



ENERGY RISK MANAGEMENT

Howard Rennell, Pat Shigueta &
Zachariah Yurch

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

www.e-windham.com

ENERGY MARKET REPORT FOR MAY 18, 2006

US Secretary of State Condoleezza Rice said the US and Saudi Arabia agreed that high prices are not good for the world economy and growth. During a news conference with Saudi Arabia's Foreign Minister Prince Saud al-Faisal, she said the US welcomed the efforts that Saudi Arabia was making to increase its production in the medium term. Meanwhile, Saudi Arabia's Foreign Minister stated that there was a surplus, not a shortage of world oil supplies.

Iran's Foreign Minister Manouchehr Mottaki warned against a possible escalation of the crisis in the region on his arrival in Damascus to discuss his country's nuclear program with Syrian President, Bashar Assad. He stressed Iran's right

to possess nuclear power for peaceful purposes. Separately, Russia's Foreign Minister Sergei Lavrov told EU lawmakers that Russia remains unconvinced that international sanctions would persuade Iran to curb its nuclear ambitions. He also affirmed that a Russian proposal to enrich uranium on Iran's behalf was still on the table.

Refinery News

Energy Secretary Sam Bodman said the US is expecting oil companies to increase the country's refining capacity by about 12% in the next few years. He said the oil industry already had plans to add 1.5 million bpd to refining capacity. He said lack of refining capacity, along with a transition to gasoline additive ethanol and geopolitical unrest were the main reasons behind the near record gasoline prices. He also stated that there was no evidence that oil companies were price gouging. He added that the oil industry was well prepared ahead of the hurricane season. Meanwhile, the US Energy Secretary

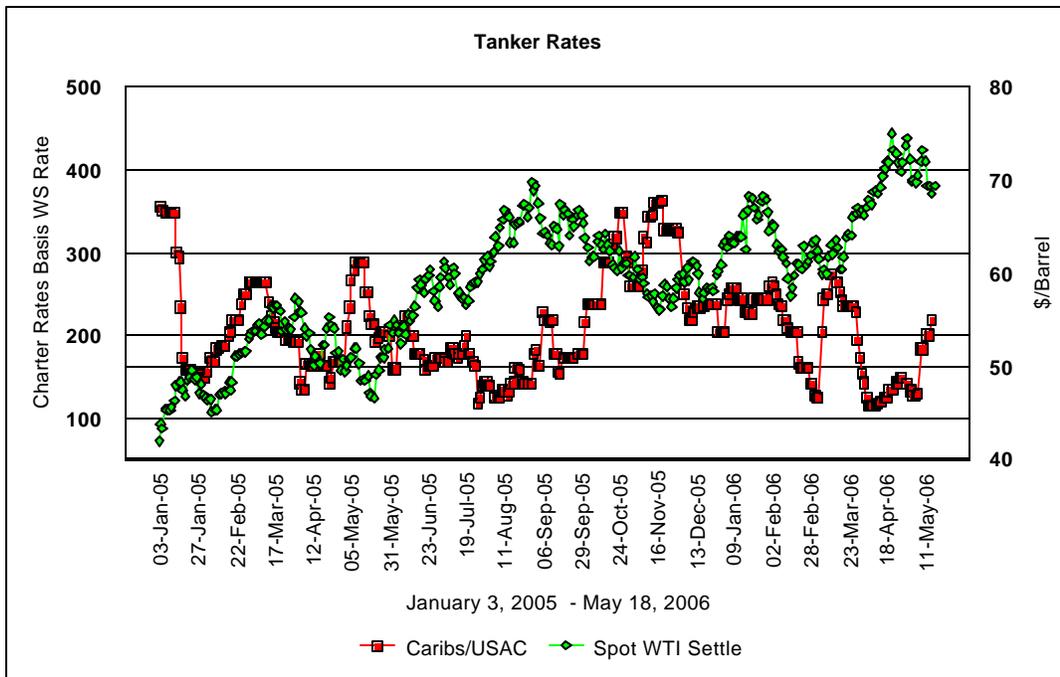
Market Watch

AAA stated that the number of people traveling this Memorial Day weekend would increase by the smallest amount in four years in light of a 34% increase in gasoline pump prices. It stated that 37.6 million people are expected to travel 50 miles or more from home during the holiday, up 0.9% from a year ago. Of that total, motorists are expected to account for 31.4 million, up 0.7% on the year. It said drivers could expect to pay 75 cents, or an average of \$2.93/gallon of regular gasoline than the prior year.

Japan's Agency for Natural Resources and Energy plans to increase the country's investment in oil and gas exploration projects in a bid to secure reliable energy sources. The country also intends to increase its national oil reserves by complimenting reserves in the private sector.

South Korea may consider releasing oil from its reserves if the standoff over Iran's nuclear program leads to any significant supply disruption.

Nigeria's President Olusegun Obasanjo said he would accept a Senate ruling against constitutional changes that would allow him to run for a third term.



stated that the transition to a new cleaner grade of diesel may trigger supply problems this year. Refiners are expected to cut sulfur content in on-road diesel starting in June.

ConocoPhillips Corp's 190,000 bpd refinery in Trainer, Pennsylvania is expected to resume operations within

a week following plant wide maintenance. Trading sources stated that the refinery shut for maintenance on April 1. Separately, its 263,000 bpd Bayway refinery in Linden, NJ is expected to return to full capacity by Monday after operations were cut for work on the refinery's catalytic cracking unit.

An official at the National Iranian Oil Co said Iran cut its oil exports since April to match slower refinery demand. However he stated that Iran would restore its shipments to more than 2.4 million bpd in June. He declined to say by how much exports had been cut. Industry sources said NIOC had reduced shipments by about 175,000 bpd in April and restored some of that volume this month. The official also stated that exports of Iran's offshore Soroush and Nowruz crudes were increasing and that floating crude oil storage capacity had been reduced.

