



ENERGY RISK MANAGEMENT

Howard Rennell, Pat Shigueta &
Zachariah Yurch

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

www.e-windham.com

ENERGY MARKET REPORT FOR JUNE 6, 2006

Iran's chief nuclear negotiator, Ali Larijani said the proposals offered by the US, Britain, Russia, China, France and Germany to end the nuclear standoff had positive points but also had some ambiguities that had to be removed. European Union foreign policy chief Javier Solana met Iran's chief nuclear negotiator Ali Larijani to present the package. Iran's chief

nuclear negotiator said after Iran studied the proposal, it would have another round of talks and negotiations to achieve a balanced and logical conclusion. Iran's Foreign Minister Manouchehr Mottaki said Iran would seriously study the proposal. European Union's foreign policy chief said it hoped to receive a positive response, which is beneficial to both sides. German Chancellor Angela Merkel and Chinese Premier Wen Jiabao agreed that Iran should return to talks aimed at resolving the dispute. Western diplomatic sources confirmed that the proposal included permission for Iran to buy spare parts for civilian aircraft made by US manufacturers and the provision of light water nuclear reactors and enriched fuel. Other incentives are said to include the lifting of restrictions on the use of US technology in agriculture and support for Iranian membership of the World Trade Organization.

Market Watch

China has paid more than 8.4 billion yuan or \$1.05 billion in subsidies to offset the higher cost of oil, after raising fuel prices twice this year. A Finance Ministry official said subsidies had been paid to the fishing, forestry, urban and rural transport industries.

Russia's Energy Minister Viktor Khristenko said oil prices would remain high and added that it would be wrong to block the expansion of Russian energy firms in the European Union. He said EU governments should stand back from the merger and acquisition activity in the energy sector.

Japan's Ministry of Economy, Trade and Industry said that energy prices were expected to remain high mid-to long-term. It also warned that crude prices could see unexpected spikes in light of future influx of speculative money, political concerns, natural disasters and the tightening of supply.

Iranian officials warned that the country's Supreme Leader's threat should not be dismissed and added that Iran would block the Straits of Hormuz if the country was attacked by the US. They said that regardless of any economic and diplomatic fall out, Iran would follow through on its threat if it were attacked. US Energy Secretary Samuel Bodman said it was unlikely that Iran would cut US oil supplies. However he also stated that the US could manage any disruption. US Secretary to State Condoleezza Rice also played down the Iranian leader's threat by stating that too much emphasis should not be placed on a threat of this kind. She cited Iran's heavy dependence on its oil revenue as a reason for Iran not to threaten oil production or shipments. White House Tony Snow also stated that it was encouraging that Iran was taking the proposal seriously but added that Iran needed to suspend its uranium enrichment activities.

Algeria's Energy and Mines Minister Chakib Khelil said oil prices would remain high for the next six months because of geopolitical tensions.

Iraq's Prime Minister Nouri al-Maliki promised to continue with efforts to curb rampant sectarian and militia violence in the country after a series of bomb attacks. Meanwhile, he still has not been able to reach a consensus among Iraq's ethnic and sectarian parties on candidates for interior and defense minister posts he must fill to implement his plan to take control of Iraq's security from US led forces within 18 months.

