



## ***ENERGY RISK MANAGEMENT***

Howard Rennell, Pat Shigueta &  
Zachariah Yurch

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

**www.e-windham.com**

---

### **ENERGY MARKET REPORT FOR NOVEMBER 15, 2006**

---

OPEC signaled that more oil output cuts may be needed in December. In its monthly Oil Market Report, it warned that if OPEC continued pumping oil at current rates there would be a larger than usual inventory in the second quarter of next year. It said the increasing stock levels could lead to a further imbalance in the market. It estimated world oil demand growth in 2006 of 1 million bpd or 1.2%. It reported that world oil demand would grow 1.33 million bpd to 85.58 million bpd in 2007, a modest upward revision from its previous report. It also reported that demand for OPEC oil is expected to fall by 700,000 bpd to 28.1 million bpd as new non-OPEC supplies enter the market. OPEC's production in October averaged 29.4 million bpd, down 160,000 bpd from September.

#### Market Watch

Traders stated that the transatlantic gasoline import flow was expected to remain unseasonably high over the next several weeks to make up for the shortfalls caused by refinery problems. Traders said they expected the gasoline import flow to be about 1 million bpd for the next few weeks. The average October gasoline imports into the US stood at 980,500 bpd compared with 797,750 bpd in 2004.

India's Indian Oil Corp said it started trading crude oil derivatives on the National Commodities & Derivatives Exchange, NCDEX. It said the start of derivatives trading on the domestic exchanges would be an extension to hedging activities currently undertaken by Indian Oil through overseas over the counter markets.

OPEC's President Edmund Daukoru warned that oil at \$58-\$60/barrel was not high enough to encourage long term investment in the oil industry. He said efforts have been made by OPEC to firm up prices but the price is still too soft for major projects to be carried out. He also stated that compliance with the current agreement was far from satisfactory. He added that for a more substantial reduction in supplies, OPEC should have cut output by about 1.7-1.8 million bpd in October. He said OPEC continued to monitor world oil inventories, which would be key to any decision the group would make in December. He believes the general sentiment is for another cut in December.

#### DOE Stocks

**Crude** – up 1.3 million barrels

**Distillate** – down 3.6 million barrels

**Gasoline** – down 3.7 million barrels

**Refinery runs** – down 0.91%, at 87.3%

Nigerian security sources repelled a militant attack on an oil facility owned by Royal Dutch Shell on Wednesday, killing at least two suspected militants and capturing another two. Militants launched a raid on a logistics base operated by Shell at the Nun River in Bayelsa state but were met by resistance from 22 navy details protecting the facility. No damage was reported to the facility. The captured attacker

said the group mounted the attack to recover the balance of ransom that was not fully paid after a hostage taking last month.

Iran dismissed an IAEA report that inspectors found new traces of enriched uranium and plutonium at an Iranian nuclear waste facility, saying it has already explained the discovery. An Iranian official said the traces of enriched uranium found by inspectors came from equipment that it bought from abroad without knowing of the contamination. Meanwhile, Iran's President Mahmoud Ahmadinejad said Iran would proceed with its nuclear program until the end and would not be stopped by the West. He said Iran was aiming to build 60,000 centrifuges to enrich uranium. He also insisted that the West would gradually back down from its standoff with Iran and eventually accept its nuclear program. The IAEA's report and comments made by Iran's President came amid debate among the permanent members of the UN Security Council and Germany about which sanctions to apply against Iran. The European Union and the US have supported a Security Council resolution that would prevent nuclear technology and related missile technology from being sold to Iran and limit visas for some Iranian officials and students. However Russia and China have been seeking to moderate the sanctions package. There may be the possibility of a negotiated freeze in Iran's program that could stop Iran before it becomes capable of producing weapons grade material.

Separately, a senior US official said the US was prepared in principle to talk to Iran about the situation in Iraq. However he stated that the timing of the talks was still not settled. US President George W. Bush has previously stated that Iran had to agree to suspend its uranium enrichment activities before any talks.