China's new 160,000 bpd Hainan refinery is expected to start operations at the end of June, about a month behind schedule. Deliveries of some of the refining units took longer than expected. Its first crude, a 2 million barrel Very Large Crude Carrier of Girassol crude arrived on Monday. The delay forced the plant to divert a similar sized cargo of Yemen's Masila crude.

Oman is offering more crude than expected for June and July loadings due to start up problems at its new Sohar oil refinery. The refinery was expected to start trial runs by the beginning of May ahead of a September launch. The Sohar refinery has a crude unit with a capacity of 116,400 bpd and a residue fluid catalytic cracking unit with a 75,260 bpd. Oman is offering up to 2 million barrels of Oman crude on the market to traders.

Russia's Yukos has received a bid with a May 26 deadline for its Lithuanian Mazeikiu Nafta refinery. Yukos said it had received bids from the Lithuanian government and two other bidders. It said the initialed bid was a full cash offer above \$1.425 billion but it did not name the bidder. Yukos had been in talks to sell its 53.7% stake in the refinery for months before a New York court temporarily blocked the sale in April. Yukos is expected to ask the US court to lift the ban on Friday to allow the sale to proceed, arguing that if the sale did not close, Yukos would likely lose the deal and Lithuania would simply nationalize the refinery.

Turkish President Ahmet Necdet Sezer approved a cabinet decision to construct a pipeline through Turkey to transport oil from Samsun on the Black Sea to the Mediterranean. The president's approval was the final stage in passing the project, which would pump 50-70 million tons of oil a year.

Production News

According to Oil Movements, OPEC's exports increased by 470,000 bpd to 24.72 million bpd in the four weeks ending June 3, with most of the extra volume heading West.

Oil product stocks in the independent storage tanks in the Amsterdam-Rotterdam-Antwerp area fell across the board in the past week. Gasoline inventories fell by 45,000 tons to 680,000 tons in the week ending May 18 amid exports to the US and tender and spot flows to Nigeria. Last year, gasoline stocks stood at 825,000 tons. Gas oil stocks fell by 55,000 tons to 1.83 million tons on the week while naphtha stocks fell by 5,000 tons to 75,000 tons on the week. Fuel oil stocks also fell by 15,000 tons to 575,000 tons while jet fuel stocks fell by 40,000 tons to 325,000 tons on the week.

Singapore's International Enterprise said the country's middle distillate stocks increased by 1.479 million barrels to 6.154 million barrels in the week ending May 17. It reported that light distillate stocks increased by 528,000 barrels to 7.603 million barrels while residual fuel stocks fell by 1.284 million barrels to 10.812 million barrels on the week.

Indonesia is seeking 1.15 million barrels of fuel oil for June delivery, double the volume for May. The increased requirement is due to low stocks following four months of low import volumes and expectations of lower prices next month.

Ecuador's government took control of Occidental Petroleum's operations three days after canceling the US company's contract. It took control of the Block 15 oil field, the Eden-Yuturi and Limoncocha fields. The government revoked Occidental's contract over a dispute that centered on the company's sale of part of an oil block without government authorization. Meanwhile, Occidental said it was seeking damages of more than \$1 billion as part of an arbitration claim against the government for seizing its assets.

OPEC's news agency reported that OPEC's basket of crudes fell further to \$63.75/barrel on Wednesday, down from \$63.83/barrel on Tuesday.

Market Commentary

The oil market settled in positive territory following a sharp recovery from Wednesday's sharp losses.

The crude market posted an outside trading day as it breached its previous trading range. The market breached the 68.00 level and

Technical Analysis		
	Levels	Explanation
CL	Resistance	70.70 to 71.65
	69.45, up 76 cents	69.60
	Support	68.85, 68.00, 67.85
		67.05, 66.80, 66.48
HO	Resistance	198.25, 199.55 to 204.25
	195.13, up 3.01 cents	195.45, 195.50
	Support	193.00, 191.25
		190.80 to 190.30, 188.65, 187.30
HU	Resistance	206.75, 213.00 to 216.75
	201.51, up 4 cents	202.00
	Support	198.50, 195.00
		193.30, 190.00, 189.25

traded to a low of 67.85. However as the oil market failed to find further follow through, it bounced off that level and retraced its previous losses. The market rallied to a high of 69.60 ahead of the close as it breached its resistance at Wednesday's high of 69.50. The crude market settled up 76 cents at 69.45. Volume in the crude market was good with over 219,000 lots booked on the day. The gasoline market, which opened at its previous low of 196.00, posted a low of 195.00 early in the session. However the market bounced off that level and traded to 199.00, where it held some resistance. The market further retraced its previous losses and rallied to a high of 202.00 ahead of the close in a technical bounce. The market settled up 4.00 cents at 201.51. The heating oil market also settled up 3.01 cents at 195.13 after it too rallied to its high ahead of the close. The market bounced off a low of 191.25 and rallied to a high of 195.45 ahead of the close. Volume in the product markets were lighter today with 30,000 lots booked in the gasoline and 43,000 lots booked in the heating oil market.

The oil market, which failed to find further follow through as it traded lower, is seen remaining supported ahead of the weekend. If the market does erase some of today's gains, its losses will be limited as traders position themselves ahead of the weekend. The market is seen finding support at 68.85, 68.00 and its low of 67.85. More distant support is seen at its previous lows of 67.05 and 66.80 followed by 66.48. Meanwhile, resistance is seen at its high of 69.60 and its gap from 70.70 to 71.65.