



## ***ENERGY RISK MANAGEMENT***

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### **ENERGY MARKET REPORT FOR JULY 2, 2007**

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Iran's Oil Minister Kazem Vaziri-Hamaneh said the current price of crude was appropriate and there was no reason for OPEC to adjust output because there was no shortage of crude in the market. In regards to Iran's gasoline rationing, he stated that Iran would decide on a price at which to offer unsubsidized fuel to motorists, outside a rationing plan introduced last week following a review in one or two months' time.

Saudi Arabia's Interior Minister Prince Nayef bin Abdul-Aziz said Saudi Arabia would set up special security

#### Market Watch

A director of Brazil's main Oil Workers' Federation is expected to present a new proposal to oil workers on Tuesday to avoid a strike starting Thursday. The directors of FUP said on Friday that about 80% of oil workers across Brazil had voted to go on a five day strike that could threaten the production of 1.8 million bpd.

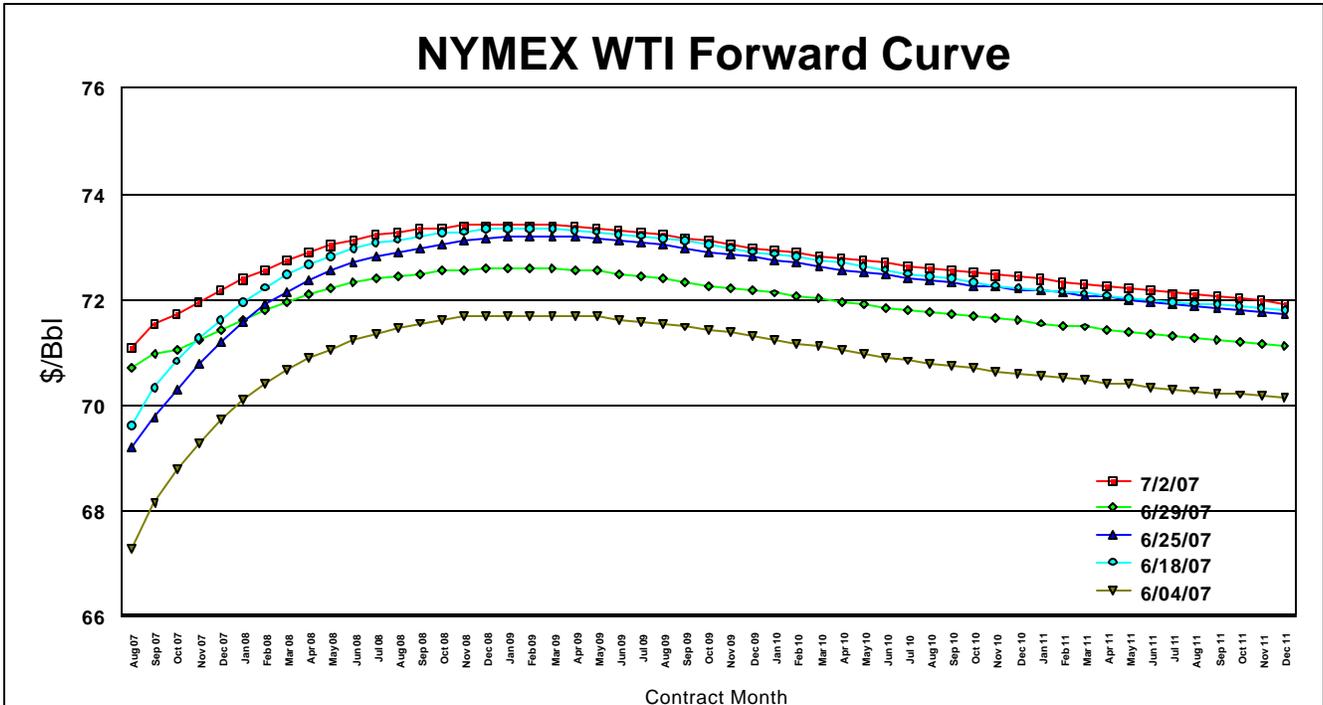
The NYMEX announced that it planned to launch next week two swap commodity futures contracts for ethanol. The new contracts are the Chicago ethanol swap and New York ethanol swap futures. Trading of the new contracts would be available on NYMEX Clearport starting July 9.

