



## ***ENERGY RISK MANAGEMENT***

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### **ENERGY MARKET REPORT FOR JULY 5, 2006**

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Iran postponed its nuclear talks with the European Union on Wednesday. The meeting was rescheduled for Thursday. EU foreign policy chief Javier Solana said he is scheduled to meet with Iran's chief nuclear negotiator, Ali Larijani on Thursday and again on July 11, keeping up pressure for a clear answer before leaders of the Group of Eight countries meet on July 15. Iran said it would give its response by August 22. Meanwhile, White House spokesman Tony Snow, stated that the US would like Iran to respond by July 12. US Secretary of State Condoleezza Rice warned Iran not to delay talks aimed at ending its nuclear program.

Iraq continued to pump crude from its

#### Market Watch

North Korea test fired a seventh missile on Wednesday, intensifying the furor ignited when the country launched at least six missiles earlier in the day. The ballistic missile, reportedly of medium range, landed six minutes after its launch in the Sea of Japan. US Secretary of State Condoleezza Rice said the outrage heard around the world after North Korea's series of missile tests was a message to North Korea to change its behavior. Meanwhile, the US ambassador to Japan, Thomas Schieffer said the US reserved the right to defend itself and its allies in the wake of a battery of North Korean missile tests. He said he hoped the dispute over the six missile shots would be resolved diplomatically. He also stated that the world needed to speak with one voice in response to the missile tests. Assistant Secretary of State Christopher Hill said he would leave for China and continue on for talks with officials in Japan, South Korea, Russia and China involved in negotiations with North Korea. Separately, Japan's Prime Minister Junichiro Koizumi urged North Korea to respect a moratorium on missile launches. Japan called for sanctions against North Korea in a UN resolution that would condemn the missile launch and urge the immediate return to six party talks on its nuclear program. However China and Russia said they favored a weaker council statement without any threat of sanctions.

The National Hurricane Center said a tropical storm could form around Florida over the next day or two. It said that over the next couple of days, the system could drift slowly westward over the Florida Peninsula and into the Gulf of Mexico. It said conditions were unfavorable for tropical cyclone formation at this time but may become more conducive for some slow development during the next day or two.

Hedge fund manager T.Boone Pickens said oil prices would likely reach \$80/barrel by early next year as world oil demand outstrips supply. He said world oil production is expected to peak at 85 million bpd while demand is forecast to average 86 million bpd by the fourth quarter of 2006. He said whether prices move even higher would depend in large part on the outcome of the Iran nuclear standoff.

According to investment fund, Ospraie, fundamentals of energy and metals are peaking. Ospraie Management closed its Ospraie Point Fund in June and a source with knowledge of the fund's activities said the fund had incurred heavy losses betting that the price of copper and other commodities would fall.

northern Kirkuk fields to Turkey on Wednesday after restarting the flow on Tuesday. Pumping was halted on Saturday for two days due to technical reasons. Repsol started loading 600,000 barrels of Kirkuk crude at the Turkish port of Ceyhan onto a vessel on Wednesday. Meanwhile Shell has a vessel at anchor at Ceyhan waiting to load 2 million barrels. Storage of Kirkuk crude stood at 5.1 million barrels as of Wednesday. Separately, Iraq's Oil Minister Hussain al-Shahristani said Iraq was exporting up to 1.9 million bpd of crude oil after the army took over security of the northern pipeline to Turkey. Its production stood at 2.5 million bpd.

The EIA reported that the US average retail price of gasoline increased 6.5 cents to \$2.934/gallon in the week ending July 3. It also reported that the US average retail price of diesel increased 3.1 cents/gallon to \$2.898/gallon on the week.

### **Refinery News**

Colonial Pipeline has frozen nominations on its main gasoline line for its 39<sup>th</sup> cycle and allocated cycle 40. The affected line runs from Collins, Mississippi to Greensboro, North Carolina.

The US Coast Guard said it lifted the majority of restrictions that limited commercial traffic on the Calcasieu Ship Channel in Lake Charles, Louisiana following an oil spill two weeks ago. The Coast Guard lifted restrictions that prevented overnight traffic and required all boats to register with the Coast Guard, leaving only a speed restriction in place.

