

## ***ENERGY RISK MANAGEMENT***

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### **ENERGY MARKET REPORT FOR AUGUST 1, 2007**

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US Energy Secretary Samuel Bodman said he was concerned about crude supplies to the US market and hoped OPEC would increase its production levels at their next meeting. He also warned that the Democrats' energy package expected to come to the floor Friday may impede future oil and gas production for the country. The bill would repeal several provisions in the Energy Policy Act of 2005

designed to streamline petroleum exploration and production permitting.

#### Market Watch

The EIA said the early release of its weekly petroleum stock report on Wednesday was due to a malfunction in its internal computer system. It said it was investigating the unintentional early release and its possible causes. The data was released 10 minutes prior to its scheduled 10:30 am EDT release.

The USS Enterprise aircraft carrier group arrived in the Middle East on Wednesday, replacing two carriers that had left the Gulf after a month long deployment. The US 5<sup>th</sup> Fleet's headquarters confirmed that the USS John C. Stennis and the USS Nimitz carriers were returning to their home ports. The USS Enterprise's commander, Rear Adm. Daniel Holloway said that the Navy remained committed to demonstrate the country's resolve to maintain security and stability to the region. However the arrival of the carrier group reflected that the Navy was scaling down its Gulf presence, as the ship group would be the lone carrier for at least three months until USS Harry S. Truman is deployed in the fall.

The US District Court dismissed the NYMEX's claims of copyright and trademark infringement against the Intercontinental Exchange for ICE's use of NYMEX's settlement prices for its benchmark energy contracts, including light, sweet crude and Henry hub natural gas futures contracts. The NYMEX said that while it was disappointed by the decision, it should have no impact on its business as ICE has and continues to misappropriate its settlement prices.

#### DOE Stocks

**Crude** – down 6.5 million barrels  
**Distillate** – up 2.8 million barrels  
**Gasoline** – up 600,000 barrels  
**Refinery runs** – up 1.9%, at 93.6%

According to Reuters, the ten OPEC members produced 26.75 million bpd, up 150,000 bpd on the month. The increase was led by a rebound in supply from Nigeria. Total OPEC production increased to 30.47 million bpd from 30.15 million bpd in June due to higher shipments from Iraq and Angola.

US Secretary of State Condoleeza Rice and Israeli Foreign Minister Tzipi Livni said they would push quickly for a political settlement with the West Bank. This was the Secretary of State Condoleeza Rice's first visit to Israel since long standing divisions among the Palestinians worsened into rival governments in the West Bank and Gaza Strip.

A Nigerian oil worker was seized in the country's southern region. Nigerian gunmen kidnapped the Elf employee from outside his church on Tuesday evening.

### Refinery News

BP Plc briefly cut production from an ultracracker unit at its Texas City, Texas refinery after a compressor tripped. The ultracracker unit resumed operations and was operating normally.

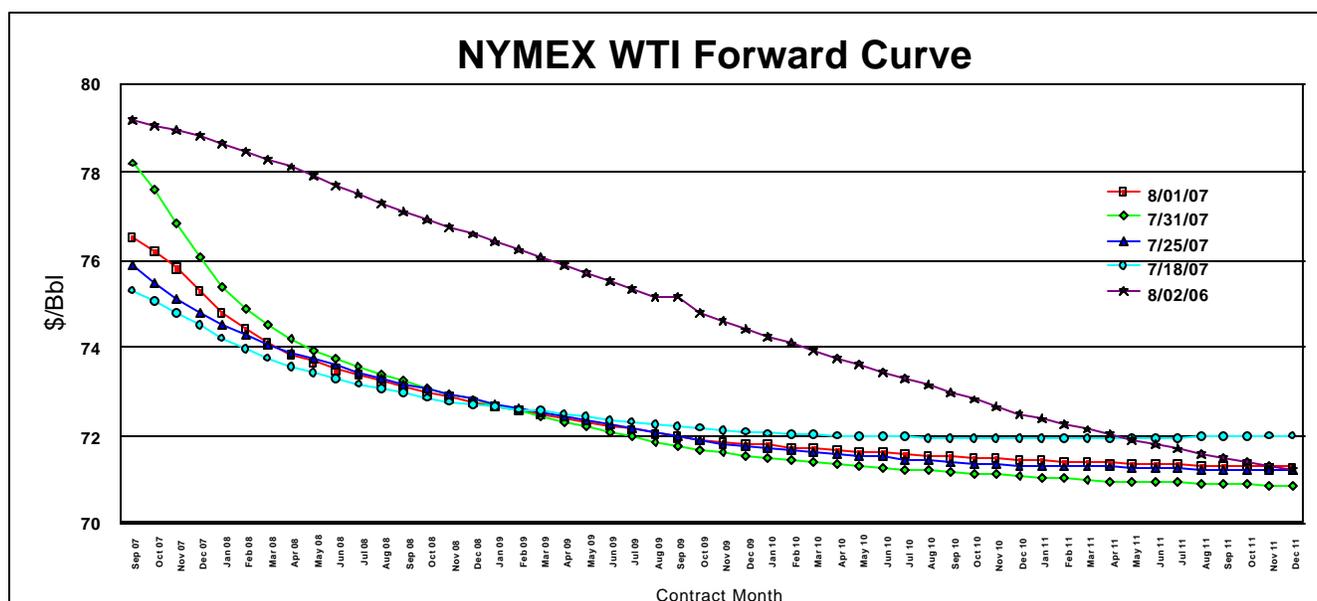
Valero Energy Corp started maintenance work on a compressor unit at the West plant of its 142,000 bpd refinery in Corpus Christi, Texas. It was not immediately clear if there would be any impact on refinery operations from the work.

