



## ***ENERGY RISK MANAGEMENT***

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### **ENERGY MARKET REPORT FOR JUNE 30, 2005**

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OPEC President Sheikh Ahmad al-Fahad al-Sabah said OPEC has suspended talks towards another 500,000 bpd production increase. He said there is no shortage of oil in the market. He said OPEC would consider another production increase if oil prices reach \$60/barrel again.

According to Oil Movements, OPEC's crude oil exports increased by 370,000 bpd to 24.51 million bpd in the four weeks ending July 16. The extra barrels to be shipped were evenly split between Western and Asian refiners. It said core freight rates on VLCCs were still low because oil in transit was low, but he expected oil on the water to increase, pushing rates higher.

#### **Refinery News**

Valero Energy Corp is performing maintenance for a second time this week at Complex 1 at the

#### **Market Watch**

Saudi officials said Saudi Arabia's envoy to the US, Prince Bandar bin Sultan, resigned. Some experts said that the timing could be crucial, in light of King Fahd's failing health. He may be positioning himself for future developments in the post-Fahd era. He played a central role in building a special relationship between the US and Saudi Arabia, a task that became more difficult since September 11.

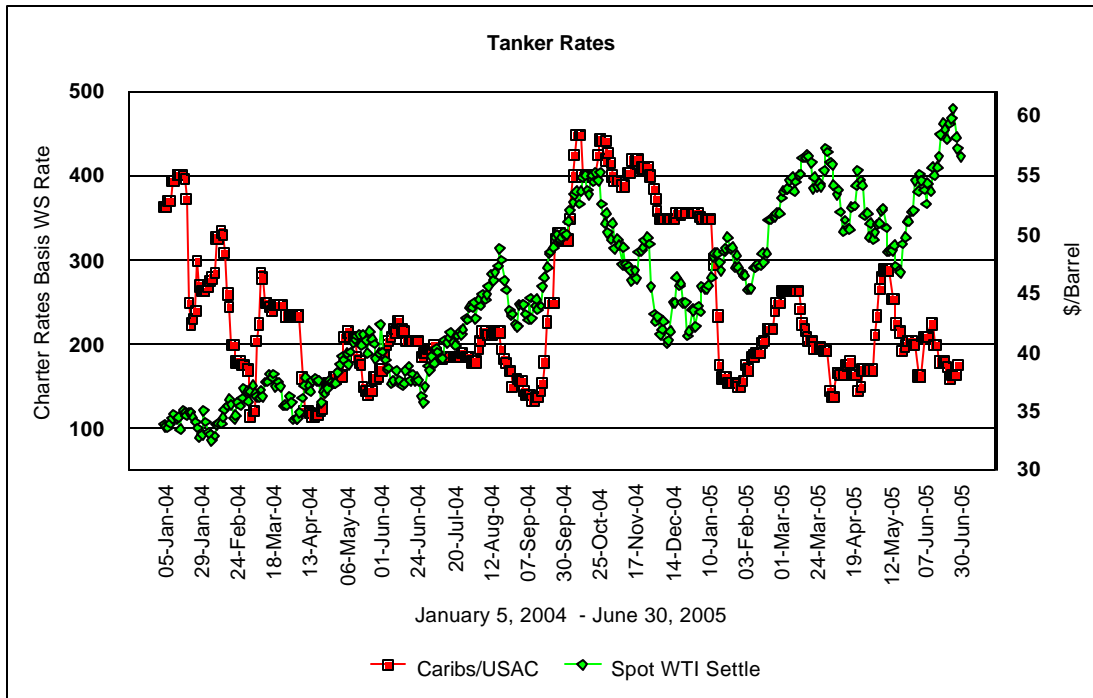
According to a Reuters survey, US oil prices are expected to average \$50.38/barrel in 2005, up from \$41.47/barrel in 2004.

China's President Hu Jintao started a four day visit to Russia on Thursday hoping to secure access to more crude oil and gas. He is expected to lobby Russia's President Vladimir Putin for a new Russian pipeline to be routed to China and for Chinese firms to get stakes in Russian oilfields. China is competing with Japan to persuade Russia to route a large new pipeline first to China while a Kazakh pipeline to China is due for completion this year.

