



ENERGY RISK MANAGEMENT

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ENERGY MARKET REPORT FOR AUGUST 9, 2005

OPEC's President Sheikh Ahmad Fahad al-Sabah said OPEC stands ready to pump more oil when needed. He said OPEC ministers continue to discuss raising the ceiling by an additional 500,000 bpd. He said OPEC's total production is 30.4 million bpd and rising. He said the latest price rally has come from a series of refinery outages and geopolitical tensions but added that OPEC remains committed to maintaining stability. OPEC's President said member countries with spare capacity, estimated at about 2 million bpd, would make additional supplies available should the market call for it.

Market Watch

Saudi Arabia's Interior Ministry spokesman Major General Mansour al-Turki denied there was a threat of a terrorist attack in the country. He said Saudi security forces have no confirmed information of a possible attack. The followed statements by the UK Foreign Office said terrorists in Saudi Arabia may be in the final stages of planning attacks in Saudi Arabia.

Iran's decision to resume uranium conversion will likely end negotiations with the EU-3, France, Germany and the UK. The Iran nuclear threat is significant and will only be resolved with a military attack. A source said it is not clear when this will happen, or how Iran will react or whether this will affect oil exports. He stated that oil prices may rise to about \$80/barrel if the US attacked Iran's nuclear facilities. Oil prices may rise to \$100 or higher if Iran responded with a unilateral embargo of oil exports to punish the US.

The US is considering punishing Venezuela with sanctions for suspending its cooperation with US Drug Enforcement Administration. Venezuela's President Hugo Chavez said the suspended its cooperation because it was unnecessary and accused the US agency of spying on his government. He said Venezuela would continue to work with international organizations to combat drug trafficking. Next month, the State Department will judge if Venezuela has failed to cooperate in the drug war, a decision that could trigger a range of sanctions.

Separately, Venezuela's President Hugo Chavez said that if US forces were to invade the country, they would be defeated. The US government has strongly denied Chavez's claims that it is considering military action against Venezuela.

Chairman of the White House Council of Economic Advisers, Ben Bernanke, said that high energy prices are a burden for US consumers. However it has not slowed down the US economy so far. He said the economy was growing at a strong rate.

China's economy is vulnerable in dealing with challenges posed by increasing oil prices. According to Vice Minister of the National Development and Reform Commission, Zhang Guobao, said the best way to cope with increasing prices are by improving energy efficiency and developing alternative energy resources. Experts estimate that if China could use energy as efficiently as Japan, China would not have to increase its energy demand in the next 60 years. They stated that the monopoly system in the oil industry is the fundamental reason preventing China from improving its capability to meet challenges from increasing oil prices. According to the China Chamber of Commerce for Petroleum Industry, the market does not leave space for competitors.

Meanwhile, Nigeria's Minister of State for Petroleum, Edmund Daukoru said despite crude oil prices trading close to \$65/barrel, there is still no need for OPEC to raise its official output ceiling. He said the market remains well supplied. He also stated that there is little OPEC can do to lower prices, as most members are pumping as much as they can.

Iraq's Oil Minister Ibrahim Bahr al-Uloum said Iraq has current oil exports of 1.6 million bpd. Meanwhile, Iraq's oil consumption stood at 600,000 bpd. He said Iraq hopes to produce 13 million liters of oil/day by the end of August and 14 million liters/day by the end of October. Iraq plans to supply up to 150,000 bpd of crude oil to the Abadan refinery in southwest Iran and then receive gasoline, gas oil and kerosene in return.

