



## ***ENERGY RISK MANAGEMENT***

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### **ENERGY MARKET REPORT FOR OCTOBER 19, 2006**

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Saudi Arabia's Oil Minister Ali al Naimi said he supported an OPEC cut of 1 million bpd from actual production levels. He said the aim was to restore equilibrium to the oil market and added that Saudi Arabia had already started to cut production. He said Saudi Arabia has cut its output by 400,000 bpd in recent months, cutting its total production from 9.5 million bpd to 9.1 million bpd. He said Saudi Arabia may cut its output by a further 330,000 bpd under an OPEC agreement to cut 1 million bpd from world markets. He also stated that OPEC could cut its actual production further by 500,000 bpd when it meets on December 14. Meanwhile,

#### Market Watch

The National Weather Service said temperatures in the Northeast are forecast to be normal while temperatures in the north central US are forecast to be above normal in November. It is contrary to private weather forecaster Accuweather, which predicted the East Coast and part of the Gulf Coast could be colder than normal in December and January.

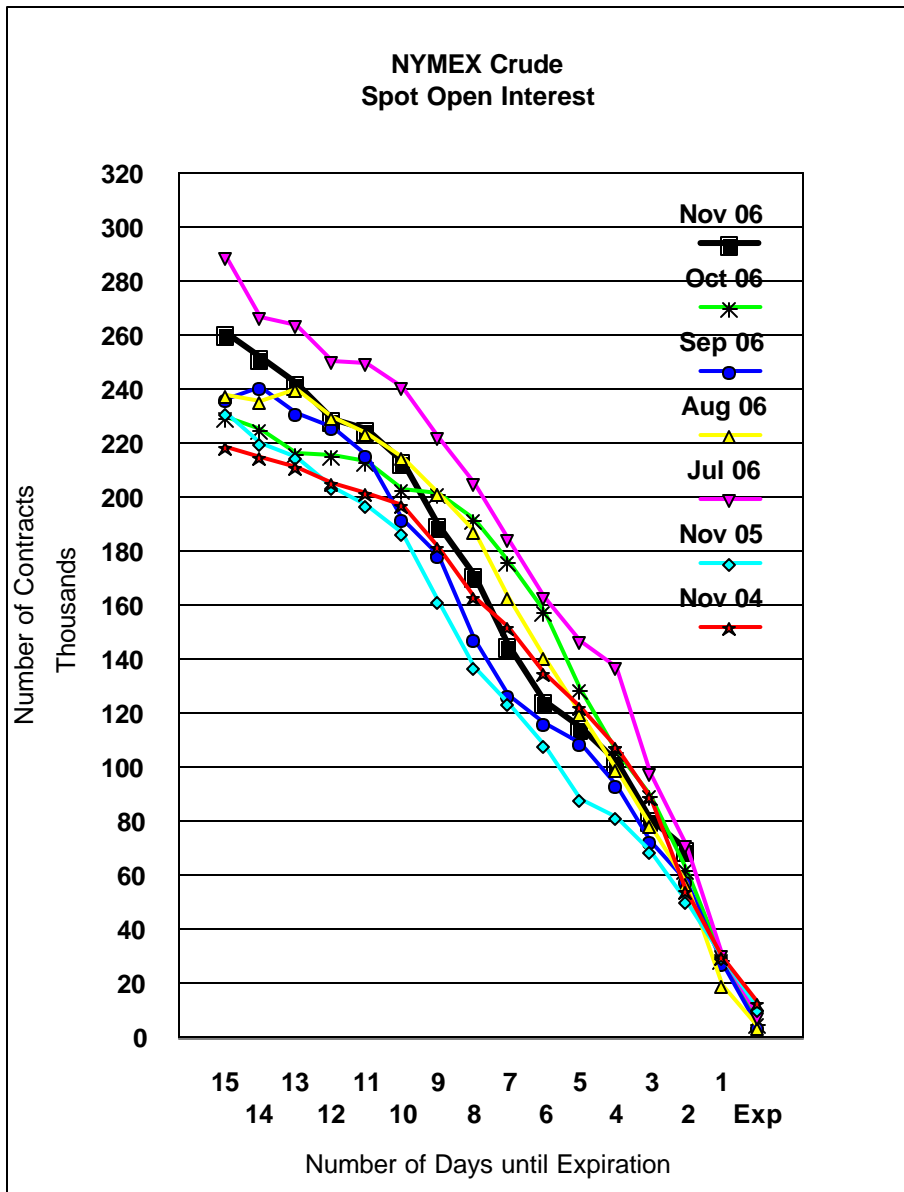
Nigeria's President Olusegun Obasanjo declared a state of emergency in the southwestern state of Ekiti following the unconstitutional impeachment of the state governor over corruption charges. He swore in a retired major-general to run the affairs of the state for the next six months and said the move was to prevent Ekiti from descending into anarchy and threatening security in the country. State lawmakers impeached Governor Ayodele Fayose after a judicial panel found him guilty of corruption.

