to carry out an assessment of an offshore oil field in Nigeria, a step required before it restarts its production. On Monday, Shell said it hoped the assessment could take place as early as this week.

The average daily loading rate of nine main North Sea crude systems is scheduled to increase 7% in May to 2.79 million bpd, up from 2.606 million bpd in April. Meanwhile, Norway's Gullfaks system is scheduled to load 386,000 bpd in May, up from 257,000 bpd in April. However the North Sea Troll crude system is expected to load 265,000 bpd of crude, down 2,000 bpd. The UK's North Sea Flotta crude system is expected to load 63,000 bpd in May, down 2,000 bpd from April.

The Shetlands Islands Council reported that OPEC's basket of crudes increased to 387,867 tons in the week ending April 11 from 386,513 tons reported the previous week.

China's General Administration of Customs reported that the country's crude oil imports in March increased 11% on the year to 12.73 million tons or 3 million bpd. Crude imports in the first three months of the year were up 25.3% on the year at 37.13 million tons.

According to the Petroleum Association of Japan, the country's commercial crude oil stocks increased by 2.4% to 18.18 million kiloliters or 114.35 million barrels in the week ending April 8 from the previous week's 17.75 million kl. Gasoline stocks also increased just 1.76% on the week to 2.29 million kl or 14.40 million barrels. Meanwhile kerosene stocks totaled 1.89 million kl or 11.89 million barrels last week, down from 2.04 million kl the previous week. The average operating rate of Japanese oil refineries was 89.7% in the week ending April 8 compared with 91.1% during the previous week.

Total oil storage capacity in Singapore could triple to about 11 million cubic meters or 82.5 million barrels with the addition of 3.2 million cubic meters of commercial tankage from underground caverns. Another 5 million cubic meters of commercial tankage is being built in China along with new capacity in

Indonesia and Vietnam, taking the total new storage volume in Asia to 16.7 million cubic meters by 2011. Singapore's oil storage facility on Jurong Island is expected to be completed by 2009. Construction of phase one with total capacity of 1.47 million cubic meters to store crude, condensates, naphtha and gas oil is expected to start this year. The start of the second phase, with a capacity of 1.73 million cubic meters would depend on the success of the first phase.

Thailand's Energy Ministry was temporarily adjusting required crude oil and refined petroleum product reserves because supplies of diesel are tight. The ministry was allowing refineries to release part of their normal diesel and refined product reserves for a few months, offsetting it with higher crude reserves.

OPEC's news agency reported that OPEC's basket of crudes increased by 96 cents/barrel to \$63.61/barrel on Tuesday.

**Market Commentary**

The oil complex traded higher early in the session following the release of the weekly petroleum stock reports, which showed larger than expected draws in product stocks. The crude market opened slightly higher at 69.00 and quickly rallied to a high of 69.60 amid the strength in the product markets. The crude market however retraced its gains and sold off to a low of 68.45. The crude market's gains were limited by the crude stock builds reported by the DOE and API of 3.2 million barrels and 4.3 million barrels, respectively. The market later bounced off its low and settled in a sideways trading pattern during the remainder of the session. It settled down 36 cents at 68.62. Volume in the crude market was excellent with over 305,000 lots booked on the day. The product markets ended the session in positive territory, with the gasoline market settling up 3.67 cents at 209.11 and the heating oil market settling up 1.91 cents at 197.46. The gasoline market traded off its low of 204.85 and quickly traded to 208.00 following the release of the supportive DOE and API reports showing draws of over 3 million barrels in gasoline stocks. The market retraced some of its gains but quickly erased its losses and continued to trend higher. The gasoline market extended its gains to over 5 cents as it posted a high of 210.50 late in the session. The heating oil market was also supported by the reports showing draws of over 4 million barrels in distillate stocks. The market opened at its low of 195.35 and never looked back. The market quickly rallied to a high of 198.70 following the release of the reports. It later retraced some of its gains and settled in a sideways trading pattern as it held good support at 196.50. Volumes in the product markets were good with over 50,000 lots booked in the gasoline and 70,000 lots booked in the heating oil market.

The crude market, which was erasing much of its gains during access, would likely continue to see

some profit taking early on Thursday. However the market's losses are seen limited as the market remains concerned over several geopolitical problems. It

Technical Analysis		
	Levels	Explanation
CL 68.62, down 36 cents	Resistance 70.10, 70.90	Previous high, Basis trendline
	Support 69.20, 69.60	Wednesday's high
	68.45	Wednesday's low
HO 197.46, up 1.91 cents	Resistance 200.75, 201.00, 203.00	Previous highs
	Support 196.50, 195.35	Wednesday's high
	191.50	Wednesday's low Tuesday's low
HU 209.11, up 3.67 cents	Resistance 213.50, 218.00	Previous highs
	Support 210.50	Wednesday's high
	208.00, 206.00 204.85, 199.05	Wednesday's low, Tuesday's low

would not be surprising that the market retraces its overnight losses and trades back towards its high ahead of the long holiday weekend. The crude market is seen finding support at 68.45, 68.00 and its gap from 67.75 to 67.60. Meanwhile resistance is seen at 69.20 and its high of 69.60 followed by 70.10 and 70.90.