



ENERGY RISK MANAGEMENT

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ENERGY MARKET REPORT FOR MAY 19, 2006

OPEC's Secretary General Mohammed Barkindo said a crude price premium of up to \$15/barrel was caused by geopolitical tensions. He said the governments of both the producing and consuming countries must do more to ease the political tensions. He said oil prices would not fall until concerns over geopolitical tension abated. He also stated that global inflation and other economic factors were eroding world oil demand and recent sell offs in equity markets could undercut demand further.

Iran's Oil Minister Kazem Vaziri-Hamaneh said OPEC would not change its crude oil production ceiling and added that oil prices are not expected to reach \$100/barrel. Meanwhile, OPEC's Governor Hossein Kazempour Ardebili also stated that OPEC was unlikely to cut its output when it meets June 1, despite the fundamentals indicating a surplus of crude in the oil market. He stated that he did not believe the UN would impose sanctions against Iran over the resumption of its nuclear program.

Market Watch

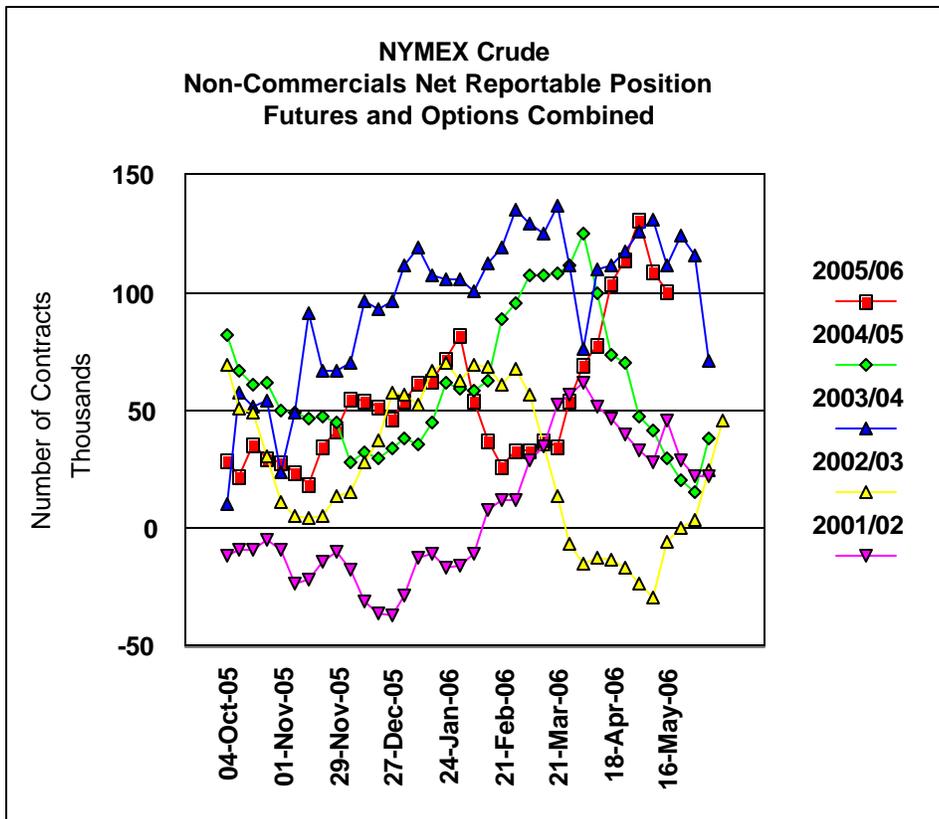
Saudi Arabia has booked two Very Large Crude Carriers to the US in June. Vela International Marine provisionally hired the Regal Unity to carry 285,000 tons loading on June 15. Earlier in the week, it hired another Tankers International VLCC to carry 280,000 tons to the US Gulf on June 3. Last month, Saudi Arabia hired eight VLCCs to ship 16.6 million barrels to the US Gulf.

Venezuela's ambassador to Moscow, Alexis Rafael, said Venezuela's President Hugo Chavez wants to visit Russia this summer. A spokesman for Russia's Foreign Ministry said he had no information about a request from Venezuela's President to visit.

