



## ***ENERGY RISK MANAGEMENT***

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### **ENERGY MARKET REPORT FOR JULY 25, 2007**

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The EIA warned that increased world oil demand growth expected in the second half of the year could cause above normal drawdowns in US oil inventories during the period. It said it expected world oil demand in the third quarter to be 1.7 million bpd higher compared to the same period last year and 1.9 million bpd higher in the fourth quarter. It is much stronger than the world oil demand growth of just 400,000 bpd seen in the first quarter of the year and 1.4 million bpd during the second quarter.

#### Market Watch

The US Northeast could face problems with fuel deliveries if two major fuel trucking firms accused of using rigged vehicles to steal and resell about \$75 million worth of heating oil from clients over 17 years. Federal agents stormed the New York City offices of Mystic Tank Lines and T&S Trucking Corp last week calling into question whether the firms would stay in business.

A Russian company building Iran's first nuclear power plant said it would not finish building the station before the autumn of 2008. It dismissed claims from Iran that its first nuclear plant could be launched on schedule this year. It said a shortage of payments from Iran was undermining confidence in the Bushehr project. It said Iran was paying just a fraction of the \$25 million a month needed to finish the plant.

The International Monetary Fund revised up its world economic growth projections to 5.2% for both 2007 and 2008, up from its estimate in April of 4.9% for both years. China's 2007 growth projection was revised to 11.2% from 10% amid strong growth in exports and investment as well as an increase in domestic consumption. The IMF slightly lowered its forecast for 2007 US growth to 2% from 2.2% in April but left its 2008 estimate unchanged at 2.8%. It warned of risks that inflation pressures were building globally due to high energy prices.

St. Louis Federal Reserve Bank President William Poole said higher energy prices have not had an adverse impact on the US economy and inflation has been contained.

The Federal Reserve said US economic activity expanded further in June and early July as slower housing markets were offset by gains in manufacturing and commercial real estate.

According to a US Geological Survey study, the disappearance of sea ice that protects against storm waves and of permafrost that holds shorelines together was eroding the coast of the National Petroleum Reserve-Alaska. Erosion rates have sharply increased along the coastline of the reserve, possibly due to warmer weather. The Bureau of Land Management has identified exploration wells that need to be cleaned and plugged before the sea claims them.

### DOE Stocks

**Crude** – down 1.1 million barrels

**Distillate** – up 1.5 million barrels

**Gasoline** – up 800,000 barrels

**Refinery runs** – up 0.7%, at 91.7%

Algeria's Energy Minister Chakib Khelil said oil prices are expected to remain high all summer due to refinery constraints and high demand. He however said the oil market was well supplied.

According to Petrologistics, OPEC's oil production is expected to increase this month to 26.9 million bpd, up from 26.8 million bpd in June. It showed that Saudi Arabia was maintaining its output cut in spite of the increase in oil prices. Its production is estimated at 8.6 million bpd. It said Nigeria was increasing its supply in July by about 100,000 bpd to 2.12 million bpd. Iranian oil production is also expected to increase by 50,000 bpd to 3.95 million bpd. Total OPEC production is expected to increase by 300,000 bpd to 30.7 million bpd. Iraq's oil production is estimated to total 2.08 million bpd, up from 1.94 million bpd in June. Angola's output is expected to increase by 30,000 bpd to 1.69 million bpd in July.

The official Islamic Republic News Agency reported that Iran was ready to consider high level talks with the US regarding security in Iraq. Iran's Foreign Minister Manouchehr Mottaki said that necessary studies would be undertaken in case a formal request is made by the US for new higher level talks on Iraq. His statement came a day after the US and Iranian ambassadors to Iraq met in Baghdad and agreed to set up a security subcommittee to carry forward talks on restoring stability in the country.

Nigerian gunmen killed a Nigerian oil worker in an attack in southern Nigeria. The motive for the attack was not immediately clear. In Bayelsa state Tuesday night, gunmen arrived in two boats and seized the mother of the state's local House speaker Chief Joshua Benemensia. The kidnapping was the third attack on officials or those close to them this week.

