



## ***ENERGY RISK MANAGEMENT***

Howard Rennell, Pat Shigueta &  
Zachariah Yurch

**(212) 624-1132 (888) 885-6100**

**www.e-windham.com**

---

### **ENERGY MARKET REPORT FOR SEPTEMBER 12, 2006**

---

The head of the IEA, Claude Mandil, said the oil market was well supplied and added that oil prices should see a further decline. The IEA said fund selling contributed to the fall in oil prices. It added that a statement by Goldman Sachs reducing the share of gasoline in the Goldman Sachs Commodity Index may have triggered the fall in gasoline prices. In its monthly report, the IEA cut its world oil demand estimate for 2006 and 2007, citing weakness in Europe and parts of Asia. It cut its demand growth estimate by 100,000 bpd for 2006 to 1.5 million bpd. Total demand is estimated at 84.68 million bpd. It cut its estimate by 400,000 bpd in the July-September period. The IEA kept its forecast for Chinese oil demand for 2006 at 7 million bpd. It is up 6.5% on the year. It also maintained its 2007 oil demand forecast for China, expecting demand to reach 7.4 million bpd. The IEA reported that world oil

#### **Market Watch**

Nigeria's oil unions, Pengassan and Nupeng, signaled they may limit their three day warning strike's impact on crude production. The strike is scheduled to start on Wednesday to protest against insecurity in the Niger Delta. The oil unions said they were looking at the logistics and at whether allowing production to continue would not undermine their struggle. A meeting late Monday and Tuesday between the unions and representatives from the ministries of labor and petroleum resources failed to lead to any breakthroughs.

Goldman Sachs said the sharp fall in oil was overdone and falling retail prices would underpin demand and maintain robust growth. It noted that oil demand, particularly in the US and China, continued to grow significantly on a year on year basis. It expects demand to remain supported even if economic activity slows.

The head of the IMF, Rodrigo Rato, said a slowing US housing market and the possibility of a major supply disruption were two of the largest risks to the world economy. He called on governments of oil producing countries to ensure their policies encouraged investment and spread risk between themselves and the firms drilling for oil. It said the US dollar may fall unless policies on savings levels and investment imbalances were changed.

Venezuela's President Hugo Chavez urged fellow OPEC members on Tuesday to follow its lead in exerting full sovereignty over its oil. He said foreign investment was welcomed but only if it did not clash with national interests.

The NYMEX set daily volume records for total NYMEX energy, crude oil, heating oil and NYMEX miNY crude oil futures contracts traded on CME Globex. Energy futures contracts traded totaled 301,284, surpassing a record of 235,758 on September 8.

The NYMEX announced that the margin on its crude contract would fall from \$4,725 to \$4,050 at the close of business on Wednesday.

An analyst stated that investors should be wary of commodity related shares because a slowdown in US economic growth may dent demand for crude oil and metals. He stated that as more evidence of a US slowdown materializes, commodity prices would come under pressure.

supply fell by 400,00 bpd to 85.8 million bpd in August, led by lower North Sea production and weaker Iranian and Saudi Arabian exports. It said OPEC's production fell by 270,000 bpd in August to 30 million bpd. Higher exports from Iran and Saudi Arabia caused a 545,000 bpd upward revision to July supplies, leaving OPEC's spare capacity in August at 1.68 million bpd. It cut its demand for OPEC oil for the third quarter by 400,000 bpd to 28.7 million bpd. Total OPEC oil demand in 2006 is estimated at 28.9 million bpd. Its estimate of demand for OPEC oil next year was left unchanged at 28.4 million bpd. It however cut its non-OPEC supply growth forecast for 2007 by 80,000 bpd to 1.8 million bpd. Non-OPEC oil output is forecast at 52.8 million bpd next year. In regards to BP's Prudhoe Bay field, the IEA stated that output was unlikely to start recovering until January when it begins ramping up its production to 300,000 bpd by March. The IEA also stated that it expects world condensate quality over the 2006 to 2011 period to become slightly heavier with the average barrel API gravity falling from 32.7 to 32.5. Crude supplies are also likely to become marginally sweeter with sulfur content falling from 1.18% to 1.16%.

