



## ***ENERGY RISK MANAGEMENT***

Howard Rennell & Pat Shigueta  
**(212) 624-1132 (888) 885-6100**

**www.e-windham.com**

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### **ENERGY MARKET REPORT FOR JUNE 8, 2005**

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The main pipeline in northern Iraq was attacked early on Wednesday. An official at the Northern Oil Co said the line affected was its northern pipeline to Ceyhan, setting back efforts to resume its crude exports officials had predicted would restart in about 10 days. Earlier, an Iraqi oil official said Iraq's oil exports through the northern pipeline to Turkey remain halted and repairs following a large blast last week are expected to last about 10 more days. Meanwhile, Iraq's oil terminals halted shipping operations late on Tuesday after rough seas in the Persian Gulf prevented tankers from docking. Separately, armed pirates attacked the

#### **Market Watch**

The Bush administration released its updated economic forecast and stated that the country's economy is expected to expand by 3.4% in 2005, unchanged from its previous estimate. However it said inflation has been pushed higher than its previous estimate because of higher energy costs. It expects inflation to average 2.9%. Looking ahead, it expects inflation to fall back to its previous forecast of 2.4% in 2006 and beyond.

Iran's Deputy Oil Minister Hadi Nejad-Hosseini said Iran has offered to conclude a 25 year deal with Russia on bilateral oil supplies. The deal envisages Russia supplying oil to the Iranian port of Neka on the Caspian Sea and Iran supplying Russian clients with the same amount of oil at Iranian oil terminals in the Persian Gulf. Iran has offered to exchange 300,000 bpd of crude in the first stage of the agreement.

An official at PDVSA said Venezuela plans to begin phasing out environmentally damaging leaded gasoline this year and may begin importing ethanol from Brazil as a substitute for lead. He said it is in talks with Brazil's Petrobras to import ethanol and added that the country's refineries could produce ethanol as well. He said PDVSA is evaluating the different options to replace lead in gasoline.

Venezuela's tax collection agency, SENIAT, said several foreign oil companies operating in Venezuela could owe more than \$3 billion in unpaid taxes.

Italy's oil industry body, UP, said the cost of oil will likely fluctuate between a range of \$40-\$60/barrel in 2005. Separately it stated that Italy's tax revenues from oil sales are set to fall about 200 million euros or \$246 million in 2005 partly due to a further fall in demand. It said drivers were increasingly switching to cars powered by diesel, which bring in less value added tax for the government. He added that the economic downturn was also continuing to cut demand for both petrol and diesel this year.

Germany's Economy Minister Wolfgang Clement said the recent fall in the euro currency is good for the German economy but added that high oil prices are still a huge problem.

A seat on the NYMEX sold on Wednesday for a record \$2.485 million, up from a previous record of \$2 million per sea in October 2004.

China Aviation Corp said five of its top officials face charges including insider trading and failure to disclose \$550 million trading losses. Suspended chief executive Chen Jiulin and Jia Changbin, president of the Chinese government owned parent will appear with three other officials in a Singapore court to answer the charges on Thursday.

crew of a tanker waiting to load crude at Iraq's Basra oil terminal. The incident raised questions about security at the oil terminal.

OPEC's Secretary General Adnan Shihab-Eldin said OPEC will consider increasing its production ceiling by 500,000 bpd at its meeting on June 15 and will continue to meet consumer demand. He said OPEC's current production is slightly higher on the month at about 30.1 million bpd.

Nigeria's Petroleum Adviser, Edmund Daukoru called for OPEC to leave its crude output quotas unchanged at next week's ministerial meeting. He said current oil prices were reasonable. He however stated that it was too early to decide whether OPEC needs to start reining in their overproduction as recently suggested by Iran.

The EIA said it stood behind its weekly petroleum stock report showing a 3 million barrel draw in oil stocks, unlike the API's large draw of 13.8 million barrels. An EIA senior analyst noted that the EIA collects data from more companies than the API. The official said large difference may be because Valero does not submit data to the API. The API reported the largest draw seen since September 27, 2002 when it reported a 13.944 million barrel draw.

OPEC's news agency reported that OPEC's basket of crudes fell by \$0.44/barrel to \$50.74/barrel on Tuesday from Monday's \$51.18/barrel.

The DOE reported that US inventories of propane totaled 43.638 million barrels in the week ending June 3<sup>rd</sup>, up 1.478 million barrels on the week. Propane inventories in the East Coast fell by 77,000 barrels to 3.289 million barrels while inventories in the Midwest increased by 264,000 barrels to 14.74 million barrels on the week. It reported that propane stocks in the Gulf Coast increased by 984,000 barrels to 24.517 million barrels.

The EIA said retail gasoline prices will increase during June. However it added that prices could fall in July and August. It said gasoline prices will increase over the next few weeks to reach the EIA's projected June average of \$2.16/gallon. It warned that with the oil markets tight and little spare production capacity, a disruption in oil supplies or petroleum infrastructure could send gasoline prices 20 cents higher.

### **Refinery News**

According to a report filed with the Texas Commission on Environmental Quality, a gas unit at Marathon Ashland's refinery at Texas City, Texas was set to restart on Tuesday evening.

BP Plc said an ethylene cracker that its Innovene petrochemicals unit plans to build in Saudi Arabia will have a capacity of about 1.2 million tons of ethylene a year.

Total's 90,000 bpd Fiumicino refinery near Rome was operating normally after completing a 15 day maintenance period at the end of May.

### **Production News**

The Shetland Island Council reported that there were no Brent crude liftings from Sullom Voe in the week ending June 6<sup>th</sup>. It is down from 362,865 tons in the previous week.