US Gulf and Midwestern refining margins rallied last week after an oil spill near Lake Charles, Louisiana, disrupted crude supplies to area refineries. Margins in the US Gulf increased \$2.31 to \$19.28/barrel from \$16.97 reported the previous week while margins in the Midwest increased by \$3.34 to \$22.29/barrel from \$18.95/barrel the previous week. Northeast refining margins increased by 21 cents on the week to \$11.02/barrel. In the west, Rockies margins fell 11 cents to \$30.72/barrel while West Coast margins increased by \$2.05 to \$28.89/barrel.

Citgo Petroleum Corp said its 430,000 bpd refinery in Lake Charles, Louisiana resumed planned rates after being cut for a 10 day closure of a Calcasieu Ship Channel. Production was however below full capacity due to maintenance work on a crude distillation unit scheduled to end on Tuesday.

Chevron Corp's 260,000 bpd refinery in El Segundo, California had to use its safety flare early on Tuesday due to possible equipment failure.

According to a report filed with the Texas Commission on Environmental Quality, a fluid catalytic cracking unit at ExxonMobil's 348,000 bpd Beaumont, Texas refinery was temporarily operating at reduced rates on Monday after a boiler tripped when a flame went out due to heavy rain. The unit returned to normal operations late Monday.

Lightning struck a gasoline storage tank on Monday, igniting a brief fire at Murphy Oil's 120,000 bpd refinery in Meraux, Louisiana.

Italy's Saras cut its production of ultra low sulfur diesel this month at its 310,000 bpd Sarroch refinery in Sardinia due to scheduled maintenance work at a unit connected to the plant.

Oman has offered and possibly sold extra crude for August loading, hinting at more problems starting up the new 116,000 bpd Sohar refinery. Oman's Ministry of Oil and Gas last week offered an extra 1 million barrels of Oman crude for August loading. It offered up to 2 million barrels of surplus crude for loading in June and July due to problems at the refinery.

TNK-BP plans to increase crude oil processing at its Ukrainian Lysychansk refinery to 455,700 tons in July, up 11.5% on the month. The refinery is also expected to process 57,000 tons of vacuum gas oil and 15,000 tons of light fuel oil. It processed 408,700 tons of crude and 60,000 tons of gas oil in June.

Russian energy officials called for China to invest in its refining sector that would allow Russia to sell China more value added fuels.

According to the Petroleum Association of Japan, the country's crude oil inventories fell 7.4 million barrels last week as refiners resumed operations after maintenance. Commercial crude stocks fell 1.18 million kiloliters to 18.45 million kl or 116.05 million barrels in the week ending July 1. It reported that gasoline stocks fell about 3% or 340,000 barrels to 1.95 million kl or 12.27 million barrels over the period. Refiners raised run rates by 3.9% to an average of 82.5% of their total capacity.

Shipping brokers reported that a second July loading Very Large Crude Carrier has been booked to take high sulfur fuel oil from Europe to Asia as record discounts for the heavy product prompt oil companies to look for outlets for surplus barrels. A VLCC has been booked to ship 275,000 tons of fuel oil from northwest Europe to Singapore.

India's Petroleum Secretary M.S. Srinivasan said India plans to import 1.2 million tons of kerosene this financial year to overcome a shortfall in domestic production. Meanwhile India's Petroleum Minister Murli Deora said India had no immediate plans to increase diesel and gasoline prices despite the high world oil prices.

### **Production News**

Analysts and traders stated that security concerns would keep two major Nigerian oil facilities shut for months. However they added that the start of new offshore fields has helped fill the supply gap. Output from ExxonMobil's Erha oilfield and Royal Dutch Shell's Bonga refinery have kept Nigeria's oil production at more than 2 million bpd. The fields have helped offset the loss of 455,000 bpd from Shell's Forcados terminal and its EA platform.

Oil industry sources stated that unknown gunmen attacked an oil rig offshore Nigeria's Niger Delta on Wednesday but withdrew after a brief battle with state security forces. A navy spokesman said a retired naval officer working as a security guard for Nigerian oil firm Conoil was abducted during the failed attack. Operations at the oil rig however was unaffected by the incident.