The White House on Thursday ruled out some proposals to end war, including a federalism plan to divide the country into sectarian regions. White House spokesman Tony Snow said the suggestion to divide Iraq into Shi'ite and Kurdish regions was a nonstarter.

China's National Bureau of Statistics stated that industrial production in China increased by 16.1% in September on the year following a 15.7% gain in August. China's GDP increased by 10.4% in the third quarter, down from an 11.3% gain in the second quarter. China's Premier Wen Jiabao has been trying to slow growth to avoid overheating the economy. The central bank has raised interest rates twice. The increase has renewed speculation that demand would increase for metals used in power plants, cars and homes.

A draft legislation unveiled on Thursday would cap emissions from major Canadian producers of greenhouse gases such as heavy industry and the energy sector but not until between 2020 and 2025 at the earliest. Until then, firms would be obliged to reduce the intensity of their emissions by a factor, which has yet to be set.

The NYMEX announced that it set daily volume records for total energy, crude oil, natural gas and heating oil futures contracts traded on the CME Globex electronic trading platform on Wednesday. Total NYMEX energy futures reached 411,265 contracts, with 215,579 crude oil contracts traded, 48,235 natural gas contracts traded and 24,369 heating oil contracts traded on the day.



Algeria's Oil Minister Chakib Khelil said Algeria was prepared to cut a maximum of 50,000 bpd of oil production. He said the country had already started cutting production. He also stated that a \$50-\$60/barrel price range for OPEC's basket of crudes would be acceptable to oil producers and consumers. Venezuela's Energy Minister Rafael Ramirez stated earlier on Thursday that he would like OPEC to cut its production by 1 million bpd from its production ceiling. He added that Venezuela was producing 3.3 million bpd and would not favor an output cut to Venezuela's actual production based on secondary sources' estimates of 2.5 million bpd. Venezuela has cut its production by 50,000 bpd starting October 1. Contrary to previous reports, Venezuela has not yet implemented a second oil output cut of 50,000 bpd. He later said Venezuela planned to cut its production by a total of 150,000 bpd. The UAE's Oil Minister Mohammed bin Dhaen al-Hamli said he

believed his country's share of a 1 million bpd cut would equate to about 90,000-100,000 bpd. Qatar's Oil Minister Abdullah al-Attiyah said he believed OPEC members were united on the need to cut production by 1 million bpd from actual production effective November 1. He also stated that a further 500,000 bpd could be approved during OPEC's meeting in December. OPEC's President Edmund Daukoru also stated that he supported suggestions that OPEC may need to cut its production by a further 500,000 bpd in December.

According to Oil Movements, OPEC's crude exports are forecast to fall by 560,000 bpd to 24.45 million bpd in the four weeks ending November 4.