In the latest Short term Energy Outlook, the EIA cut its forecast for world oil demand growth this year by 100,000 bpd to 1.2 million bpd and by 100,000 bpd to 1.7 million bpd in 2007. Total world demand is estimated to total 85 million bpd in 2006 and 86.7 million bpd in 2007. It stated that over half of the demand growth in 2007 is projected to come from the US and China. Demand growth is also projected to be strong in the oil exporting countries of the Middle East. US oil demand estimate for 2006 remained unchanged at 20.7 million bpd while demand in 2007 is expected to increase to 21.1 million bpd. Its demand estimate was unchanged from its previous forecast. It increased its 2006 gasoline demand to 9.22 million bpd from a previous estimate of 9.2 million bpd while its 2007 forecast was increased to 9.33 million bpd from a previous estimate of 9.29 million bpd. Meanwhile distillate demand in 2006 was cut to 4.19 million bpd from a previous estimate of 4.21 million bpd and its demand for 2007 was cut to 4.28 million bpd from 4.30 million bpd. In regards to supply, it reported that the average domestic oil production is expected to fall by 23,000 bpd to just under 5.1 million bpd while production in 2007 is estimated at 5.48 million bpd. The EIA reported that WTI crude price is projected to average about \$70/barrel in 2006 and 2007. It also stated that gasoline prices are expected to fall to an average of \$2.55/gallon in January 2007 before rising again next summer.

Even though Iran's chief nuclear negotiator, Ali Larijani, offered to suspend its uranium enrichment for two months during talks with the EU's foreign policy chief, Javier Solana, Iranian officials have stated that Iran would not suspend its enrichment before talks begin. Meanwhile, Iran's Oil Minister Kazem Vaziri Hamaneh said progress in talks between Iran and the EU has alleviated the standoff between Iran and the West over its disputed nuclear program. He said Iran's chief nuclear negotiator and the EU's foreign policy chief would meet again next week. He reaffirmed Iran's pledge not to use oil as a political weapon in its negotiations.

Syrian officials stated that a bomb attack on the US embassy in Damascus was foiled by local security forces. Security forces sealed off the Rawda area, which also houses other embassies and security installations. Attackers attempted to drive two cars at the embassy compound. One car bomb went off but the second failed. The attack came amid heightened tensions between the US and Syria over US support for Israeli military action in Lebanon.

### **Refinery News**

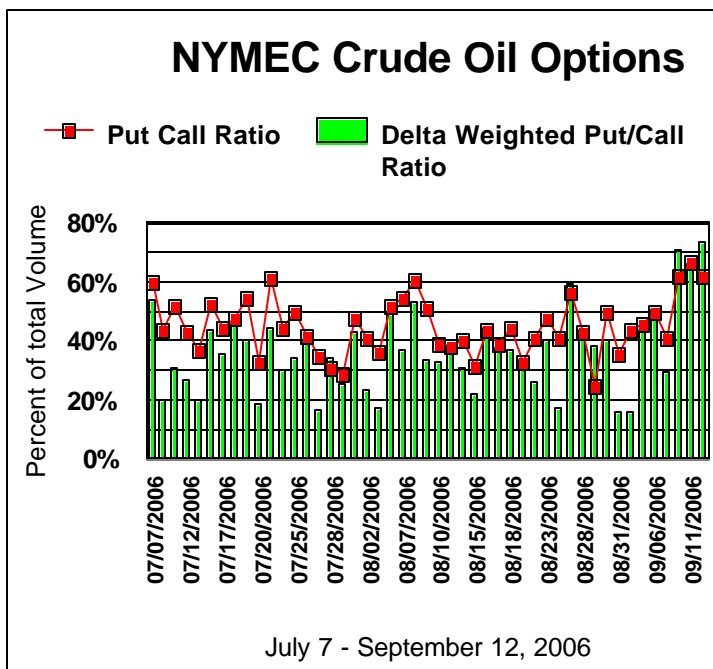
Valero shutdown its delayed coking unit at its Port Arthur, Texas refinery for repair on Sunday. The unit is expected to restart on Tuesday.