ExxonMobil Corp said it did not expect the nationalization of its stake in the Cerro Negro project in Venezuela to have a material impact on its operations or financial condition. It said its net investment in Cerro Negro producing assets was about \$750 million, less than 0.7% of its worldwide property, plant and equipment as of March 31.

Platts introduced a price de-escalator in its Forties crude assessment after complaints from North Sea traders. The agency said it would adjust downward the price of oil delivered by a seller to a buyer at sulfur levels above 0.6%. The change would provide for an amount of 40 cents/barrel for every 0.1 degree of sulfur over 0.6%. It said it believed the changes to its assessment methodology would help bring greater transparency to the complex market.

Meteorlogix said cooler than average weather is expected in northwest Europe for much of the week, lowering energy demand for cooling.

A Russian Finance Ministry official said Russia would increase its oil export duty by 12% in August-September following an increase in world oil prices. The current oil export duty was set at \$200.60/ton and would increase to \$223.90/ton. Export duties for refined products would also increase to \$163.20/ton of light products and \$87.90/ton of heavy products compared with current levels of \$147.50 and \$79.40, respectively.



units to protect oil and industrial facilities against militant attacks. He said Saudi Arabia was holding more than 3,000 suspects, many linked to a campaign by al Qaeda to overthrow the pro-Western royal family.

Kuwait's state news agency KUNA said Kuwait was seeking to appoint a new oil minister as soon as possible to replace Sheikh Ali al-Jarrah al-Sabah, who resigned on Saturday after deputies scheduled a no-confidence vote against him. Kuwait has named Electricity and Water Minister Mohammad al-Olaim as acting oil minister.

The EIA reported that the US average retail price of gasoline fell by 2.3 cents/gallon to \$2.959/gallon in the week ending July 2. It also stated that the US average retail price of diesel fell by 0.6% to \$2.829/gallon on the week. The first drop in diesel prices since June 11 put diesel prices 6.9 cents below year ago levels.

### Refinery News

Coffeyville Resources LLC shut its 108,000 bpd refinery in Coffeyville, Kansas due to flooding from the Verdigris River on Friday. The company did not state a restart date, saying only that it would restart operations when conditions are safe. The company confirmed on Sunday that crude oil overflowed from tanks at the refinery during the flood and continued flooding has taken the oil beyond the refinery into surrounding areas.

Flint Hills Resources shut a hydrocracker in the West Plant of its 270,000 bpd refinery in Corpus Christi, Texas. The unit was shut on Monday morning to search for a leak on the unit.

Alon USA Energy Inc briefly shut a vent gas compressor at its 70,000 bpd Big Spring, Texas refinery over the weekend. The compressor was restarted early on Sunday after shutting down late on Saturday.

Valero Energy Corp briefly reduced throughput on a fluid catalytic cracking unit at the East Plant of its 142,000 bpd refinery in Corpus Christi, Texas refinery. The reduced in feed to the cat cracker did not

have a material impact on production at the plant. Feed was reduced after the FCC blower tripped offline due to low lube oil pressure. Separately, Valero said its McKee refinery in Sunray, Texas was running at a crude oil throughput of a little over 150,000 bpd on Monday morning. Valero has been working to bring the refinery back to near full production since February 16 when a fire shut the plant.

A fluid catalytic cracking unit at Brazil's 240,000 bpd Reduc refinery in Rio de Janeiro was shutdown over the weekend following a fire. A company official said there was a team working on the resumption of output at the affected unit and added that it expected the unit to resume operations in the next few days.

Showa Shell Sekiyu KK said it shut a 61,000 bpd residue fluid catalytic cracking unit on Friday due to problems at its Yokkaichi refinery. It was not clear exactly what the problems were at the unit or when the unit could be restarted.

Brazil's Foreign Trade Secretariat said the country's ethanol exports in June reached 214.2 million liters, up 28.8% from the 166.3 million liters exported last year. However ethanol exports were down 23% from the 278.7 million liters shipped out in May.

### **Production News**

A Gulf source stated that Saudi Arabia was set to produce about 8.57 million bpd of crude in July, unchanged on the month.