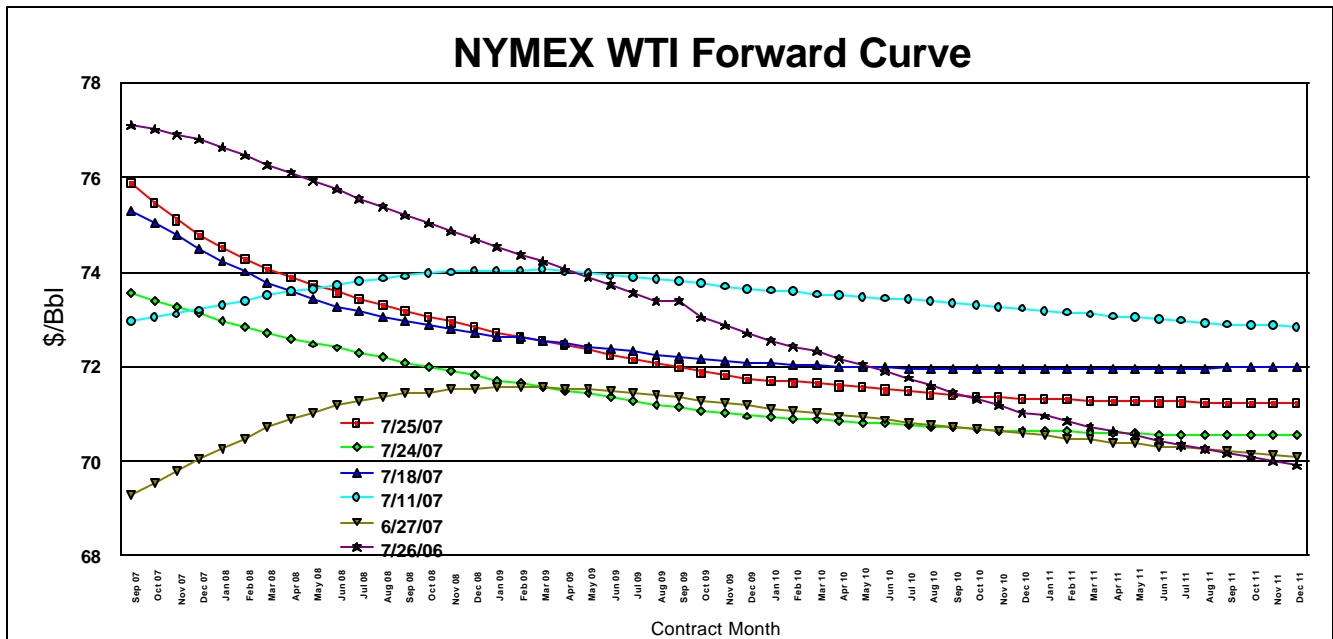
### Refinery News

Valero Energy Corp said it restarted a 30,000 bpd hydrocracking unit at its McKee, Texas refinery. The unit was shut on Saturday due to instrumentation problems. It said the unit was operating at full rates. Meanwhile Valero said it was in the process of restarting a 26,000 bpd fluid catalytic cracking unit at its Ardmore, Oklahoma refinery. The unit was shut in early July for unplanned repairs. It is expected to resume normal rates in one or two days.

Industry sources stated that US refiners have started the seasonal switch towards producing more heating oil and diesel rather than gasoline. Distillate production tends to increase at the end of July at the expense of gasoline. Refiners could earn \$12.30/barrel for each barrel of crude processed into gasoline. However refiners could earn \$12.88/barrel for each barrels of crude processed into distillate. Separately, traders and analysts stated that European refiners looked set to maximize production of middle distillates at the expense of gasoline. European gasoline barge cracks fell to about \$6/barrel this week, down two-thirds this month to the lowest level since February and below profit levels for products such as diesel and heating oil.