BP's 91,000 bpd Lingen refinery in Germany was shutdown for maintenance.

Iran's Oil Minister Kazem Vaziri Hamaneh said he believed parliament would approve a bill that would add \$3.5 billion to the budget to pay for more gasoline imports. The country's budget was cut to \$2.5 billion to finance imports for the financial year ending March 2007 from an originally proposed \$4 billion.

According to customs data, China's August crude imports stood at 11.82 million tons or 2.78 million bpd, up 35%. In the first eight months of the year, crude imports increased by 15.3% on the year to 95.8 million tons or 2.89 million bpd. China's imports of refined oil products increased by 25.7% during the January to August period to 25.75 million tons while product exports fell by 21.7% to 8.2 million tons. Separately, an official stated that China would increase crude oil imports and domestic refining capacity as well as encourage conservation and development of renewables in the next four years. China is expected to increase its net oil imports to 170-180 million tons a year by 2010 from 136 million tons in 2005. The official stated that the government was investing heavily to expand refining capacity, which is expected to increase to 400 million tons by 2010 from 323 million last year.

Taiwan consumed 811,600 bpd of oil products in July, down 0.9% on the year. Fuel oil demand fell 3.4% on the year to 102,000 bpd while gasoline demand fell by 0.7% to 184,000 bpd. Diesel demand increased by 0.2% on the year to 102,000 bpd. Taiwan's Bureau of Energy reported that gasoline sales increased by 161% on the year to 103,000 bpd while diesel exports increased by 53.2% to 130,000 bpd.



### Production News

BP Plc told Congress on Tuesday it would ask the US Transportation Department this week for permission to restart part of the eastern Prudhoe Bay oilfield, if the line passes safety tests performed by the company. Separately, the EIA stated that the partial shutdown of the Prudhoe Bay field has no caused any significant impact on the amount of crude oil processed at West Coast refineries that normally depend on Alaskan oil.

An official at Nigeria's National Petroleum Co said the country has about 250,000 bpd of oil production offline due to pipeline leaks and other snags while Royal Dutch Shell has shut in 600,000 bpd of its production. Separately, an official at Royal Dutch Shell said it would

take time to increase its production following militant attacks in the Niger Delta.

Norway's Oil Minister Odd Roger Enoksen said there were few indications that oil production growth outside of OPEC remained strong, despite what officials from the group have stated. OPEC officials stated that sustained output growth from non-OPEC has resulted in an oversupplied world oil market.

Saudi Arabia's Oil Minister Ali al-Naimi said the country would invest about \$70 billion in its oil and gas sector in the next five years. He also stated that Saudi Arabia was committed to keeping spare oil capacity at 1.5-2 million bpd at all times. Crude oil capacity would increase to 12.5 million bpd by 2009 through an investment of about \$18 billion. Separately, he stated that some governments' attempts to curb energy use may have an economic impact that could damage the world's energy future. He

added that some policies aimed at curbing fuel use risked discouraging investment in oil and gas production and jeopardizing future supplies. He said some alternative energy projects were impractical, unrealistic in their timeframe and inefficient and added that the world's wealthiest countries would grow more reliant on oil imports particularly from the Middle East in the next two decades.

The head of Libya's National Oil Corp, Shokhri Ghanem said Libya would set its oil output in accordance with OPEC as it works with foreign and local partners to almost double its production capacity. He said high oil prices had turned once unpromising Libyan fields into commercially viable prospects. He said Libya planned to increase its production capacity to 2 million bpd next year and to 3 million bpd within five to seven years.

Kazakhstan's State Statistics Agency reported that it increased its oil and gas condensate production by 4.4% on the year to 42.517 million tons in the first eight months of the year.