According to a report filed with the Texas Commission on Environmental Quality, rates were cut at some process units at Total Petrochemicals USA's Port Arthur, Texas refinery to facilitate five days of repairs on a sulfur recovery unit that was shut earlier. Separately, Total shut its distillate hydrotreater No. 1 and reduced rates on its distillate hydrotreater No. 2, a fluid catalytic cracking unit and a unibon unit to facilitate maintenance at the Shell Claus off-gas treating unit.

Venezuela's 300,000 bpd Cardon refinery has shutdown its 45,000 bpd hydrotreater and two associated units for three months of maintenance. A source stated that it has however postponed the planned maintenance and expansion of a 77,000 bpd fluid catalytic cracking unit until next February.

Output at Chevron Corp's 100,000 bpd refinery in Cape Town, South Africa was unaffected by a strike. Chevron said the refinery was operating normally despite some employees participating in the strike.

South Korean refiners are expected to keep their crude runs in August steady, as higher output at a crude unit after a shutdown makes up for lost volumes. The country's five refiners are expected to run 2.215 million bpd of crude this month, up 15,000 bpd or 0.7% on the month.



Japan's Idemitsu Kosan Co said it would supply additional fuel to Tokyo Electric Power Co. TEPCO has stated that it planned to double its oil purchase volumes for 2007/08 to about 10.5 million kiloliters or 181,000 bpd.

Enbridge Inc said that Marathon Oil Corp's bid for Canada's Western Oil Sands Inc would add momentum to plans for a crude pipeline from Chicago to the US northeast. Enbridge announced earlier this year that the pipeline could be in service between 2010 and 2012.

The Commodity Futures Trading Commission said Marathon Petroleum Co would pay a \$1 million civil penalty to settle US government charges that the company tried to manipulate crude oil markets. The CFTC said Marathon attempted to manipulate the cash spot price for WTI crude delivered at Cushing, Oklahoma on November 26, 2003 by trying to push down the Platts market assessment for spot cash WTI for that day.

### **Production News**

According to the Alaska Department of Revenue, production on Alaska's north slope fell by about 100,000 barrels over the weekend. It said part of the decline was due to the shutdown of the Endicott oil field in order to perform work on a compressor. Edicott's production fell to 6,600 barrels on Monday from 52,000 barrels on Thursday. Prudhoe Bay also experienced production problems over the weekend. Output stood at 259,000 barrels on Monday, down from 312,000 barrels on Friday.

The Shetland Island Council reported that Brent crude exports fell to 169,558 tons in the week ending July 31 from 208,817 tons in the previous week.

Total SA said production at its N'kossa oilfield in the Republic of Congo would resume on Wednesday after a fire in May halted its production. Output at the field is expected to gradually increase to as much as 22,00 bpd this week. It is expected to reach 45,000 bpd at the beginning of the fourth quarter.

Kazakh and Russian oil exports via the Caspian Pipeline Consortium to the Black Sea increased by 2.5% in July to 681,000 bpd from 664,500 bpd in June.

Former Soviet Union gas oil exports from the Baltic and Black Sea ports increased last month to their highest level in at least a year. Total gas oil exports from the Baltic and Black Sea increased to 3.13 million tons, up 12% from the 2.78 million tons shipped in June and more than 40% higher than May shipments. Gas oil exports from the Baltic region increased by 280,000 tons or 18% to 1.84 million tons while exports from the Black Sea region increased by 67,000 tons or 5% to 1.29 million tons in July.

