



## ***ENERGY RISK MANAGEMENT***

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### **ENERGY MARKET REPORT FOR JUNE 11, 2007**

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The IAEA said there was a serious concern that Iran may gain the ability to build nuclear weapons. There was no sign of progress made in settling the core dispute. Earlier an official said a meeting between Iran's deputy nuclear negotiator, Javeed Vaidi and the IAEA's director general Mohamed ElBaradei was canceled on expectations that the Iranian official would bring nothing substantial to that meeting and another with deputy IAEA director general Olli Heinonen.

Iran's Deputy Interior Minister on Security,

Mohammad Bager Zolghadr warned that if attacked, Iran would strike US and Israeli interests worldwide. He said the price of oil may reach \$250/barrel. The threat was prompted by Iran's interpretation of the seven day Negev exercise as a preparatory step for a US-Israeli air attack on their nuclear site. His threat indicated that Iran could block the Strait of Hormuz. Separately, senior US

#### **Market Watch**

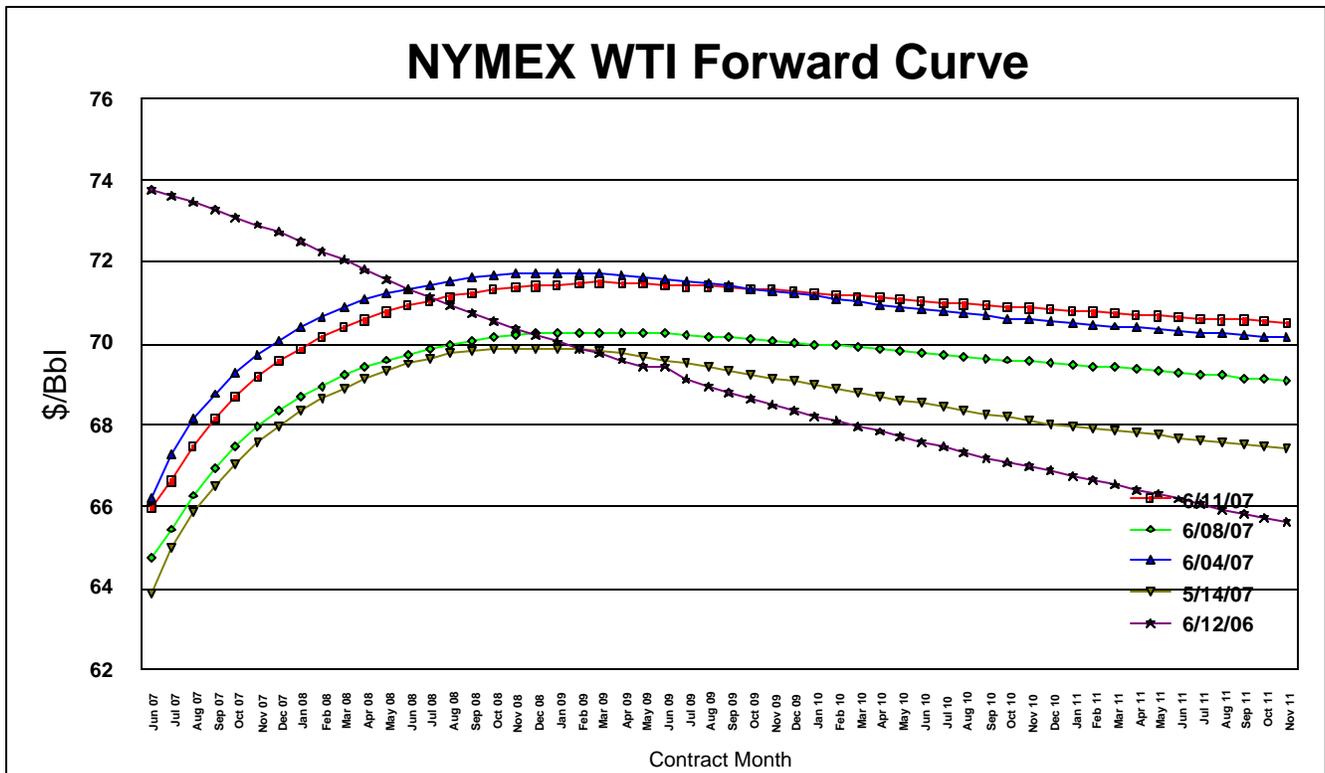
European gas oil fell for a second day on expectations that supplies of transport fuels would increase during the coming weeks in Europe and the US, easing concern that provision would not meet peak demand in the summer vacation season.

