



ENERGY RISK MANAGEMENT

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ENERGY MARKET REPORT FOR MAY 17, 2006

OPEC cut its forecast for 2006 world oil demand growth to 1.7% or by 60,000 bpd to 1.4 million bpd, according to its monthly oil market report. Total world demand is estimated at 84.6 million bpd. It said the

downward revision was due to warmer weather in the US and high gasoline prices which curbed demand in the first quarter of the year. However it stated that demand in the US is expected to rebound later in the year and demand in China is still expected to remain strong this year. Demand in China is expected to increase by 500,000 bpd this year. OPEC also cut its forecast for non-OPEC oil supply growth this year by 92,000 bpd to 1.3 million bpd. Meanwhile, OPEC reported that its production increased by 164,000 bpd to 29.8 million bpd in April. It forecast that demand for its crude at 28.6 million bpd in 2006, an increase of 100,000 bpd from its previous estimate.

Market Watch

OPEC and European Union members are scheduled to hold their third ministerial meeting in Brussels on June 7. They are expected to discuss prevailing energy policies and current oil market developments.

Iran's President Mahmoud Ahmadinejad rejected a European offer of incentives, including a light water nuclear reactor, to give up its uranium enrichment. He said the offer would be like accepting candy in payment for gold. He stated that governments and nations who are signatories to the Non-Proliferation Treaty should not be forced to pull out of it. Separately, Iran's Foreign Ministry spokesman Hamid Reza Asefi said Iran was willing to offer strong economic incentives to the European Union in return for recognition of Iran's right to enrich uranium. Meanwhile, Russia's Foreign Minister Sergei Lavrov said Iran should respond in a constructive manner to proposals that could resolve the situation surrounding its nuclear program. A meeting this week of officials from Britain, China, France, Germany, Russia and the US to discuss Iran's nuclear program has been postponed to allow for further preparation on the European Union offer.

Venezuela's President Hugo Chavez said current oil prices are fair.

The API reported that US total oil demand in April fell by 1.5% on the year to 19.868 million bpd due to high oil prices. It stated that demand for highway diesel fell by 6.6% to 2.873 million bpd while gasoline demand fell by 1.9% on the year to 8.957 million bpd. It stated that total oil imports in April accounted for 68.2% of petroleum use, up from 66.7% a year earlier.

DOE Stocks

Crude – down 100,000 barrels

Distillate – down 100,000 barrels

Gasoline – up 1.3 million barrels

Refinery runs – down 0.44%, at 89.8%

According to the EIA, US crude oil imports in March fell by 1% on the month to 9.796 million bpd. Mexico maintained its spot as the largest oil supplier to the US market, with

shipments averaging 1.697 million bpd in March, down 77,000 bpd from February. It reported that Canada supplied 1.693 million bpd, down 17,000 bpd on the month while Saudi Arabia remained in third place, with shipments of 1.313 million bpd, down 105,000 bpd. Venezuela shipped 1.183 million bpd, up 5,000 bpd on the month.

The EIA also stated that despite the average price of gasoline in the US still holding just below \$3/gallon, higher fuel expenses should not be enough to cancel the family driving vacation this summer.

The DOE reported that US inventories of propane totaled 37.444 million barrels in the week ending May 12, up 1.805 million barrels on the week. It reported that inventories in the East Coast increased by 146,000 barrels to 3.411 million barrels, while inventories in the Midwest increased by 805,000 barrels to 16.019 million barrels and inventories in the Gulf Coast increased by 843,000 barrels to 17.315 million barrels on the week.

Refinery News

Crude processing in China increased by 7.1% on the year in April after an increase in state-set fuel prices lifted margins. Crude throughput reached a daily record of 6.09 million barrels, up 2.5% on the month. In the first four months of the year, crude runs increased 4.5% from the same period of 2005 to 98.7 million tons or 6 million bpd. China's crude oil output in April increased by 2.6% on the month to 15.13 million tons or 3.68 million bpd.

Lukoil's chief executive stated that it was considering buying new refining capacity in Europe. Its aim is to expand refining capacity in Europe by 15-16 million tons a year or 300,000 bpd.

Nigeria's state oil company is expected to purchase 48 cargoes of gasoline in its third quarter import tender, up 4 cargoes from the second quarter.

Japanese refiners are importing five medium cargoes of reformat gasoline from Asia and Europe for May and June. The country's refinery outages and heavy maintenance in the second quarter had already prompted imports of at least three to four 30,000 ton cargoes of gasoline reformat from Asia for late April and May.