A 45,000 ton capacity crude tanker remained grounded in Lake Maracaibo in Venezuela on Wednesday, extending a shipment delay to more than a week. The tanker was delivering 36,600 tons of crude from Bago Grande to Richmond, California when it ran aground on June 27. A spokesman for the shipowner said lightering of 5,000-6,000 tons of crude oil would start early on Thursday if the lightering equipment was available.

Russia's main Black Sea port of Novorossiisk resumed loadings after being closed briefly due to strong winds and sea swells.

OPEC's news agency reported that OPEC's basket of crudes fell to \$67.85/barrel on Tuesday from \$68.20/barrel on Monday.

Saudi Aramco reported that it raised the price of its Arab Extra Light crude bound to Europe by 30 cents to IPE Brent crude weighted average minus \$1.75. Its Arab Light price was increased by 10 cents to BWAVE minus \$6.15 while its Arab Medium was unchanged at BWAVE minus \$8.90 and its Arab Heavy was cut by 20 cents to BWAVE minus \$12.05. Meanwhile it raised its Arab Extra Light

crude price bound for the US by 65 cents to WTI minus \$2.05. Its Arab Light crude prices was increased by 35 cents to WTI minus \$6 while its August Arab Medium and Arab Heavy prices were kept unchanged at WTI minus \$8.90 and WTI minus \$12.15, respectively.

**Market Commentary**

The oil market continued to trend higher following a long holiday weekend amid the news that Iran postponed its talks with the EU from Wednesday to Thursday while the west is seeking a quick answer on the incentive package to end the standoff over Iran’s nuclear program. The market was also supported by the concerns over North Korea’s resumption of missile testing as it launched seven missiles on Wednesday. The crude market opened 3 cents lower at a low of 73.90 and quickly settled in a sideways trading range from 73.90 to 74.25. The market however breached its resistance and extended its gains to over \$1.40 as it posted a high of 75.40 late in the session. The market may have also traded to its high as funds started the new quarter with fresh buying. The August crude contract settled up \$1.26 at 75.19. Volume in the crude remained light with 184,000 lots booked on the day. The gasoline market gapped higher from 224.00 to 224.50 and quickly rallied above the 226.00 level. The market later retraced its gains and backfilled its gap as it traded to a low of 224.00. It however bounced off its low and continued to trend higher as it rallied to a high of 229.70 late in the session. The market was well supported by the expectations that the weekly petroleum stock reports would show draws in gasoline stocks. It settled up 5.70 cents at 227.58. The heating oil market also settled up 3.40 cents at 206.26 amid the strength in the gasoline market. The heating oil market opened at 204.00 and retraced some of its early gains as it sold off to a low of 203.00. It however bounced off its low and rallied to a high of 207.50 ahead of the close. Volumes in the product markets were light with 28,000 lots booked in the gasoline market and 38,000 lots booked in the heating oil market.

The oil market on Thursday is seen remaining supported amid the geopolitical concerns. The market will also be supported by the expected draws in crude and gasoline stocks in the weekly petroleum stock reports. The reports are expected to show draws of about 2 million barrels in crude stocks and draws in gasoline stocks of about 1 million barrels. The crude market is seen finding support at 74.95 followed by its low of 73.90. More distant support is seen at 73.55 and 72.50. Meanwhile resistance is seen at

75.40 followed by 75.85 and 75.93. More distant resistance is seen at 76.70.

Technical Analysis		
	Levels	Explanation
<b>CL</b> 75.19, up \$1.26	<b>Resistance</b> 75.85, 75.93, 76.70 75.40	Previous high, basis trendline, Previous high Wednesday's high
	<b>Support</b> 74.95, 73.90 73.55, 72.50, 71.60	Wednesday's low Previous lows, Double bottom
<b>HO</b> 206.26, up 3.4 cents	<b>Resistance</b> 208.60, 209.00 207.50	Previous highs Wednesday's high
	<b>Support</b> 206.00, 203.00 202.00, 199.00, 198.80, 198.00	Wednesday's low Previous lows
<b>HU</b> 227.58, up 5.7 cents	<b>Resistance</b> 230.00, 231.86 229.70	Previous high, basis trendline Wednesday's high
	<b>Support</b> 227.00, 224.00 220.50, 214.00	Wednesday's low Previous lows