



## ***ENERGY RISK MANAGEMENT***

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### **ENERGY MARKET REPORT FOR JULY 10, 2007**

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In its Short term Energy Outlook, the EIA left its forecast of 2007 world demand unchanged at 85.9 million bpd. However it revised up its previous estimate of 2006 world demand to 84.6 million bpd. As a result, demand in 2007 is expected to grow by 1.3 million bpd, down from 1.4 million bpd reported in last month's report. In the third quarter, world demand is expected to

#### Market Watch

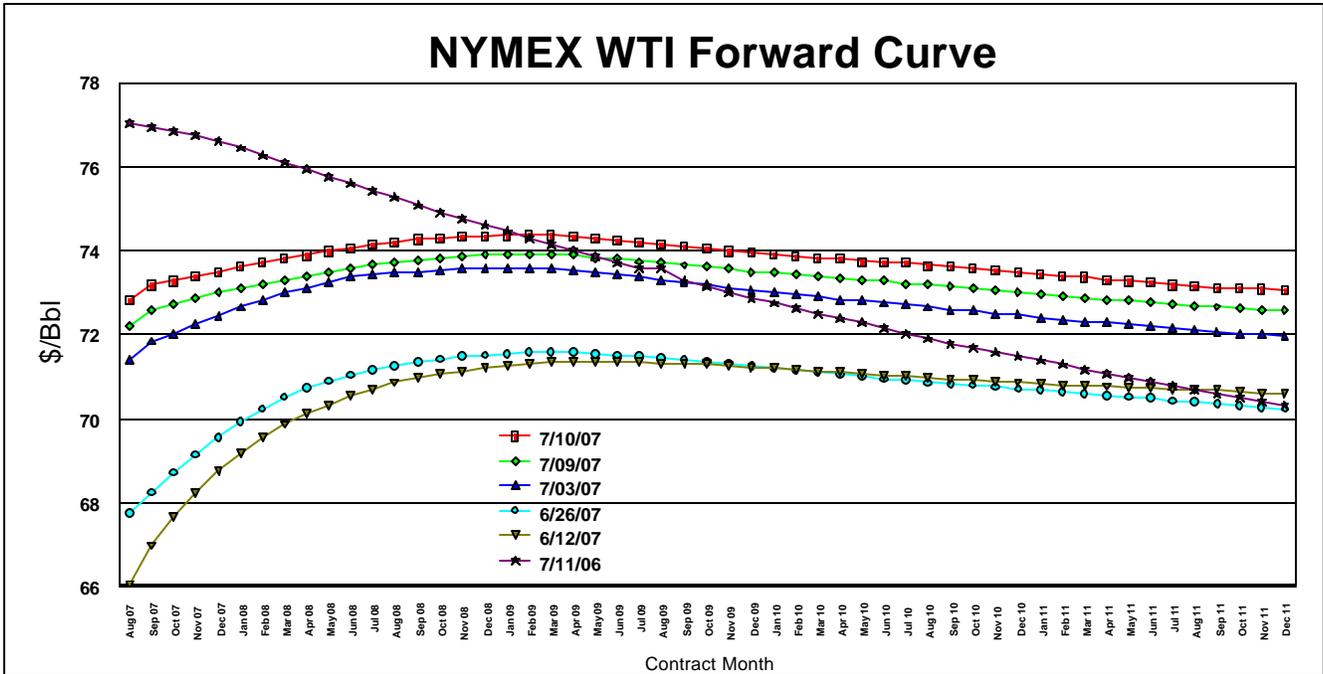
Global Partners said it has signed a deal to buy two refined products terminals on Long Island, New York from Exxon Mobil. The two terminals have a combined storage capacity of 430,000 barrels. In separate agreements, Exxon Mobil has signed long term throughput contracts with Global Partners to continue to use the terminals.

The Kuwaiti government is expected to discuss the size of the country's oil reserves in a closed door session with members of parliament on Wednesday. Parliament is expected to finish and approve a new state budget on Wednesday. They had threatened not to pass this year's budget if oil reserves were not disclosed.

China announced it would grant foreign oil companies operating in offshore China a five year tax holiday from the 5% export tariff that China levied late last year. Companies would not be required to pay the tax on crude shipped out of China from next month until August 1, 2012.

