



ENERGY RISK MANAGEMENT

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ENERGY MARKET REPORT FOR JULY 18, 2005

OPEC said in its latest monthly report that a balanced world market next year would require 29 million bpd of OPEC crude, up 100,000 bpd on the year and 1 million bpd less than its latest estimate of its output. It said OPEC produced 30.01 million bpd in June, up 90,000 bpd on the month. The majority of the increase came from Nigeria and Iran. Nigeria's production increased by 41,000 bpd to 2.447 million bpd while Iran's production increased by 40,000 bpd to 3.998 million bpd. It projected 2006

Market Watch

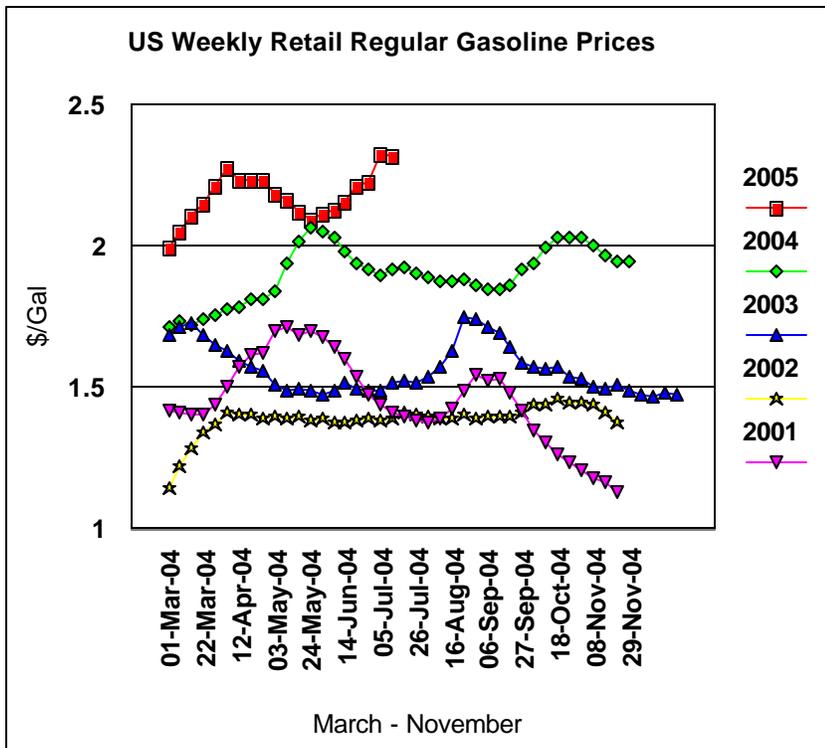
Federal Reserve Chairman Alan Greenspan said the economy is coping well and is set to expand at a moderate pace, even though rising oil prices have hampered US economic growth. He said Fed research found that the increase in oil prices since 2003 to above \$60/barrel is likely to cut about three quarters of a percentage point from US GDP this year.

European Energy Commissioner Andris Piebalgs said he expected oil prices to remain high and would not be surprised if they reached \$80/barrel. He said increasing demand, limited supply and limited refining capacity were all factors contributing to the high prices.

The Times reported that Iraq is slipping into a civil war as suicide bombers killed more than 150 people, most of them Shias in Baghdad over the weekend. Iraq's security forces have been overwhelmed by the number of suicide bombings ordered by Jordanian terrorist Abu Musab al-Zarqawi. A prominent Shia cleric warned that Shia leadership may be losing its grip over Shias who in private often call for an armed backlash against their Sunni assailants. A parliamentarian called for the population to form local militia s to defend their neighborhoods, a move than many see as a prelude to a civil war. Separately, an Iraqi general said Iraqi forces have launched a new security operation against insurgents in Baghdad. In the first phase of the operation in western Baghdad, security forces captured 50 terrorists. The second stage will begin in the next few days.

A Saudi bank, Samba Financial Group, said Saudi Arabia will have a record budget surplus of 191 billion riyals or \$51 billion due to high oil prices this year and enjoy strong growth and revenues for the rest of the decade. Saudi Arabia's economy will grow 6.5% in real terms in 2005 and maintain annual growth of 5-7% until 2010. Real GDP growth of 6.5% will come from 7.1% growth in the oil sector, 7.4% in the non-oil private sector and 3.8% in the government sector.

world demand growth at 1.54 million bpd or 1.9%, reaching 85.2 million bpd from this year's growth of 1.62 million bpd or 2%. It downgraded OPEC's forecast for demand growth in 2005 by 150,000 bpd and cut the projected call on OPEC crude by 260,000 bpd to 28.9 million bpd. OPEC's estimated call on its crude during the fourth quarter of this year was reduced by 120,000 bpd to 30.49 million bpd.