The API reported that lower gasoline prices helped increase demand in October. It reported that gasoline deliveries increased by 6.5% to 9.627 million bpd. Distillate deliveries also showed year on year growth of 9.6% to 4.469 million bpd. It reported that total domestic petroleum deliveries in October increased by 4.6% to 21.184 million bpd. In terms of production, the API reported that gasoline production totaled 9.01 million bpd, down 90,000 bpd on the month while distillate production totaled 4.2 million bpd, down 200,000 bpd on the month. It also reported that crude stocks increased by 2.5% on the month to 333.5 million barrels. Meanwhile, gasoline stocks fell by 5.7% to 204.7 million barrels and distillate stocks fell by 3.5% to 141.6 million bpd.

The DOE reported that US inventories of propane totaled 71.357 million barrels in the week ending November 10, down 107,000 barrels on the week. It reported that propane inventories in the East Coast increased by 325,000 barrels to 5.929 million barrels while inventories in the Midwest fell by 103,000 barrels to 24.461 million barrels and inventories in the Gulf Coast fell by 341,000 barrels to 37.989 million barrels on the week.

### **Refinery News**

Colonial Pipeline said it was allocating shipments of heating oil, jet fuel and diesel on Line 2 for the 66<sup>th</sup> cycle. It is the fourth consecutive cycle the pipeline has asked shippers to reduce volumes on the pipeline.

The Louisiana Offshore Oil Port reported that tanker offloading was halted on Tuesday afternoon due to rough seas. The suspension of crude tanker offloading is expected to continue until noon Thursday, when stormy weather is expected to abate.

According to California's Governor's Office of Emergency Services, a weekend restart of a coker unit at Big West's 70,000 bpd refinery in Bakersfield, California was unsuccessful. Big West started planned turnarounds on a crude unit and coker unit on October 10 and restarted its crude unit on

November 6. Sources familiar with the plant's operations stated that the company was running short on distillates and was forced to cut runs on the crude unit.

A source stated that Valero Energy Corp was considering a possible \$800 million to \$1 billion

NYMEX Petroleum Options Most Active Strikes for November 15, 2006								
Symbol	Month	Year	Call/Put	Strike	Exp Date	Settle	Volume	IV
GO	12	6	P	1.45	11/27/2006	0.0042	100	34.61
GO	12	6	P	1.55	11/27/2006	0.0262	15	34.15
LO	1	7	C	68	12/14/2006	0.21	6,927	28.95
LO	1	7	C	64	12/14/2006	0.77	4,327	28.08
LO	1	7	C	65	12/14/2006	0.56	2,349	28.16
LO	1	7	C	62	12/14/2006	1.39	2,140	28.13
LO	2	7	C	73	01/17/2007	0.29	2,103	27.72
LO	3	7	P	61	02/14/2007	2.33	2,100	26.94
LO	2	7	C	71	01/17/2007	0.46	2,023	27.48
LO	1	7	P	61	12/14/2006	2.08	1,955	28.03
LO	1	7	C	63	12/14/2006	1.04	1,944	28.02
LO	3	7	P	60	02/14/2007	1.95	1,925	27.06
LO	1	7	C	61	12/14/2006	1.8	1,849	28.00
LO	1	7	P	58	12/14/2006	0.87	1,511	28.59
LO	1	7	P	56	12/14/2006	0.46	1,480	29.91
LO	1	7	P	60	12/14/2006	1.59	1,438	28.10
LO	1	7	P	77	12/14/2006	16.28	1,400	44.59
LO	2	7	P	58	01/17/2007	1.18	1,330	27.85
LO	1	7	P	48	12/14/2006	0.02	1,300	35.63
LO	5	7	C	65	04/17/2007	4.05	1,225	26.09
LO	6	7	P	50	05/17/2007	0.61	1,200	30.21
LO	1	7	P	76	12/14/2006	15.28	1,200	42.12
LO	2	7	C	65	01/17/2007	1.65	1,100	27.14
LO	1	7	C	75	12/14/2006	0.02	1,002	31.55
LO	6	7	C	50	05/17/2007	15.57	1,000	34.97
LO	1	7	C	80	12/14/2006	0.01	1,000	36.72
LO	4	7	P	55	03/15/2007	0.92	1,000	28.55
LO	6	7	P	60	05/17/2007	2.52	1,000	26.98
OB	5	7	P	1.6	04/25/2007	0.0475	100	30.57
OB	4	7	C	2	03/27/2007	0.0797	50	33.88
OB	4	7	P	1.4	03/27/2007	0.007	50	28.22
OH	2	7	P	1.82	01/26/2007	0.1211	463	30.68
OH	1	7	P	1.87	12/26/2006	0.1587	450	33.68
OH	2	7	C	1.85	01/26/2007	0.0651	346	30.84
OH	1	7	C	2	12/26/2006	0.0131	110	34.68
OH	1	7	C	1.85	12/26/2006	0.0381	107	33.18
OH	5	7	C	2	04/25/2007	0.055	105	27.86
OH	1	7	P	1.84	12/26/2006	0.1363	100	33.26
OH	12	6	P	1.9	11/27/2006	0.2087	100	34.45
OH	1	7	C	1.82	12/26/2006	0.0465	80	32.88
OH	1	7	P	1.69	12/26/2006	0.0506	80	32.26
OH	2	7	C	2.65	01/26/2007	0.0013	75	38.76
OH	2	7	C	2.5	01/26/2007	0.0025	75	37.22