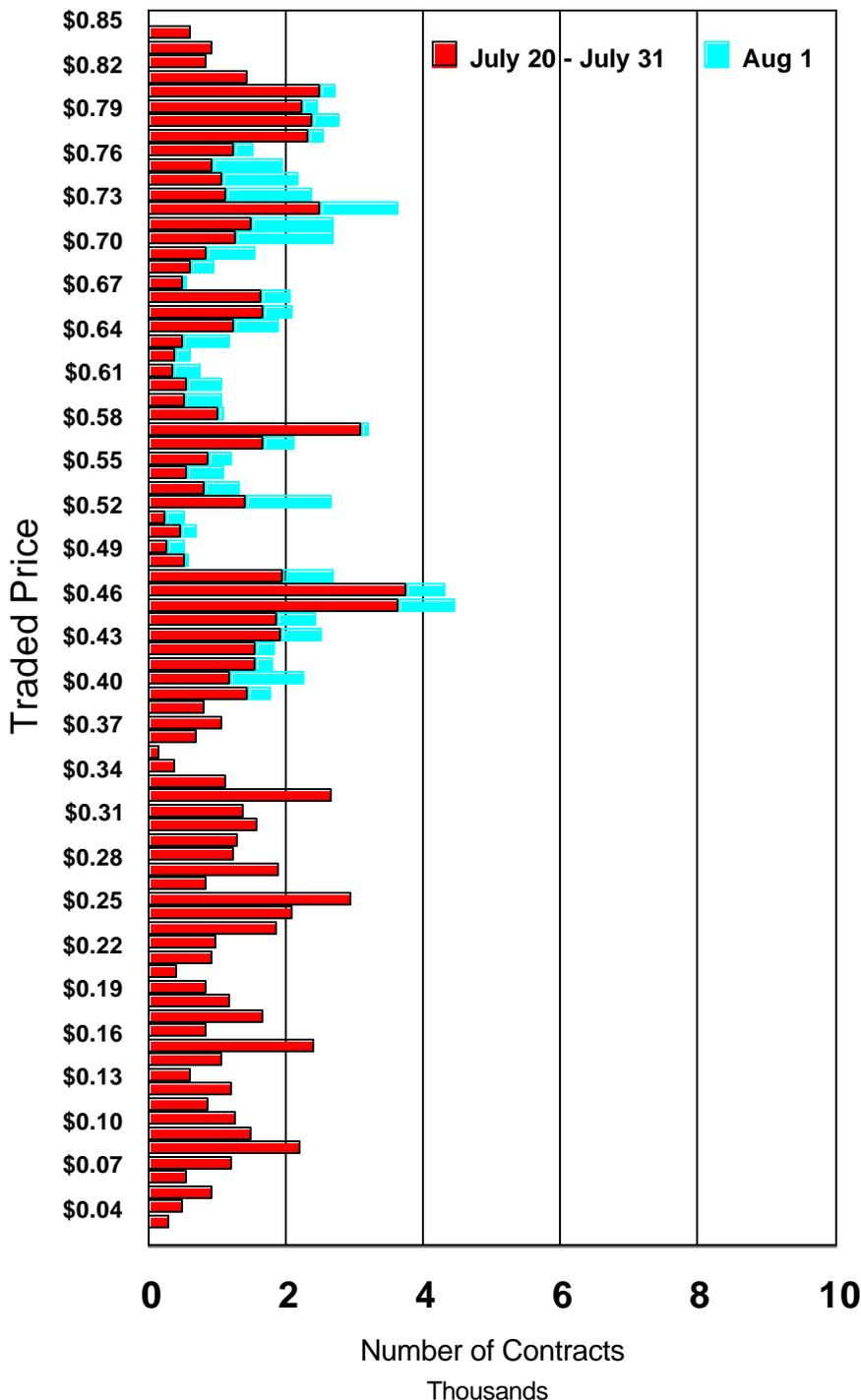
Industry officials said China was set to complete a third tank to store liquefied natural gas in September at its first import terminal to meet increasing fuel demand and cope with supply disruption. The new terminal would allow China to import more spot LNG cargoes as demand increases faster than expected. Separately, an official said China may increase its liquefied natural gas imports from Australia fourfold this year as power plants use gas to generate electricity to cut pollution. Guangdong Dapeng LNG Co may import 2.6 million metric tons of fuel this year compared with 687,533 tons in 2006.