Royal Dutch Shell said it has completed 80% of the Russian Sakhalin II oil and gas project and is keen to complete the remaining work on schedule, at cost and up to standards.

Brazil's Petrobras said it expected to add up to 24,000 bpd of oil equivalent to its oil and gas production in the US. The new production would come from the deep water Cottonwood field in the Garden Banks block in the US Gulf of Mexico. It is expected to begin producing natural gas and condensate from the field in early 2007. Petrobras' US output is expected to reach 100,000 boe/d in 2013.

Total is interested in a 10-15% stake in Iran's Azadegan field. It is seeking a part in a consortium to develop the field led by Japan's INPEX.

OPEC's news agency reported that OPEC's basket of crudes fell by \$1.15/barrel to \$60.89/barrel on Monday.

**Market Commentary**

The oil market continued to trend lower and fell for the seventh consecutive trading session amid lower world demand forecasts. The market opened down 21 cents at 65.40 and quickly posted a high of 65.75. However the market erased its early gains and continued to sell off in light of the IEA report showing a 100,000 bpd decline in world demand growth in 2006. The market also continued its downward trend following the news that Iran may temporarily suspend its uranium enrichment during talks,

despite officials stating that Iran would not suspend its nuclear program until talks started. The market was further

Technical Analysis		
	Levels	Explanation
CL Resistance 63.76, down \$1.85 Support	65.75, 66.50 64.50, 65.25	Tuesday's high, Monday's high
	63.67 63.45, 63.40, 62.20	Tuesday's low Previous lows
HO Resistance 175.97, down 4.57 cents Support	181.90, 183.70 178.50, 180.00	Tuesday's high, Monday's high
	175.50 173.60, 172.50	Tuesday's low Previous lows
HU Resistance 155.21, down 4.25 cents Support	162.25, 166.70 156.50, 160.00	Tuesday's high, Monday's high
	153.55 151.50, 147.00	Tuesday's low Previous lows

pressured following the release of the EIA's Short term Energy Outlook, which reported a 100,000 bpd

cut in world demand growth in 2006 and 2007. The market extended its losses to over \$1.90 as it sold off to a low of 63.67 ahead of the close. It settled down \$1.85 at 63.76. Volume in the crude market was better, with 256,000 lots booked on the day. The product markets also settled sharply lower once again, with the gasoline market settling down 4.25 cents at 155.21 and the heating oil market settling down 4.57 cents at 175.97. The gasoline market opened down 21 points at 159.25 and quickly posted a high of 162.25 early in the session. However the market erased its gains and continued to trend lower amid further fund selling. The gasoline market extended its losses to 5.91 cents as it posted a low of 153.55 ahead of the close. Meanwhile the heating oil market rallied to a high of 181.90 and held some support at 180.00. However the market breached that level and sold off to a low of 175.50 amid a late bout of selling on the close. This was ahead of the weekly petroleum stock reports, which are expected to show builds in distillate stocks of about 1.5 million barrels. Volumes in the product markets were better with 24,000 lots booked in the gasoline market and 58,000 lots booked in the heating oil market.

Option activity continued to be brisk in the crude oil market, with puts at the money or near to the money remaining the most active strikes. Total option activity today reached 143,000 of which puts accounted for over 62% of the volume and over 73% on a delta weighted volume basis.

The oil market, which continues to trend lower, will seek further direction from the weekly petroleum stock reports. The reports are expected to show draws in crude stocks of about 2 million barrels, builds in gasoline stocks of less than 1 million barrels and builds in distillate stocks of 1 million barrels. If the reports show the builds in product stocks, the market will continue to trend lower despite the fact that it is technically oversold. The market will also be driven by the news concerning Iran and Nigeria's warning strike which begins on Wednesday. The market is seen finding support at its low of 63.67 followed by 63.45, 63.40 and 62.20. Meanwhile resistance is seen at 64.50, 65.25 followed by its high of 65.75. More distant resistance is seen at 65.75 followed by 66.50.