ExxonMobil said it closed most of its 326,000 bpd Fawley refinery and chemical plant following a fire on Wednesday morning. It assured customers there was no immediate impact on oil product supplies. It could not state when the refinery would resume operations.

The US Department of Agriculture Secretary Mike Johanns said it would likely be five years before ethanol made from cellulosic crops such as switchgrass would be able to make a significant impact on the US fuel market. The USDA estimated that the US ethanol industry would use 3.4 billion bushels of



corn from this year's crop, up from 2.15 billion bushels last year. Total ethanol production capacity in the US is expected to increase to 8.5 billion gallons this year from 5.4 billion gallons last year.

### **Production News**

A pipeline along Burrard Inlet in a Vancouver suburb of Burnaby was ruptured on Tuesday when road construction equipment struck the pipeline. Kinder Morgan Energy Partners LP said it was not known how much oil leaked from the line that links the company's Westridge Marine Terminal with the rest of its Trans Mountain pipeline system. The ruptured section of the line was shutdown immediately after the leak was discovered. Experts assessed on Wednesday the environmental damage caused by the ruptured pipeline. Crews were attempting to clean up pools of oil left by the accident on Tuesday.

Statoil said oil production at its 125,000 bpd Heidrun field in the North Sea was halted following a glitch at the field.

The Shetland Island Council reported that Brent crude liftings from Sullom Voe fell to 208,817 tons in the week ending July 24 from 347,557 tons the previous week.

ConocoPhillips said it was still in talks with Venezuela over compensation for stakes in crude projects it ceded to PDVSA.

Russian oil exports are expected to fall slightly in August from the Black Sea ports and remain unchanged from the Baltic Sea ports as firms face the choice between export operations and domestic refining. Russia's oil export duty is expected to increase by 12% in August-September to \$223.90/ton following the increase in world oil prices. Duties on refined products would increase to \$163.20/ton for light products and \$87.90/ton for fuel oil, up from \$147.50 and \$79.40/ton, respectively. The Black Sea port of Novorossiisk is expected to cut loadings of Urals to about 3.22 million tons from 3.68 million tons in July while Russia's Baltic Sea port of Primorsk is expected to load 6.6 million tons or 1.56 million bpd of Urals crude, unchanged on the month.

The port of Rotterdam said cargo volumes handled in the first half of the year increased by 4.2% compared with a 1.1% increase last year. The port handled a total of 196 million tons of cargo in January to June. Crude oil volumes however fell by 8.2% to 45.6 million tons while cargo volumes of

