



ENERGY RISK MANAGEMENT

Howard Rennell, Pat Shigueta &
Zachariah Yurch

(212) 624-1132 (888) 885-6100

www.e-windham.com

ENERGY MARKET REPORT FOR JULY 6, 2006

Iran defied calls for a response to the offer of incentives, insisting that it would use the July 11 meeting to raise questions on the package. The EU is expected to hold preliminary talks with Iran on Thursday and more detailed discussions next Tuesday in which it expects a formal response to the incentive package. Iran's chief nuclear negotiator Ali Larijani met European Union foreign policy chief Javier Solana and said Iran was serious about pursuing nuclear talks with the EU. However he made clear he would be respond to the

incentive package yet. Meanwhile, the US State Department said major powers would begin considering disincentives and revive a push for UN Security Council action if Iran does not respond to the proposal during a meeting next week. Separately, IAEA chief Mohamed ElBaradei said Turkey could play a critical role in helping to bring Iran to the negotiating table for talks on its nuclear program.

Market Watch

Europe is scheduled to export 1 million tons or 850,000 bpd of gasoline to the US in the first 10 days of July.

Saudi Arabia has booked a tenth Very Large Crude Carrier to the US and Europe in July, increasing spot shipments for the month to 20.5 million barrels. The VLCC is due to load 280,000 tons of crude on July 25 for delivery into the US Gulf.

Goldman Sachs raised its forecast for five year ahead US crude oil prices by \$7.50 to \$67.50/barrel. It also lifted its estimate for second half 2006 prices by \$5 to \$75/barrel and established a 2007 forecast at \$75.50/barrel.

Investor, Jim Rogers said oil prices are expected to rally to well over \$100/barrel and remain high as part of a sustained commodities bull run that has another 15 years to continue. He said that aside from the geopolitical problems, oil was drawing long term support from the lack of large scale finds. He established the Rogers International Commodity Index, which in the first half of the year outperformed its rivals, the Goldman Sachs Commodity Index and the Dow Jones-AIG Commodity Index.

Mexico's leftist presidential candidate refused on Thursday to accept election results that showed him losing. He called for a rally of supporters in Mexico's City main square.

Shipbrokers stated that Morgan Stanley is expected to increase its clean tanker fleet size following several time charter fixtures recently. It has fixed 11 time charter 47,000 ton capacity clean tankers in the past few weeks. The bank currently operates four time charter vessels.

Russia's Foreign Minister Sergey Lavrov warned against threatening North Korea with sanctions following its missile tests, saying that it would provoke a hostile response and urged UN powers to exercise calm. North Korea, defiant in the face of international criticism of Wednesday's tests, threatened to test fire more missiles. Meanwhile, Japan's Prime Minister Junichiro Koizumi said that North Korea had nothing to gain through additional missile tests and urged the country to halt the military exercises.

An Iraqi oil official said Iraq continued to pump Kirkuk crude to Turkey's Ceyhan port on Thursday. Turkey's refinery Tupras started lifting 1 million barrels of Kirkuk crude through a pipeline to its Kirkkale refinery. Repsol's vessel completed loading 600,000 barrels Thursday morning while Royal Dutch Shell's vessel started loading 2 million barrels. Vitol's North Atlantic vessel is expected to anchor at Ceyhan on Thursday to lift 1 million barrels of Kirkuk crude. Iraq offered a fourth batch of Kirkuk crude on Thursday. Bids for its fourth Kirkuk tender for six million barrels are expected by July 13, with loading until the end of the month.

According to Oil Movements, OPEC's oil exports are expected to increase by 390,000 bpd in the four weeks ending July 22 to 25.2 million bpd. It said most of the extra Gulf oil was heading to Asia to meet demand.

The DOE reported that propane stocks totaled 48.615 million barrels in the week ending June 30, up 1.903 million barrels on the week. It stated that inventories in the East Coast fell by 21,000 barrels to 4.602 million barrels while inventories in the Midwest increased by 619,000 barrels to 20.454 million barrels and inventories in the Gulf Coast increased by 894,000 barrels to 21.855 million barrels on the week.

Refinery News

A catalytic cracking unit at ExxonMobil's 563,000 bpd refinery in Baytown, Texas is in restart following a delay. There were several failed attempts to restart the refinery at the end of June following planned maintenance.

Sweeny refinery in Old Ocean, Texas is scheduled to undergo maintenance on Thursday.

Tesoro Petroleum Corp has shut a hydrogen plant at its 168,000 bpd Golden Eagle refinery in Martinez, California for maintenance work. It did not state how long the outage would last or the degree to which the outage affected its production.

Separately, Tesoro Corp is in talks to purchase the 270,000 bpd Houston, Texas refinery operated by Lyondell-Citgo Refining. Tesoro would like to take ownership of the refinery between mid-August and late October.

Enbridge Inc said it was considering building a pipeline from Alberta to Texas. The \$3.6 billion, 400,000 bpd pipeline would take crude from Alberta's oil sands refineries on the US Gulf Coast. It believes the pipeline could be in service by 2011.

Officials with the Alaska Department of Environmental Conservation reported that an estimated 7,000 gallons of diesel fuel spilled from a ruptured fuel tank line in a western Alaskan village. The 110,000 gallon bulk fuel tank was shut off. An official said there is second tank and plenty of fuel for the village.

Oil and petrochemicals refinery workers in South Africa have received authorization under labor laws to strike. They are expected to continue talks on July 12. A joint strike by three unions representing about 9,000 workers would shutdown some of the country's five refineries.