Germany's Economy Minister Wolfgang Clement said it wants China and the US to do more to cut energy consumption as it reiterated its concern over high oil prices ahead of the G8 meeting. He said the rising consumption in the US and China was a major factor contributing to high oil prices.

China's CNOOC expects Chevron to increase its bid for Unocal before taking the bid to Unocal shareholders for a vote in August. The source declined to say how CNOOC may react if Chevron did change its bid ahead of the August 10 shareholders meeting. The US government on Wednesday gave Chevron its final approval, leaving CNOOC just six weeks to convince Unocal's board its own bid is superior despite the longer time it may need to obtain US regulatory approval.

Oil companies operating in Venezuela are still waiting on Venezuelan authorities to define the legal framework for the conversion of 32 privately run oil fields into joint ventures with PDVSA. The Oil Ministry has failed to draft regulations defining how much managerial control PDVSA will leave its new partners. Chevron, Shell and Suelopetrol said they plan to continue operating under the new framework, however at least one small company said it may abandon its investments if the new terms are too onerous.



West Plant of the Corpus Christi, Texas refinery. Complex 1 includes a hydrodesulfurization unit, a hydrotreater, a gasoline desulfurization unit and a platformer. Separately, Valero Energy expects to close its \$6.9 billion acquisition of Premcor Inc in the early fall. The deal is

pending FTC approval.

Motiva Enterprises LLC is considering an expansion that could more than double the processing capacity of its Port Arthur, Texas refinery. The company will finalize its plans by September. The expansion could enable the refinery to process as much as 600,000 bpd of crude compared to its current 235,000 bpd capacity. A source said that even if the company decides not to double the plant's capacity, an expansion is likely.

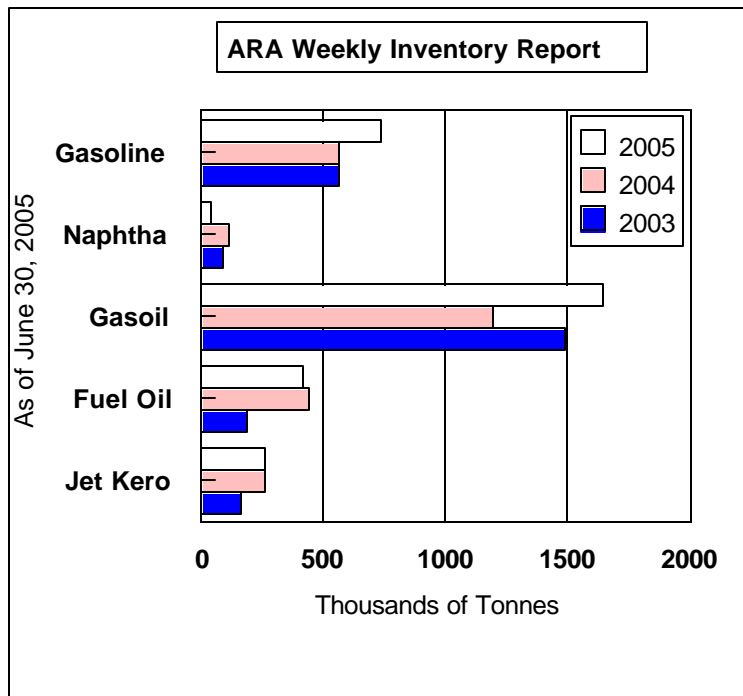
Arizona Clean Fuels Yuma LLC, developers of \$2.5 billion oil refinery planned for Yuma, Arizona have held talks with several oil companies in addition to investment firms to obtain funding. Although the project lacks financing and a supply of crude oil, it has already secured state and federal permits that would take a rival corporation an additional five years to obtain. It is seeking to start operations at the refinery by 2009.

China's Fujian refinery will keep July run rates steady in July at 75,000 bpd. It operated at 79,000 bpd in June or at 99% of its capacity. Meanwhile, Yanshan oil refinery will cut run rates by 6% in July. It will operate at 137,000 bpd in July, down from 146,000 bpd in June. China's West Pacific Petrochemical Corp plans to trim its crude runs by 5% in July to 174,000 bpd next month.