## NYMEX WTI: September October Spread

Price Vs Volume for June 20 - July 25, 2007

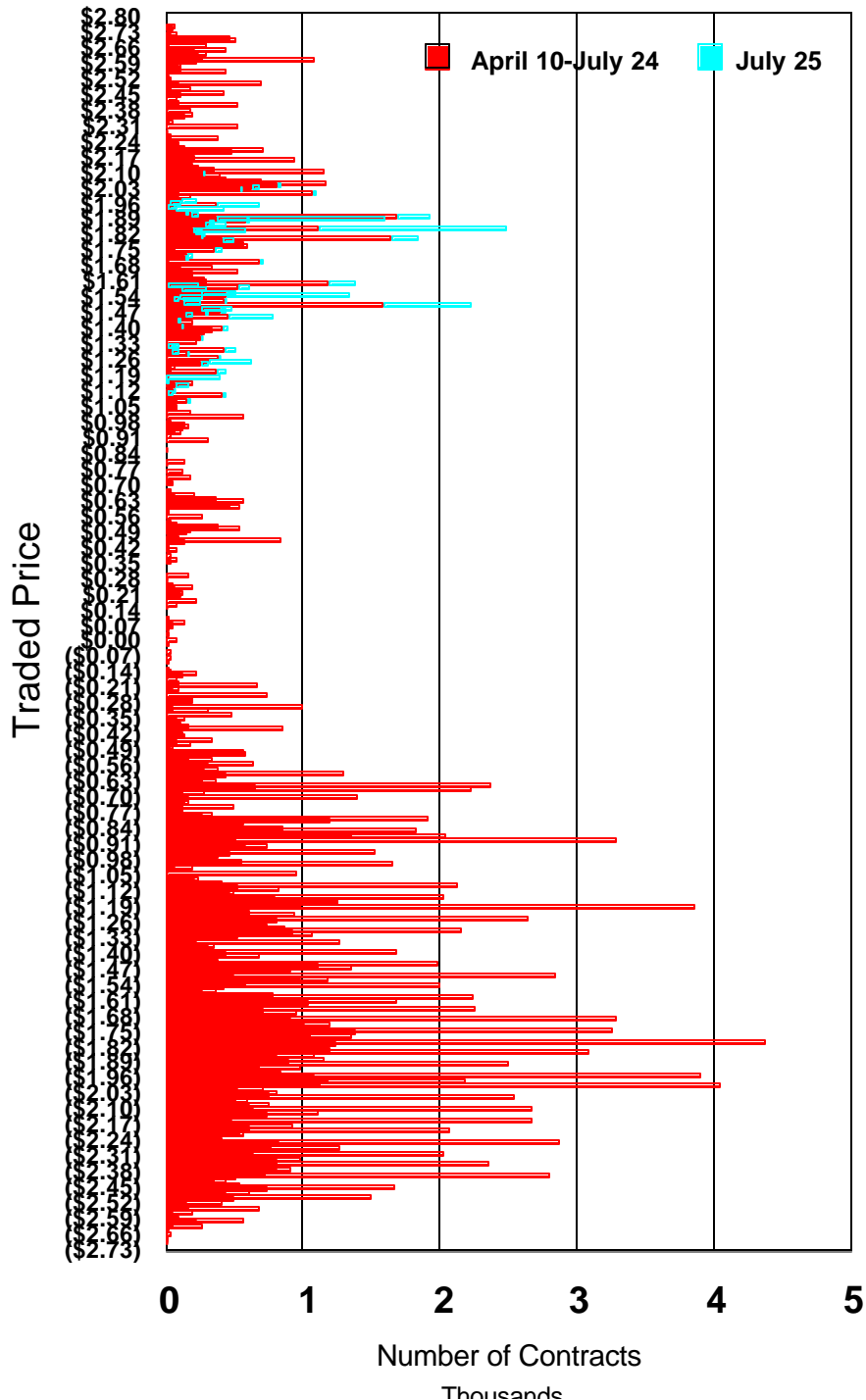
Trade Weighted Avg: 7/25 .33 7/24 .095 7/23 .13 7/20 .28 7/19 .23



## NYMEX WTI: Dec 07 Dec 08 Spread

Price Vs Volume for April 10 - July 25, 2007

Trade Weighted Avg: 7/25 1.66; 7/24 1.25; 7/23 2.168; 7/20 2.595; 7/19 2.227



oil products increased by 34.7% to 29.9 million tons in the first six months of the year, mainly due to increasing imports of fuel oil.

The Petroleum Association of Japan reported that the country's gasoline inventories fell by 2.08% to 1.86 million kiloliters or 11.69 million barrels in the week ending July 21. It however reported that crude stocks built by 7.4 million barrels to 114.6 million barrels on the week. Japan's kerosene stocks built by 690,000 barrels to 18.68 million barrels while naphtha stocks fell by 270,000 barrels to 10.62 million barrels. It reported that crude runs fell by 50,000 bpd to 3.88 million bpd while refinery utilization fell by 1.2% to 80.2%.

Japan's Ministry of Finance reported that the country's crude oil imports fell by 0.9% on the year in June to 19.083 million kiloliters or 4 million bpd.