The EIA reported in its latest Short Term Energy Outlook that it cut its forecast for 2005 growth in world oil demand by nearly 25%, mainly due to slower than expected growth in China. It said world oil demand will grow by 1.7 million bpd this year to 84.2 million bpd compared with its previous growth estimate of 2.2 million bpd. Meanwhile world demand in 2006 is expected to total 86 million bpd, down from its previous estimate of 87.1 million bpd. China's oil demand growth, estimated at almost 1 million bpd in 2004 is projected to grow more slowly at an annual average of 500,000 bpd to 7 million bpd in 2005, down 200,000 bpd from its previous estimate. It also cut its world demand forecast due to its expectation that production growth in countries outside OPEC will not accommodate incremental worldwide demand growth. Non-OPEC supply is expected to grow by an annual average of 700,000 bpd during 2005 and 2006. Also world spare production capacity is at its lowest level in three decades while downstream sectors, such as refining and shipping are expected to remain tight. The EIA also stated that a factor that could influence the US oil market over the next few months is the severity and location of hurricanes. US petroleum demand is projected to increase by an average of 160,000 bpd in 2005 and by an additional 390,000 bpd in 2006. US demand is estimated to total 20.9 million bpd in 2005 and 21.3 million bpd in 2006. It reported that gasoline inventories are expected to total 208.6 million barrels in 2005 and 208.2 million barrels in 2006. Meanwhile distillate inventories are expected to total 134.5 million barrels in 2005 and 132 million barrels in 2006. It estimated that distillate inventories at the beginning of the fourth quarter will total 54.5 million barrels compared with 50.7 million barrels a year earlier. Distillate inventories at the start of the first quarter of 2006 will total 55.3 million barrels, up from 50.3 million barrels a year ago. In regards to prices, WTI crude is expected to average over \$59/barrel for the third quarter of 2005, unchanged from its previous forecast. The EIA also forecast the average price of regular gasoline in the third quarter at \$2.32/gallon, up 13 cents on the quarter. Meanwhile heating oil prices averaged \$1.83/gallon during the 2004-2005 heating season. However it projects that average heating oil prices will average about 16% higher this winter compared to the 2004-2005 season. The EIA also reported that OPEC increased its oil production by 245,000 bpd on the month to 30.255 million bpd in July. OPEC's spare production capacity was unchanged at 900,000 bpd to 1.4 million bpd.

The EIA stated that US refiners' attempts to phase out MTBE could mean transition pressure for gasoline prices next summer. It however did not quantify the possible price impact in its report. The phase out could take about 150,000 bpd of gasoline blending components off the market. The National Petrochemical and Refiners Association estimates that MTBE accounts for 1.6% of US gasoline supplies.

Refinery News

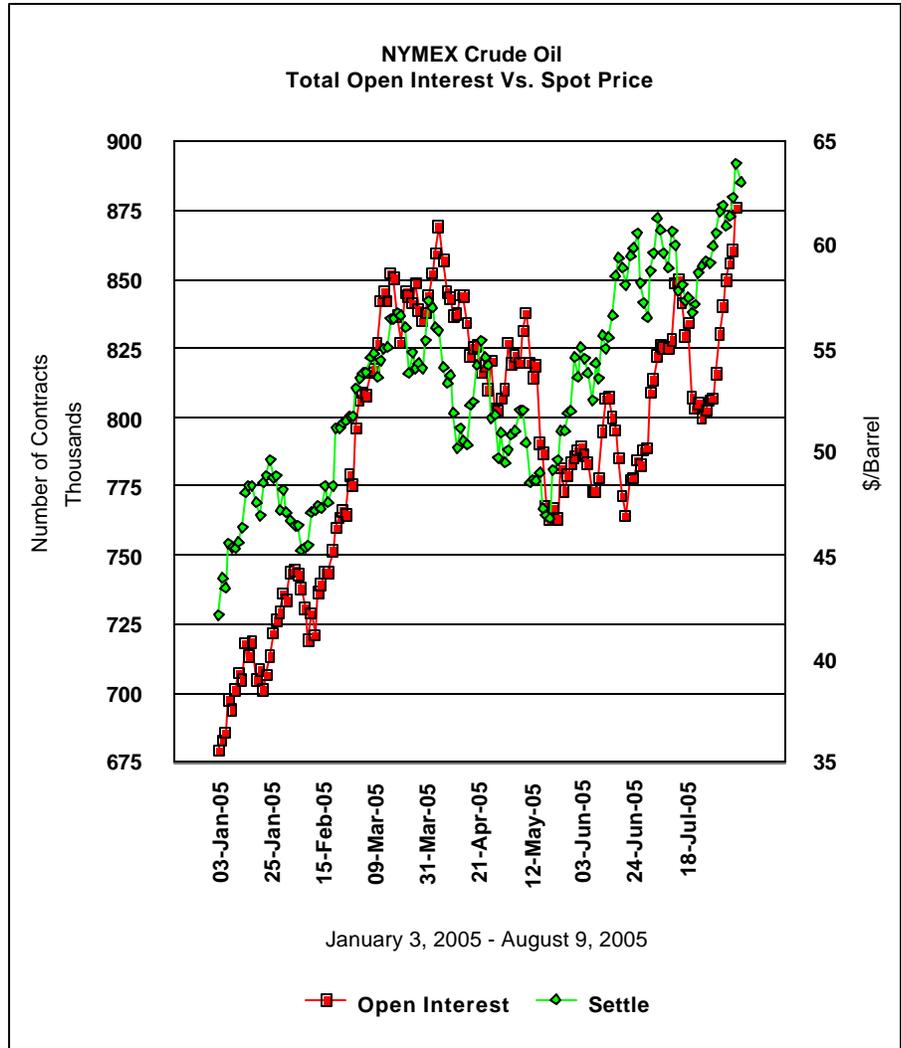
Traders stated that gasoline prices fell 6 cents in the Los Angeles spot market on expectations that a crude unit will resume operations later this week. Chevron Corp has previously stated that a crude processing unit at its 260,000 bpd El Segundo, California refinery is expected to remain down until about August 13 for repairs. The unit was shut on July 20 due to a fire.