German consumers called for a restructuring of the country's gas and power industry to kick start competition and lower increasing energy bills. The Federation of German Consumer Organizations urged regulators to get tough with big utilities in the wake of raids by European Commissions officials earlier this week on firms across the EU suspected of breaking anti-trust rules.

In a research report, Deutsche Bank said if oil market fundamentals continue to prevail over politics, prices should fall as heavy US refinery maintenance comes to an end and crude oil processing increases. It expects WTI crude to average \$65/barrel in the second quarter and fall to \$55/barrel in the third quarter and fourth quarters.

The NYMEX announced that it would base its miNY gasoline futures contract on the reformulated blendstock for oxygen blending gasoline futures contract beginning with the July 2006 contract. The contract price of the miNY contract would no longer be based on the unleaded gasoline futures contract. No changes were announced for the unleaded gasoline contract, which is listed only through January 2007.



IEA's executive director Claude Mandil said OPEC was not likely to cut its oil production when it meets next month, with prices close to \$70/barrel.

An Iranian diplomat said Iran was now using domestically processed uranium in its nuclear program. It had initially enriched uranium from China. The Iranian diplomat made his comments after some doubts were cast on his country's recent enrichment claims.

Russia's Foreign Minister Sergei Lavrov said that negotiations with Iran without preconditions were the way to resolve the

nuclear standoff. He reiterated his country was against sanctions or the use of force against Iran. Separately, France said it was strange for Iran to prematurely reject a package of incentives for it to suspend uranium enrichment and has urged Iran to seriously study the offer.

Refinery News

Euroilstock reported that European refinery output rebounded in April. Total refinery output increased 2.4% on the month to 12.996 million bpd, with gasoline production up 1.6% at 3.26 million bpd and distillate production up 2.4% at 6.038 million bpd. It also reported that fuel oil production increased by 1% to 1.866 million bpd while naphtha production fell by 2.7% to 939,000 bpd. It reported that crude intake stood at 11.948 million bpd, up 1.9% and capacity utilization stood at 91.21%.

Syncrude Canada has shut operations at its new 100,000 bpd crude coker unit after being served with an Environment Protection Order. The EPO was issued as a precautionary measure following concerns by area residents and local officials regarding odorous emissions that are believed to be associated with the new coker's start up. Syncrude started its coker as part of its Stage 3 expansion plan, which was expected to increase Syncrude's production from 250,000 bpd to 350,000 bpd.

Russia's Yukos has reached a preliminary agreement with Polish oil refiner PKN Orlen on the sale of its 53.7% stake in the Lithuanian oil refiner Mazeikiu Nafta. However a PKN spokesman said there was no preliminary deal with Yukos regarding the refinery.

Production News

The Petroleum and Natural Gas Senior Staff Association of Nigeria said talks to avert a strike at ExxonMobil planned for Tuesday broke down. The senior staff oil union issued Exxon a 7 day ultimatum to resolve several employment issues. The top leaders of PENGASSAN were meeting on

Friday to decide on its next move ahead of the expiration of the ultimatum on Tuesday. Exxon said discussions between white collar union and management were still on.

Royal Dutch Shell expects to return to its abandoned Nigerian oilfields within weeks or months. Shell has lost 455,000 bpd from its Forcados and EA fields.

Colombia's oil production and exports were unaffected by an attack on the Cano Limon pipeline on Tuesday. Left wing guerillas blew up part of the pipeline. The Cano Limon field has been producing 95,000 bpd of crude. A source stated that exports would not be affected since there are sufficient inventories at the port of Covenas to meet customer commitments.

Baker Hughes reported that the number of rigs searching for oil and gas in the US increased by 12 to 1,639 in the week ending May 19th. The number of rigs searching for oil in the US increased by 1 to 260 while the number of rigs searching for gas increased by 11 to 1,378.

Pemex increased its production of crude oil in April to 3.37 million bpd, up from 3.35 million bpd in March. Its crude exports averaged 1.83 million bpd, down from 1.99 million bpd in March. Pemex said it produced 2.38 million bpd of heavy crude last month, 823,000 bpd of light and 172,000 bpd of extra light crude.