**Refinery News**

According to a report filed with the Texas Commission on Environmental Quality, problems with the local electrical grid affected operations at Valero Energy's oil refinery in Port Arthur, Texas on Wednesday.

**NYMEX Petroleum Options Most Active Strikes for October 19, 2006**

Symbol	Month	Year	Call/Put	Strike	Exp Date	Settle	Volume	IV
GO	11	6	P	1.5	10/26/2006	0.04	29	41.76
GO	11	6	P	1.46	10/26/2006	0.0214	28	41.99
GO	12	6	P	1.45	11/27/2006	0.0428	25	35.80
GO	11	6	C	1.55	10/26/2006	0.0131	21	42.30
LO	12	6	C	64	11/14/2006	0.79	7,830	31.64
LO	12	6	C	60	11/14/2006	2.27	4,271	31.55
LO	12	6	P	55	11/14/2006	0.38	3,461	33.61
LO	12	6	P	58	11/14/2006	0.97	2,181	31.39
LO	4	7	C	75	03/15/2007	1.17	1,900	27.07
LO	3	7	C	75	02/14/2007	0.77	1,896	27.22
LO	3	7	C	68.5	02/14/2007	2.05	1,617	27.27
LO	3	7	C	68	02/14/2007	2.2	1,597	27.31
LO	12	6	C	65	11/14/2006	0.58	1,470	31.66
LO	12	6	P	60	11/14/2006	1.77	1,455	31.50
LO	6	7	P	65	05/17/2007	4.82	1,200	26.63
LO	4	7	C	65	03/15/2007	4	1,000	27.30
LO	6	7	C	68	05/17/2007	3.9	1,000	26.22
LO	6	7	P	64.5	05/17/2007	4.59	1,000	26.73
LO	1	7	C	76	12/14/2006	0.15	976	30.88
LO	4	7	C	67	03/15/2007	3.2	950	27.22
LO	12	6	C	66	11/14/2006	0.42	928	31.72
LO	12	6	C	61	11/14/2006	1.78	928	31.40
LO	12	7	P	60	11/13/2007	3.52	900	26.49
LO	12	6	C	73	11/14/2006	0.04	855	33.74
LO	12	6	C	63	11/14/2006	1.05	839	31.50
LO	12	6	C	70	11/14/2006	0.12	802	33.24
LO	12	6	P	76	11/14/2006	15.5	750	44.87
OB	2	7	C	1.9	01/26/2007	0.039	7	36.53
OB	2	7	C	1.98	01/26/2007	0.0284	7	37.30
OH	2	7	C	2.65	01/26/2007	0.0048	475	37.53
OH	12	6	C	1.85	11/27/2006	0.0397	300	32.84
OH	1	7	P	1.87	12/26/2006	0.13	260	30.61
OH	1	7	C	1.87	12/26/2006	0.0669	260	30.47
OH	1	7	C	1.85	12/26/2006	0.0739	228	30.26
OH	2	7	C	1.94	01/26/2007	0.072	150	30.45
OH	11	6	P	2	10/26/2006	0.2799	135	46.76
OH	11	6	C	1.75	10/26/2006	0.0212	125	35.61
OH	12	6	C	1.8	11/27/2006	0.0552	125	32.07
OH	12	6	P	1.55	11/27/2006	0.0099	100	32.45
OH	12	6	P	1.65	11/27/2006	0.0293	100	32.07
OH	11	6	P	1.9	10/26/2006	0.1807	100	38.14
OH	1	7	P	1.85	12/26/2006	0.1172	100	30.38

Citgo Petroleum's Lake Charles, Louisiana refinery was operating at or near normal rates despite a malfunctioning boiler in the plant's power house due to storm conditions. Earlier, reports citing trading sources stated that the 425,000 bpd refinery was shut Wednesday by a power outage.

