



ENERGY RISK MANAGEMENT

Howard Rennell & Pat Shigueta
(212) 624-1132 (888) 885-6100

www.e-windham.com

ENERGY MARKET REPORT FOR JUNE 22, 2005

A threatened strike by the Norwegian trade union for managers and supervisors was averted late Tuesday after mediators helped forge an agreement with the Norwegian Oil Industry Association. The strike could have shut about 920,000 bpd of crude production. The deal with the Lederne union includes an interim wage adjustment from June 1.

US Energy Secretary Samuel Bodman said tight US natural gas and world oil markets will not ease up soon. He said oil producers will struggle for years to keep up with strong growth in demand. He said the gap between increasing consumption and the capacity will take some years to close.

The head of the EIA, Guy Caruso said world oil prices will remain higher than \$50/barrel on average for the next 18 months. He said while speculators have entered the oil market, prices

Market Watch

The US Senate set aside a nonbinding resolution that called for the Bush administration to release up to 60 million barrels of oil from the SPR and directly confront OPEC to increase oil production. The resolution would have urged the President to release 1 million bpd for 30 days from the SPR. It would have also asked the President to put on the market an additional 30 million bpd of crude from the reserve if necessary to help lower gasoline prices.

Valero Corp expects ultra low sulfur diesel regulations being implemented in the US next year to cause transition problems and reduce diesel production of about 3%. All US on road diesel vehicles will be required to use ultra low sulfur diesel, less than 15 parts per million sulfur content, starting with the 2007 model year.

Shell Canada Ltd's chief executive said oil prices will most likely fall from record highs as they spark higher output. Recent high oil prices are giving producers comfort to pursue previously uneconomical projects around the world. Despite his view that oil markets could soften, Shell Canada has recently increased the price assumption it uses to evaluate new developments to about \$35/barrel from \$25/barrel.

According to investment strategist Bill Rhodes, crude oil prices would have to increase to \$100/barrel to have an effect on the world economy as it did during the oil shocks of the 1970s.

Iraq's Finance Minister Ali Allawi said Iraq's 2006 budget forecasts oil exports increasing slightly to 1.8 million bpd. It is currently exporting about 1.5 million bpd, well below its 2.1 million bpd forecast in the 2005 budget.

Saudi Arabia's National Commercial Bank said Saudi Arabia's oil revenues will grow 15% this year to 398 billion riyals or \$106 billion on the back of high oil prices. According to the bank's forecast, Saudi Arabia is expected to have a record surplus of 137 billion riyals.

The German Economics Ministry maintains the government's forecast for economic growth in 2005 despite rising oil prices. Germany's second quarter GDP is not expected to be as high during the first quarter when the economy grew by 1%. Deputy Economics Minister Bernd Pfaffenbach said the government expects the country to reach 1% annual economic growth.

Indonesia's Mines and Energy Minister is calling for energy saving in light of the high oil prices. Indonesia's government has recently revised its 2005 budget oil price assumption to \$45/barrel from \$24/barrel and forecast crude and condensate output at 1.125 million bpd.

have increased due to fundamental supply and demand factors. He said that with refiners in the US increasing capacities by about 1% to 1.5% annually and product demand growth in the country expected to grow by 1.5% annually, he expects US refining tightness to remain for the next 20 years.

Algeria's Energy and Mines Minister Chakib Khelil said he did not expect oil prices to fall below \$50.00/barrel before the end of the year due to strong world demand and a lack of refining capacity. He said even if Saudi Arabia increased its production, there was not sufficient refinery capacity to process its crude. The minister also said overall refinery capacity was not sufficient to meet market needs.

Refinery News

Valero Energy Corp reported a power outage at the East Plant of its Corpus Christi, Texas refinery Tuesday morning. The outage affected two groups of the refinery's units, including a crude unit, a sulfur recovery unit, hydrocracker, reformer, platformer, light ends unit and MTBE unit. Separately, Valero Energy is planning several weeks of maintenance on a fluid catalytic cracking unit during October at its McKee, Texas refinery.

A fluid catalytic cracking unit tripped at BP Plc's Texas City, Texas refinery on Monday. An electrostatic precipitator tripped at the refinery, leading the temperature in the fluid catalytic cracking unit to shift.

Production and shipments from Venezuela's 200,000 bpd Puerto La Cruz refinery have not been affected by protest by unemployed workers outside the plant.

