



ENERGY RISK MANAGEMENT

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ENERGY MARKET REPORT FOR JULY 18, 2006

There was no sign that diplomacy would halt the week long conflict any time soon as Israeli warplanes battered Lebanon and more Hezbollah rockets hit the Israeli city of Haifa. Israeli Prime Minister Ehud Olmert said Israel would continue with its offensive until the captured soldiers are released and Israeli citizens are safe from attacks. Meanwhile, Israeli Foreign Minister Tzipi Livni called for the disarmament of Hezbollah and the stationing of Lebanese troops along the country's shared border. He said a cease fire was not enough and added that the soldiers had to be returned with no conditions. Meanwhile, US Secretary of State Condoleezza Rice said she would travel to the Middle East to help with peace efforts when it is appropriate and necessary. White House spokesman Tony Snow stated that the Bush administration could not support any ceasefire proposals that would leave a terrorist structure intact.

Market Watch

Analysts said Iran could threaten to use its oil as a weapon if Syria is involved in the conflict between Israel and Hezbollah guerillas. However they stated that other Arab producers would not withhold their crude exports to exert pressure.

Saudi Arabia booked three Very Large Crude Carriers to the US Gulf Coast for August loadings as part of its regular monthly spot chartering program. Last month, Saudi Arabia booked a total of 20.5 million barrels of crude oil into the US.

China's government reported that Chinese annual growth increased to 11.3% in the second quarter. Financial markets expect further tightening steps to reduce the risk of overheating in the world's fourth largest economy.

The head of the IEA, Claude Mandil said the world did not need more oil to moderate record prices but more investment in output capacity to cope with supply shocks. He said OPEC is powerless to bring down oil prices without an easing of political tensions in the Middle East and other global hotspots. He also stated that \$80 oil was hurting the world economy and added that the inflationary pressures were most harmful for poor countries. However he doubted that OPEC could reduce prices by bringing more oil to the market.

Refinery News

PDVSA's 640,000 bpd Amuay refinery has restarted three of its five crude units after a fire forced it to shut some units and reduce production at others. PDVSA said its gasoline exports were on schedule despite the fire at the Amuay refinery.

Total shut a wet gas compressor at its 233,000 bpd refinery in Port Arthur, Texas due to high vibrations. The restart timing of the wet gas compressor and the impact its shutdown had on production was unclear.

Refineries in China processed a record volume of 6.14 million bpd in June, up 9.9% on the year. Crude throughput in the first half of the year increased 5.6% at 149.38 million tons or 6.02 million bpd.

Bahrain Petroleum Co is scheduled to partially shut its 254,000 bpd refinery at Sitra in November for maintenance work ahead of completion of a hydrocracker project in the first quarter of next year. It is expected to shut a 40,000 bpd crude distillation unit for 30-35 days starting in mid-November.

Russia's Energy Ministry reported that Russian refining runs increased by 60,000 bpd on the month in June to 4.21 million bpd. However it was down 220,000 bpd from its record of 4.43 million bpd reached in April.

Production News

Crude loadings at Syria's ports continued without disruption on Tuesday despite the escalating violence between Israel and Lebanese Hezbollah guerrillas.

US Energy Secretary Sam Bodman said Iraqi oil production could increase above 2.5 million bpd in six months and reach 3 million bpd by year's end. He also stated that Iraq could pass legislation that would enable foreign participation in its oil sector by year end. The new hydrocarbon law would lay down key terms for foreign investment in Iraq's energy sector. Iraq estimates that it would need up to \$20 billion in investment to increase its oil production to 6 million bpd. In regards to OPEC, He stated that OPEC lost control of the market. He stated that OPEC was unable to appropriately respond to the demands that the marketplace was putting on them.

British oil and gas production is expected to increase by 300,00 barrels of oil equivalent/day to 3.3 million boe/d in 2007. Its production this year is expected to total 3 million boe/d, down 200,000 boe/d from 2005.

