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## ***ENERGY RISK MANAGEMENT***

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### **ENERGY MARKET REPORT FOR JULY 31, 2006**

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Israeli Prime Minister Ehud Olmert said that there was no ceasefire forthcoming. Earlier, Israel's Defense Minister Amir Peretz said the country could not agree to an immediate ceasefire with Hezbollah and would expand its offensive in Hezbollah. Israeli planes hit targets in southern Lebanon after Hezbollah guerillas blasted an Israeli tank and injured three Israeli soldiers, breaking a brief suspension in air strikes. Israeli forces have destroyed an estimated two-thirds of Hezbollah's long range missile capabilities. Israel on Sunday agreed to suspend air strikes for 48 hours depending on operational developments in Lebanon. Meanwhile, US Secretary of State, Condoleezza Rice said she would seek international consensus for a ceasefire and a lasting settlement in the conflict through a UN resolution this week. However she stated that Israel's attack on a Lebanese village complicated her diplomatic push. Separately, Iran's Foreign Minister Manouchehr Mottaki is expected in Beirut later on Monday. He is expected to hold talks with Lebanese President Emile Lahoud, Prime Minister Fuad Saniora and Foreign Minister Fawzi Salloukh.

#### Market Watch

The EPA said it continued to consider Illinois' request for a temporary waiver of gasoline regulations in Chicago. The EPA waiver, if granted, would allow the temporary sale of conventional gasoline in the Chicago area instead of the reformulated gasoline required by clean air regulations.

Shipping brokers stated that Saudi Arabia has booked two more Very Large Crude Carriers to the US in August, increasing its total spot shipments for the month to 10.3 million barrels. It provisionally booked the Artemis Glory and the Gemini Glory to carry 280,000 tons each to the US Gulf. The VLCCs are scheduled to load on August 28 and August 30, respectively.

According to a Fimat analyst, US ethanol supplies would increase by more than 90% by the end of 2008. It estimated that 4.49 billion gallons per year of new ethanol production capacity would be constructed by the end of 2008, more than the 2.43 billion gallons estimated by the Renewable Fuels Association.

The five permanent members of the UN Security Council have agreed on a draft resolution giving Iran until August 31 to suspend its uranium enrichment. The draft could be voted on as early as Monday. The US envoy to the UN, John Bolton, said the council would consider sanctions if Iran missed the deadline. Russia's envoy, Vitaly Churkin, stressed that the draft resolution did not contain the threat of sanctions. The resolution states that the Council would consider adopting appropriate measures under Chapter 7 of the UN Charter if Iran does not comply with the deadline. In response, Iran's UN Ambassador Javad Zarif rejected a Security Council demand that Iran suspend its nuclear activities by the end of August or face the threat of sanctions.

Venezuela's Oil Minister Rafael Ramirez called for the unity of OPEC members against American hostilities. Following his meeting with Iran's Oil Minister Kazem Vizari Hamaneh, he stated that the present status of the oil market was the result of offensive American policies. He predicted that oil prices would remain at the present level for a long time. Meanwhile, Venezuela's ambassador to the US, Bernardo Alvarez insisted that while the Bush administration maintained a hostile stance towards President Hugo Chavez's government, Venezuela wanted to keep supplying oil. He said any deliberate interruption would be in response to the US' "hostile" attitude turning to aggression.

The EIA reported that the US average retail price of gasoline increased by 0.1 cents to \$3.004/gallon in the week ending July 31. It also reported that the US average retail price of diesel increased by 3.4 cents/gallon to \$2.98/gallon on the week.

### **Refinery News**

Valero Energy Corp reported flaring from a sulfur recovery unit at its Port Arthur, Texas refinery over the weekend. A report filed with the Texas Commission on Environmental Quality did not say whether production was impacted as a result of the incidents.

Lyondell-Citgo reported a coker unit malfunction at its 268,000 bpd Houston, Texas refinery on Sunday after a compressor in the unit tripped.

ConocoPhillips said its 306,000 bpd Wood River oil refinery in Illinois was running at 80% of capacity. The refinery is expected to operate at close to 100% of capacity by the end of the week.

Chevron Corp reported a nitrogen oxide release of its 275,000 bpd El Segundo, California refinery during its restart.

A branch of Russia's Druzhba oil export pipeline suffered a leak on July 29. Officials stated that it has since resumed operations. There was no impact on Russia's main pipeline deliveries to European markets as the branch that was affected serves refineries in Belarus and Lithuania as well as the Lithuanian port of Butinge. Initial official statements were contradictory and alarmist, with the Natural Resources Ministry being quoted by Russian news agencies as saying the leak had polluted 10 square kilometers of territory. It later stated that the oil spill was not a natural disaster. An official from Russia's OAO Transneft also downplayed the importance of the oil spill.

Iraq has yet to resume pumping oil along its northern pipeline to Turkey, three weeks after halting its oil flow. Iraq's Oil Minister Hussain al-Shahristani said the pipeline had been fixed and exports were expected to resume soon. According to Iraq Pipeline Watch, there were 317 attacks on oil industry personnel and facilities since the US led invasion.

Total SA said its Leuna refinery in Germany was not affected by the Russian oil spill.

Royal Dutch Shell restarted its downstream units at the French Petit Couronne refinery on Friday. The units were shut after a fire damaged a furnace at the 142,000 bpd refinery.

Total SA said it started up a hydrogen production unit at its Normandy refinery. The startup is the first step in the commissioning of the new distillate hydrocracker project. The next steps consist of bringing a sulfur recovery unit on stream in August then commissioning a hydrocracker.

Nippon Oil Corp is expected to start planned maintenance on its 150,000 bpd No. 4 crude distillation unit at its Negishi plant in September, a month behind its original plan.