Nigeria's Zenon Petroleum and Gas signed an agreement with Transnational Corp of Nigeria for the construction of a refinery in Lagos. The planned refinery is expected to cost \$600 million and will have a refining capacity of 400,000 bpd of crude. Construction of the refinery is planned to start in January 2006.

S-Oil Corp has delayed overall refinery maintenance schedules for a week. Regular maintenance work at all three of its crude distillation units, started only last week, a week behind schedule.

Japan's Taiyo Oil Co restarted most of the refining units at its 120,000 bpd Shikoku refinery following a brief outage.

Production News

A new security plan in northern Iraq and the diversion of crude from refineries in the south will raise Iraq's oil exports by about 350,000 bpd to 1.85 million bpd. A senior Iraqi oil official said it has a new security plans that it hopes will guarantee the safety of its northern oil export pipeline and secure stable exports from the north. Iraq is currently producing a total of about 2.1 million and 2.2 million bpd. He said Iraqi Oil Ministry technicians could raise current output to 3 million barrels but a lack of finance has hindered their efforts. He said the Oil Ministry also plans to solve problems with water injection and gas separation plants, which have reduced oil output from southern oil fields.

Separately, a shipping source said five million barrels of Iraqi crude have accumulated in storage tanks at the Turkish port of Ceyhan. The source said pumping stopped on Monday following sporadic pumping through the pipeline.

BP said it reopened its UK Forties oil pipeline and Kinneil processing plant early on Wednesday after a shutdown on Monday caused by technical problems.

The Shetland Island Council reported that Brent crude liftings from the Sullom Voe terminal increased to 252,669 barrels in the week ending June 21 compared with 214,440 tons in the previous week.

Abu Dhabi National Oil Co will supply more than contractual volumes of term crude oil to some of its Asian customers in August. It will be the second month that the producer is shipping extra term crude to its customers.

OPEC's news agency reported that OPEC's basket of crudes increased to \$52.88/barrel on Tuesday, up from \$52.78/barrel on Monday.

The Caspian Pipeline Consortium said the pipeline from Kazakhstan to Russia's Black Sea could be expanded to 1.55 million bpd or 15% more than planned if all its owners agree on expansion. It said extra capacity would be needed if oil majors in Kazakhstan continue to aggressively increase output.

Iran's gasoline imports will increase by up to 30% this year as its refineries struggle to meet rapidly growing domestic demand for the fuel. Traders said Middle East Gulf refiners are competing with European, Indian and east Asian suppliers to meet Iran's import needs.

The Nigerian National Petroleum Corp raised its July official crude selling prices for all its grades of oil. The official selling price for Nigerian Bonny Light and Qua Iboe were increased by 10 cents to the dated Brent-Forties-Oseberg crude plus 60 cents. Its Escravos crude was increased by 5 cents to dated BFO plus 35 cents and its Forcados crude was increased by 20 cents to dated BFO plus 50 cents.

Russia's Industry and Energy Minister said Russian companies' fuel oil exports increased by 11.4% on the year to 1.5 million tons between June 1-15. Meanwhile, its gasoline exports increased by 51.7% on the year to 238,500 tons during the same period.

Azerbaijan's Socar launched two oil wells at the Guneshli oil field in the Caspian Sea. The two wells have a combined daily production capacity of 320 tons of oil. Currently 212 wells operate at the Guneshli field with a production capacity of 15,510 tons/day.

According to Japan's Ministry of Finance, Japan's oil product imports increased by 16.7% in May on the year to 2.653 million kiloliters or 538,000 bpd. It imported 18.715 million kl or 3.8 million bpd of crude oil in May, up 15.5% on the year.

Separately, the Petroleum Association of Japan reported that total oil product stocks increased by 183,437 kl to 11.076 million kl in the week ending June 18. Its gasoline inventories totaled 2.12 million kiloliters or 13.33 million barrels compared with 2.125 million kl. It reported that Japan's gasoline production increased by 11.7% on the year to 1.04 million kl. The average operating rate of Japan's oil refineries was 79.8% compared with the previous week's 74.9%. It reported that the higher operating rate cut crude stocks by 2.7% to 20.17 million kl or 126.87 million barrels in the week ending June 18 from 20.74 million kl in the previous week.