ExxonMobil Corp's oil refinery in Torrance, California experienced a leak in a vacuum gas line that resulted in a spill of less than one barrel of gas oil early Thursday. A report filed with the Office of Emergency Services did not say whether the incident had an impact on production or how long repairs would take. Separately, ExxonMobil Corp said three days of planned maintenance have been completed on its hydrogen plant at its Torrance, California refinery.

Tesero Corp's 94,000 bpd Kapolei oil refinery in Hawaii resumed operations after it was shutdown on October 15, when an earthquake caused power outages. The refinery is expected to resume full production over the weekend.

BP Plc said it planned to shut a reformer unit at its Toledo, Ohio refinery for

scheduled work from November 3 to November 27.

South Korea's SK Corp said it was operating its No. 2 naphtha cracker at a low rate following a turnaround for nearly a week. It restarted the 620,000 ton per year naphtha cracker on Thursday after a brief shutdown.

Japan's Showa Shell Sekiyu KK said it planned to refine 6% less crude oil in November year on year due to weak oil product demand. It said it planned to cut its November crude refining volume by about 140,000 kl or 28,400 bpd on the year to 2.26 million kl or 459,000 bpd.

Iraq resumed pumping of Kirkuk crude to the Turkish port of Ceyhan following a suspension last week. A shipping agent said pumping resumed at a rate of 18,000 barrels/hour, increasing stored crude at Ceyhan to 2.15 million barrels.

China's National Bureau of Statistics said the country's refinery throughput expanded by 1.6% in September. It was the slowest rate of growth since the start of the year. Its crude runs in September were 25.05 million tons or 6.1 million bpd. Over the first nine months of the year, crude throughput increased by 5.2% to 224.15 million tons. The lower rate of expansion in refining runs last month came as China's annual economic growth slowed slightly in the third quarter to 10.4%. It reported that China's gasoline production fell by 1.4% in September to 4.550 million tons while kerosene production increased by 1.2% to 835,800 tons and diesel production increased by 1.8% to 9.693 million tons on the month. China's crude oil production in September increased by 1% on the year to 14.995 million tons.

Singapore's International Enterprise reported that the country's light distillate stocks fell by 831,000 barrels to 6.409 million barrels while its middle distillate stocks fell by 150,000 barrels to 8.233 million barrels in the week ending October 18. It also reported that Singapore's residual fuel stocks fell by 558,000 barrels to 12.466 million barrels on the week.

Kinder Morgan Energy Partners LP announced that it planned to invest about \$388 million to further expand the CalNev Pipeline System. The pipeline systems transports gasoline, diesel and jet fuel from Los Angeles, California refineries and marine terminals to terminals in Barstow, California and Las Vegas, Nevada. The proposed expansion involves construction of a new pipeline from Colton, California to Las Vegas. System capacity would increase to about 200,000 bpd upon completion of the new pipeline and capacity could be increased as necessary to over 300,000 bpd with the addition of pump stations. The expansion is pending approval.

### **Production News**

Iraq's Oil Minister Hussain al-Shahristani said Iraq hoped to complete its first round of contracts for oilfield development by the end of next year. He said Iraq expected to start talks with international companies on oilfield development by the end of the year, once a draft hydrocarbon law was passed by parliament. The draft law is currently before a cabinet energy committee.

The international consortium developing the Azeri-Chirag-Guneshli fields in Azerbaijan has temporarily cut output by 140,000 bpd to 145,000 bpd. The platform developing the Chirag offshore field has gone offline for maintenance.

Russia's upper house of parliament is scheduled to meet on Friday to discuss the Royal Dutch Shell-led Sakhalin-2 oil and gas project and call for government actions on the troubled venture. Sakhalin-2 has come under pressure over ecological and technical compliance from Russia's environmental agency. However analysts have stated that the claims are part of a broader Kremlin strategy to gain control over the project.