Ecuador's central bank reported that oil export revenue totaled \$570.87 million in March, up 32% on the year. In terms of volume, Ecuador exported 12.19 million barrels, up from 11.15 million barrels shipped last year.

OPEC's news agency reported that OPEC's basket of crudes continued to fall by 80 cents/barrel to \$62.95/barrel on Thursday, down from Wednesday's \$63.75/barrel level.

Azeri state oil firm Socar has called a sell tender for 1 million barrels of Azeri Light crude for loading at Georgia's Black Sea port of Supsa on June 22-23.

South Korea is shipping 30,000 tons of jet fuel to the US West Coast on June 21. A US oil company has also placed 35,000 tons of aviation fuel on subject on the same route for June 5-10 loading.

Sinopec Group has joined Russian state oil firm Rosneft in a joint bid for TNK-BP's oil unit, Udmurtneft, increasing Sinopec's chances of winning the asset. Sinopec's bid for Udmurtneft was another major attempt by China to get into Russia's oil and gas sector after several failures.

Market Commentary

The oil market posted an inside trading day as it failed to breach its previous trading range. The June crude contract opened down 95 cents at 68.50 and continued to sell off to a low of 68.01. The market was pressured early in the session amid the comments made by Iran's OPEC Governor Hossein Kazempour Ardebili that OPEC would likely keep its output unchanged at its meeting in June. The market was also pressured amid a sell off in the metals markets in the face of an increase in the dollar against major currencies. The market, which found its support just above the 68.00 level, traded to 69.00 and held some resistance at that level. The market later rallied to a high of 69.40 before the market once again sold off towards its 68.50 level ahead of the weekend. The market settled down 92 cents at 68.53. Volume in the crude market was good with over 240,000 bts booked on the day. Unlike the crude market, the gasoline market settled in positive territory. The gasoline market opened at its low of 197.50 and retraced its early losses. The market rallied to a high of 206.00 late in the session. It settled up 2.33 cents at 203.84. Meanwhile, the heating oil market settled down 3.12 cents at 192.01. The market opened down 2.33 cents at 192.80 and continued to retrace Thursday's gains

as it traded to a low of 191.70. However the market bounced off its support and rallied to a high of 195.50 late in the session. The market later gave up its gains and traded back towards its low. It settled down 3.12 cents at 192.01. Volumes in the product markets were light with over 32,000 lots booked in each the gasoline and heating oil markets.

The latest Commitment of Traders report showed that non-commercials cut their net long positions by 8,135 contracts in the week ending May 16 to 78,207 contracts amid the sharp sell off in the market. The combined futures and options report also showed that non-commercials in the crude market cut their net long positions by 8,879 contracts to 100,483 contracts on the week. Non-commercials in the heating oil market also cut its net long position by 5,115 contracts to 728 contracts on the week while non-commercials in the gasoline market increased their net long positions by 595 contracts to 14,854 contracts on the week.

The oil market on Monday will likely remain supported ahead of the June crude contract's expiration at the close on Monday. It will also be driven by any news over the weekend. The market is seen finding holding support at 68.01 followed by 67.85. More distant support is seen at 67.05, 66.80 and 66.48. Meanwhile, resistance is seen at 69.40 followed by 69.60 and a gap from 70.70 to 71.65.

Technical Analysis		
	Levels	Explanation
CL 69.45, up 76 cents	Resistance 70.70 to 71.65 69.40, 69.60	Remaining Gap (May 15th) Friday's high, Thursday's high
	Support 68.01, 67.85 67.05, 66.80, 66.48	Friday's low, Thursday's low Previous lows, 63% retracement(61.00 and 75.35)
HO 195.13, up 3.01 cents	Resistance 198.25, 199.55 to 204.25 194.00, 195.50	Previous high, Gap (May 15th) Double top
	Support 191.70, 191.25 190.80 to 190.30, 188.65, 187.30	Friday's low, Thursday's low Gap(April 10th), 50% retracement (166.50 and 210.80), Previous low
HU 201.51, up 4 cents	Resistance 206.75, 213.00 to 216.75 206.00	Previous high, Gap (May 15th) Friday's high
	Support 202.00, 201.00 197.50, 195.00, 193.30	Friday's low, Previous lows