Sunoco has not said how long it expects the crude unit at its Philadelphia refinery to be down following Saturday's fire. However a person familiar with the refinery said repairs could be completed as early as Saturday. A fire burned for four hours in the larger of the refinery's two crude units at the 330,000 bpd refinery.

Japan's Cosmo Oil Co said it would refine 2.65 million kiloliters or 538,000 bpd of crude this month, cutting its initial plan by 5.4%. The reduced crude run accounts for about 90% of Cosmo's refining capacity of 595,000 bpd. It plans to raise its August oil product exports fivefold by volume from a year earlier.

Production News

Saudi Arabia's crude oil allocations to refiners in Europe will remain largely unchanged in September. Europe has been receiving 70% of its contractual volume since reducing its intake at the beginning of the year.



Norway's Statoil said the Veslefrikk field in the North Sea is now producing normally after being down since July 23 due to reduced lifeboat capacity. The company said the field came back on stream yesterday and output is currently about 35,000 bpd. Production was halted because an internal crack was discovered on one of the lifeboats on the Veslefrikk A platform.

Shell's Brent Bravo North Sea oil and gas platform remained shut on Tuesday after closing on Monday due to a leak at one of Bravo's storage facilities. The shutdown has also affected the Brent Alpha platform, shutting in about 10,000 bpd of crude oil production.

Iraq's SOMO has cut the September official selling price for Basra light crude bound to the US and Asia. Basra Light crude for September loading to the US was priced at October WTI minus \$8.35 compared with minus \$7.35/barrel in August. The Basra September official selling price for Asia was set at the average of Oman/Dubai minus \$2.10 compared with minus \$1.55 in August. However its Basra crude bound to Europe was priced at Dated Brent minus \$6.25 compared with minus \$7.25 in August.

Iran has raised its September crude oil official selling prices to European buyers by \$1.05. The National Iranian Corp set the price of its Iran Light crude grade at BWAVE minus \$4.35 while its Iran Heavy was set at BWAVE minus \$6.35 and its Forozan grade was set at BWAVE minus \$6.25. Meanwhile its official selling price for its Iran Light crude grade bound to Asia was set at the Oman/Dubai average plus 55 cents, down 40 cents on the month. Its Iran Heavy was set at the Oman/Dubai average minus \$2.20, down 50 cents on the month and its Forozan crude was set at the Oman/Dubai average minus \$2.15.

An official in Indonesia said the country will be a net oil importer in 2005 due to low oil production. Indonesia's oil output will average 1.06 million bpd this year, below the 1.125 million bpd stipulated in the government's official budget for 2005.

Russia's Baltic Sea port of Kaliningrad was closed to crude oil and refined products loading on Tuesday due to strong winds.