The revisions were mainly due to lower than expected Chinese demand growth of 2% from January-May. It said non-OPEC supply next year are expected to increase by 1.43 million bpd to 54.76 million bpd from 990,000 bpd of growth this year.

Algeria's Energy and Mines Minister Chakib Khelil said he expected oil prices to remain at about \$50/barrel this year due to strong demand from China and the US.

An OPEC delegate said OPEC is unlikely to raise its oil production for now because it does not believe current high prices are caused by a shortage of crude.

Iraq's southern oil exports flowed normally at 1.4 million bpd on

Monday after a strike at the South Oil Co disrupted production. However Iraq's Oil Minister Ibrahim Bahr al-Uloum said the oil workers' strike did not disrupt the country's oil production. The oil workers were calling for a larger share of the country's oil revenues in the southern region, similar to the share the government has the northern Kurdish region.

The EIA reported that the US average retail price of gasoline fell by 1.1 cents/gallon to \$2.317/gallon in the week ending July 18th. It also reported that the average retail price of diesel fell by 1.6 cents/gallon to \$2.392/gallon.

According to the EIA, the US imported 10.452 million bpd of crude oil in May, up 138,000 bpd on the month. Mexico was the top source of foreign crude, with 1.755 million bpd of oil, up from 1.541 million bpd in April. Canada was the second largest source of foreign crude, with 1.702 million bpd, up from 1.676 million bpd in April. Saudi Arabia supplied 1.447 million bpd of oil, down from 1.449 million bpd. US imports from Venezuela stood at 1.273 million bpd, down from 1.391 million bpd. Meanwhile, Iraq increased its oil exports to the US to 588,000 bpd in May, up from 542,000 bpd in April.

Refinery News

Chevron Corp's Pascagoula, Mississippi refinery may resume normal operations by Monday or Tuesday. The refinery was completely shut in preparation for Hurricane Dennis on July 9.

Valero Energy Corp's Corpus Christi and Three Rivers refinery in Texas are in the initial stages of preparing for Hurricane Emily. No major operation changes have been made at the refineries so far. Separately, according to a report filed with the Texas Commission on Environmental Quality, heavy rains forced Valero Energy Corp to shut an amine unit, which reduces carbon dioxide emissions at its Three Rivers, Texas refinery on Friday.

Shell has restarted its 418,000 bpd Pernis refinery in Rotterdam but the refinery is not expected to be fully operational for at least a week. The refinery was shut on Thursday following a power outage.

South Korea's Lotte Daesan Petrochemical Corp will shut its 650,000 ton per year naphtha cracker at Daesan for a regular turnaround on September 29. The unit will be shut for 29 days, with the restart date scheduled for October 27.