Meanwhile, Russia's energy agency has proposed increasing state control over a Chevron-led oil pipeline from Kazakhstan to the Black Sea so that the state can get revenues from the project sooner. A Russian newspaper cited a letter by agency head Sergei Oganessian to Energy Minister Viktor Khristenko as saying the Caspian Pipeline Consortium should be given the status of natural monopoly.

BHP Billiton Ltd said it would seek to hold its base oil production at about 300,000 bpd. It also stated that it would be comfortable with oil prices below current levels.

OPEC's news agency reported that OPEC's basket of crudes fell to \$55.27/barrel on Wednesday from \$56.17/barrel on Tuesday.

### Market Commentary

The oil market posted an inside trading day as it failed to breach its previous trading range ahead of OPEC's meeting later on Thursday. The market was well supported and opened up 65 cents at 58.30 after Saudi Arabia said it supported an output cut of 1 million bpd and stated the possibility of further cuts of 500,000 bpd or more during a meeting in December. The statements made by Saudi Arabia's Oil Minister, which had previously refrained from commenting on cuts, helped push the market to an early high of 58.40. However the market erased its gains and sold off to a low of 57.45. The market later bounced off its low and retraced its losses. It rallied to a high of 58.95 ahead of the close amid the expectations that OPEC would agree on a 1 million bpd cut from its actual production level, with the possibility of cutting its output further in December, if necessary. The retraced some of its gains and settled up 85 cents at 58.50. Volume in the crude market was excellent with over 219,000 lots booked on the day.

Open interest in the crude market fell by a total of 3,237 contracts, while open interest in the November contract fell by 11,186 contracts to

		Levels	Explanation
<b>CL</b>	<b>Resistance</b>	59.50, 60.25, 61.30	Previous highs
	58.50, up 85 cents	58.95	Thursday's high
	<b>Support</b>	58.25, 57.45	Thursday's low
		57.40, 57.30, 56.90	Previous lows
<b>HO</b>	<b>Resistance</b>	176.80, 178.10, 179.10	Previous highs
	172.01, up 2.42 cents	172.50	Thursday's high
	<b>Support</b>	170.00, 168.00, 166.80	Thursday's low
		166.10, 163.60	Previous lows
<b>RB</b>	<b>Resistance</b>	156.50, 157.00 & 160.70	Previous highs
	153.28, up 3.25 cents	154.80, 155.00	Thursday's high, Wednesday's high
	<b>Support</b>	149.00	Double bottom
		148.50, 147.50, 147.00	Previous lows

69,162 contracts ahead of its expiration on Friday. Open interest stands about 15% higher on average in the November contract, when compared to previous expiring contracts. The heating oil market also opened up 1.01 cents at 170.60 and traded to a high of 171.00. However the market breached its previous low and sold off to a low of 166.80. The heating oil market quickly bounced off its low and extended its gains to over 2.9 cents as it traded to a high of 172.50 ahead of the close. It settled up 2.42 cents at 172.01. The gasoline market also rallied late in the session to a high of 150.80 before it retraced some of its gains and settled up 1.91 cents at 148.94. The market held good support at the 146.00 level. Meanwhile, the RBOB contract posted an inside trading day as it posted a double bottom at 149.00 and rallied to a high of 154.80 ahead of the close. It settled up 3.25 cents at 153.28. Volumes in the product markets were light with 38,500 lots booked in the heating oil, 5,640 contracts in the gasoline market and 13,400 lots in the RBOB market.

The oil market on Friday will be driven by the expiration of the November crude contract. The market is seen remaining supported as OPEC members, particularly Saudi Arabia, are expected to agree on a total cut of 1 million bpd from their actual production levels starting November 1. The market will also remain buoyed if OPEC continues to comment on the possibility of a further cut during their December meeting. The market is seen finding support at its lows of 58.25 followed by 57.45, 57.40 and 57.30.

More distant support is seen at 56.90. Meanwhile resistance is seen at its high of 58.95 followed by 59.50, 60.25 and 61.30.