### **Production News**

Pacific Pipeline System LLC has shut in its 105,000 bpd Line 63 California crude oil pipeline on Wednesday. The line was taken down as a precaution while the company checks the system for damage from recent earthquakes and tremors. The line will remain down for a week.

A production problem at Norway's 36,000 bpd Brage oilfield cut Oseberg oil flow and forced the cancellation of two July cargoes. Norsk Hydro canceled one 600,000 barrel Oseberg cargo that its own trading arm was due to load on July 15-17. It follows the cancellation of a 600,000 barrel cargo that Statoil was due to load on July 14. Norsk Hydro later stated that it resumed operations and was operating at 22,000 bpd.



A top aide to Russia's President Vladimir Putin said Russia would overcome a slowdown in oil output growth. He said he is confident that Russia could increase its output to 10 million bpd, up 7.5% from current levels. However he did not give details or a timeframe.

According to an analyst, oil product stocks held in the Amsterdam-Rotterdam-Antwerp storage area mostly fell on the week. Inventories of gas oil stood at 1.65 million tons in the week ending June 30, down 100,000 tons on the week but it is still 38% higher on the year when inventories stood at 1.2 million tons. Gasoline stocks fell by 25,000 tons to 750,000 tons while naphtha stocks fell by 100,000 tons to 50,000 tons on the week. Fuel oil stocks also fell by 75,000 tons to 425,000 tons while jet fuel stocks built by 25,000 tons to 275,000 tons.

BHP Billiton said it has approved the capital expenditure for its 35% stake of the costs to develop the Neptune oil and gas field in the Gulf of Mexico. The Neptune facility will have a design capacity to produce up to 50,000 bpd of oil and 50 mmcf/d of natural gas.

OPEC's news agency reported that the basket of crudes fell \$1.32/barrel to \$52.50/barrel on Wednesday from \$53.82/barrel on Tuesday.

OAD Russian Railways plans to export 680,000 metric tons or 160,787 bpd of oil to China in July. The July plan includes 200,000 tons from Yukos, 450,000 tons from Rosneft and 30,000 tons from Sibneft.

Russia's Rosneft said Yugansk is expected to produce 52 million tons or 1.04 million bpd this year, down from its previous estimate of 1.08 million bpd. Its remaining units would produce 23.35 million tons, up 8% on 2004 when its output stood at 21.6 million tons. Rosneft reported that its production increased to 17.787 million tons in January-March from about 5.082 million tons in the same period a year ago.

Turkey's Prime Minister Tayyip Erdogan said the first cargo of Azeri crude will be loaded from the Turkish port of Ceyhan on October 27. The cargo will be the first delivered through the BP-led Baku-Tbilisi-Ceyhan pipeline.

Kazakhstan's Economy and Budget Planning Minister Kairat Kelimbetov said Kazakhstan is likely to issue its first tenders for rights to develop its oil and gas resources in the Caspian Sea in the first quarter of 2006.

Venezuela aims to increase its oil production in its western region to 1.6 million bpd by 2012 from its current production level of 952,000 bpd. The head of planning for PDVSA's western operations said the company will invest over \$6 billion in the next five years to revamp operations in the region.

Singapore's International Enterprise reported that the country's middle distillate stocks built by 749,000 barrels to 8.509 million barrels in the week ending June 29. It also reported that light distillate stocks built by 1.073 million barrels to 9.4 million barrels while residual fuel stocks fell by 1.065 million barrels to 10.615 million barrels.

India's state run and private oil companies sold 9.5 million metric tons of petroleum products in May, down from 9.7 million tons a year ago. Diesel sales in May stood at 3.5 million tons, down from 3.6 million tons a year earlier while gasoline sales stood at 800,000 tons, up from 730,000 tons a year ago.

Japan's Ministry of Economy, Trade and Industry said Japan imported 21.03 million kiloliters or 4.27 million bpd of crude in May, up 9.2% on the year. It imported 3.44 million kl of oil products in May, up 13.1% on the year. However total wholesale shipments of oil products in May fell 4.4% on the year to 17 million kl or 3.45 million bpd. Lower utilization rates at refinery helped increase crude inventories to their highest level since November 2004, totaling 19.29 million kl at the end of May, up 9.5% year on year. The average utilization rate was down at 75.8% in May. It reported that crude oil throughput at Japanese refineries increased by 3.9% on the year to 17.81 million kl.