Japan's Nippon Oil Corp is expected to increase its sales of fuel oil and crude oil in August to Tokyo Electric Power Co by 75% to meet high summer electricity demand after an earthquake caused the closure of TEPCO's Kashiwazaki-Kariwa plant. It is expected to supply TEPCO with an additional 100,000 kiloliters of crude oil and an additional 50,000 kl of low sulphur fuel oil. Showa Shell is expected to sell TEPCO 140,000 kl of fuel oil in August, up 40% from its previously planned 100,000

kl. Meanwhile, Japan Energy is expected to supply an additional 100,000 kl of fuel oil in August and September.

China launched its third oil exchange in the city of Dalian to trade fuel oil and bitumen. The Dalian Oil Exchange has 150 members and is backed by the local government. However traders doubt it would flourish as the first two exchanges have struggled.

OPEC's news agency reported that OPEC's basket of crudes fell \$1.01/barrel to \$72.00/barrel on Tuesday.

### **Market Commentary**

Today's release of the DOE numbers showed a draw of 1.38 million barrels, bringing total crude stocks in Cushing to 21.24 million barrels, the lowest level since February 2006. According to one OPEC source, "it's the lack of refining capacity and political unrest, not shortages, that is leading to higher prices." The bulls fought back today, especially once prices got over the 74.00 mark and after hearing news of a pipeline rupture in a Vancouver suburb, forcing gains of more than \$2.50 in prices, the largest one-day gain in five weeks. Longer - term stochastics appear to be making a turn for the upside, but have not crossed over so far. Shorter - term stochastics are calling for a dip, which could possibly be a buying opportunity. Resistance is set at 76.39, 76.65, 77.07, 77.29, 77.45 and 78.40. Support is set at 74.00, 73.70, 73.35, 72.97, 71.10, 70.89 and 69.83. Meanwhile the RBOB market also retraced its losses and rallied higher ahead of the close. The market sold off early in the session to a low of 202.15 in light of the slightly larger than expected build in gasoline stocks reported by the DOE. Despite the build in stocks, the market bounced off its low and extended its gains to over 5.8 cents as it posted a high of 210.65. The market was mostly driven higher by the strength in the crude market.

The RBOB market settled up 4.02 cents at 208.79. The heating oil market also settled up 3.50 cents at 206.59 after the market

		Levels	Explanation
<b>CL</b>	<b>Resistance</b>	76.65, 77.07, 77.29, 77.45, 78.40	Previous highs
	<b>Support</b>	76.38, 76.39	Double top
<b>HO</b>	<b>Resistance</b>	74.00, 73.70, 73.35, 73.10	Wednesday's low
	<b>Support</b>	72.97, 71.10, 70.89, 69.83	Previous lows
<b>RB</b>	<b>Resistance</b>	209.27, 211.90, 212.00	Previous highs
	<b>Support</b>	207.60	Wednesday's high
<b>RB</b>	<b>Resistance</b>	206.50, 206.00, 204.00, 200.90	Wednesday's low
	<b>Support</b>	199.57, 198.07, 196.60	62% (190.47 and 214.29), Previous lows
<b>RB</b>	<b>Resistance</b>	214.00, 216.23, 220.10, 222.00	Basis trendline, Previous highs
	<b>Support</b>	210.65	Wednesday's high
<b>RB</b>	<b>Resistance</b>	208.45, 206.10, 204.00, 202.15	Wednesday's low
	<b>Support</b>	200.71, 195.69	Previous lows

rallied to a high of 212.84 late in the session. Similar to the RBOB market, the heating oil market posted an outside trading day as it posted a low of 200.90 following the release of the DOE report, which showed a build of 1.5 million barrels in distillate stocks. The product markets are seen retracing some of today's sharp gains before they continue to trend higher after they posted bullish engulfing patterns. Technically, the RBOB market is seen finding support at 208.45, 206.10, 204.00 and 202.15. More distant support is seen at 200.71 and 195.69. Meanwhile resistance is seen at 210.65, 214.00, 216.23, 220.10 and 222.00.