expansion of its Port Arthur, Texas refinery. It is currently completing an expansion project at the refinery to add 75,000 bpd of crude oil processing capacity to its previous 250,000 bpd capacity.

Shell Canada Ltd said that turnaround at its Sarnia refinery would be extended beyond this week. It announced last month that the Sarnia refinery would undergo a major turnaround between mid-October and mid-November.

Oman Refinery Co said it would increase its throughput capacity by 25% to 106,000 bpd by April. Officials had previously stated that the expansion project would be completed by February 2007.

China's National Statistics Bureau said the country processed 25.65 million tons or 6.04 million bpd of crude in October, up 5.4% on the year. In the first ten months of the year, crude runs were up 5.3% on the year at 249.91 million tons. Crude oil production in October increased by 0.6% on

the year to 15.5 million tons while for the first ten months of the year it increased by 1.5% to 153.38 million tons. Meanwhile, China's net oil product imports, excluding liquefied petroleum gas, fell by 27.4% in October to 1.83 million tons.

Italy's ERG reported that it has scheduled its 150,000 bpd Isab Nord refinery to undergo maintenance in 2008 for about 45 days. Its 230,000 bpd Isab Sud refinery is also scheduled to undergo maintenance that same year for about 15-20 days. Under company plans through 2014, the refineries are expected to undergo maintenance every two years, with general turnarounds alternating with process slowdowns.

Saudi Aramco is expected to cut its jet fuel and diesel exports by 50% next year due to increasing domestic demand and a heavy maintenance schedule in the second half of the year. It has maintained premiums above benchmark prices for 2007 jet fuel and diesel exports. It has agreed with at least three buyers to maintain the premium for diesel loading from Ras Tanura and Jubail at \$2.25/barrel and \$2/barrel for its jet fuel exports. Saudi Arabia has exported 2 million tons of jet fuel and 4 million tons of diesel so far this year.

The Shetland Island Council reported that Brent crude exports increased to 237,680 tons in the week ending November 14, up from 175,091 tons during the previous week.

Russia's main Black Sea port of Novorossiisk reopened on Wednesday following a three day closure due to bad weather.

The BP led Baku-Ceyhan pipeline is scheduled to pump 394,000 bpd of Azeri crude in December, down 13,000 bpd on the month.

The Petroleum Association of Japan reported that kerosene stocks fell by 123,509 kiloliters or 780,000 barrels to 5.28 million kl or 33.18 million barrels in the week ending November 11. It reported that gasoline stocks increased by 0.62% on the week to 2.18 million kl or 13.7 million barrels. Japan's crude stocks fell by 3.68% to 17.64 million kl or 110.92 million barrels on the week.

