



## ***ENERGY RISK MANAGEMENT***

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### **ENERGY MARKET REPORT FOR MAY 24, 2006**

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According to US officials, Iranian analysts and foreign diplomats, Iran has requested direct talks with the US on its nuclear program. Iran's eagerness for talks demonstrated a change in its strategy. Iranian officials asked several intermediaries to pass word to the US that they were seeking direct talks. Meanwhile, the White House dismissed the idea of direct talks with Iran. White House press secretary Tony Snow reiterated that Iran had to stop enriching uranium before any other opportunities arise. A British Foreign Office spokesman later stated that the meeting between UN Security Council members on Iran's nuclear program was constructive.

#### **Market Watch**

The World Health Organization said limited human to human transmission of bird flu may have occurred in an Indonesian family, which lost seven members to the virus. However it stated that there was no evidence it had mutated into an easily transmittable form. It said that while human to human transmission could not be ruled out, it continued to search for a possible alternative source of exposure. More than 120 people worldwide have died from the bird flu. Meanwhile, about 13,000 people were quarantined in Bucharest, Romania in response to the city's second bird flu outbreak. Officials stated that residents would be cut off and all businesses would be closed during the quarantine period of up to three weeks. The move came after the presence of the bird flu virus was found in dead chickens. Separately, an oil analyst said a bird flu pandemic in Asia could cut air travel and hurt the transportation industry but it is unlikely to be a significant impact on oil demand.

Iraq's Prime Minister Nuri al-Maliki said Iraq's army and police would be able to assume responsibility for security from US led forces across the whole country by late next year.

The rulers of Saudi Arabia are being confronted with a dilemma of how to insulate the country from sectarian fighting in Iraq and also find a way to counter Iran's growing influence there. Even though Saudi leaders may prefer to avoid involvement, many believe that Saudi Arabia is the most likely to be forced into the situation if the violence continues. As more of Iraq's minority Sunni Muslims are killed in their conflict with Shi'ite Muslims, Sunnis in Saudi Arabia are watching with alarm. Many are keen to protect their fell Sunnis. Meanwhile, Saudi rulers are nervous about the growing power of Iran. The resulting shift to Shi'ite politicians in Iraq, many of whom lived for years in Iran and received money and other support from the government has placed Iraq under the influence of Iranian clerics and threaten to destabilize Saudi Arabia. There is talk of organizing and funding Sunni militias in Iraq to fight powerful Shi'ite paramilitary groups and aside from helping to protect Sunnis, Saudi backed gunmen could give Saudi Arabia a foothold from which to fight Iranian influence.

A PDVSA official stated that it was aiming to gain a 60% stake in each of the four heavy oil projects in the Orinoco belt.

Nigerian lawmakers threatened to impeach President Olusegun Obasanjo if he showed any sign of trying to derail elections next year. He said he accepted the National Assembly's rejection of his tenure extension.

A Pentagon report on Chinese military modernization highlighted growing concern over China's ability to threaten Taiwan as well as its ability to influence East Asia and confront other US allies. The report highlighted the apprehension among US military officials that China is preparing to confront Japan. The report called for an explanation of China's naval, air and missile buildup.

and encouraging progress was made.

#### **DOE Stocks**

**Crude** – down 3 million barrels

**Distillate** – up 2.5 million barrels

**Gasoline** – up 2.1 million barrels

**Refinery runs** – down 0.11%, at 89.7%

Britain, France and Germany presented a draft package offering Iran help with building light water reactors, a nuclear fuel bank that would guarantee Iran access to reactor fuel as well as a series of security guarantees aimed at defusing the crisis over Iran's nuclear program. However Iran's President Mahmoud Ahmadinejad insisted on Iran's right to a full range of nuclear technology.

Separately, Israel Radio reported that Iran conducted a test launch of the Shihab-3 intermediate range ballistic missile, which is capable of reaching Israel and US targets in the region. Militant officials said it was not clear if this most recent test indicated an advance in capabilities of the missile.

OECD Secretary General Donald Johnston said it was surprising that high oil prices did not affect the world economy. It said it expected growth in the 30 mostly industrialized economies of the OECD to expand 3.1% overall this year.

Iraq's new Oil Minister Hussein al-Shahristani is not scheduled to attend the OPEC meeting on June 1. The Iraqi ambassador to Venezuela is expected to represent Iraq at the meeting.

The DOE reported that US inventories of propane totaled 37.659 million barrels in the week ending May 19, up 215,000 barrels on the week. It reported that inventories in the East Coast increased by 18,000 barrels to 3.393 million barrels while inventories in the Midwest increased by 233,000 barrels to 16.252 million barrels and inventories in the Gulf Coast fell by 60,000 barrels to 17.255 million barrels on the week.

#### **Refinery News**

Shell confirmed it had delayed the completion of a turnaround maintenance program at its 420,000 bpd Pernis refinery. It said it needed more time to complete its repairs. A refinery source said Shell delayed the restart of a catalytic cracking unit by about three weeks to late June to repair damage caused by a utility failure while a crude unit would resume operations in early June as planned.

ERG's Isab Nord refinery in Sicily was still shut on Wednesday, the day the refinery was expected to resume operations following a pipeline fire at the end of April. Its oil product loadings and crude oil discharge were still halted. Any delay would tighten regional supply of fuels and cut availability for export.

South Korea's Hyundai Oilbank Corp is expected to keep its crude oil processing rate for June relatively unchanged on the month. It is expected to operate its 390,000 bpd refinery at 85%-90% of capacity in June, steady from May.

