



ENERGY RISK MANAGEMENT

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ENERGY MARKET REPORT FOR MARCH 17, 2006

OPEC cut its forecast for 2006 world oil demand growth by 110,000 bpd to 1.46 million bpd from its previous forecast in February of 1.57 million bpd. It cut its forecast due to lower consumption in the US and Asia. It estimated that demand in 2006 would total 84.5 million bpd. OPEC also revised down its estimated demand for its crude in the second quarter by 200,000 bpd to 27.4 million bpd. In its monthly report, OPEC also stated that it produced 29.7 million bpd in February. It also cut its estimate of non-OPEC production by 60,000 bpd to 1.4 million bpd.

US officials and UN

diplomats said senior diplomats from the five permanent members of the UN Security Council and Germany are scheduled to meet on Monday. The five permanent Security Council members have failed to reach an agreement on a statement aimed at curbing Iran's nuclear ambitions. Russia and China are resisting proposals from Britain, France and the US that would express serious concern about Iran's nuclear program and ask it to comply with demand from the IAEA. The draft calls on Iran to reestablish full and sustained suspension of all enrichment related and reprocessing activities.

US led forces on Friday continued with their offensive against suspected guerilla targets near the northern Iraqi city of Samarra in their latest bid to weaken insurgency. The operation came as Iraq's divided political leadership met hoping to break a deadlock on forming a unity government that may avert a civil war. Meanwhile, Iran's Foreign Minister Manouchehr Mottaki said Iran's talks with the US could help Iraq form a government. Separately, US Secretary of State Condoleeza Rice said talks with Iran on Iraq may be useful but added that the talks would not cover Iran's nuclear program. The White House on Friday also cautiously welcomed Iran's offer for talks to take place in Iraq.

Market Watch

The FERC has rejected Colonial Pipeline Co's plan to start placing restrictions on shipments of reformulated gasoline that contains MTBE this month. FERC rejected the request on concerns that the restriction would allow the pipeline company to discriminate against shippers of gasoline with MTBE. It said the proposal would be effective the earlier of October 27, 2006 or a date established in a technical conference.

According to traders, high prompt prices have drawn over 3 million barrels of gasoline from European tanks to the US in the past week. Shippers said between 10 and 12 cargoes of 37,000 tons or 300,000 barrels had been fixed from northwest Europe and the Mediterranean in the past week. The cargoes are set to load in the last week of March for mid-April arrival in the US.

Saudi Arabia booked two more Very Large Crude Carriers to the US in April, increasing spot oil exports for the month to 10.5 million barrels.

China's Commerce Department is setting up its first official oil data tracking and release system to add transparency to the market. It is working to establish a facility similar to that of the US DOE to report weekly oil inventory data, domestic sales and changes in the domestic market.

Refinery News

Alon USA said its fluid catalytic cracking unit at its 70,000 bpd Big Spring, Texas refinery resumed normal operations after a brief outage to repair a plugged line. Separately, Alon plans to perform a major turnaround on the refinery from April 21 to May 10 to ready the plant to make newly required ultra low sulfur diesel fuel.

Pertamina shut its 125,000 bpd Balongan refinery earlier on Friday due to an unspecified technical problem. The company said repairs could take five to six days. A company spokesman said the shutdown should not squeeze domestic fuel supplies because Pertamina has sufficient stocks.

Production News

An Iraqi oil official said Iraq's crude oil exports during the first half of March increased by 2% on the month to 1.46 million bpd due to improved weather conditions at the southern export terminal of Basra. The official said production in southern Iraq stood at 1.75 million bpd. However production in northern Iraq fell to 245,000 bpd from 400,000 bpd reported in February.

Oil production is expected to remain shut in for three weeks at the UK North Sea Tern Alpha oil platform that was evacuated on Thursday following a fire.

ConocoPhillips shut oil production at its Ekofisk system late Thursday due to maintenance work. Total gross production impacted was estimated at 1.6 million barrels of oil equivalent.

Russia's Lukoil is expected to export 900,000 tons of fuel oil from its Vysotsk terminal in the northern Gulf of Finland this year.