Iran has signed a deal with China's Sinopec to upgrade a refinery in central Iran. It is seeking to lift gasoline production there to 16 million liters/day in about three years. The Shazand refinery's gasoline production is expected to reach 16 million liters/day from its current production of 5.5-6 million liters/day.

Kuwait National Petroleum Co said Kuwait planned to offer a 40% stake in a planned \$6 billion refinery project to a foreign partner.

Japan's Ministry of Economy, Trade and Industry reported that the country's overall oil product output fell 3.5% on the year in June to 16.19 million kiloliters. Production of naphtha fell by 3.7% on the year to 1.53 million kl while gasoil production increased by 3.6% on the year to 3.36 million kl. It reported that its total oil product sales fell by 7.1% on the year to 17 million kl. It reported that Japan's domestic gasoline sales increased by 2.9% on the year to 4.97 million kiloliters. Japan's METI also reported that gasoline stocks at the end of June increased by 6.4% on the year to 2.17 million kl. It also reported that its June crude oil imports fell by 10.9% on the year to 16.6 million kiloliters or 3.48 million bpd. Its crude oil throughput totaled 17.04 million kl or 3.57 million bpd. Crude oil inventories fell by 3.7% on the year to 18.66 million kl or 117.37 million barrels at the end of June.

The first shipment of crude imported from the Kazakhstan via the China-Kazakhstan pipeline has reached the oil tank farm of PetroChina's Dushanzi refinery and petrochemical complex. The arrival of the first crude imports signaled full commercial operation of China's first cross border pipeline.

### **Production News**

Nigeria's Oil Minister Edmund Daukoru said it was not clear when over 700,000 bpd of crude production shut in by militant attacks would resume. Meanwhile, Royal Dutch Shell said its Nigerian venture was losing 675,000 bpd of oil equivalent, up 22,000 boed from a previous estimate.

Attackers have vacated an Agip oil pumping station in southern Nigeria and freed all hostages they were holding there after they were paid off by the government. Italy's Agip resumed operations at its Ogbainbiri flow station following a five day siege. It said total oil production lost during the siege was 170,000 barrels. It said 80% of production from the flow station had been restored and the firm hoped to get back to full regime within the next few days.

OPEC's news agency reported that OPEC's basket of crudes fell by 10 cents/barrel to \$68.97/barrel on Friday.

Iran's Oil Minister Kazem Vizari Hamaneh said Iran's Petropars oil and gas company was investing about \$4 billion in the exploration and development of two oil fields in Venezuela.

### **Market Commentary**

The oil market opened 31 cents higher at 73.55 and retraced its gains as it traded to a low of 72.95. The market, which was supported by the news of a leak on the Druzhba pipeline on Access, was pressured on the opening amid reports that the pipeline resumed operations. The oil market however bounced off its low amid reports that Israel stated that it would expand and strengthen its attack on Hezbollah while Secretary of State Condoleezza Rice said an attack on a building in the Lebanese town of Qana complicated her diplomatic efforts. The market was mostly supported by the strength in the natural gas market. The natural gas market gapped from 7.29 to 7.67 on expectations that a heat wave in the US Midwest that was heading east would lead to increasing demand for gas fired power generation. The crude market found some resistance at 73.90, which it later breached as it extended its gains to over \$1.20 and posted a high of 74.50 on the close. The market settled up \$1.16 at 74.40. This was while the natural gas market rallied over a \$1 to 8.26. Meanwhile, the August heating oil

contract expired up 2.67 cents at 196.79 amid the liquidation. The heating oil market was also well supported by the strength in the natural gas market as it opened at 194.50 and rallied to a high of 199.00 ahead of its expiration. The September heating oil contract also posted a low of 200.50 early in the session and quickly bounced off that level. It never looked back as it continued to rally to a high of 204.80 ahead of the close. The September heating oil contracts settled up 2.03 cents at 203.76. The August gasoline contract settled down 46 points at 222.89. The market posted a low of 219.00 and held some resistance at 224.00. It later breached that level and quickly rallied to a high of 228.00 as traders liquidated their August positions. The August gasoline contract however erased its gains on the close and settled in negative territory. Meanwhile, the September gasoline contract settled just 3 cents higher at 221.18. The August RBOB contract settled up 1.16 cents at 234.96. Volumes were light with 195,000 lots booked in the crude, 43,000 lots booked in the heating oil market and 27,000 lots booked in the gasoline market.

The oil market is seen retracing some of Monday's sharp gains. However its losses will be limited as the markets will remain concerned over the ongoing conflict in the Middle East. The natural gas market is also seen continuing to support the market as the temperatures are expected to continue to rise in the northeast before milder weather sets in later in the week. The crude market is seen finding support at 73.50 followed by 72.95 and 72.80. More distant support is seen at 72.55, 72.50 and 71.45 to 71.40.

Meanwhile resistance is seen at 74.50 followed by 74.85, 75.30 and 75.55.

Technical Analysis			
	Levels	Explanation	
<b>CL</b> 74.40, up \$1.16	<b>Resistance</b> 74.40, up \$1.16	74.85, 75.30, 75.55, 78.15 74.50	Previous highs Monday's high
	<b>Support</b>	73.50, 72.95 72.80, 72.55, 72.50, 71.45-71.40	Monday's low Previous lows
<b>HO</b> 203.76, up 2.03 cents	<b>Resistance</b>	208.50 204.80	Previous high Monday's high
	<b>Support</b>	Sep 203.50, 200.50 200.30-200.10, 197.70	Monday's low Previous lows
<b>HU</b> 221.18, up 3 points	<b>Resistance</b>	225.15, 229.50, 230.00 223.40	Previous highs, Double top Monday's high
	<b>Support</b>	Sep 218.25 218.00, 216.00 to 212.00	Monday's low Previous low, Backfills gap (June 29th)