

ENERGY RISK MANAGEMENT

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ENERGY MARKET REPORT FOR JULY 21, 2006

Israel continued its airstrikes and prepared for possible ground invasion. The Israeli army said it was set to call up more reserve troops to increase its current forces in northern Israel, increasing speculation that a major ground offensive against Lebanon was moving beyond the planning stage. Israeli troops and tanks amassed on Lebanon's border on Friday. Meanwhile, the chief White House spokesman, Tony Snow said the Bush administration was working to end the violence in the Mideast. He defended administration policies amid continuing US opposition to a quick ceasefire without built in steps for longer term stability in Israel and Lebanon. US Secretary of State Condoleezza Rice is expected to travel to the Mideast on Sunday. She said she would work with allies in the region to help create conditions for stability and lasting peace during a visit to Rome. She ruled out a quick ceasefire as a false promise and added that Hezbollah was the source of the problem. The Secretary of State said the US was committed to ending the bloodshed but did not want to act before certain conditions were met.

Market Watch
Germany rejected parts of a letter sent to Germany's Chancellor Angela Merkel from Iran's President Mahmoud Ahmadinejad that called into question Israel's right to exist. The letter to the Chancellor did not mention Iran's nuclear standoff with the West.

The People's Bank of China raised commercial banks' reserve requirements on Friday for the second time in five weeks in a bid to slow the economy that grew 11.3% in the second quarter from a year ago. It increased the proportion of deposits that large banks must hold in reserve by 0.5 percentage points to 8.5%, effective August 15. A research director at the National Development and Reform Commission said that in China tougher reserve requirements were more effective than interest rates in absorbing excess liquidity.

Barclays Global Investors said its new iShares GSCI Commodity Indexed Trust started trading on the New York Stock Exchange under the ticker symbol GSG. Shares of the trust have assets consisting of a pool of commodity and energy products.

On Thursday, Britain, France and Germany circulated a revised draft resolution demanding Iran suspend its uranium enrichment activities. The resolution would also ban the transfer of goods and technology that could aid Iran's ballistic missile or nuclear program. The resolution does not include general economic sanctions but stipulates provisional measures that could pave the way for sanctions or military action if Iran does not comply. US Ambassador John Bolton said he hoped to have a vote on the resolution next week.

Refinery News

A compressor in a coker unit at Lyondell Chemical Co and Citgo Petroleum Corp's 268,000 bpd Houston refinery tripped following a low lube oil alarm. Separately, the sale of the refinery to a third party was scrapped on Thursday. Lyondell is now expected to cut a deal by the end of the month to buy Citgo's interest in the refinery.

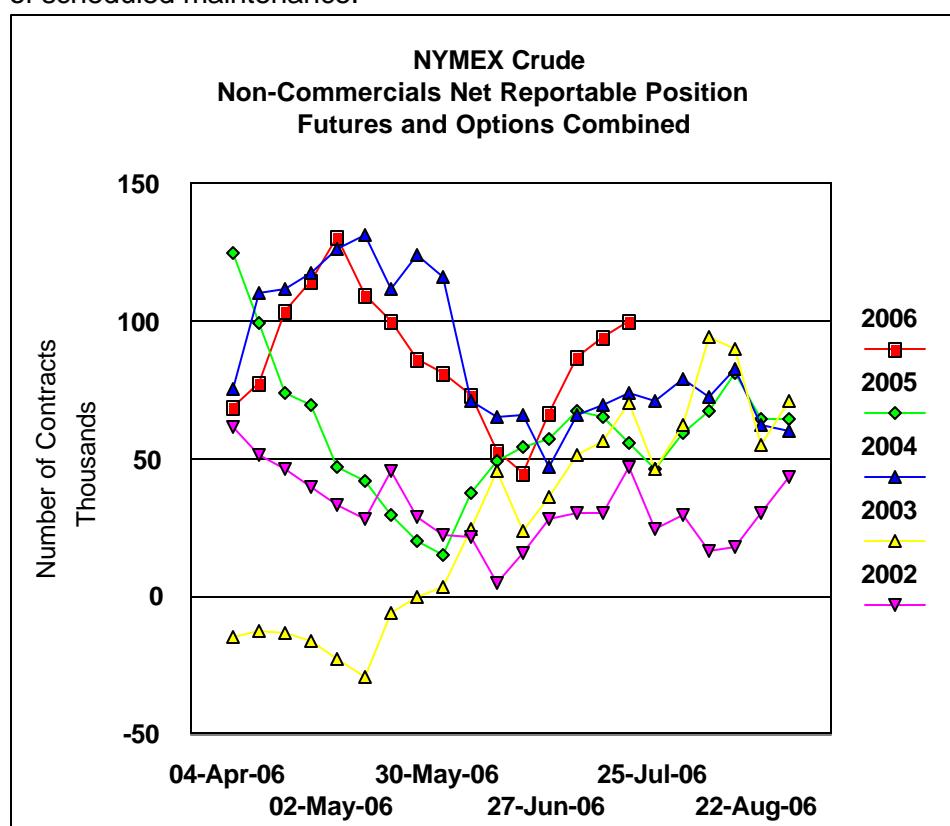
ConocoPhillips's 185,000 bpd refinery in Trainer, Pennsylvania has been operating at less than normal processing capacity. A crude unit has been down for several weeks while a gasoline producing unit has had operational problems.

Hunt Consolidated Inc announced plans to decide in three months whether to expand its 35,000 bpd Tuscaloosa, Alabama refinery. The project would double gasoline and diesel output at the refinery and increase crude throughput capacity by less than 30%.