PetroChina has no plans to import or export diesel in July. It has been reselling most of the supplies in the spot market since the start of this year as domestic demand proved weaker than expected and the gap between domestic and Singapore prices increased due to China's capped retail prices. China's domestic refiners have maximized diesel production, increasing its output by 10.4% in the year through May. It has allowed China to reverse last year's imports, becoming a net exporter of the fuel since March.

Industry sources stated that China will increase its gasoline exports in July, capitalizing on strong international margins. China aims to export 370,000-410,000 tons of product next month, up about 26% on the month.

China's crude oil output increased 2.9% in 2004 from the previous year to 174.5 million tons or 3.5 million bpd.

Indonesia's Pertamina has allocated 2.3 million barrels of low sulfur residue for export in July, down 7.4% or 185,000 barrels on the month.

Analysts stated that as China's core oilfields grow older and new finds are scarce, output will peak, increasing the demand for international supplies in order to satisfy rapid demand growth while making up for declining reservoirs. Chinese officials are confident that its production peak is at least a decade away. With oil demand growing at an average of over 8% annually the new crude meets only a small portion of incremental needs but provides some relief from imports that increased by 35% last year. Some analysts said new oil from fields in the offshore Bohai Basin, onshore western Tarim Basin and northwestern Ordos Basin has more than compensated for falling production elsewhere and may stave off the eventual decline for several more years.

China's CNOOC has made a final decision to bid for Unocal.

Market Commentary

The oil market opened relatively unchanged at 59.05 as traders awaited the release of the weekly petroleum stock reports. The market seemed to have shrugged off the news overnight that the possible Norwegian strike was averted. The crude market posted a range from 59.25 to 59.05 ahead of the release of the DOE and API reports. However it was somewhat supported and traded to a high of 59.55 following the release of the reports, which showed draws in crude stocks while the DOE once again reported a build in total petroleum stocks. The market however erased its gains and breached its early low as it sold off to 57.90 as some light stops were triggered below the 58.00 level. The market held some support at that level and settled in a sideways trading range before it sold off even further to a low of 57.85 late in the session as it attempted to backfill its gap down to 57.60. It settled down 95 cents at 58.09. Volume in the crude was good with 195,000 lots booked on the day. The product markets ended the session in negative territory with the gasoline market settling down 1.49 cents at 161.25 and the heating oil market settling down 71 points at 162.26. The gasoline market, which traded

mostly sideways ahead of the release of the DOE and API reports, traded to a high of 164.00 after failing to continue trading lower amid the builds reported in

Technical Analysis		
	Levels	Explanation
CL 58.09, down 95 cents	Resistance 59.95, 60.02 58.50, 59.55	Previous highs Wednesday's high
	Support 57.85, 57.60 57.37, 56.54, 56.40-56.30	Wednesday's low, Backfills gap (June 17th) 38% retracement(53.05 and 60.02), 50%, Previous lows
HO 162.26, down 71 points	Resistance 165.80, 167.00 162.50, 164.00	Wednesday's high, Double top
	Support 160.60, 160.30 159.63, 157.05	Wednesday's low, Previous low 38% retracement(146.10 and 168.00), 50%
HU 161.25, down 1.49 cents	Resistance 164.75, 165.00, 165.30 162.00, 164.00	Previous highs Wednesday's high
	Support 160.00 158.33, 156.18, 154.02	Wednesday's low 38% retracement (147.05 and 165.30), 50% and 62%

gasoline stocks. The market however erased its gains and sold off to a low of 160.00 as it backfilled its gap from 161.80 to 160.30. The market later retraced some of its gains and settled in a range ahead of the close. Similarly, the heating oil market posted a high of 165.80 early in session despite the reports showing builds in distillate stocks. The market however also retraced its gains and sold off to a low of 160.60 late in the session. Volumes in the product markets were better today with 39,000 lots booked in the gasoline and 42,000 lots booked in the heating oil market.

The oil market is seen continuing to trade lower as it aims to backfill its gap down to 57.60. Technically, the market is seen trending lower as it stochastics have crossed to the downside after the market failed to test its 60.00 level on Tuesday. The market is not seen fundamentally supported, especially after the DOE once again showed a build in total petroleum stocks. The market is seen finding resistance at 58.50 followed by its highs of 59.55, 59.95 and 60.02. Meanwhile support is seen at its remaining gap from 57.87-57.60, 57.37 followed by 56.54 and 56.40-56.30.