The Petroleum Association of Japan reported that the country's gasoline stocks increased amid a surge in refinery utilization rates in the week ending July 28. Gasoline stocks in Japan increased by 1.1% to 1.88 million kiloliters or 11.81 million barrels in the week ending July 28 as weekly gasoline

## NYMEX WTI: October November Spread

Price Vs Volume for July 20 - August 1, 2007

Trade Weighted Avg: 8/1 .606 7/31 .784 7/30 .712 7/27 .57 7/26 .44



production totaled 1.17 million kl or 7.4 million barrels.

Refinery utilization increased by 7.4% to 87.6% of total capacity in the latest week. It reported that crude stocks increased by 530,000 barrels to 115.17 million barrels on the week.

Meanwhile, kerosene stocks built by 180,000 barrels to 18.98 million barrels while naphtha stocks built by 500,000 barrels to 11.14 million barrels on the week.

Russia is expected to cut gas supplies to Belarus by 50% starting Friday to punish the country for unpaid gas debt. Gazprom reassured it would continue to pump gas exports across Belarus. Analysts said Europe may face some disruptions should Gazprom cut its exports and should Belarus start using gas from transit pipelines.

Libya increased the August official selling price for its Essider crude to dated BFO minus 90 cents/barrel, up 30 cents on the month.

Oman increased its retroactive official selling price for its crude sold in July by \$3.96 to \$69.26/barrel.

OPEC's news agency reported that OPEC's

basket of crudes increased to \$72.40/barrel on Tuesday, up from Monday's \$72.24/barrel.

## Market Commentary

Catching quite a few people off guard today, was the early release of the DOE numbers, which came out at 10:20 New York time as opposed to 10:30. These numbers showed a draw in the crude oil of 6.5 million barrels, the largest decrease so far this year. Even with this significant draw, stock levels are 12 percent above the 5-year average. Products, in particular the gasoline stock levels rose, leading the complex into a sell off in prices. The September contract in crude oil set an all time high of 78.77 prior to the sell-off. From a technical standpoint, this market experienced an outside trading session, opening unchanged, making a new high and then selling off, settling lower on the day. This is clearly a bearish signal and we would look for prices to continue lower, barring any major changes in the fundamental situation. Resistance is set at 76.75, 78.00, 78.40 and 78.77 with support set at 76.00, 74.70, 73.80, **72.80, 72.00 and 71.20**. Given our bearish sentiment on this market, we would like to take advantage of the weakness in the front end and would like to sell the nearby and buy the deferred. For this trade we would like to sell the Oct/Nov spread and buy the Nov/Dec spread, which settled at -.17. We would look for at least a test of the -.35 area. Open interest in the crude market increased by a total of 18,875 lots on Tuesday amid the sharp rally in prices. The NYMEX reported builds of 4,694 lots, 9,549 lots and 3,833 lots in the September, October and November contracts, respectively. The RBOB market opened higher in overnight trading on Globex and posted a high of 210.66. The market, which was holding some support amid the strength in the crude market in light of the large

draw in crude stocks, erased its gains and sold off sharply as the increase in refinery operations offset the large draw in oil stocks. The market

		Levels	Explanation
		78.95	Basis trendline
<b>Resistance</b>		76.75, 78.00, 78.40, 78.77	Wednesday's high
<b>CL</b>	76.53, down \$1.68		
<b>Support</b>		76.09	Wednesday's low
		76.00, 74.70, 73.80, 72.80, 72.00, 71.20	Previous lows
<b>Resistance</b>		212.72, 214.00, 214.04, 216.16	Previous highs
<b>HO</b>	206.94, down 5.38 cents	208.00, 211.50, 212.10	Wednesday's high
<b>Support</b>		206.00, 205.35	Wednesday's low
		204.77, 203.72, 202.90	Previous lows
<b>Resistance</b>		211.62, 213.65, 217.00, 218.33	Previous highs
<b>RB</b>	202.96, down 7.63 cents	207.00, 210.45, 210.66	Wednesday's high
<b>Support</b>		200.15	Wednesday's low
		200.00, 198.20, 192.01	Previous lows, Basis trendline

later bounced off its low and settled down 7.63 cents at 202.96. The September RBOB crack spread continued to sell off and settled down at 8.752. The heating oil market also posted a high of 212.10 in overnight trading and held good resistance at 211.50 following the release of the DOE report, which reported a larger than expected build in distillate stocks. It sold off to a low of 205.35 in afternoon trading. It settled down 5.38 cents at 206.94. The RBOB market is seen finding support at its low of 200.15 followed by 200.00, 198.20 followed by more distant support at 192.01. Meanwhile resistance is seen at 207.00, 210.45, 210.66 followed by 211.62, 213.65, 217.00 and 218.33.