US House of Representatives Energy and Commerce Committee Chairman John Dingell said he would propose a carbon tax on electric utilities, oil companies and other industries to illustrate that it would be extremely expensive to cut greenhouse gas emissions. He however said he did not support the approach he outlined and that he was only offering the plans as a way of illustrating the high costs of combating global warming.

average 85.9 million bpd, up 1.7 million bpd or 2% on the year. The year on year rate of growth is expected to increase in the fourth quarter, when demand is forecast to average 87.6 million bpd, 1.9 million bpd or 2.2% above last year's level. In 2008, demand is expected to average 87.4 million bpd, down from its previous estimate of 87.5 million bpd. The EIA also reported that non-OPEC production is expected to grow by about 700,000 bpd on the year to 49.9 million bpd in 2007 and by 900,000 bpd to 50.8 million bpd 2008. In regards to the US, the EIA stated that total demand in 2007 is estimated at 20.87 million bpd, down from its previous estimate of 20.89 million bpd. In 2008, demand is estimated at 21.12 million bpd, unchanged from its previous forecast. Gasoline demand in the third quarter is estimated at 9.59 million bpd, up 200,000 bpd from its previous estimate while demand in the fourth quarter is estimated at 9.3 million bpd. Its gasoline demand estimates for 2007 and 2008 were unchanged at 9.33 million bpd and 9.44 million bpd, respectively. Distillate demand in 2007 is estimated at 4.26 million bpd while demand in 2008 is estimated at 4.32 million bpd, unchanged from



its previous report. The EIA also reported that gasoline inventories during the first half of the summer were tight and are expected to remain so during the rest of the season. US gasoline prices this summer are expected to average \$3.02/gallon, down 3 cents from its previous estimate. In regards to OPEC, the EIA stated that the ten OPEC members produced 26.31 million bpd in June.

The head of the IEA, Claude Mandil, urged OPEC to increase its oil production immediately, saying there was a risk that stocks of refined oil products may not suffice. He said he was concerned about oil prices. Separately, the IEA said the world was facing an oil supply crunch within five years that would support prices further and increase the west's dependence on OPEC. It said that supply was falling faster than expected in mature areas, such as North Sea or Mexico, while projects in new provinces such as the Russian Far East face long delays. It said the problem was exacerbated by the fact that supply from non-members of OPEC would increase at an annual pace of 1% or less than half the rate of the demand increase.

The international affairs adviser to Supreme Leader Ayatollah ali Khamenei, Ali Akbar Velayati, said Iran was producing centrifuges for refining uranium domestically, limiting the impact of UN sanctions on its nuclear program. He said even military action would not stop work to install more centrifuges in the Natanz uranium enrichment plant in central Iran.

Nigerian troops repelled an attack on a construction site run by Korea's Daewoo early on Tuesday, killing one of the attackers. A military commander said Daewoo staff including some foreigners live on the site and were the target of the attack. He said none of the Daewoo staff was hurt or kidnapped.

Al Qaeda's second in command, Ayman al-Zawahri threatened more attacks on Britain following the failed bombings in London and Glasgow two weeks ago. It was not immediately possible to verify the authenticity of a 20 minute tape, which appeared on a website used by al Qaeda linked groups.