Russian companies' oil exports stood at 115.65 million tons in January-June while its oil product exports amounted to 44.855 million tons in January-June. Russian companies' oil product exports to countries outside the Commonwealth of Independent States increased 12.9% on the year to 43.32 million tons.

Kazakh companies produced 35.778 million tons of oil and condensate in January-July, up 7.6% on the year. In July, Kazakh companies produced 4.99 million tons of oil and gas condensate.

Brazil's Petrobras plans to increase its world oil and gas output to 350,000 boe/d by 2009 from its current production of 260,000 boe. It plans to spend \$1.9 billion in the next four years to increase its Nigerian offshore activities.

Colombia's Ecopetrol said it is close to signing a joint venture with US Occidental Petroleum Corp to increase production at the country's La Cira-Infantes field which has reserves in place of 3.5 billion barrels. Meanwhile, Ecopetrol said it will select another international partner to increase oil production at the Tibu field. The field will require total investments of \$200 million to extract about 90 million barrels of crude oil. Colombia expects oil production to fall to an average of 510,000 bpd this year.

OPEC's news agency reported that OPEC's basket of crudes increased to \$56.57/barrel on Monday, up from \$55.29/barrel on Friday.

Market Commentary

The oil market opened in negative territory at 63.60 after the market took some profits following its overnight rally to a high of 64.27. The market erased its overnight gains as Saudi officials continued to deny reports of an imminent terrorist attack in the country. It traded to a low of 63.30, where it held some good support as it rallied back towards its previous high. However as the market failed to test its resistance at 64.00, the market erased its gains and sold off to a low of 63.00. It held good support at its low and settled down 87 cents at 63.07. The market may have been pressured ahead of the close amid the release of the EIA's Short term Energy Outlook in which it cut its world demand forecast by about 25%. Volume in the crude was excellent with over 217,000 lots booked on the day. Open interest in the crude continued to climb, by a total 15,294 lots as of Monday. Open interest in the September contract fell by 3,439 lots while open interest in the October and November contracts built by 14,995 lots and 3,241 lots, respectively as traders continued to add to their long positions amid the rally. The heating oil market opened down 74 points 178.20 as it erased some of its overnight gains. However the market rallied to a high of 180.50 but failed to test its overnight high of 180.70. It erased

its gains and sold off to a low of 177.20 ahead of the close. It settled down 1.28 cents at 177.66 after settling over 5 cents on Monday. Similar to the crude market, the gasoline market remained in negative territory during the entire session. The gasoline market opened 1 cent lower at 184.70 and quickly posted an intraday high of 185.00. The market however erased its gains and backfilled Monday's opening gap as it traded to a low of 181.60 ahead of the close. It settled down 3.46 cents at 182.24. Volumes in the product markets were good with 56,000 lots booked in the heating oil and 55,000 lots booked in the gasoline market.

The crude market on Wednesday will be driven by the weekly petroleum stock reports, which are expected to show draws in crude stocks of less than 1 million barrels, builds in distillate stocks of 1.5 million barrels and draws in gasoline stocks of about 2 million barrels. If the reports fail to show the expected draws, the crude market is seen holding its resistance after it failed to test that level during today's open outcry session. Its daily stochastics also look ready to cross to the downside. Resistance is seen at its double top from 63.90 to 64.00 while further resistance is seen at 65.45. Meanwhile support is seen at 63.00 followed by its opening gap from 62.80 to 62.45 and its previous low of 61.60.

Technical Analysis		
	Levels	Explanation
CL 63.07, down 87 cents	Resistance 65.45 63.90 and 64.00	Basis trendline Double top
	Support 63.00 62.80 to 62.45, 61.60	Tuesday's low Opening gap (August 8th), Previous low
HO 177.66, down 1.28 cents	Resistance 181.50 to 181.60 178.00, 180.50	Previous highs Tuesday's high
	Support 177.20 175.00 to 173.50, 172.44	Tuesday's low Opening gap (August 8th), 38% (159.40 and 180.50)
HU 182.24, down 3.46 cents	Resistance 185.00, 187.40 184.00	Tuesday's high, Monday's high
	Support 181.60 181.25, 178.10, 177.12	Tuesday's low Previous lows, 38% (160.50 and 187.40)