



## ***ENERGY RISK MANAGEMENT***

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### **ENERGY MARKET REPORT FOR SEPTEMBER 4, 2007**

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Reuters quoted an "OPEC source" on Tuesday as saying the cartel may need to boost crude oil production by 500,000 to 1 million b/d perhaps in December, should demand prove robust and inventories continue to fall. But oil ministers at next week's OPEC meeting are expected will leave production policy unchanged for the near term. These comments follow on the recent statements from Qatar and Venezuela that production quotas should remain unchanged at next week's meeting. Only Indonesia has floated the idea to increase production at the September 11<sup>th</sup> meeting. The Reuter's "source" placed current OPEC compliance with the current quota levels at at 52%, down from a 62% compliance rate earlier this year, a 53% compliance level last month. Meanwhile

#### **Market Watch**

A Senior Iranian official denied Iraqi claims that it had been shelling Iraqi Kurdish areas. Iraqi officials said that hundreds of villagers had been vacuated from border towns due to the shelling.

Merrill Lynch confirmed that it will be talking delivery of 500,000 barrels of Oman crude oil for October delivery through the new Dubai mercantile Exchange. A total of four contacts are expected to go through delivery this month. Volume on the exchange had become limited in August, but in recent days has picked up again as a new trading floor was opened and a new market maker program was initiated. While only 30 lots were recorded in volume on Friday, August 31, 2007, while volume today was posted as 7,932 lots.

The vice chairman of China's National Development and Reform Commission, said given that Chinese growth surged in the second quarter to an 11 year high of 11.9%, due to aggressive capital spending and strong exports. While the economy does face the risk of overheating, it currently is operating in a "stable way".

A prominent Saudi prince, a half brother of King Abdullah, said Monday that he plans to form a political party and that he will invite jailed reformists to join it. He offered few details, but said he wants the party to break a power monopoly that the royal family has held for over 70 years.

Former Iranian President Rafsanjani was elected as speaker of a powerful clerical body in Iran that is responsible for supervising Iran's Supreme Leader, Ayatollah Khamenei. This seems to confirm to some political observers of a complex power struggle going on behind the scenes between Rafsanjani and President Ahmadinejad.

Domestic political ressure appears to be building on the Israeli government to use military force to respond to the recent missile attacks on Israeli positions coming from the Gaza strip. On Monday seven missiles slammed into schools in Sderot on Monday. A cabinet session was called for Wednesday to discuss the issue.

Iranian President Ahmadinejad over the weekend claimed that Iran now has 3,000 centrifuges operating. This claim seems to run counter to U.N. estimates that place that number much lower. Iran's president also said on Monday that he is justified in his confidence that the U.S. would not attack Iran, saying the proof comes from his mathematical skills as an engineer and faith in God.

Barclay's Capital said in a note to clients that it expects "...a continuation of the status quo looks to us the more likely outcome from the OPEC meeting." The group sees supply side tightening replacing demand weakness as the dominant market issue.

### **Refinery News**

Valero Energy reported that its Port Arthur refinery continues to run at lower rates due to its coker unit running about 76% of capacity as a result of temporary measures put in place back on August 21<sup>st</sup>. The company noted that the two crude units at the 325,000 b/d refinery have been operating at reduced rates as a result. Once crude unit has been operating at a reduced rates since August 21<sup>st</sup>, while the other has been running at lower rates since restarting on August 27<sup>th</sup>. It had been shut for 6 days prior to that.

Motiva reportedly has shut down its FCC unit at its 285,000 b/d refinery in Port Arthur, Texas. The unit went down over the weekend and is expected to be restarted late this week or early next week. The FCC unit has a capacity of 90,000 b/d.

Suncor said it was planning an overhaul of a 30,000 b/d crude distillation unit at its 90,000 b/d refinery in Colorado during the month of October.

Credit Suisse in its weekly refinery margins report, noted that in most regions of the U.S. refining margins rose last week. Margins in the Midwest were up \$2.22 per barrel, while Gulf Coast margins were up \$1.04. Margins in the Northeast were up \$1.71 while in the Rockies margins dropped 3 cents.

According to Chinese officials, Sinopec and PetroChina have not asked the government to raise the price of oil products in order to reflect the increased cost of crude oil prices on the global market place. The government noted that the two top refiners have been profitable, suggesting that there was no urgent need to raise product prices. The government has in fact ordered refiners to increase production and organize imports into the northeastern Heilongjiang province and southern Fujian, which had recently suffered fuel shortages this summer. The last time pump prices had been increased was May 2006. The government said it was committed to reforming refined oil prices, but is proceeding cautiously since it is evaluating how any price increase will be borne by every section of society. As a result it will be long and gradual process in order to protect farmers and the urban poor. China already is seeing the highest inflation rate in the last ten years. Meanwhile Sinopec announced that it will skip diesel exports this month, the first halt in monthly exports in the last eight years. Normal exports run between 30,000-100,000 tonnes.

Seibu Oil has shut its 120,000 b/d crude distillation unit at its Yamaguchi refinery for maintenance work, which is expected to last five days.

Cosmo Oil said it has restarted the 140,000 b/d crude distillat unit at its Sakaide refinery. The unit had been down since August 31<sup>st</sup>.

### **Production News**

Iraq reported that it has resumed crude oil exports from its Kirkuk oil fields through the northern pipeline last week. Oil officials noted that 300,000-400,000 b/d of Kirkuk crude is being pumped to Ceyhan terminal, and the pipeline flow continued today. The oil minister said that current production capacity from its northern fields is running at 700,000 b/d, of which 300,000 b/d is directed to the Beiji refinery for domestic use with the balance going to exports. Oil officials said that there is over 5 million barrels of crude in storage at the Ceyhan terminal. The oil minister said that he expects Iraq to maintain this current level exports from the northern field, as a result of the ministry putting into place new measures to curb sabotage against the export pipelines. He noted that the country has deployed

a new security force that is made up of members from the tribes living along the pipeline "...and we think this new plan is going to work". The oil minister also said he expects that the Iraqi parliament will finally pass the country's draft oil and gas law this month as it returns from its August recess.

Gasoil exports from the former Soviet Union out of the Baltic and Black Sea ports fell by about a third in August from the previous month, Reuters calculated. It appears that the rush in July to move product in front of the start of higher export duties on refined oil productions in August. Exports in August stood at 2.14 million tones or 32% below July levels.

OPEC's crude oil basket price rose to \$70.32 a barrel on Monday up from Friday's \$69.60. This is the first time since August 6<sup>th</sup> that the basket price has been over \$70.00.

Customers are expecting that the Saudis will announce tomorrow an increase between 30-40 cents in the Arab Medium price and a 30-cent increase in Arab Light to Asian customers when October official prices are announced.

### **Market Commentary**

We cannot ignore that this market wants to go higher, especially given the unseasonable strength of gasoline. With days available of gasoline stocks at their lowest level since 1991 and demand above the average norm, this market should continue higher. OPEC, which is to meet on September 11<sup>th</sup>, has not indicated any raise in production and in fact several of its' members stated that production should remain unchanged. All of these factors paint a bullish scenario and if this weeks stock levels show draws this market could easily test the highs of August. Support comes in 74.44, 72.75, 72.08, 71.53, 71.20, 70.67 and **69.96** Resistance is set at 75.9, 76.33, 76.97, 77.39 and 78.15.

Market expectations for this week's EIA inventory report appear to be centered around a 400,000 barrel decline in crude stocks, with gasoline off 1.5 million barrels and distillate up 1 million. The report normally scheduled for release on Wednesday will be delayed until Thursday, September 6<sup>th</sup> at 10:30 EDT.