Pemex produced 3.31 million bpd of crude in February, down from 3.37 million bpd in January. It exported 1.97 million bpd of crude in February at \$48.49/barrel compared with January's 2.05 million bpd at \$49.97/barrel.

India produced 2.55 million tons of crude in February, down 1.9% on the year and 6.9% below the government's target of 2.74 million tons. During the 11 months of the current fiscal year ending March 31, crude output fell 5.5% on the year to 29.36 million tons from 31.07 million tons. India's refineries processed 10.83 million tons of crude in February compared with 10.2 million tons last year.

Separately, India's Prime Minister Manmohan Singh said India aims to buy at least 1 million bpd of Russian crude oil within five years.

Market Commentary

The oil market posted an inside trading day following a quiet trading session. The market opened down 18 cents at 63.40 as it retraced some of Thursday's sharp gains. It posted a high of 63.70 within the first hour of trading before it continued to trade lower. The market traded to a low of 62.75 and bounced off that level as it attempted to test its earlier high of 63.70. However as the market failed to do so, it retraced its gains once again and sold off to a low of 62.70 ahead of the close. The market sold off on profit taking ahead of the weekend and settled down 81 cents at 62.77. Volume was light with 156,000 lots booked on the day. The market traded lower as Iran offered to talk with the US, dampening fears of any immediate increase in tensions between the two countries, even though their talks would focus on Iraq and not on Iran's nuclear ambitions. The product markets also posted inside trading days, with the gasoline market settling down 1.43 cents at 186.01 and the heating oil market settling down 3.12 cents at 178.13. The gasoline market retraced some of Thursday's gains early in the session as it posted a low of 183.50. However the market retraced some of its losses and settled

in a range before it traded to a high of 187.50 ahead of the close. The heating oil market opened down 75 points at 180.50 and posted a high of 181.60 early in the session. It failed to test its previous high of 181.80 and retraced its earlier gains. The market sold off to a low of 177.50 on a late bout of selling ahead of the weekend. Volumes in the product markets were light with 32,000 lots booked in the gasoline market and 27,000 lots booked in the heating oil market.

The latest Commitment of Traders report showed that non-commercials in the crude market cut their net short positions by 3,868 contracts to 15,258 contracts as the market traded higher earlier in the week amid the geopolitical risks. The combined futures and options report showed that non-commercials increased their net long positions by 4,371 contracts to 37,447 contracts. Meanwhile, the report also showed that non-commercials in the product markets increased their net long positions. Non-commercials in the gasoline market increased their net long positions by 2,534 contracts to 13,362 contracts while non-commercials in the heating oil market increased their net long positions by 1,093 contracts to 3,744 contracts on the week.

The crude market on Monday will continue to be headline driven after it settled in a sideways trading range on Friday. Barring any bullish developments over the weekend, the market is seen trading lower after it failed to test its high. The market is seen finding support at its low of 62.70 followed by 61.65 and 61.40.

Meanwhile resistance is seen at 63.70 followed by 63.90 and 63.95. More distant resistance is seen at 64.49 and 65.74.

| Technical Analysis | | |
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| | Levels | Explanation |
| CL 62.77, down 81 cents | Resistance 63.95, 64.49, 65.74 63.70, 63.90 | Previous highs, 50% and 62% retracement (69.78 and 59.20) Friday's high, Thursday's high |
| | Support 62.70 61.65, 61.40 | Friday's low Thursday's low, Previous low |
| HO 178.13, down 3.12 cents | Resistance 183.10, 184.00, 184.80 181.60, 181.80 | Previous highs Friday's high, Thursday's high |
| | Support 177.50, 176.20 175.25 to 174.70 | Friday's low, Thursday's low Gap (March 14th) |
| HU 186.01, down 1.43 cents | Resistance 188.30, 195.40 187.50, 188.00 | Previous highs Friday's high, Thursday's high |
| | Support 183.50 177.00 to 175.00 | Friday's low Remaining gap (March 14th) |