The EIA reported in its Short Term Energy Outlook that WTI crude is expected to average \$68/barrel in both 2006 and 2007. Retail regular gasoline prices are estimated to average \$2.60/gallon in 2006 and \$2.56/gallon in 2007. Gasoline prices in the summer are expected to average \$2.76/gallon, up 39 cents on the year and up 4 cents from its previous estimate. It stated that even though world petroleum consumption growth has slowed because of higher prices, projected consumption growth remains strong at 1.7 million bpd in 2006 and 1.9 million bpd in 2007. The EIA had previously estimated demand growth at 1.6 million bpd for 2006 and 2 million bpd in 2007. World oil demand is estimated to total 85.6 million bpd in 2006, up 300,000 bpd from its previous forecast while world demand in 2007 is estimated at 87.5 million bpd. Its 2006 China demand growth forecast was unchanged at 500,000 bpd compared with 2005. China's total demand is estimated at 7.4 million bpd. The EIA reported that average domestic crude oil production is expected to increase by 157,000 bpd or 3.1% in 2006 to 5.3 million bpd while for 2007, a 6.6% increase is expected, resulting in an average production rate of 5.6 million bpd. Oil production is expected to increase due to new output from the offshore Gulf of Mexico. The EIA however stated that US Gulf of Mexico production could be reduced by up to 35 million bpd of oil and 206 bcf of natural gas if forecasts for the 2006 hurricane season prove accurate. In 2006 and 2007, US petroleum consumption is estimated to increase by 0.9% to 20.84 million bpd and 2.1% to 21.28 million bpd, respectively. It reported that gasoline demand would average 9.2 million bpd in 2006 and 9.33 million bpd in 2007. It also reported that distillate demand would average 4.21 million bpd and 4.34 million bpd in 2006 and 2007, respectively. In regards to OPEC, the EIA estimated that OPEC produced 29.34 million bpd in May, down 10,000 bpd on the month. The ten OPEC members, excluding Iraq, produced 27.44 million bpd in May, down from 27.45 million in April.

Refinery News

The Texas Commission on Environmental Quality stated that a power cogeneration unit at Flint Hills Resources' Corpus Christi, Texas refinery was shut on Tuesday during startup following the lightning storms that swept through the region last week. A restart is planned over the next 24 hours.

A 54,000 bpd catalytic cracking unit at Venezuela's 130,000 bpd El Palito refinery is currently out of service. It was not clear what caused the outage. Traders said the problem left vessels waiting to load cargoes. A source said at least four deliveries were delayed.

Total said a fire at its 352,000 bpd refinery in Antwerp was now under control. There was no impact on refinery production aside from the shutdown of the visbreaking unit. A company spokeswoman said the fire was contained in the visbreaking unit. Benchmark Rotterdam gasoline barges increased by about \$20/ton on Tuesday morning following the news of the fire at the refinery.

Belarus' Naftan oil refinery has started work on new equipment worth up to \$35 million to improve its fuel's quality and meet European environment standards in the next three years. It plans to increase throughput to 12 million tons a year during the upgrade, due to be completed in 2008.

Fuji Oil said it shut its 140,000 bpd crude distillation unit at its Sodegaura refinery in eastern Japan last Thursday for a 10 day maintenance shutdown.

Qatar started operations of a 34,000 bpd gas to liquids plant on Tuesday. The production of the Oryx GTL plant would include 24,000 bpd of ultra low emission diesel, 9,000 bpd of naphtha and 1,000 bpd of liquefied petroleum gas.

BP said the Baku-Tbilisi-Ceyhan Pipeline Co would stop pumping oil for 10 days later this month to allow for the final stages of construction. The BTC Pipeline Co is currently pumping 200,000 bpd into storage tankers in the Turkish port of Ceyhan. It said current plans forecast the BTC would be pumping 300,000-400,000 bpd by the end of the year.

Georgia's Black Sea port of Batumi increased oil and refined product shipments in May due to new volumes of Azeri crude, including deliveries by ExxonMobil. The volumes increased to 1.403 million tons in May this year from 1 million tons in May 2005.

ExxonMobil has provisionally booked a 35,000 ton or 300,000 barrel cargo to export gasoline from Japan to the US amid declining domestic demand. ExxonMobil is looking to place the medium ranged cargo for late June loading to the US West Coast.

Industry and trade sources stated that China would continue to import jet fuel into the second half of the year, lending support to world values amid strong demand growth and a shift toward diesel. China is expected to import 4.8 million tons or 104,000 bpd of the fuel this year, up 50% on the year. Half of the volume remains to be bought in the second half.