Iran said it would start rationing fuel for government owned cars on Thursday. A member of parliament said on Sunday the government planned to introduce rationing, in stages, later this month. He said each car would have a maximum of 10 liters of rationed gasoline per day. The Iranian government had initially planned to introduce rationing on May 22 but delayed the move in part due to problems in issuing smart cards, although it did raise the gasoline price by 25% to 1,000 rials or 11 cents/liter.

An official at the UAE's Emirates National Oil Co said benchmark oil prices were likely to increase to levels last seen in July 2006 as long as world demand remains high and producers face production constraints. He said oil prices were expected to increase to \$70-\$80/barrel.

According to the Government Accountability Office, about 30% of the US corn crop would be used in five years to produce ethanol. It said assuming ethanol production continued to increase to 11.2 billion gallons by 2012, about 30% of the corn crop would be needed for the fuel supply. Separately, the GAO said the push to expand E85 fuel, which is made from 85% ethanol and 15% gasoline, could make the demand for corn worse as ethanol is not a gallon for gallon replacement for gasoline.

The NYMEX announced that it set a daily volume record for heating oil and overall futures on the CME Globex electronic trading platform on June 8. Overall futures on CME Globex reached a record 952,366 contracts, exceeding the 919,900 contracts traded on January 11. Heating oil volume reached a record of 84,165 contracts, surpassing the previous record of 82,680 contracts traded on February 12.



military officers said they support President George W. Bush's stance to stop Iran's race for nuclear power. Predictions within the US military are that President Bush would do what is needed to stop Iran before he leaves office in 2009, including possibly launching a military strike against its nuclear facilities. According to a US military officer, the US Navy and Air Force would play the primary role in any military action taken against Iran. An idea under consideration is a naval blockade designed to cut off Iran's oil exports. However the US is not expected to block the Strait of Hormuz.

The EIA reported that the US average retail price of gasoline fell by 8.1 cents/gallon to \$3.076/gallon in the week ending June 11. It also reported that the US average retail price of diesel fell 0.7 cents to \$2.792/gallon in the latest week.

According to the Lundberg survey, the US average price of gasoline fell 7.37 cents/gallon in the past three weeks to \$3.109/gallon.

Euroilstock reported that total European oil and oil product inventories increased by 4.41 million barrels or 0.4% to 1.169 billion barrels in May. Crude stocks fell by 870,000 barrels or 0.2% to 480.49 million barrels while gasoline stocks fell by 2.34 million barrels or 1.7% to 134.34 million barrels in May. Euroilstock reported that middle distillate stocks built by 5.25 million barrels or 1.3% to 409.88 million barrels while fuel oil stocks increased by 3.25 million barrels or 2.9% to 116.03 million barrels. Refinery utilization rate increased to 90.13% from 88.03%.

Militants in Nigeria announced they were releasing ten hostages, including four Britons, three Americans, a Filipino, a South African and an Indian hostage. The militants said they were releasing the hostages on humanitarian grounds. However they indicated that they would continue attacks despite conciliatory words from new President Umaru Yar'Adua.

### Refinery News

Western Refining Inc restarted a gas compressor on a 34,000 bpd fluid catalytic cracking unit at its 116,000 bpd El Paso, Texas refinery. The unit was shut while the gas compressor was repaired after being damaged by an electrical power loss at the refinery following a thunderstorm.

BP Plc cut operations at its Texas City, Texas refinery following a mechanical problem. Processing rates on several units were cut to a minimum following a compressor failure at Pipestill No. 3A. It was the second compressor snag at the unit in less than a week.