Kuwait's parliamentary committee approved a \$9 billion plan to raise output from its northern oilfields. The plan aims to increase output from four major northern oilfields to about 900,000 bpd from the current level of 530,000 bpd. The committee will refer the plan to the national assembly next week so that the house will decide when to hold a floor debate on the project.

Exports of oil and oil products via Ukraine's Odessa sea port fell by 19.3% on the year to 6.428 million tons in January-May. Of the total, oil exports via the port fell by 13.4% on the year to 4.001 million tons and oil product exports fell by 27.4% on the year to 2.427 million tons.

BP said the Baku-Ceyhan pipeline will start pumping 200,000-300,000 bpd of oil later in 2005 or early next year, increasing volumes to 500,000 bpd over 2006. BP and its partners last month started filling crude into the pipeline, but it will take at least 6 months before the pipeline becomes fully operational.

Russia's Rosneft has agreed to a lower fee for exporting oil to China by rail, the head of Russian railways, Gennady Fadeyev said. The rail tariff will come down after Rosneft has delivered 5 million tons or 36.65 million barrels of oil to China by rail. The tariff will gradually fall from \$72/ton, reaching a floor of \$24/ton once Rosneft has delivered 30 million tons.

Colombia will load at least 3 million barrels of sour crude Vasconia for export in July, unchanged on the month.

A senior official at Angola's Sonangol said \$20 billion will be needed to fulfill production targets of 2 million bpd by 2008. He said the investments would be needed to develop recent discoveries in deepwater fields offshore the southwest African country during the next four years.

The Petroleum Association of Japan reported that the country's commercial gasoline stocks totaled 2.298 million kiloliters or 14.45 million barrels in the week ending June 4, up from the previous week's 2.297 million kl. Stocks are up 11.2% from a year ago as refiners store extra supplies to prepare for shortages caused by tightening gasoline specifications. The average operating rate of Japanese oil refineries was 70.5% in the week ending June 4, slightly lower than the previous week's 70.8%. It reported that commercial crude oil stocks totaled 19.6 million kl, down 0.4% from last week's level. Kerosene stocks fell by 36,203 kl to 1.97 million kl while gas oil stocks fell by 5,490 kl to 1.579 million kl and jet fuel stocks fell by 34,164 kl to 600,336 kl.

The Korea Energy Economics Institute reported that South Korea's energy demand will increase more quickly than expected this year as it absorbs the impact of high oil prices. Demand for petroleum products will increase 2% in 2005 to 768.6 million barrels. Total demand for energy is expected to increase by 3.8% to 229.2 million tons of oil equivalent this year.

Petroecuador said its May crude oil exports increased by 21.6% on the month to 153,255 bpd.

### **Market Commentary**

The energy complex settled sharply lower following a volatile trading session which saw prices rally to their highs following the release of the DOE and API reports before the markets sold off ahead of the close. The oil market traded in a range from 53.20 to 53.50 before it rallied \$1.50 to a high of 55.00 immediately following the release of the DOE and API reports which showed larger than expected draws in crude stocks. The DOE showed a draw in crude stocks of 3 million barrels while the API showed an even larger draw of over 13 million barrels on the week. The market however found good resistance at that level and erased its early gains. The market sold off to a low of 52.45 amid the weakness in the heating oil market. It settled down \$1.22 at 52.54. Volume in the crude was excellent with over 284,000 lots booked on the day. Meanwhile, the heating oil market settled down 4.80 cents at 155.28 after the market sold off to a low of 155.00 ahead of the close. The weekly petroleum stock reports which supported the markets early in the session, later provided the catalyst for the sell off late in the session. Earlier, the heating oil market traded to a high of 162.50 amid the strength in crude market. However the heating oil market sold off as the reports seemed to provide some reassurance about the distillate market in light of the builds reported in distillate stocks. Also, the DOE and API

reports both showed that distillate production increased on the week as gasoline production declined. Similarly, the gasoline market rallied to a high of 155.00 following the release of the DOE and API reports. However it retraced its gains and sold off to a low of 149.00 amid the sell off in the heating oil market. It settled down 1.82 cents at 149.75. Volumes in the product markets were good with 64,000 lots booked in the heating oil market and 59,000 lots booked in the gasoline market.

Given the markets' sharp sell off ahead of the close, the complex may continue to trade lower on Thursday, especially if the heating oil market continues to pressure the rest of the complex. The crude market also seemed to have found good resistance at its high as it failed to breach that level. Even though the reports did show large draws in crude stocks, the builds in distillate stocks may keep the market supported following recent concerns over stock levels. The market will also continue to watch development of the tropical system. Technically, the crude market is seen finding support at its low of 52.45

followed by 52.25-52.05, 51.72 and 50.86. Meanwhile resistance is seen at 53.50, followed by 54.50, 54.75 and its high of 55.00.

<b>Technical Analysis</b>		
	<b>Levels</b>	<b>Explanation</b>
<b>CL</b> 52.54, down \$1.22	<b>Resistance</b> 53.50, 54.50, 54.75	Wednesday's high
	<b>Support</b> 52.25-52.05, 51.72, 50.86	Wednesday's low Opening gap (June 1st), 50% retracement, 62%
<b>HO</b> 155.28, down 4.8 cents	<b>Resistance</b> 162.50, 162.70, 163.00 158.00, 160.00	Wednesday's high, Previous highs
	<b>Support</b> 155.00 153.00, 152.34, 149.05	Wednesday's low Previous low, 38% retracement (135.10 and 163.00), 50%
<b>HU</b> 149.75, down 1.82 cents	<b>Resistance</b> 155.00, 156.00, 156.20 152.00	Wednesday's high, Previous highs
	<b>Support</b> 149.00 147.35, 147.05, 145.26	Wednesday's low 38%(138.50 and 156.20), 50%, Previous low, 62%