



## ***ENERGY RISK MANAGEMENT***

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

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OPEC's President Mohammed al-Hamli said OPEC did not see the need to increase its production at the moment. However he said OPEC was ready to pump more oil when necessary.

Saudi Arabia's Oil Minister Ali al-Naimi said near record oil prices were unrelated to supply and demand. He said tightness in supplies of refined fuel like gasoline and international political tensions were helping support the oil market's rally. He said Saudi Arabia stood ready to increase its production, however he added that the demand was not there to justify such a move. He

#### Market Watch

Traders stated that gasoline spot arbitrage flows from Europe to the US are expected to fall in July as the market expects US summer demand to peak soon. An arbitrage window has been open for July and the market may start discussing trans-Atlantic gasoline shipments again if US inventory statistics from the EIA are bullish. So far about 290,000-300,000 tons or about eight cargoes of gasoline have been booked for loading in Europe between July 1 and 12. Most of the volume is expected to be from northwest Europe, with some cargoes from the Mediterranean and the Baltic.

Mexico tightened its security at strategic oil installations on Tuesday after a leftist rebel group, the Popular Revolutionary Army, claimed responsibility for the recent pipeline explosions. The government described the attacks on a natural gas pipeline on Tuesday and on three other pipelines last Thursday as an assault against democracy. The four blasts shutdown pipelines supplying natural gas, liquefied petroleum gas, crude oil and gasoline to the domestic market.

Kuwait's parliament approved the 2007/08 state budget on Wednesday with a projected deficit of about 3 billion dinars or \$10.3 billion. It based its budget on an oil price forecast of \$36/barrel and output of 2.2 million bpd. Kuwait's expenditure would increase by 5.2% to 11.3 billion dinars in 2007/08 while income was estimated at 8.32 billion dinars.

According to draft regulations, Florida is expected to impose strict new air pollution standards that aim to reduce greenhouse gases emissions by 80% of 1990 levels by 2050. The orders would impose new emission limits for automobiles and trucks, toughen energy conservation goals for state agencies and require state owned vehicles to use alternative fuels such as ethanol and biodiesel.

China revised its 2006 economic growth data to a 12 year high of 11.1% from 10.7%. China's revision to its GDP, has reduced the pressure on the government to slow the economy. The upward revision was due to greater output by the industrial and service sectors than initially reported.

A joint venture between Qatar and Royal Dutch Shell to build the Qatargas 4 liquefied natural gas plant would cost \$8 billion. The cost is up from initial estimates of about \$6 billion to \$7 billion. The plant is the last stage in Qatar's existing plans to increase LNG capacity to 77 million tons by 2010, up from 31 million tons.

### **DOE Stocks**

**Crude** – down 1.4 million barrels

**Distillate** – up 800,000 barrels

**Gasoline** – up 1.2 million barrels

**Refinery runs** – up 0.2%, at 90.2%

said Saudi Arabia would maintain its oil supply cuts in August despite the high prices. He added that none of its customers was requesting more crude oil. Meanwhile, Qatar's Energy Minister Abdullah al-Attiyah said OPEC could not do anything about the high price of oil because factors other than crude supply have sent the market to near record levels. He also stated that OPEC was ready

to increase its supply if the market needed it.

The IEA's deputy director, William Ramsay said fears of oil supply disruptions and refinery constraints were among the factors that have driven crude oil prices higher.

Iran's President Mahmoud Ahmadinejad said that the West should not expect his country to suspend uranium enrichment activities. Meanwhile a delegation from the UN's IAEA arrived in Iran on Wednesday to see if the Iranian government was willing to answer all outstanding questions about its disputed nuclear program. According to a report, the delegation would not inspect Iran's nuclear facilities. It said the conclusion of the talks would be announced on Thursday.

The local government of Iraq's northern region of Kurdistan said it rejected the latest version of the draft hydrocarbon law which was passed on July 3 by the Baghdad government. The Oil Minister in the Kurdistan Regional Government said the amended draft law contradicted Iraq's constitution.

Five foreign oil workers were released in the Niger Delta on Wednesday, a week after they were kidnapped on an exploration rig. Separately, two Nigerians working for Royal Dutch Shell were also freed. At least 11 other expatriates were still being held by various armed groups in the Niger Delta.

### **Refinery News**

BP is expected to restart its 250,000 bpd crude unit at its Whiting, Indiana refinery by the weekend. A source said the leak found in the unit was minor and that full rates were expected to be reached by next week.

ExxonMobil Corp restarted its 26,000 bpd No. 1 hydrocracker unit at its 563,000 bpd Baytown, Texas refinery. The shutdown of the unit started on June 24 and was originally expected to last only a few days.