Traders reported that Nigeria's crude oil exports were expected to increase to about 2.11 million bpd in August as several oilfields resume normal production. The August loading schedule was 70,000 bpd higher than the previous month's revised 2.04 million bpd. Traders said about 50,000 bpd from Okono and Okpoho fields were restored last week. However oil shipments from Eni's Okono and Okpoho fields remained under force majeure despite the resumption of production.

Shipping sources stated that Iraq's crude oil exports fell in June to 1.43 million bpd from 1.63 million bpd in May due to lower shipments from Basra, its main terminal.

Russia's Energy Ministry reported that Russian oil production increased by about 0.5% to 9.85 million bpd or 40.325 million tons in June from 9.81 million bpd in May. Russia's seaborne crude oil exports supplied to ports by Transneft fell to 2.72 million bpd in June, down 7.9% on the month. It stated that Russian gasoline exports fell in June by 5.3% to 17,660 tons per day while gas oil shipments increased by 11% to 101,370 tons/day.

Kazakh and Russian oil exports via the Caspian Pipeline Consortium to the Black Sea fell by 9% in June to 664,500 bpd from 730,000 bpd in May.

According to the Shipping Research Department of the China Ocean Shipping Co said China's very large crude carrier fleet would be able to carry about 45% of the oil it imports in 2010, up from the less than 20% in 2005. China's oil shipping capacity is estimated to grow to 21 million dead weight tons in 2010 from the current 14.32 million dwt, mostly due to an expansion in the VLCC fleet.

OPEC's news agency reported that OPEC's basket of crudes increased to \$67.88/barrel on Friday from Thursday's \$67.58/barrel.

### **Market Commentary**

While there was no fundamental reason as to why prices were higher today, technically speaking there is still more upside potential left in this market. Rebounding from Friday's end of the quarter sell-off, the August contract moved higher most of the session, topping out at 71.21 and penetrating the gap between 71.10 and 72.97 in the August weekly chart. The 71.10 price level was our initial target bringing us to the next resistance level of 71.90. As the week progresses, we would look for this target to be met. Above this number prices should encounter resistance at 72.38 and 72.97. Support is set at 70.51, 69.54, 69.29, 68.79 and **66.70**. The Dec07/Dec08 spread continues to trade within the parameters of -1.39 and -.61. We would buy and sell against these two numbers (buying the Dec08 down at -.61 and selling it up at -1.39). The cal 08 part of the spread continues to hold its strength against the balance, but with continued upward movement in flat price we would look for some of this strength to diminish. The RBOB market traded higher early in the session and posted a high of 225.50 amid the news of the refinery shutdown in Coffeyville, Kansas. The market however gave up its gains and breached its previous support levels as it posted a low of 219.06 by mid-day. The market later bounced off its low amid the strength in the crude market and traded back towards its high ahead of the close. The August RBOB contract settled up 72 points at 224.87, up 59 points. The heating oil market settled up 1.94 cents after it bounced off a low of 202.94 and rallied to a high of 206.90 in afternoon trading. Technically, the product markets will continue to trend higher after the markets ended near its highs. It is also seen remaining supported ahead of the Fourth of July holiday and the release of the weekly petroleum stock reports due out on Thursday. The RBOB market is seen finding support at 223.50, 222.00, 219.06, 215.89 and 215.10. Meanwhile resistance is seen at 225.50 followed by 227.31, 227.55 and 227.77.

Technical levels		
	Levels	Explanation
<b>CL</b> 70.68, up \$1.11	<b>Resistance</b> 71.90, 72.38, 72.97 71.10, 71.34	Monday's high
	<b>Support</b> 70.51, 69.57 69.54, 69.29, 68.79, 66.70	Monday's low
<b>HO</b> 204.24, up 1.58 cents	<b>Resistance</b> 207.48, 209.92 206.90	Previous high, basis trendline Monday's high
	<b>Support</b> 205.75, 204.55, 202.94 202.25, 198.08, 196.60	Monday's low Previous lows
<b>RB</b> 224.28, up 3.42 cents	<b>Resistance</b> 227.31, 227.55, 227.77 225.50	Previous highs Monday's high
	<b>Support</b> 223.50, 222.00, 219.06 215.89, 215.10	Monday's low Previous lows