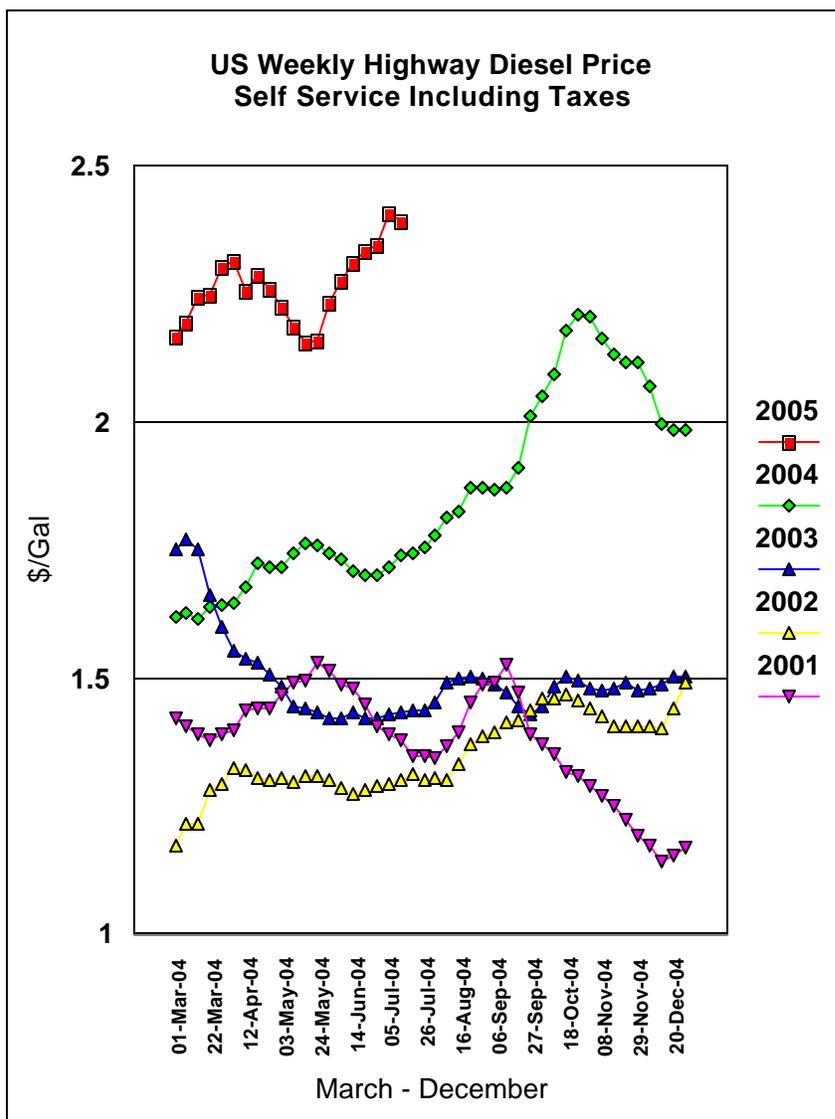
Production News

Pemex reported that Mexico shut off most of its oil wells in Campeche Sound as Hurricane Emily approached on Sunday. Pemex shut off 63 wells on Saturday and started evacuating non-essential workers as Hurricane Emily moved towards Mexico's east coast. More wells were closed on Sunday. It evacuated 15,000 offshore workers and shut about 480,000 bpd of crude production. Separately, Pemex said it exported an average of 1.8 million bpd of crude in June, down from 1.85 million bpd last year. It produced 3.43 million bpd in June, down from 3.44 million bpd in June 2004.

Mexico's Communications and Transport Ministry reported that Mexico's two main oil loading ports, were closed on Monday as Hurricane Emily entered the Gulf of Mexico. The Dos Bocas port was closed on Monday while the offshore terminal at Cayo Arcas was closed during the weekend. Meanwhile its port of Pajaritos remained open for oil exports.

The US MMS reported that there was a total of 12,851 bpd of crude oil still shut in the Gulf of Mexico as of Monday. It however did not include all the shut in production announced by the oil companies on Monday.

Shell Oil Co said 60 mmcf/d of natural gas and 21,000 barrels of oil production was shut in. Its North Padre, Brazos and West Cameron operations in the far western Gulf were completely evacuated. ConocoPhillips also airlifted some nonessential workers from the Gulf over the weekend. BP evacuated a small number of workers from platforms in the far western US Gulf of Mexico. Kerr-McGee Corp it will shut in 60,000 bpd of oil equivalent/day from three US Gulf of Mexico deepwater facilities on Monday as it evacuates workers a head of Hurricane Emily. Apache Corp said it will shut in 52 mmcf/d of natural gas production and 6,400 bpd of crude production in the Gulf. It has already evacuated five platforms and is expected to evacuate 35 more on Monday afternoon.



Ship industry sources and brokers reported that the LOOP was open on Monday and no significant tanker delays were reported. However there were concerns about how incoming traffic would be handled when Emily moves further north.

BP's Thunder Horse platform was returned to its normal position on Monday. BP said while Hurricane Emily does not appear to be a threat to Thunder Horse, it is being readied as a precaution. It said it is making the platform sea-worthy and storm safe as a precaution.

Angola's deepwater Kizomba B field has started production. Angola's Sonangol and the block's operator Esso Exploration Angola Limited said the Kizomba B field started producing oil several months ahead of schedule. It is expected to have a peak production of 250,000 bpd. It has estimated recoverable reserves of about 1 billion barrels.