According to Euroilstock, total European refinery output increased by 328,000 bpd or 2.5% to 13.308 million bpd in June. Gasoline production increased by 27,000 bpd or 0.8% to 3.38 million bpd while distillate production increased by 183,000 bpd or 3.1% to 6.108 million bpd as Italy's Saras restarted its 310,000 bpd Sarroch refinery following planned maintenance in May. Italy's ERG also restarted its 230,000 bpd Isab Sud refinery following a month of scheduled maintenance. It also resumed operations at its 150,000 bpd Isab Nord refinery after the plant was shut due to a fire at the end of April. Euroilstock also reported that fuel oil production increased by 83,000 bpd or 4.7% to 1.848 million bpd. Refinery utilization increased to 93.56% in June from 91.91% in May.

A government controlled refinery in Haifa was still operating on Friday after a new round of Hezbollah rockets hit the town. The refinery has reduced its gasoline inventories as a security measure.

Nippon Oil Corp restarted its 145,000 bpd Sendai refinery on Friday as scheduled after over a month of scheduled maintenance.



The US Department of Transportation's pipeline safety office called on BP Exploration to take additional measures and perform internal tests to ensure safe operation of its pipelines in Prudhoe Bay. The directive came following an oil spill in March that was the result of a fault on a low pressure Alaska pipeline.

Production News

Louisiana's Governor Kathleen Blanco filed a lawsuit on Thursday in federal court against the US Minerals Management Service to block an upcoming Gulf of Mexico offshore oil and gas lease

sale. The lawsuit argues that the MMS did not adequately assess the environmental impacts of the lease sale, scheduled for August 16. Attorneys representing the governor are expected to file an injunction to stop the sale within the next week. The MMS said it considered all of Louisiana's concern before deciding to proceed with the sale. The lease sale encompasses about 20.4 million acres in the western Gulf of Mexico that could result in the production of 136 million to 262 million barrels of oil and 0.81 trillion cubic feet of natural gas.

The August loadings for North Sea Forties crude have been delayed about five days due to unknown problems. The first cargo in the August loading schedule is now expected to load August 15, instead of August 1.

According to Wood Mackenzie the growth in China's oil demand is expected to slow to an average rate of 5% over the next decade and it is not enough to trigger a demand crunch. It said increased supply expected to be brought on stream by OPEC and other producing countries should ensure that China's demand growth could be absorbed. An analyst said geopolitical tensions posed a threat to its outlook for world supply. China's net imports are estimated to increase from 2.8 million bpd in 2005 to 5.2 million bpd in 2010 and to 7.9 million bpd in 2015.

OPEC's news agency reported that OPEC's basket of crudes fell 29 cents/barrel to \$68.45/barrel on Thursday.

Market Commentary

The oil market opened in positive territory amid the news that Israel was calling upon its reservists to increase its troops in northern Lebanon, increasing speculation that Israel would mount a ground offensive in Lebanon. The market traded to a high of 75.20 early in the session before it gave up its gains and sold off to a low of 73.90. The market later settled in a sideways trading pattern with light volume trading throughout the session. The market settled up 16 cents at 74.43. Volume in the crude market was light with 124,000 lots booked on the day. The gasoline market also opened 1.73 cents higher at 226.50 and quickly traded to 229.00, where it found some resistance. The market erased its gains and sold off to a low of 225.00. However the market once again retraced its losses and rallied to a high of 229.50 ahead of the close. The market remained buoyed amid the recent refinery problems. The gasoline market settled up 4.17 cents at 228.94. Meanwhile, the heating oil market also traded mostly sideways. It posted a high of 196.90 early in the session amid the strength in the crude market. It however retraced its gains and traded to a low of 192.80 and settled in a sideways trading pattern ahead of the close. It settled up 2.40 cents at 195.80. Volume in the gasoline market was light with 31,000 lots traded while volume in the heating oil market was better with 49,000 lots traded on the day.

The latest Commitment of Traders report showed that non-commercials in the crude market cut their net long positions by 997 contracts to

Technical Analysis			
		Levels	Explanation
CL 74.43, up 16 cents	Resistance	75.55, 78.15 75.20, 75.30	Previous highs Friday's high, Thursday's high
	Support	73.90 73.51, 72.55	Friday's low Previous lows
HO 195.80, up 2.4 cents	Resistance	198.50, 207.00 196.90, 197.50	Previous highs Friday's high, Thursday's high
	Support	192.80 191.50, 190.60, 189.50	Friday's low Previous lows
HU 228.94, up 4.17 cents	Resistance	234.60, 235.00 229.50	Previous highs Friday's high
	Support	226.25, 225.00 223.25, 219.75	Friday's low Previous lows

56,769 contracts in the week ending July 18th. They cut their net long positions as the market came off its recent high early this week. The combined futures and options report however showed that non-commercials in the crude market increased their net long positions by 5,961 contracts to 100,281 contracts on the week. Meanwhile non-commercials in the product markets also increased their net long positions. Non-commercials in the gasoline market increased their net long position by 3,538 contracts to 26,672 contracts while non-commercials in the heating oil market increased their net long positions by 7,376 contracts to 19,433 contracts.

The oil market on Monday will be driven by headlines reported over the weekend. The market is likely to remain supported amid the possibility that Israel would begin a ground offensive this weekend. The market will also remain concerned over Iranian situation as the west is hoping for a vote on a draft resolution next week. The market is seen finding support at its low of 73.90 followed by 73.51 and 72.55. Meanwhile, resistance is seen at its highs of 75.20, 75.30 and 75.55. More distant resistance is seen at 78.15.