



ENERGY RISK MANAGEMENT

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ENERGY MARKET REPORT FOR JULY 27, 2005

A shipping source stated that crude exports from Iraq's northern oil fields to the port of Ceyhan were on hold on Wednesday.

Storage of Iraqi Kirkuk crude at Ceyhan stood at 1.3 million barrels.

The EIA reported revisions to its annual oil inventory data is making demand growth appear lower than they really are. It said that after applying upward revisions to its 2004 oil data, the EIA's weekly oil inventory report showed total US demand for oil products so far this year averaging negative 0.2%. Gasoline demand was cut to 0.7% from 1.3% and distillate demand growth was increased to 1.9% from 1.8%. The EIA also stated that

Market Watch

The US voiced its concerns about Iraq's new constitution, which is scheduled to be voted on in less than three weeks. US Ambassador Zalmay Khalilzad plans to personally help bring various ethnic and sectarian groups together to forge a compromise document. A draft of the constitution proposes an explicitly Islamic state with a strong Shiite Muslim identity and less progressive laws for women than the laws that existed under Saddam Hussein. It also would give sweeping powers and potentially considerable oil revenue to newly created federal regions to use as they see fit. These provisions could deepen the country's ethnic and sectarian divides. According to the draft, the government would be a parliamentary democracy with a weak executive branch. It would have a single legislative branch, elected every four years and an independent judiciary.

China's Development Research Center of the State Council stated that China is likely to rely more on crude imports this year given the economy is expected to remain strong. China's demand for oil this year is expected to increase 9.7% on the year to 318 million tons while its total crude oil production this year is expected to increase 4.1% to 183 million tons. It will need to import 135 million tons of crude this year to close the gap between supply and demand. It also reported that demand for oil products this year is expected to reach 174 million tons while output is expected to reach 175 million tons.

PDVSA said it will import ethanol from Brazil to begin mixing with gasoline in August. Venezuela plans to improve the environmental standards of domestic gasoline by replacing lead with ethanol. To guarantee domestic ethanaol supplies, Venezuela plans to plant 300,000 new hectares of sugar and build 14 new storage centers by 2012.

Outgoing Iranian President Mohammad Khatami said Iran will restart some nuclear activities, including a key step prior to uranium enrichment, despite a European agreement over its atomic program, which the US says is designed to build nuclear weapons.

The American Trucking Association's advanced seasonally adjusted Truck Tonnage Index fell 0.2% in June following a revised 0.7% increase in May. During the first six months of the year, the truck tonnage index was 2.7% higher than the same period in 2004 but below its 2005 forecast range of 3% to 3.5%. An ATA economist said the drop was unexpected since most economic indicators increased during the four week period.

US durable goods orders unexpectedly increased in June by 1.4% following a 6.4% gain in May. Factories received more orders for machinery, computers and defense equipment. The report suggests business investment in new equipment is increasing after companies limited their orders to work off excess inventories from the first quarter.

French Prime Minister Dominique de Villepin said that the development of oil prices was a handicap for the euro zone.

overall oil demand over the past four weeks stands at 20.9 million bpd, up 1.3% on the year. It will most likely revise up its 2005 demand estimate when it does its final demand estimate next year.

The American Petroleum Institute said it stands by its report showing a large build in crude stocks. The API report showed a build of 4.4 million barrels, countering a report released by the EIA showing a fall of 2.3 million barrels.

US Energy Secretary Sam Bodman said the market should not expect lower gasoline prices to follow quickly upon the passage of legislation to overhaul US energy policy. It said it will take months, if not years to deal with energy prices. He said the legislation will encourage long term investment by the private sector in new nuclear power plants, coal-fired electric generating facilities and drilling for more oil and natural gas supplies. The Senate is expected to approve the energy measure on Friday and President George W. Bush will be able to sign it into law next week.

Refinery News

The #2 sulfur recovery unit at Alon USA's Big Spring, Texas refinery has been shut down temporarily as a result of a thunderstorm. The shutdown required the refinery to reduce charge to the unit and begin repairs.

ConocoPhillips reported in a filing with the Texas Natural Resource Conservation Commission that its CO boiler at its Borger refinery is undergoing maintenance. It said additional electrostatic precipitator cabinets are scheduled to be turned on to lower the opacity from the CO boiler stack.

Chevron Corp has shutdown a coker unit at its 260,000 bpd El Segundo refinery for unspecified maintenance. The company is taking the opportunity to do maintenance now since one of the refinery's two crude units is already out of service following a fire.

Valero Energy Corp said it will stop producing MTBE 270 days after the energy bill becomes law. The MTBE units would be converted to those that produce iso octane. MTBE units converted to produce iso octane yield only half of the volume. It said it will yield a net loss of 15,000 bpd.

India's Bharat Petroleum Corp Ltd and Hindustan Petroleum Corp Ltd have shut some units of their Bombay refineries after heavy rains caused flooding. BPCL said one crude distillation unit was shut but it was expected to resume normal operations by Thursday.