Japan's refinery operation rates fell last week to the level in about two years due to heavy scheduled maintenance and plant outages. The average refinery operation rate fell by 11.5% to 69.9% in the week ending May 20. The Petroleum Association of Japan reported that gasoline stocks fell by 1.91% to 2.09 million kl or 13.15 million barrels on the week. It also reported that commercial crude stocks fell by 4.32% to 17.87 million kl or 112.4 million barrels in the week ending May 20. It reported that Japan's kerosene stocks increased by 3.55% to 1.91 million kl or 12.01 million barrels over the same period.

Russia's Yukos has reached a tentative agreement with Polish refiner PKN Orlen SA on the sale of Yukos' 53.7% stake of Lithuanian refinery Mazeikiu Nafta. It however has stated that it would comply with a temporary restraining order from a US court blocking the sale. The order is set to expire late

Thursday. Meanwhile, Kazakh oil group KazMunaiGas said it would increase its bid for the majority stake in Lithuania's Mazeikiu Nafta refinery, in a race against PKN Orlen SA.

Russia's Energy Ministry said Russian wholesale fuel oil prices increased in May to near record levels amid the maintenance at several refineries. It said Russian average wholesale prices for fuel oil from all refineries increased to 6,425 roubles or \$238/ton as of May 11 from 5,617 roubles or \$207/ton as of April 13.

Indonesia's Pertamina is expected to import an extra 600,000 barrels of diesel for June following an outage at a gas pipeline that supplies Jakarta power plants. It said repairs could take up to six weeks. The request was in addition to the spot purchases of 3.1 million barrels of diesel for June.

PetroChina is likely to skip its gasoline exports for June after it decided not to export gasoline in May as Chinese refiners seek to avoid summer shortages. The cuts in its exports would leave total May exports at 130,000 tons.

China's Sinopec said it was planning to launch a trial run of its 8 million tons/year Greenfield refinery and petrochemical complex at the end of June.

### **Production News**

Norway's Norsk Hydro said it was aiming to extract an extra 40 million barrels of oil from its Oseberg East field after installing new equipment at the platform in June-July.

According to the Shetland Islands Council, Brent crude liftings from Sullom Voe fell to 170,406 tons in the week ending May 23 from 453,537 tons the previous week.

<b>Technical Analysis</b>		
	<b>Levels</b>	<b>Explanation</b>
<b>CL</b> Resistance 69.86, down \$1.90 Support	71.65, 72.15 to 72.95 70.50, 71.00  69.80 68.40, 67.85	Wednesday's high, Remaining gap (May 15th)   Wednesday's low Previous lows
<b>HO</b> Resistance 194.02, down 5.87 cents Support	202.50 to 204.25 195.00, 198.70  193.60 190.20	Remaining gap(May 15th) Wednesday's high  Wednesday's low Previous low
<b>HU</b> Resistance 201.90, down 8.90 cents Support	209.25 to 209.50, 214.00 203.50, 205.00  201.50 200.00, 197.50, 195.00	Remaining gap (May 24th), Previous high   Wednesday's low Previous lows

Syncrude Canada Ltd said it did not expect the restart costs of its expansion mine north of Fort McMurray to be material nor for the shutdown of the mine to be protracted. Production of 80,000 bpd remained affected by the shutdown.

India's government reported that the country produced 2.75 million tons or 671,916 bpd of crude oil in April, down 1.8% on the year.

OPEC's news agency reported that OPEC's basket of crudes increased by \$1.84/barrel to \$64.45/barrel on Tuesday.

### **Market Commentary**

The oil complex settled sharply lower in light of the larger than expected builds in product stocks. The market was further pressured as Britain stated that UN Security Council members made progress on a package of proposed incentives and threats to halt Iran's nuclear program. The crude market gapped lower from 70.95 to 70.80 amid the reports that Iran made explicit requests for direct talks on its nuclear program with the US. The market held support at 70.60 and traded to 71.30 following the release of the DOE report, which showed a draw of 3 million barrels in crude stocks. The market later posted a high of 71.65 before it continued to sell off amid the reports that the Security Council members were making progress on their talks over Iran's nuclear program. The reports added momentum to the sell off which pushed the market to a low of 69.80 ahead of the close. The July crude contract settled down \$1.90 at 69.86. Volume in the crude market was good with over 209,000 lots booked on the day. The gasoline market also settled sharply lower at 201.90, down 8.9 cents in light of the weekly petroleum stock reports. The gasoline market gapped lower from 209.50 to 207.00 and quickly traded to 205.50 amid the larger than expected builds in gasoline stocks. The market later retraced its losses and settled in a sideways trading pattern as it traded to a high of 209.25. The market, which failed to backfill its gap, later sold off to a low of 201.50 ahead of the close. The heating oil market also traded lower early in the session in light of the distillate stocks build. However the market retraced its losses and traded to a high of 198.70. The market later erased its gains and sold off to a low of 193.60 ahead of the close. It settled down 5.87 cents at 194.02. Volumes in the product markets were good with 45,000 lots booked in the gasoline market and 53,000 lots booked in the heating oil market.

The oil market on Thursday will likely continue to trade lower in light of the weekly petroleum stock reports. The market may also remain pressured amid the easing of concerns over the Iranian situation following the reports that stated that Security Council members made some progress in their talks. The market is seen finding support at 69.80 followed by 68.40 and 67.85. Meanwhile resistance is seen at 70.50, 71.00 and its high of 71.65. More distant resistance is seen at 72.15-72.95.