



## ***ENERGY RISK MANAGEMENT***

Howard Rennell, Pat Shigueta &  
Zachariah Yurch

**(212) 624-1132 (888) 885-6100**

**www.e-windham.com**

---

### **ENERGY MARKET REPORT FOR MAY 23, 2006**

---

Russia's Foreign Minister Sergey Lavrov called for political and diplomatic means to solve the Iranian nuclear dispute. He stated that Russia favored the approach of the France, the UK and Germany, which have been working on a proposal containing incentives and sanctions to encourage Iran to suspend its uranium enrichment. UN Security Council members are scheduled to meet on Wednesday to discuss a joint strategy to stop Iran's nuclear program and to consider a package of incentives drafted by European countries. Officials from the US, China, Russia, Britain, France and Germany are expected to discuss the next step in efforts to defuse a crisis over Iran's nuclear program. The proposal could also warn of sanctions if Iran declined the offer.

#### Market Watch

The US Energy Secretary Sam Bodman said the US is better prepared for the coming hurricane season than it was last year. He however stated that about 10% of domestic oil production was permanently lost due to last year's storms.

The Petroleum Marketers Association of America has asked the EPA to ease new diesel regulations requiring lower sulfur content later this year. The new rules would require retailers to sell diesel with no more than 15 parts per million of sulfur by October 15, down from the current level of 500 ppm. It said the chances of serious disruptions to diesel supplies could be reduced by allowing retailers to sell diesel with 22 ppm until fuel terminals are able to reliably keep sulfur levels at 15 ppm.

Oil majors and refiners have booked 12 million barrels of sweet crude so far this week for shipment from the North Sea and Algeria to the US.

European Union leaders are expected to press Russia's President Vladimir Putin to ensure stable energy supplies and reform gas company, Gazprom, at a meeting this week. The EU is keen to ensure steady energy supplies from Russia after Gazprom briefly cut off the gas to Ukraine in January. Officials stated that energy would top discussions, which could also focus on Iran's nuclear ambitions.

The NYMEX is expected to announce soon a launch date for the migration of its Brent crude contract to the Globex electronic trading system. However traders and industry experts said the decision may be too late, giving the upper hand to its rival oil trading platform, IntercontinentalExchange.

Shell Oil's President John Hofmeister said that high oil prices was a response to the lack of investment in the industry in the 1990s as well as strong demand.

According to a Reuters poll, analysts estimate that WTI would average \$64.95/barrel in 2006 and fall to \$60.22/barrel in 2007.

Venezuela's Oil Ministry was preparing a petition asking the Supreme Court to repeal a law that prevents PDVSA from holding a controlling stake in oil upgrading projects along the Orinoco River. Venezuela's PDVSA has partnered with foreign oil companies in four oil upgrading plants located in the Orinoco region.

The US ambassador to the UN said that Iran's leaders could stay in power and improve their ties with the US if they ended their nuclear pursuits. He later insisted that he did not mean to imply that the US would seek a change in the Iranian leadership if Iran refused to suspend its uranium enrichment.

Separately, Oman and the UAE stated that they want direct talks with Iran to help resolve the crisis provoked by Iran's nuclear program. They also supported European efforts for a negotiated settlement. Meanwhile, US diplomats were pushing Arab Gulf countries to increase their intelligence ties with the US and expand defenses against ballistic missiles and chemical weapons in case of a US attack on Iran.

Algeria's Oil Minister Chakib Khelil said that oil prices were likely to remain high for the rest of the year and even into 2007 due to price pressure caused by tight spare production which he said should be doubled to 4 million bpd to calm the market.

An IEA official stated that high crude price may be starting to cut demand for oil but there was little prospect of any change in prices for the next couple of years. The head of oil industry and markets division at the IEA, Lawrence Eagles, said as long as the world economy is growing strongly, price pressures would continue and would take some time for the supply side to adjust.

Iraq's Oil Minister Hussein al-Shahristani said all the country's oil exploration, production and exports contracts should be handled by the Oil Ministry in Baghdad. He said revenues from oil sales should go to the central government for distribution evenly among Iraqis. He also stated that Iraq needed international help to develop its oil sector. He said the oil sector needed billions of dollars of investment.