Algeria will increase its drilling capacity in the next few years to meet its goal to reach 2 million bpd of crude production capacity by 2010. It has an oil capacity of 1.4 million bpd and is expected to reach 1.5 million bpd in 2006.

Russia's Energy Ministry reported that the country's gasoline production in January-May totaled 12.68 million tons, up 5.2% on the year. Refineries' throughput in Russia stood at 82.3 million tons, up 4.8% on the year. Russia's total gas oil production in the first five months of the year totaled 23.79 million tons, up 5.7% on the year while fuel oil production increased by 4.5% on the year to 23.14 million tons.

Kazakhstan's crude oil and gas condensate production totaled 31.12 million tons or 1.3 million bpd in January-June, up 11% on the year. Its total crude production increased by 3.9% on the year to 25.238 million tons.

OPEC's news agency reported that OPEC's basket of crudes fell to \$52.44/barrel on Friday, up from \$53.37/barrel on Thursday. OPEC's news agency reported that OPEC's basket of crudes increased by \$0.19/barrel to an average of \$54.09/barrel in the week ending July 14.

South Korean exports of gas oil are likely to increase 4% in August from July, supported by slowing domestic demand for the fuel. South Korea's five oil refineries are expected to sell 980,000 tons of gas oil, up 40,000 tons on the month.

Libya raised its August official selling price for Essider crude by 40 cents/barrel from July to Dated BFO minus \$1.90/barrel

Market Commentary

The oil market was pressured in light of the OPEC report indicating that demand for its oil is expected to fall as world demand growth is estimated to fall by 150,000 bpd in 2005. It also increased its estimate for non-OPEC supply. The market opened 34 cents lower at 57.75 and remained in negative territory throughout the session as it quickly posted an intraday high of 57.90. It erased its gains and sold off to a low of 56.80 within the first 30 minutes of trading. The oil market later settled in a sideways trading pattern for the remainder of the session from 56.80 to 57.50. The market's losses were limited amid the continued uncertainty of the ultimate path Hurricane Emily will take before it makes landfall late Tuesday or early Wednesday. The August crude contract, which expires at the close on Wednesday, settled down 77 cents at 57.32. Volume was good with 179,000 lots booked on the day. Open interest in the crude fell by a total of 8,151 lots, with open interest in the August contract falling by 29,713 lots while open interest in the September contract increasing by 16,744 lots. The product markets were also pressured with the heating oil market settling down 3.05 cents at

163.16 and the gasoline market settling down 4.10 cents at 164.73. The heating oil market gapped lower from 165.00 to 163.80 and partially backfilled its gap as it traded to a high of 164.70. However the market erased its gains and sold off to a low of 161.60 before it settled in a 2 cent trading range during the remainder of the session. Similarly, the gasoline market gapped lower from 167.40 to 165.50, which it partially backfilled as it traded to a high of 166.50. It sold off to a low of 162.50 early in the session before it retraced some of its losses ahead of the close. Volumes were good with 44,000 lots booked in the heating oil market and 50,000 lots booked in the gasoline market.

The oil market on Tuesday will continue to be driven by the hurricane updates. Even though Hurricane

Emily is still forecast to make landfall in Mexico, the market's losses will be limited by the production shut ins in the Gulf of Mexico ahead of the

Technical Analysis		
	Levels	Explanation
CL 57.32, down 77 cents	Resistance	58.90 Previous high
		57.90 Monday's high
	Support	56.80 Monday's low
	56.70, 55.90 Previous lows	
HO 163.16, down 3.05 cents	Resistance	167.38, 169.90, 171.10 Basis trendline, Previous highs
		164.70 to 165.00 Opening gap (July 18th)
	Support	161.60 Monday's low
	159.90, 155.80 Previous low, basis trendline	
HU 164.73, down 4.10 cents	Resistance	173.70, 175.50 Previous highs
		166.50 to 167.40 Opening gap (July 18th)
	Support	162.50 Monday's low
	158.20, 157.75 Previous low, basis trendline	

hurricane. The National Hurricane Center stated that Hurricane Emily continues on its west-northwest path and added that a small deviation northward and a stronger than forecast hurricane would bring strong winds to southern Texas. Technically, the crude market is seen finding support at its low of 56.80 followed by 56.70 and 55.90. Meanwhile resistance is seen at 57.90 followed by 58.90.