



## ***ENERGY RISK MANAGEMENT***

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### **ENERGY MARKET REPORT FOR JUNE 7, 2006**

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US and European officials stated that the confidential diplomatic package presented to Iran leaves open the possibility that Iran would be able to enrich uranium on its own soil. The concession, along with a promise of US assistance for an Iranian civilian nuclear energy program, is conditioned on Iran suspending its nuclear program until the UN's IAEA determines with confidence that the program is peaceful. The diplomats also stated that Iran would be allowed to carry uranium conversion if it agrees to multinational

talks. Meanwhile, Russia's Foreign Minister Sergey Lavrov said Russia would only support sanctions against Iran if it violated the Nuclear Non-Proliferation Treaty.

The Joint Revolutionary Council, which is comprised of members of the Movement for the Emancipation of the Niger Delta and two splinter groups from another movement, claimed responsibility for an attack on a Shell operated oil facility in the Niger Delta on Wednesday. The group took five South Korean oil workers hostage, sunk a naval gunboat and destroyed a drilling rig and a naval houseboat, killing at least five soldiers. It said the attack was a response to a court decision to deny bail to militant leader Mujahid Dokubo-Asari, who was arrested on treason charges last year. The group said the hostages were taken to a MEND base where they are safe and would not be harmed unless the base was attacked.

#### **DOE Stocks**

**Crude** – up 1.1 million barrels  
**Distillate** – up 1.8 million barrels  
**Gasoline** – up 1 million barrels  
**Refinery runs** – down 0.44%, at 91%

#### **Market Watch**

Former Federal Reserve Chairman Alan Greenspan said higher crude costs should eventually ease US dependence on oil but warned that high priced energy was starting to affect the US economy. He said the US has been able to absorb the large implicit tax of rising oil prices so far. However he added that recent data indicated that the US may finally be experiencing some impact. He said that while businesses had so far been able to improve productivity to compensate for the higher energy costs, households were suffering from higher gasoline prices. He warned that the buffer between supply and demand was extraordinarily thin and price spikes remained a risk.

Saudi Arabia's King Abdullah said a campaign by al Qaeda militants fighting Saudi Arabia has been defeated. Islamist activists allied to Osama bin Laden's al Qaeda group have been waging a violent campaign aimed at toppling the US back monarchy and expelling westerners.

Talk about the security of the world's energy supplies are expected to dominate the agenda when G8 finance ministers meet this week to prepare for the group's annual summit next month. Meanwhile, a senior Canadian official said Canada would prefer Group of Eight finance ministers to release one communiqué when they meet this weekend rather than issuing a second, separate one that focuses on energy issues.

OPEC's President Edmund Daukoru said that rising inflation could impact oil demand. However he added that with prices above \$70/barrel, OPEC would be best advised to keep world markets oversupplied. He said oil prices should fall if current tensions between the US and Iran eased as the current oil prices does not reflect market fundamentals. He also warned oil market speculators not to take advantage of geopolitics. In regards to Nigeria's oil production, he stated that he expected a substantial part of the country's production that has been shut in by militant attacks to be back on stream in a month. Meanwhile, OPEC's President also stated that Angola and Sudan could decide within weeks whether they want to move forward with plans to become OPEC's newest members.

Separately, the UAE's Oil Minister Mohamed Bin Dhaen al Hamli said he was concerned that high oil prices may start to have a negative impact on the world economy. He also stated that OPEC is concerned over rising oil stocks. He said the UAE was dealing with extra oil stocks by selling the oil in the spot market.

The DOE reported that US inventories of propane totaled 41.167 million barrels in the week ending June 2, up 1.482 million barrels on the week. It reported that inventories in the East Coast built by 74,000 barrels to 3.875 million barrels on the week while inventories in the Midwest increased by 883,000 barrels to 17.756 million barrels and inventories in the Gulf Coast increased by 430,000 barrels to 18.614 million barrels.

### **Refinery News**

A crude distillation unit at Shell's 412,000 bpd Pernis refinery in Rotterdam failed to restart on Wednesday following two months of maintenance work. The refinery is expected to attempt another restart on Thursday. A source stated that the restart of a catalytic cracking unit was still delayed to about the end of June to repair damage from an earlier utility failure.

PDVSA plans to shut a 77,000 bpd catalytic cracking unit at its Cardon refinery next January for 10 to 15 weeks of planned maintenance that would increase the unit's capacity by 15%. PDVSA said it would expand the unit's production capacity to 89,000 bpd during the shutdown. The refinery is building up inventories to supply customers while the unit is off line. PDVSA said its Amuay refinery would shut a 70,000 bpd crude distillation unit in September for planned work.

Nippon Oil Corp said its 180,000 bpd Muroran refinery has recently resumed normal operations after running at lower rates since February when a hydrocracking unit was shut due to a fire. The refinery was operating at about 90% of its capacity.

Mexico's Energy Minister Fernando Canales said Saudi Arabia is interested in bidding for a license to build a planned new refinery in Central America. He discussed the refinery project, which would process Mexican crude and be based somewhere in Central America, with Saudi Arabia's Oil Minister Ali al-Naimi during talks over the weekend.