Kazakhstan produced 31.3 million tons of oil and gas condensate in the first half of the year, up 1.2%. Oil production increased by 5% to 28.6 million tons while output of gas condensate fell by 27.3% to 2.7 million tons.

China's National Bureau of Statistics stated that China produced 2.2% more crude oil in June at 15.31 million tons compared to last year. Output in the first half of 2006 increased by 2.1% on the year to 91.66 million tons. Gasoline production increased by 9.7% to 4.47 million tons while diesel output increased by 8.9% to 9.58 million tons. Production of kerosene fell by 4.3% in June at 795,100 tons.

Separately, the National Bureau of Statistics reported that China generated 230.19 billion kilowatt hours of electricity in June, up 14% on the year.

Kuwait's Oil Minister Sheikh Ali al Jarah al Sabah said Kuwait would clarify its actual oil reserves, following a report that they stood at less than half the claimed volume. Kuwait has reported that its oil reserves total 100 billion barrels however a report by Petroleum Intelligence Weekly suggested the volume was only 48 billion barrels.

OPEC's news agency reported that OPEC's basket of crudes fell by 28 cents/barrel to \$71.43/barrel on Monday.

Market Commentary

The oil market retraced Monday's late sell off and opened up 80 cents at 76.10 and quickly rallied to a high of 76.55. The market traded higher early in the session as the conflict between Israel and

Hezbollah continued. However the market, which failed to test its previous high of 76.75, erased its gains and never looked back as it sold off ahead of its close once again. The market extended its losses to over \$1.80 as it sold off to a low of 73.50 on the close. The August crude contract retraced almost 50% of its move from a low of 68.75 to a high of 77.95 as it traded to its low. It settled down \$1.76 at 73.54. Volume in the crude market was good with 239,000 lots booked on the day. The product markets also settled in negative territory once again, with the gasoline market settling down 1.83 cents at 226.70 and the heating oil market settling down 3.60 cents to 198.34. The gasoline market rallied to a high of 234.60 early in the session. However it erased its gains and extended its losses to 2.53 cents as it sold off to a low of 226.00 ahead of the close. The heating oil market opened up 2.56 cents at 204.50 and quickly rallied to a high of 207.00. The market however gave up its gains and extended its gains to over 4.4 cents as it posted a low of 197.50 ahead of the close. The market sold off sharply amid the expectations that the weekly petroleum stock reports would show builds in distillate stocks. Volumes in the product markets were good with 39,000 lots booked in the gasoline market and 54,000 lots booked in the heating oil market.

The oil market on Wednesday will remain headline driven amid the continuing conflict in the Middle East. It will also seek further direction from the weekly petroleum stock reports which are expected to show a small build in crude stocks of 500,000 barrels, a build of up to 2 million barrels in distillate stocks and a draw of about 800,000 barrels in gasoline stocks. If the report does show builds in crude and distillate stocks, the market will likely remain pressured. The market is seen finding support at 73.50

followed by 73.35, 72.90 and 72.26. Meanwhile resistance is seen at 74.00, 75.00 and its high of 76.55.

| Technical Analysis | | |
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| | Levels | Explanation |
| CL 73.54, down \$1.76 | Resistance 76.55, 76.75 to 76.90, 77.95 74.00, 75.00 | Tuesday's high, Remaining gap (July 17th), Previous high |
| | Support 73.50 73.35, 72.90, 72.26 | Tuesday's low 50% retracement(68.75 and 77.95), Previous low, 62% retracement |
| HO 198.34, down 3.60 cents | Resistance 207.00, 208.70, 211.10 200.00, 205.00 | Tuesday's high, Previous high |
| | Support 197.50 195.30, 193.20, 193.00 | Tuesday's low Previous lows |
| HU 226.70, down 1.83 cents | Resistance 234.60, 235.00 228.00, 232.00 | Tuesday's high, Monday's high |
| | Support 226.00 218.00, 216.25 | Tuesday's low Previous lows |