The chairman of the US Senate Commerce Committee said he was drafting a bill that would ban excessive price increases in the oil market, a day after the FTC said it failed to find any illegal price gouging. He said the legislation would outlaw price gouging and but added that he still had to decide how to define price gouging. Meanwhile, FTC chairman Deborah Majoras has opposed the idea of imposing federal restrictions on price gouging, saying it would be difficult to define and enforce. The FTC chairman also stated that proposed legislation that would allow the US to bring lawsuits against OPEC members that engage in price fixing would not be taken seriously.

### **Refinery News**

Motiva Enterprises LLC said reformer rates at its 235,000 bpd refinery in Port Arthur, Texas returned to normal following a problem with the unit on Sunday. Traders stated earlier that the unit's rate had been cut by as much as 30% and that the unit would be down for as long as eight weeks.

Kuwait said there had been a malfunction at a tank at its 200,000 bpd Shuiba refinery. However the problem was brought under control and it did not affect operations.

TonenGeneral Sekiyu could restart its fire stricken 156,000 bpd Sakai refinery in western Japan as soon as early next week. The fire department is expected to inspect the completion of repair work at the refinery on Wednesday. The company shut its crude distillation units and related units following a fire in early April.

South Korea's SK Corp plans to cut its crude oil processing rate for June to 672,000 bpd due to planned maintenance work. The refiner plans to shut its No. 4 crude distillation unit, which has 240,000 bpd of capacity, for 33 days from June 19 for regular maintenance.

Russia's Energy Ministry reported that the country's oil refining runs would grow in 2006 by half the rate last year. It expects Russian refineries to process 3% more crude in 2006 or 213 million tons or 4.28 million bpd, down from a 6.5% increase in 2005. The ministry also confirmed its 2006 oil production forecast of 482 million tons or 9.68 million bpd.

Industry sources stated that Saudi Aramco and ConocoPhillips are expected to sign a deal on Wednesday for a second new refinery in Saudi Arabia. On Sunday, Saudi Aramco signed a deal with France's Total to build a 400,000 bpd export oriented refinery in Jubail. Aramco officials have stated that they hope to sign a memorandum of understanding with ConocoPhillips for another 400,000 bpd refinery in Yanbu.

Yemeni and Saudi investors plan to build a 45,000 bpd refinery in Yemen. A deal was signed with Indian firm Furnace Fabrica India Ltd to build the refinery in Ras Issa. The refinery is scheduled to be completed by June 2007. Another private Yemeni firm plans to build a 60,000 bpd refinery in Ras Issa.

China is expected to raise its retail gasoline and diesel prices by 500 yuan or \$62.37/ton to 5,870 yuan/ton and 5,195 yuan/ton, respectively on Wednesday. China's move to increase its fuel prices is expected to keep the country away from diesel imports in coming months as refiners increase their domestic output and industrial demand slows down. Some analysts believe the hikes may dampen fuel demand while others believe it would barely cut consumption as China's economic growth increases around 10%.

India is also expected to raise its price of petrol and diesel in the next few days. Indian oil firms were seeking a 25% increase in prices to become profitable again however the coalition government may raise prices by 7-8%. Meanwhile, India's domestic oil product sales increased 6.6% in April from a year ago as higher farm demand and a fall in fuel substitution caused the largest growth in eight months. Data showed that petrol and diesel sales increased by about 10% while naphtha sales increased by 10.6%. India's total sales amounted to 9.21 million tons.

### **Production News**

Russia's Transneft has set its seaborne crude oil export schedule for June. Russia's Black Sea port of Novorossiisk is expected to load 3.225 million tons or 788,000 bpd in June, down 15% from May due to maintenance work on a pipeline that supplies the port. Meanwhile, Ukraine's Black Sea port of Odessa is expected to load 921,000 tons or 225,000 bpd, up 35% on the month.

Russia's Economic Development and Trade Ministry reported that the country's oil and gas condensate production increased by 2.2% on the year to 156 million metric tons in January-April. It also reported that primary crude oil refining increased by 8.2% on the year to 71 million tons. The Ministry also stated that Russia planned to increase the price of its energy exports to world levels for all consumers.