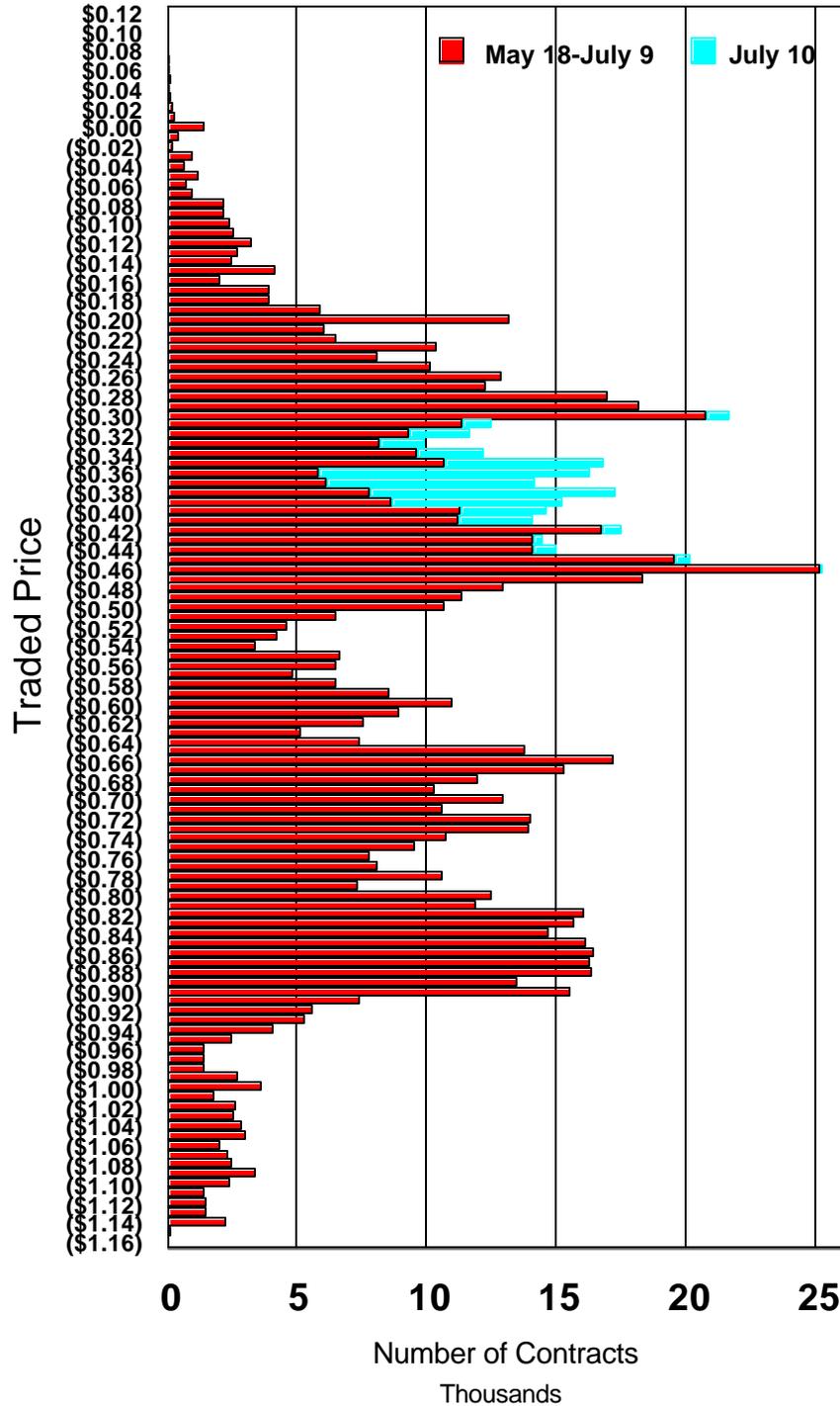
**Refinery News**

Valero Energy Corp said a minor valve malfunction at its Delaware City, Delaware refinery had no material impact to its fuel production. The refinery has reduced rates on its coker unit after work on the unit started on Sunday. The work is expected to last until Wednesday or Thursday.

## NYMEX WTI: August September Spread

Price Vs Volume for May 18 - July 10, 2007

Trade Weighted Avg: 7/10 -.37 7/9 -.439 7/6 -.22 7/5 -.29 7/3 -.45



ExxonMobil Corp said the 240,000 bpd crude distillation unit at its 349,000 bpd refinery in Beaumont, Texas remained in turnaround. The unit was expected to return to service by the end of June.

Venezuela's PDVSA has restarted crude unit no. 4 at its 640,000 bpd Amuay refinery following planned maintenance.

Mexico's Pemex said an explosion shut off three fuel pipelines in Mexico on Tuesday, the fourth explosion in a week. It said no injuries were reported and predicted no impact on crude oil exports since the pipelines served the domestic market. Pemex said firefighters had the blaze under control at a 36 inch natural gas pipeline. A nearby liquefied petroleum gas pipeline and a 16 inch crude oil pipeline were also shut in.

### Production News

Royal Dutch Shell said repairs have been carried out at the Nembe Creek trunkline and output has been restarted. Shell repaired a leak that was found in May, forcing it to cut production by 77,000 bpd. A Shell spokesman however was unable to confirm whether the entire 77,000 bpd had been restored yet.

Nigeria's Moni Polu is expected to shut in its production following an attack by militants on an oil production barge in the Calabar River in the Niger

Delta. Two workers were abducted during the attack. Traders said that even though the barge attacked was an exploration vessel, Moni Polu was still expected to shut in production as a precautionary measure. Its production is estimated at 13,000 to 20,000 bpd. No force majeure has yet been issued.

Shell Oil Co said it was still waiting for final environmental approval to start drilling four exploratory oil and natural gas wells in Alaska's Beaumont Sea and hoped to begin the work in late July. It had originally scheduled the drilling on the Sivulliq prospect from mid-July to October.

According to Euroilstock, total oil and product stocks fell by 16.29 million barrels to 1.153 billion barrels in June. Crude oil stocks in Europe fell by 5.91 million barrels to 483.41 million barrels. It also reported that gasoline stocks fell by 2.72 million barrels to 126.91 million barrels while middle distillate stocks fell by 5.25 million barrels to 401.63 million barrels. It reported that refinery utilization rates increased by 0.76% in June to 89.83%.