Alon USA Energy Inc said it was able to avoid shutting down any units at its 70,000 bpd Big Spring, Texas refinery while it repaired a reformer line. Alon earlier stated that it would shut the reformer to repair the leaks and during the repairs would shut the diesel hydrotreater, light diesel hydrotreater, gas oil hydrotreater and the no. 2 sulfur recovery unit in addition to other units.

Chevron Corp reported a release of nitric oxide early Monday at its 260,000 bpd refinery in El Segundo, California. The release may have been due to a computer malfunction.

Shell Oil Deer Park said it was starting a new boiler. The start up is expected to last until July 11.

According to Reuters, world refinery margins fell as US and European gasoline volumes fell to their lowest level since April. US Gulf refineries running US light crude posted profit margins of \$17.22/barrel, down \$2.74/barrel from the previous week. Refineries running Brent crude saw margins fall \$3.48/barrel to \$9.54/barrel. In Europe, profit margins at complex Rotterdam refineries fell \$2.72/barrel from the previous week to \$4.66/barrel. In Asia profit margins at complex refineries cracking Dubai crude fell \$1.02/barrel to \$8.73/barrel.

Planned turnaround maintenance at Hovensa's 495,000 bpd refinery in St. Croix was completed over the weekend, slightly ahead of the original estimate of 35 days. The turnaround involved several units, including two crude units, two vacuum distillation units, two amine units, a gas recovery unit, a desulfurization unit and a delayed coker. Separately, the No. 6 crude unit would operate at an unspecified reduced rate in July to facilitate maintenance work on an associated exchanger trains.

Imperial Ltd said it was restarting a crude processing unit at its 195,000 bpd Strathcona refinery and should be at full capacity in the next few days. The unit was shut following a fire on June 2.

ExxonMobil's Nansei Sekiyu KK started planned maintenance on its 100,000 bpd crude distillation unit on Sunday as scheduled. The maintenance work is scheduled to last until June 27.

The National Iranian Oil Co said it aimed to supply crude to a planned refinery in northern Malaysia. The Malaysian government last month approved the development of a \$7 billion crude oil pipeline, including storage tanks and a new refinery at its western end.

### **Production News**

Saudi Arabia notified its Asian and European customers to expect the same volume of crude in July as in the previous three months, indicating that the country was not increasing its production. Saudi Arabia's shipments to Japan and South Korea would be about 9.5-10% below contracted volumes next month.

Iran's Oil Minister Kazem Vaziri-Hamaneh said Iran was in talks to store strategic oil reserves in China. He also stated that Iran was in talks to partner with China, Indonesia, Singapore, Syria and Malaysia to build refineries with a combined production capacity of 1.1 million bpd. He said Iran's oil production is expected to increase to 5.3 million bpd in 2014, up from its current production of 4.3 million bpd. In

regards to OPEC, he stated that there was no shortage of crude in the market and OPEC had no plans to increase its supplies.

Royal Dutch Shell Plc said repairs were underway after a leak at the Nembe pipeline forced the company to cut production by 77,000 bpd last month. Shell was unable to predict when production would resume through the pipelines.

An oil union spokesman said Nigeria's oil workers have been put on notice to join a nationwide strike called by labor groups to protest a recent increase in fuel prices. Both the Nigeria Labor Congress and the Trade Union Congress have given the Federal Government until June 18 to reverse the fuel price increase or face a nationwide strike.

The North Sea loading plans for Brent, Forties, Oseberg and Ekofisk show daily loadings of 1.44 million bpd in July, up from 1.14 million bpd in June. Loadings are expected to total 44.73 million barrels, up from 34.17 million barrels in June. The North Sea Ekofisk crude system is scheduled to load 13.3 million barrels in July, up 6.2 million barrels in June. The Forties crude system is scheduled to load about 619,000 bpd in July, up from 580,000 bpd in June. The North Sea Oseberg crude system is scheduled to load 6.6 million barrels in July, up from 4.77 million barrels in June.

Norway's North Sea Gullfaks crude stream is scheduled to load 359,000 bpd in July, up from 342,000 bpd in June.