Total shut its 149,000 bpd Vlissingen refinery in the Netherlands on Tuesday due to a power snag.

SK Corp resumed operations at its 260,000 bpd crude distillation unit after regular maintenance work. The unit was restarted on Sunday after 12 days of maintenance.

Production News

Statoil said 13 cargoes of Statfjord blend crude oil loaded from two of its North Sea oilfields will be delayed by two days during August. Shipments will also be delayed by two days in September and October. A company spokeswoman said the reduced production from the Snorre B and Statfjord fields during July is responsible for the delays. Its Snorre B field is operating at between 30% and 50% of normal production of 75,000 bpd.

India's Oil and Petroleum Minister Mani Shankar said an offshore oil platform owned by Oil & Natural Gas Corp Ltd was destroyed by a fire on Wednesday evening. He said it may take several months to resume normal production.

Suncor Energy Inc reported lower earnings in the second quarter mainly due to lower production at its oil sands facility which was damaged by a fire. It said its upstream production averaged 160,600 barrels of oil equivalent/day in the second quarter well below last year's rate of 264,000 boe/d. It expects its oil sands facility to return to full production capacity of 225,000 bpd in September. It is then expected to commission new expansion projects at the oil sands plant, which will increase production capacity to 260,000 bpd by the end of the year.

Morgan Stanley is scheduled to ship at least one South Korean jet fuel cargo to the US West Coast and a rare gas oil stem into Europe amid the weak distillate market in Asia.

OPEC's news agency reported that OPEC's basket of crudes increased 62 cents/barrel to \$52.69/barrel on Tuesday.

Russia's Lukoil increased its crude production by 5.1% year on year to 44.2 million tons to 1.79 million bpd in the first half of 2005.

The Petroleum Association of Japan reported that gasoline inventories fell by 7% to 2.12 million kiloliters or 13.33 million barrels in the week ending July 23, down from 2.28 million kl in the previous week. Commercial crude stocks increased by 3.5% on the week to 18.22 million kl or 114.6 million barrels as the average operating rate of Japanese oil refineries fell to 82.3% from 84%.

Syria's Sytrol increased the August official selling price for its light crude to Dated BFO minus \$1/barrel from July. Sytrol has raised its heavy Souedie crude price to Dated minus \$9.75/barrel, up \$1.25 from Dated minus \$11 in July.

The Joint Development Authority said Nigeria and Sao Tome have deferred contractual talks with winners of five oil blocks to give the consortia more time to study documents.

Market Commentary

The oil market settled slightly lower after posting an inside trading day. The market, which tested its resistance at 59.50 early in the session, sold off and posted a double bottom at 58.60. The energy complex sold off amid the larger than expected builds reported in distillate stocks. The market continued to find further buying at 58.60 and rallied to a high of 59.70. The market later settled in a sideways trading pattern and posted a mostly neutral trading session. It settled down 9 cents at 59.11.

Volume remained light with only 156,000 lots booked on the day. The product markets however settled in positive territory, with the gasoline market settling up 2 cents at

Technical Analysis		
	Levels	Explanation
CL 59.11, down 11 cents	Resistance 59.88, 60.39 59.70	Previous high, 62% (62.80 and 56.50) Wednesday's high
	Support 58.60 57.65, 57.35	Double bottom Monday's low, Previous low
HO 161.72, up 1.35 cents	Resistance 164.84, 165.40, 167.70 162.60, 164.40	38% retracement, Previous high, 50% (179.80 and 155.60) Wednesday's high, Tuesday's high
	Support 159.25 156.00, 155.60, 154.00	Wednesday's low Previous lows
HU 171.58, up 2 cents	Resistance 174.25, 175.50, 177.02 172.60, 173.50, 173.70	50% (186 and 162.50), Previous high, 62% Wednesday's high, Previous highs
	Support 168.75 167.80, 167.50, 165.10	Wednesday's low Previous lows

171.58 and the heating oil market settling up 1.35 cents at 161.72. The gasoline market continued to trade sideways as it failed to breach Friday's trading range. It traded to a low of 168.75 but bounced off that level and rallied to a high of 172.60 following the release of the DOE and API reports which showed draws in gasoline stocks of 2.3 million barrels and 3.2 million barrels, respectively. It however failed to find the momentum to push it to a high of 173.50. Even though the heating oil market ended the session up 1.35 cents on the day it saw a mostly neutral trading session. It bounced off its low of 159.25 and traded to a high of 162.60 despite the reports showing larger than expected builds in distillate stocks. Volumes in the product markets were good with 49,000 lots booked in the gasoline and 46,000 lots booked in the heating oil market.

The oil market on Thursday is seen trading lower as it continues to retrace today's early gains. However the market's losses are seen limited as it continues to find good support at its low of 58.60 and its daily stochastics are still trending higher. The market is however seen finding resistance at its high of 59.70 followed by 59.88. More distant resistance is seen at 60.39.