The August loading program for North Sea Brent blend crude showed the loading of 6.498 million barrels, up from 5.58 million barrels in July.

The August loading program for North Sea Statfjord crude consists of 5.13 million barrels, down from 8.55 million barrels in July. The reduced loading volume was attributed to planned maintenance at the Statfjord and Snorre A installations. Meanwhile, the North Sea Forties crude oil system has scheduled to loading of about 445,000 bpd in August, down from about 619,000 bpd in July. The North Sea Ekofisk crude system is expected to load 15.05 million barrels, up from 13.3 million barrels in July.

Russia's Industry and Energy Minister Viktor Khristenko said a crude oil pipeline to be built between Russian and China would have an initial capacity of 15 million metric tons a year or 300,000 bpd. The branch pipeline is part of wider project for a crude pipeline that would run from East Siberian oilfields to the Pacific coast of Russia. In a second phase, the branch pipeline's capacity would be doubled to 30 million metric tons/year.

China's preliminary customs data showed that the country's crude oil imports increased by 20% to

		Levels	Explanation
<b>CL</b>	<b>Resistance</b>	73.38, 73.65, 74.00	
	72.81, up 62 cents	73.08	Tuesday's high
	<b>Support</b>	72.50, 71.60	Tuesday's low
<b>HO</b>	<b>Resistance</b>	215.52	Basis trendline
	212.38, up 3.1 cents	213.15	Tuesday's high
	<b>Support</b>	211.80, 211.20, 209.00, 208.20	Tuesday's low
<b>RB</b>	<b>Resistance</b>	239.13, 240.00	Basis trendline
	236.94, up 2.48 cents	238.36	Tuesday's high
	<b>Support</b>	235.50, 234.15	Tuesday's low
		230.20, 227.68, 222.12	Previous lows

14.12 million tons or 3.44 million bpd in June, as refiners increased throughput to meet rising summer fuel demand. Meanwhile, its crude exports continued to fall. China's crude oil exports were down 39% on the year at 1.82 million tons or 73,400 bpd. According to Reuters' calculations, China's net imports of oil products excluding liquefied petroleum gas fell by 6.7% on the month to 1.82 million tons. Reuters also reported that China is expected to cut its gasoline exports in July to 300,000 tons, the lowest level in eight months to meet domestic demand. Its gasoline exports are down from 420,000 tons in June.

OPEC's news agency reported that the OPEC basket of crudes increased by 22 cents/barrel to \$71.36/barrel on Monday.

### **Market Commentary**

Opening unchanged on the day, the August crude oil contract experienced an outside trading session, but once again it was unable to gain momentum above the 73.00 resistance level. According to the latest release of the Commitment of Traders report, long positions continue to outpace shorts and as of the last release that figure was up 43% on the week, set at 96,147. Behind the run up in prices are concerns over shortages of gasoline supplies. Refineries continue to be plagued by unexpected shut downs, leaving crude on the side unable to be refined. Although this should be bearish on crude prices, seasonally, crude oil tends to follow gasoline. As for now, we would continue with the same train of thought and would look for side-ways to higher prices, buying and selling at the listed support and resistance numbers. Resistance is set at 73.00, 73.38, 73.65 and 74.00. Support is set at 71.10, 70.51, 69.48, 68.79 and **66.70**. The WTI contract was little changed against Brent today posting modest gains. We would look for this arbitrage to weaken with a test of the 5.00 level. With August going off the board on the 20<sup>th</sup> of July, and September soon to take center stage, we would look for the August to weaken against the September and for this spread to test the -.59 level and possibly beyond. The RBOB market, which traded mostly sideways overnight, again found support and rallied higher in light of the recent refinery problems. The market extended its gains to 3.9 cents as it rallied to a high of 238.36 by mid-day. However the market erased some of its gains ahead of the close as traders positioned themselves ahead of Wednesday's release of the weekly petroleum stock reports. The DOE report is expected to show builds across the board, with a small build of 100,000 barrels in crude stocks, a build of 900,000 barrels in gasoline stocks and a build of 800,000 barrels in distillate stocks. The market may continue to retrace its recent gains early in the session, especially if the reports do show the expected builds in stocks. However the market's losses are seen limited as the market remains plagued by the refinery problems and refinery operations remain below average. The RBOB market is seen finding support at 235.50, 234.15 followed by 230.20, 227.68 and 222.12. Resistance is however seen at 238.36, 239.13 and 240.00.