India's Reliance Industries Ltd said it aimed to increase its domestic sales to 60% of its fuel production in the current financial year to March compared with 50% last year.

Production News

Ship agents and brokers stated that crude oil loadings at Mongstad and Sture terminals in Norway were affected by a tug pilot's strike that has escalated over the last few days. It was not clear if the strike was hampering or completely restricting oil loadings. Agents for Gulf Agency Company said the strike was causing severe operational difficulties.

The Shetland Island Council reported that Brent loadings from Sullom Voe increased to 453,537 tons in the week ending May 16, up from 78,074 tons in the previous week.

Chevron and partners including ExxonMobil have made a first discovery of crude oil in an exploration block off the coast of Nigeria. Chevron said it was pleased with the success of the well and believed the discovery would help enhance its already strong position in Nigeria and West Africa.

According to the Petroleum Association of Japan, Japan's gasoline stocks increased by 3.5% to 2.12 million kl or 13.33 million barrels in the week ending May 13. It reported that gasoline imports stood at

59,277 kl or 373,000 barrels during the week. The year on year deficit in gasoline stocks narrowed to 4.8%. Meanwhile commercial crude stocks were mostly steady at 18.68 million kl or 117.49 million barrels in the week ending May 13, up 0.44% on the week. Japan's kerosene stocks increased by 4.15% to 1.83 million kl or 11.51 million barrels on the week. Japanese refiners operated their facilities at an average of 81.4%, down from 81.8% the previous week.

OPEC's news agency reported that OPEC's basket of crudes fell by 84 cents/barrel to \$63.83/barrel on Tuesday.

Total SA's deepwater Matterhorn platform in the US Gulf of Mexico has completed repairs and is awaiting the restoration of a pipeline to resume production. The platform is expected to resume operations, with a production level of 14,500 bpd of crude and 32 million cubic feet/day of natural gas.

Market Commentary

The oil complex settled in negative territory in light of the DOE report showing a build in gasoline stocks for the third consecutive week. The oil market was also pressured by concerns over accelerating US inflation and higher interest rates. The CPI increased by 0.6% in April, rekindling fears that the Fed would continue to increase interest rates to keep inflation in check. Rising interest rates could slow down economic growth and in the process cut oil demand growth. The crude market posted a high of 69.50 early in the session before it sold off to a low of 68.20 following the release of the weekly petroleum stock reports. The market however bounced off its low and settled in a sideways trading pattern ahead of the close. It settled down 84 cents at 68.69. Volume in the crude market was excellent with over 302,000 lots booked on the day. Meanwhile, the gasoline market settled down 5.10 cents at 197.51 following the release of the DOE report. The market traded to a high of 202.00 on the opening but quickly sold off to a low of 196.00 in light of the build reported in gasoline stocks. The market later traded mostly sideways in a range from 196.00 to 198.75. The heating oil market also traded to its high of 195.50 early in the session before it sold off in follow through selling seen in the energy complex. The market sold off to a low of 191.30 and later settled in a sideways trading pattern. The market settled down 3.03 cents at 192.12. Volumes in the product markets were good with 54,000 lots booked in the gasoline market and 53,000 lots booked in the heating oil market.

The oil market on Thursday will likely continue to trade lower and test its support at 68.00 after the market shrugged off the Iranian rhetoric on the dispute over its nuclear program. The market is seen remaining pressured amid the inventory levels and the concerns over inflation, which kept the market pressured today. The market is seen finding support at 68.20 followed by 68.18 and 68.00. More distant support is seen at 67.90 and 67.05. Meanwhile resistance is seen at 69.15, 69.50 and its gap from 70.70 to 71.65.

Technical Analysis		
	Levels	Explanation
CL 68.69, down 84 cents	Resistance 70.70 to 71.65 69.15, 69.50	Remaining Gap (May 15th) Wednesday's high
	Support 68.20 68.18, 67.90, 67.05	Wednesday's low 50% retracement(61.00 and 75.35), Previous lows
HO 192.12, down 3.03 cents	Resistance 198.25, 199.55 to 204.25 193.00, 195.50	Previous high, Gap (May 15th) Wednesday's high
	Support 191.30 190.80 to 190.30, 188.65, 187.30	Wednesday's low Gap(April 10th), 50% retracement (166.50 and 210.80), Previous low
HU 197.51, down 5.10 cents	Resistance 206.75, 213.00 to 216.75 198.75, 202.00	Previous high, Gap (May 15th) Wednesday's high
	Support 196.00 193.30, 190.00, 189.25	Wednesday's low Previous lows, 50% retracement (156.00 and 222.50)