Singapore's International Enterprise reported that onshore middle distillate stocks fell by 2.846 million barrels to 6.714 million barrels in the week ending July 5. Meanwhile it reported that light distillate stocks increased by 183,000 barrels to 7.441 million barrels while residual fuel stocks fell by 123,000 barrels to 12.073 million barrels.

India's crude oil imports increased to 9.05 million tons in May from 8.02 million tons reported in April. Its refined product imports increased to 1.04 million tons in May from 820,000 tons in April while its exports also increased to 1.96 million tons from 1.28 million tons during the previous month.

Production News

Norway's oil services strike entered its third week on Thursday. Members of the Norwegian Oil and Petrochemical Workers Union went on strike on June 27 following failed wage negotiations with the Norwegian Oil Industry Association. Even though the strike has only cut production by 40,000 barrels of oil equivalent, new output scheduled to come online to offset declining production from Norway's largest fields was being delayed by the action.

Nigerian militants abducted a Dutch oil worker, who was working at a project site for Royal Dutch Shell's planned integrated gas gathering plant in the southern delta state of Bayelsa. It was the latest in a string of kidnappings and assaults on foreign oil workers.

According to a Reuters survey, OPEC's total oil production increased by 240,000 bpd in June to 29.78 million bpd. It reported that the ten OPEC members bound by supply limits, remained below their 28 million bpd target for the sixth month. Output from the ten members increased by 120,000 bpd to 27.76 million bpd in June. Saudi Arabia maintained its supply steady in June at 9.2 million bpd. Meanwhile Iraq's production increased to 2.02 million bpd in June from 1.9 million bpd in May. A joint venture between South Korea and Kazakhstan has found 20 million barrels of medium sweet crude in an oil field in Kazakhstan. The oil field is located in Aktobe, Kazakhstan, where a total of four oil fields are expected to have oil reserves of 170 million barrels.

Saudi Arabia reported that it increased the price of its Arab Super Light crude bound for Asia by 40 cents to the Oman/Dubai average plus \$7.25. Its Arab Extra Light crude was increased by 45 cents to the Oman/Dubai average plus \$3.65, its Arab Light was increased by 15 cents to the Oman/Dubai average plus 35 cents, its Arab Medium was unchanged at the Oman/Dubai average minus \$2.85 and its Arab Heavy was also kept unchanged at the Oman/Dubai average minus \$5.95.

OPEC's news agency reported that OPEC's basket of crudes increased by \$67.92/barrel on Wednesday from \$67.85/barrel on Tuesday.

Pemex narrowed its August discount on exports of Maya crude to the US Gulf Coast by \$1.50 to \$3.35/barrel under the monthly adjustment to its oil export price formulas. The discount on exports of heavy Maya crude to the US West Coast was narrowed by 10 cents to \$11/barrel. The discount on exports of lighter Isthmus oil was cut by 25 cents to \$4.70/barrel while the premium on Olmeca crude was increased by 20 cents to \$0.45/barrel. For Europe, the discount for Maya crude was cut by 90 cents to \$2.50 while the discount on Isthmus crude was reduced by 40 cents to \$2.41.

Market Commentary

The crude market remained range bound and posted an inside trading day after it failed to find further upside in light of the weekly petroleum stock reports. While the DOE reported a draw of 2.4 million barrel in crude stocks, it also reported an unexpected build in gasoline stocks of 700,000 barrels which helped limit the complex's gains. The crude market opened down 39 cents at 74.80 as it retraced

some of Wednesday's gains. The market sold off to a low of 74.30 amid the selling in the gasoline market following the release of the DOE report, which showed an unexpected build in gasoline stocks. The market however bounced off its low and retraced its losses. The market failed to test its previous high as it posted a high of 75.35 late in the session. The crude market settled down 5 cents at 75.14. Volume in the crude market remained light with 177,000 lots booked on the day. The gasoline market also opened down 2.58 cents at 225.00 as it retraced some of its recent gains. The market sold off even further to a low of 223.25 in light of the unexpected gasoline stocks build. It however bounced off that level and rallied to a high of 227.50 late in the session before it gave up some of its gains ahead of the close. It settled down 1.68 cents at 225.90. The heating oil market also settled in negative territory, with the August contract settling down 10 points at 206.16. The heating oil market opened down 1.51 cents at 204.75 and sold off to a low of 202.10 following the release of the DOE report. The market however bounced off its low and traded to a high of 206.80 late in the session. Volumes in the product markets were light with 31,000 lots booked in the gasoline market and 44,000 lots booked in the heating oil market.

The oil market will likely continue to retrace its recent gains early in the session after failing to test its previous high of 75.40. However the market's losses are seen limited as traders position themselves ahead of the weekend. The market is seen finding resistance at its highs of 75.35 and 75.40. More distant resistance is seen at 75.85. Meanwhile support is seen at 74.75, 74.30 followed by 73.90, 73.35 and 72.50.

Technical Analysis		
	Levels	Explanation
CL 75.14, down 5 cents	Resistance 75.85, 76.31, 76.70 75.35, 75.40	Previous high, basis trendline, Previous high Thursday's high, Wednesday's high
	Support 74.75, 74.30 73.90, 73.55, 72.50	Thursday's low Previous lows
HO 206.16, down 10 points	Resistance 208.60, 209.00 206.80, 207.50	Previous highs Thursday's high, Wednesday's high
	Support 205.00, 202.10 202.00, 199.00, 198.80, 198.00	Thursday's low Previous lows
HU 225.90, down 1.68 cents	Resistance 230.00 227.50, 229.70	Previous high Thursday's high, Wednesday's high
	Support 225.00, 223.25 220.50, 214.00	Thursday's low Previous lows