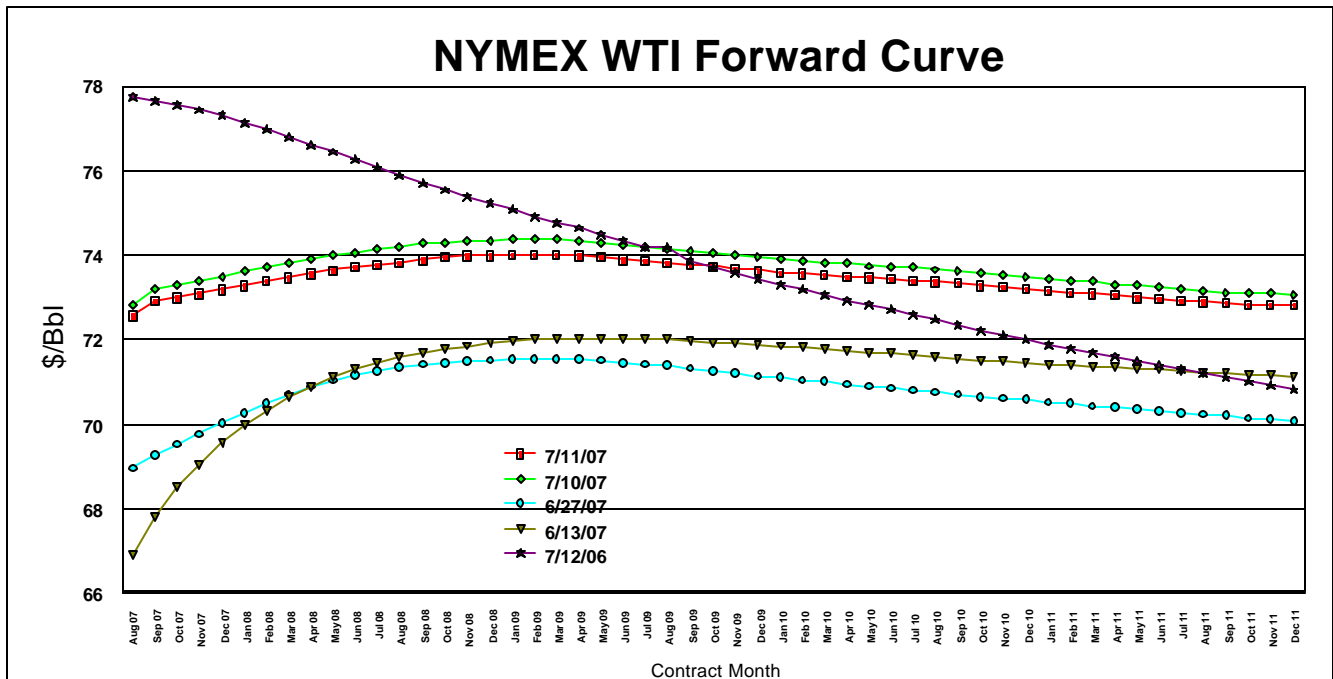
ConocoPhillips reported a problem at its 146,000 bpd refinery in Borger, Texas on Tuesday afternoon. It was the third process upset reported to regulators in as many weeks.

Pacific Texas Corp has started its open season process for long term shipper commitments on its two proposed products pipeline projects connecting El Paso to Las Vegas via Phoenix. Construction of the pipelines is expected to begin early next year with completion dates set for 2009. The Pacific Texas products pipeline and the Havasu products pipeline would account for 220,000 bpd of refined products, decreasing dependency of Nevada and Arizona on supplies from California.

### **Production News**

Chevron Corp's production in the first two months of the second quarter increased to 2.66 million barrels of oil equivalent/day, up from about 2.64 million boe/d in the first quarter.

The Norwegian Petroleum Directorate said Norway's oil production fell to 1.88 million bpd in June from 2.21 million bpd in May. Its production fell mainly due to planned maintenance at the Ekofisk field.



Norway's North Sea Gullfaks crude system is scheduled to load 248,000 bpd in August, down from 359,000 bpd in the previous month. Norway's North Sea Flotta crude system is scheduled to load 63,000 bpd in August, unchanged from July.

The Shetland Island Council reported that Brent blend crude oil exports fell to 166,934 tons in the week ending July 10, down from 180,235 tons the previous week.

Iraq has raised the official selling price of Basra Light crude loading in August bound for Asia and Europe. Iraq's SOMO set the August price for buyers in Asia at \$1.80/barrel below the Oman/Dubai average, up from \$2.20 in July. It also increased the August price for European buyers to Dated BFO minus \$4.50, up from minus \$4.75 in July. The August price to buyers in the US was set at second month WTI minus \$4.40, down from minus \$3.90 in July.