Kazakhstan's government said the country was interested in getting a share in the Burgas-Alexandroupolis oil pipeline to transport its crude oil to Europe. The pipeline would allow oil shipments to bypass the Turkish Bosphorus strait.

Sudan's Energy and Mining Minister Awad Ahmed al-Jaz said its exports of Dar Blend crude totaled 200,000 bpd after a new oil terminal was opened. He said the Sudan expected to sell its share of the Dar Blend production via tenders held every three months.

National Iranian Oil Co raised the official selling prices of all its July loading crude to all its supply destinations. It raised its Iranian Light crude bound for NW Europe by 90 cents to BWAVE minus \$2.85 while its Iranian Heavy was increased by 65 cents to BWAVE minus \$3.65 and its Forozan crude was increased by 85 cents to BWAVE minus \$3.15. Its Iranian Light bound for Asia was increased by 19 cents to the Oman/Dubai average plus 79 cents, its Iranian Heavy crude was increased by 5 cents to the Oman/Dubai average minus \$2.35 and its Forozan crude was increased by 25 cents to the Oman/Dubai average minus \$2.15/barrel.

OPEC's news agency reported that OPEC's basket of crudes fell by 89 cents/barrel to \$66.12/barrel on Friday.

### **Market Commentary**

Perhaps a little over done to the downside on Friday, July crude made a come back today, settling at 65.97, top of the weekly channel. It seems to be a jittery market, reacting strongly to any bit of news, for example a statement today that OPEC would not make a change in its current production. Upon examination of the weekly chart, there appears to be an inverse head and shoulders pattern forming, with the neckline set at 64.27 and the top of the head at 53.34. Based on this, the projected upside should be 75.20, which is a penny above the bottom of a weekly gap between 75.19 and 76.03. Our initial upside objective is 67.32. Support is set at 65.64, 65.45, 65.15, 64.95, 64.69 and 64.27. Resistance is set at 66.25, 66.40, 66.72, 67.32, and 68.20. With the rolls "officially" ending the July/August spread appears poised to test -.47 to -.45, which is an area of congestion dating back to

mid-February. The product markets ended the session in positive territory as they too retraced some of Friday's sharp losses. The RBOB market settled up 2.42 cents after it posted an inside trading day. The market traded to a low of 211.55 early in the session before it bounced off that level and rallied to a high of 216.10 by midday amid the strength in the crude market. It later settled in a sideways trading pattern ahead of the close. The RBOB crack spread continued to come in and settled down at 24.27. It is still seen trending lower and finding support at 23.83 followed by 21.80. Similar to the crude market, the heating oil market breached Friday's low early in the session and posted a low of 188.92. However the market bounced off that level and retraced more than 39% of its recent losses as it rallied to a high of 193.40. The heating oil market settled up 3.03 cents at 192.91. The product markets are seen holding their support ahead of Wednesday's release of the weekly petroleum stock reports. The RBOB market is seen finding support at 214.20, 213.25, 211.55 followed by 210.59, 209.76 and 207.80.

Meanwhile resistance is seen at 216.10 followed by 218.58 and 223.00.

<b>Technical levels</b>			
	<b>Levels</b>	<b>Explanation</b>	
<b>CL</b>	<b>Resistance</b> 65.97, up \$1.21	66.25, 66.40, 66.72, 67.32, 68.20 66.07	Previous highs Monday's high
	<b>Support</b>	65.64, 65.45, 65.15, 64.95, 64.69 64.52, 64.27	Monday's low
<b>HO</b>	<b>Resistance</b> 192.91, up 3.03 cents	194.04, 195.24, 197.70, 199.15 193.40	50% retracement (199.15 and 188.92), 62%, Previous highs Monday's high
	<b>Support</b>	191.80, 189.50, 188.92 187.32, 184.82, 184.21	Monday's low Previous lows
<b>RB</b>	<b>Resistance</b> 215.13, up 2.42 cents	218.58, 223.00 216.10	Friday's high, Previous high Monday's high
	<b>Support</b>	214.20, 213.25, 211.55 210.59, 209.76, 207.80	Monday's low Friday's low, Previous lows