Indonesia is expected to import 10.9 million barrels of oil products in December, up 4.6% on the month. Its gas oil imports are expected to increase by 25% to 6 million barrels, up from previous estimates of 5.5 million barrels. Meanwhile, Indonesia's Pertamina is expected to import 3.82 million barrels of gasoline, down 19.1% on the month.

Ecuador's central bank reported that the country exported 11.91 million barrels of crude in September, up 10% from the 10.8 million barrels shipped last year. Ecuador's oil export revenues totaled \$587.31 million in September, up 8% on the year.

### **Production News**

Iran's Oil Ministry confirmed the discovery of crude oil at the offshore Farsi oil block in the Persian Gulf by an Indian oil consortium, ONGC Videsh Ltd. An official said the oil discovered at the block was heavy crude and added that the contractor was currently trying to determine the volume of the reserve and the field's commercial potential.

OPEC's news agency reported that OPEC's basket of crudes fell further to \$55.19/barrel on Tuesday from \$55.42/barrel on Monday.

### **Market Commentary**

The oil market opened 22 cents higher at 58.50 as it retraced some of Tuesday's late sell off amid signals that OPEC may cut its production further during its December meeting. The market held good support at 58.50, as it awaited the release of the weekly petroleum stock reports. The crude market quickly rallied above the 59.00 level in light of the supportive DOE report, which showed larger than expected draws in product stocks. The market partially backfilled its previous gap as it traded to a high of 59.35. However the oil market held resistance at that level and erased some of its gains as the larger than expected build in crude stocks limited the market's gains. The crude market traded to a low of 58.48 and settled in a sideways trading range ahead of the close. It settled up 48 cents at 58.76. Volume in the crude market remained light with 170,000 lots booked on the day. Open interest in the crude market fell by a total of 10,104 lots as of Tuesday's session. Open interest in the December contract fell by 39,086 contracts while open interest in the January contract built by 12,939 lots as traders rolled some of their positions ahead of the December contract's expiration on Friday. The heating oil market settled up 2.92 cents at 169.24 in light of the supportive DOE report. The market posted a low of 167.40 early in the session before it rallied to a high of 170.70 after the DOE reported a larger than expected draw in distillate stocks of 3.6 million barrels. It however erased some of its gains late in the session before it quickly bounced above the 169.00 level on the close. The RBOB market gapped higher from 156.25 to 157.00 in follow through strength seen in overnight trading. The market rallied to a high of 160.25 in light of the larger than expected draw reported in gasoline stocks of 3.7 million barrels. The market later settled in a two cent trading range ahead of the close. It settled up 3.7 cents at 159.47. Volume in the product markets also remained light with 31,000 lots booked in the heating oil market and 23,000 lots booked in the RBOB market.

The oil market is still seen remaining in its recent trading range from 57.00 to 63.00. The market on Thursday will likely remain

		Levels	Explanation
<b>CL</b>	<b>Resistance</b>	60.70, 61.33, 61.70, 61.90	Previous highs
	58.76, up 48 cents	59.35 to 59.45	Remaining gap (November 13th)
	<b>Support</b>	58.48	Wednesday's low
<b>HO</b>		58.15, 57.60, 57.05	Previous lows
	<b>Resistance</b>	173.50, 175.70	Previous highs
	169.24, up 2.92 cents	170.70	Wednesday's high
	<b>Support</b>	168.30, 167.40	Wednesday's low
<b>RB</b>		165.90, 165.00, 162.40	Previous lows
	<b>Resistance</b>	162.00, 163.50, 164.50	Previous highs
	159.47, up 3.7 cents	160.25	Wednesday's high
	<b>Support</b>	158.25, 157.00 to 156.25	Opening gap (November 15th)
		154.50, 152.50, 149.50	Previous lows

supported following the supportive inventory reports and the supportive comments made by OPEC members, which have stated that a further output cut may be needed. The market will also remain supported as it awaits for further developments on the Iranian front. The market is seen holding its support at 58.48 followed by 58.15. More distant support is seen at 57.60 and 57.05. Meanwhile resistance is seen at its remaining gap from 59.35 to 59.45 and a previous high of 60.70. More distant resistance is seen at 61.33 followed by 61.70 and 61.90.