The National Iranian Oil Co set the official selling price for Iranian Light crude bound for Europe from Sidi Kerir at a discount of \$2.15 against the BWAVE, up 5 cents on the month. It lowered the price for Iranian Heavy crude from Sidi Kerir by 10 cents to a discount of \$3.60 against BWAVE.

China's Xinhua news agency reported that the Kazakh-China pipeline has pumped 4 million tons or 80,000 bpd of crude oil into China since its startup last year. China's import bill for the Kazakh crude amounted to nearly \$1.8 billion during the one year period. The Kazakh pipeline is expected to run near full capacity by the end of the year or early 20089 when China's Dushanzi refinery completes its expansion.

The Petroleum Association of Japan reported that the country's crude oil inventories fell by 720,000 barrels to 110.33 million barrels in the week ending July 7. It also reported that Japan's gasoline stocks fell for the fourth consecutive week to a near three year low to 11.71 million barrels. Its gasoline stocks fell by 430,000 barrels on the week. It also reported that Japan's kerosene stocks built by 940,000 barrels to 16.75 million barrels while naphtha stocks fell by 1.14 million barrels to 11.09 million barrels. Its refinery utilization rate increased by 4.1% to 79.9% on the week.

Traders stated that Indonesia's Pertamina is expected to buy 4.1 million barrels of crude for September arrival in its regular tender, steady from its previous tender purchase. It has selected 1.9 million barrels of Nigerian crude, 1 million barrels of Algeria's Saharan Blend crude and 1.2 million barrels of Asia-Pacific crude.

Ecuador's Central Bank reported that country's oil production was down 8% at 504,000 bpd in the first five months of the year from 546,000 bpd in 2006. Petroecuador's oil production averaged 254,351 bpd in the first five months while private companies' oil production averaged 249,649 bpd.

OPEC's news agency reported that OPEC's basket of crudes increased further to \$71.59/barrel on Tuesday from Monday's \$71.36/barrel.

### **Market Commentary**

The oil market posted a mostly neutral trading session after it continued to trade within Tuesday's trading range. The market posted a low of 72.15 ahead of the release of the weekly petroleum stock reports. However it quickly bounced off that level and rallied towards the 73.00 level in light of the unexpected draw in crude stocks of over 1 million barrels. The market posted a high of 73.03 in afternoon trading. The oil market however retraced some of its gains ahead of the close, as the supportive crude stock draw was offset by the larger than expected build in gasoline stocks. The market was also pressured ahead of the close amid sharp losses seen in the gasoline market following the news that BP is expected to restart its crude unit at its Whiting, Indiana refinery over the weekend. The crude market settled down 25 cents at 72.56. Even though the market ended the session in negative territory, its upward trend is still in tact. The market is still seen finding resistance at its highs of 73.03 and 73.08 followed by 73.38, 73.65 and 74.00. Support is seen at 72.47, 72.15, 71.60, 71.10, 70.51, 69.48, 68.79 and 66.70. Meanwhile the RBOB market settled down 6.31 cents at 230.63 after the market sold off sharply late in the session. The RBOB market remained well supported in overnight trading but erased its gains following the release of the DOE report. It extended its losses even further late in the session amid the news of the BP unit resuming operations. Similar to the crude market, the heating oil market also posted an inside trading day. The market, which posted a high of 212.25 following the release of the inventory reports, sold off late in the session and settled down 2.3 cents at 210.08. The product markets are seen retracing some of their sharp losses. The RBOB market is seen finding support at its low of 229.38 followed by 227.68 and 222.12. Resistance is

however  
seen at  
231.20,  
233.45,  
234.60,  
236.05 and  
its previous  
high of  
238.36.

		Levels	Explanation
<b>CL</b>	<b>Resistance</b>	73.38, 73.65, 74.00	Wednesday's high, Tuesday's high
	72.56, down 25 cents	73.03, 73.08	
	<b>Support</b>	72.47, 72.15	
<b>HO</b>	<b>Resistance</b>	213.15, 216.10	Previous high, Basis trendline Wednesday's high
	210.08, down 2.3 cents	210.15, 210.96, 212.25	
	<b>Support</b>	211.80, 211.20, 209.00, 208.20 207.25, 205.03	
<b>RB</b>	<b>Resistance</b>	238.36, 239.90	Previous high, Basis trendline Wednesday's high
	230.63, down 6.31 cents	231.20, 233.45, 234.60, 236.05	
	<b>Support</b>	229.38 227.68, 222.12	