Kazakhstan's State Statistics Agency reported that the country's crude oil and gas condensate production fell to 20.35 million tons in the January-April period, down 3% on the year. Its crude and gas condensate production in April totaled 5.355 million tons.

Nigeria has scheduled to export about 2.12 million bpd of crude oil in June, up 40,000 bpd on the month. Nigeria's June export schedule showed planned loadings of about 63.7 million barrels compared with 64.65 million barrels in May.

OPEC's news agency reported that OPEC's basket of crudes fell to \$62.61/barrel on Monday from \$63.42/barrel on Friday.

### **Market Commentary**

The oil market gapped higher from 70.25 to 70.95 on the opening as it continued to trade higher following Monday's rally late in the session. The market was supported amid a broad based rally in commodities as the metals markets rebounded from last week's sell off. Predictions of another active hurricane season also helped support crude prices. The crude gapped higher and never looked back as it settled in a sideways trading pattern from 70.95 to 71.70. However the market breached that level and rallied to a high of 72.15 late in the session. The July crude contract retraced some of its gains ahead of the close and settled up \$1.80 at 71.76. Volume in the crude market was good with 201,000 lots booked on the day. Meanwhile, the product markets also settled sharply higher as they continued to trend higher. The gasoline market gapped higher from 206.50 to 209.75 and settled in a sideways trading pattern from 210.00-213.00. The market later breached its resistance and rallied to a high of 214.00. The gasoline market however retraced its gains and posted a low of 209.50 ahead of the close. It settled up 5.06 cents at 210.80. The heating oil market also settled up 6.63 cents at 199.89. The market also gapped higher from 193.70 to 196.50 and quickly posted a low of 196.25. The market however bounced off its low and never looked back as it continued to trend higher. The market extended its gains to over 9 cents as it posted a high of 202.50. However the market later gave up some of its gains and traded to 199.50 on the close as traders positioned themselves ahead of the release of the weekly petroleum stock reports on Wednesday. Volumes in the product markets were good with 49,000 lots booked in the gasoline market and 56,000 lots booked in the heating oil market.

The oil market will be driven by the release of the weekly petroleum stock reports, which are expected to show draws in crude stocks of less than 1 million barrels and builds in product stocks of about 1.5 million barrels in gasoline stocks and 500,000 barrels in distillate stocks. The oil complex is seen retracing its gains if the reports show the builds in product stocks. The market is seen finding some support at 71.55 followed by its gap from 70.95 to 70.25. More distant support is seen at its previous low of 68.40. Meanwhile resistance is seen at its remaining gap from 72.15 to 72.95. More distant resistance is seen at its previous high of 74.35.

| <b>Technical Analysis</b>                                   |                          |                            |
|---|--------------------------|----------------------------|
|   | <b>Levels</b>            | <b>Explanation</b>         |
| <b>CL</b><br>Resistance<br>71.76, up \$1.80<br>Support      | 74.35                    | Previous high              |
|   | 72.15 to 72.95           | Remaining gap (May 15th)   |
| <b>HO</b><br>Resistance<br>199.89, up 6.63 cents<br>Support | 71.55                    |                            |
|   | 70.95 to 70.25, 68.40    | Gap (May 23), Previous low |
| <b>HU</b><br>Resistance<br>210.80, up 5.06 cents<br>Support | 208.75, 210.80           | Previous highs             |
|   | 202.50 to 204.25         | Remaining gap (May 15th)   |
| <b>HU</b><br>Resistance<br>210.80, up 5.06 cents<br>Support | 199.50, 197.50, 196.25   | Tuesday's low              |
|   | 196.25 to 193.70, 190.20 | Gap (May 23), Previous low |
| <b>HU</b><br>Resistance<br>210.80, up 5.06 cents<br>Support | 221.40, 222.50           | Previous highs             |
|   | 214.00 to 216.75         | Remaining gap(May 15th)    |
| <b>HU</b><br>Resistance<br>210.80, up 5.06 cents<br>Support | 209.50 to 206.50         | Gap (May 23)               |
|   | 200.00                   | Previous low               |