Malaysia's Petronas said the country's oil and condensate production in March stood at 268.5 million barrels of oil equivalent, down 2% on the year.

Indonesia said a tentative deal with ExxonMobil Corp for the Cepu oil block could become a model for cooperation between Pertamina and other oil firms. Exxon's Indonesian subsidiaries have signed a memorandum of understanding with Pertamina and the government. The Indonesian government has ordered Pertamina to take further steps so the final deal with ExxonMobil could be signed in September. Production from Cepu could begin by early 2008.

China appealed to Japan to jointly develop oil and gas resources in the East China Sea following a report that Japan may approve drilling by a Japanese company in the area. A spokesman for China's Foreign Ministry said neither side should take unilateral action without reaching an agreement on dispute over the boundary in the East China Sea.

Ecuador's Central Bank reported that the country's oil product export revenue in April totaled \$59.93 million, up 136% on the year. It exported 1.57 million barrels in April, up 47% from 1.07 million barrels last April.

**Market  
Commentary**

The oil market settled sharply lower for the third consecutive session as it continued to sell off from Monday's high of 60.95. The August crude contract gapped lower

Technical Analysis		
	Levels	Explanation
<b>CL</b> 56.50, down 76 cents	<b>Resistance</b>	58.10 Previous high
	<b>Support</b>	57.05, 57.80 Thursday's high
	<b>Support</b>	55.90 Thursday's low
<b>HO</b> 163.61, up 1.37 cents	<b>Resistance</b>	55.80, 55.00, 54.60-54.55 Previous low, 50% (49.05 and 60.95), Previous lows
	<b>Support</b>	168.00, 168.70 Thursday's high, Previous high
	<b>Support</b>	164.00, 166.90 Aug 162.50 Thursday's low
<b>HU</b> 156.58, down 1.92 cents	<b>Resistance</b>	159.90, 157.50, 157.25 Previous lows, 38% retracement (136.30 and 170.20)
	<b>Support</b>	162.80, 166.80 Wednesday's high, Thursday's high
	<b>Support</b>	161.00 Aug 155.50 Thursday's low
		154.90, 154.35, 153.30 Previous low, 50% (139.30 and 169.40), Previous low

from 56.90 to 56.80 on the opening, which it quickly backfilled. The market however posted a low of 56.50 before it erased its early losses and rallied to a high of 57.80. The oil market, which failed to find the upside momentum and test its previous high once again found further selling. It sold off to a low of 55.90 late in the session. The market erased some of its losses and settled down 76 cents at 56.50. Volume in the crude market was excellent with 334,000 lots booked on the day, of which 201,000 lots traded via spreads. Meanwhile, the heating oil market was well supported with the expiring July heating oil contract settling up 1.75 cents at 161.91. It opened at a low of 160.40 and remained in positive territory on good buying of the heating oil crack spreads. The market rallied to a high of 166.00 early in the session before it found some profit taking ahead of its expiration. It however was able to sustain some of its earlier gains. The August heating oil contract also settled up 1.37 cents at 163.61. Unlike the heating oil market, the gasoline market traded in and out of positive territory throughout the session and settled down 1.24 cents at 157.21. It rallied to a high of 160.20 early in the session before liquidation pushed it to a low of 155.85 late in the session. The August gasoline contract also settled down 1.92 cents at 156.58. Volumes in the product markets were good with over 66,000 lots booked in the heating oil market and over 58,000 lots booked in the gasoline market.

The oil market during Friday's shortened trading session is seen retracing some of its recent losses. The market will likely be supported ahead of the July 4<sup>th</sup> holiday weekend. It may be supported as funds come back into the market at the start of a new quarter. The market is seen finding support at its lows of 55.90 and 55.80 followed by 55.00. More distant support is seen at its previous low of 54.60 to 54.55. Meanwhile resistance is seen at 57.05, followed by 57.80 and 58.10.