India's political parties have been holding nationwide protests against an increase in petrol and diesel prices. Petrol prices were increased by 4 rupees to 47.49 rupees/liter while diesel prices were increased by 2 rupees to 32.45/liter on Monday. The move has been opposed by the main opposition Bharatiya Janata Party and communist parties which support the ruling Congress party led coalition. The communist parties said the government should bear the price increase and if necessary, fund it with tax increases.

Malaysia's Petronas has no plans to build new liquefied natural gas plants for now to replace old facilities in the country.

## Production News

Colonial Pipeline said it would allocate gasoline shipments on Line 1 for the 34<sup>th</sup> cycle north of Collins, Mississippi for the second consecutive cycle. It said the current nominations on line 1 exceeded its ability to meet its 5-day lifting cycle.

A Mines and Energy Ministry official in Indonesia said the country purchased more crude oil than it exported in May, the first time imports have outstripped overseas sales since last August. The official stated that crude oil exports fell by 7.5% in May to 267,200 bpd from 289,000 bpd in April. However imports were down 3.8% to 275,000 bpd from 286,100 bpd.

According to the Petroleum Association of Japan, Japan's gasoline stocks fell by 3.13% or 65,000 kiloliters to 2.02 million kl or 12.71 million barrels in the week ending June 3. Overall stocks of refined products fell by 81,049 kl to 10.39 million kl. It reported that commercial crude stocks totaled 19.23 million kl or 121 million barrels in the week ending June 3, up 5.08% from the previous week. The PAJ also stated that the average refinery operation rate fell 0.7% to 69.1% in the week ending June 13.

France's Total estimates that world oil production would peak around 2020 if output growth continues at current levels and has advised governments to take action to reduce oil demand growth. It stated that if demand growth was cut to 1% from the nearly 2% experienced in recent years, the point of peak output could be postponed by 10 years.

China's State Administration of Taxation said the country is not yet ready for a fuel tax amid the high crude prices, although the country does eventually plan to implement one to encourage efficiency. China is keen to curbing growth in oil demand as it already relies on imported crude for over 40% of its needs. However officials are worried that costlier fuel could spark inflation or social unrest.

Ecuador's central bank reported that the country's oil export revenues totaled \$2.37 billion between January and April, up 60% from the \$1.48 billion reported last year. Ecuador exported 49 million barrels in the first four months of 2006, up 14% from the 43 million barrels shipped last year.

OPEC's news agency reported that OPEC's basket of crudes fell to \$66.08/barrel on Tuesday from \$66.48/barrel on Monday.

## Market Commentary

The oil market opened down 70 cents at 71.80 and quickly posted a high of 71.90. The market continued to trend lower amid the easing concern over the Iranian situation. According to US and European officials,

some concessions were made as long as Iran suspended its nuclear program until the UN's IAEA determined that the

Technical Analysis		
	Levels	Explanation
<b>CL</b> 70.82, down \$1.68	<b>Resistance</b> 71.90, 72.65, 73.40 71.00, 71.45	Wednesday's high, Previous highs
	<b>Support</b> 70.50 70.05, 69.90, 69.80	Wednesday's low Previous lows
	<b>Resistance</b> 204.80, 206.25 to 206.30, 210.70 200.00, 202.00	Previous high, Remaining gap, Previous high Wednesday's high
<b>HO</b> 199.54, down 4.72 cents	<b>Support</b> 198.00 195.00, 192.50	Wednesday's low Previous lows
	<b>Resistance</b> 218.75, 223.00 214.00, 215.75	Previous highs Wednesday's high
	<b>Support</b> 210.50 206.25, 203.25	Wednesday's low Previous lows

program is peaceful. The market was further pressured by the weekly petroleum stock reports, which showed builds across the board. The market sold off to a low of 70.80 following the release of the DOE report, which showed a larger than expected build in crude stocks. It settled in a sideways trading pattern before it tested its low once again. The market breached its earlier low and sold off to a low of 70.50 ahead of the close. It settled down \$1.68 at 70.82. Volume in the crude was much better with over 282,000 lots booked on the day. The gasoline market opened more than 3.3 cents lower at 214.50 and quickly sold off to a low of 212.00 following the release of the DOE and API reports, which showed builds of 1 million and 2.354 million barrels, respectively. The market later bounced off its low and settled in a sideways trading pattern from 212.00 to 215.00. However the market breached its earlier low and sold off to a low of 210.50 late in the session before it settled down 5.48 cents at 212.40. Similarly, the heating oil market sold off to 198.30 in light of the DOE and API reports showing a build of 1.8 million barrels and 4.7 million barrels, respectively. The market later sold off even further to a low of 198.00 ahead of the close. It settled down 4.72 cents at 199.54. Volumes in the product stocks were good with 46,000 lots booked in the gasoline market 67,000 lots booked in the heating oil market.

The oil market will likely continue to trade lower following the latest weekly petroleum stock reports and the easing of tension between Iran and the US as Iran studies the proposal delivered by the EU. Technically, the market also looks set to continue trading lower as its stochastics crossed to the downside. The market is seen finding support at its low of 70.50 followed by 70.05, 69.90 and 69.80. Meanwhile resistance is seen at 71.00, 71.45 and its high of 71.90. More distant resistance is seen at 72.65 and 73.40.