Production News

Two berths at Iraq's Khor al-Amaya offshore oil terminal in the Gulf are still out of service following a fire on May 26.

According to a Reuters survey, OPEC's production increased by 250,000 bpd in May to 29.86 million bpd. It attributed the increase to higher output from a new field in Nigeria while Saudi Arabia increased its production following cut in April. The ten OPEC members produced 27.96 million bpd of oil in May, up 300,000 bpd on the month. Output from a new field offshore Nigeria helped to lift the country's production to 2.29 million bpd in May while Saudi Arabia increased its output by 100,000 bpd in May to 9.4 million bpd. Meanwhile, Iraq's oil production fell by 500,000 bpd to 1.95 million bpd.

Russia's Economy Ministry reported that the country's oil production would not exceed 10.2 million bpd in 2009 even in the most favorable economic environment. Russia's current oil production stands at 9.63 million bpd and is expected to increase to an average of 9.7 million bpd this year, which would be an increase of 2.7% on the year.

Russia's Energy Ministry reported that Russia's gasoline exports in January-April fell by 9.2% on the year to 1.767 million tons while gas oil exports increased by 9.6% to 10.971 million tons. Its fuel oil exports increased by 7% to 10.651 million tons while jet kerosene exports increased by 43.1% to 445,000 tons.

Brazil's Petrobras and Spain's Repsol are ready to start production at Brazil's largest oil rig. The rig is expected to produce 180,000 bpd of oil. The rig is expected to help cut Brazil's dependence on oil imports.

Russia's Rosneft won the rights to explore a field in East Siberia, further increasing its reserves base near the rout of Russia's future pipeline to Asia. Rosneft spent 1.21 billion roubles or \$45.32 million to buy the rights for the Danilov oil deposit with potential reserves of 70.7 million tons or 518 million barrels of oil and 57 billion cubic meters of gas.

OPEC's news agency reported that OPEC's basket of crudes increased to \$66.48/barrel on Monday from \$65.01/barrel on Friday. It also reported that OPEC's basket of crudes increased by 96 cents/barrel to \$65.05/barrel in the week ending May 29.

Market Commentary

Unlike Monday's trading session, which saw the crude market gap higher, Tuesday's trading session saw the market gap lower from 72.10 to 71.60 amid the signs of a more conciliatory tone from Iran. Iran's chief nuclear negotiator, Ali Larijani said the proposal offered by the world powers has some positive points. The market sold off to a low of 71.35, where it held support. The market bounced off that level and traded to 72.00 and settled in a sideways trading pattern with light volume trading. The market later breached the 72.00 level late in the session amid the reports stating that Iran's threats should not be dismissed. The market rallied to a high of 72.65 ahead of the close and settled down 10 cents at 72.50. Volume in the crude market was light with 194,000 lots booked on the day. Meanwhile, the gasoline market gapped lower from 216.00 to 214.00, its intraday low. The market however bounced off its low and rallied to 216.75 and settled in a sideways trading range as earlier reports of a refinery fire at Total's Antwerp refinery confirmed that the fire was under control and the fluid catalytic cracking was not affected by the fire as originally reported. The market later breached its resistance level and rallied to a high of 218.75 ahead of the close. It settled up 1.46 cents at 217.88. The heating oil market also gapped lower from 203.25 to 201.30 in follow through selling in the crude market. The market bounced off its low of 201.00 and backfilled its gap as it traded to a high of 204.80 ahead of the close. It settled down just 1 point at 204.26. Volumes in the product markets were light with 27,000 lots booked in the gasoline market and 29,000 lots booked in the heating oil market.

The crude market will seek further direction from the weekly petroleum stock reports, which are expected to show draws in crude stocks of less than 500,000 barrels and builds of about 1.5 million barrels in gasoline stocks and builds of close to 2 million barrels in distillate stocks. If the market continues to see the builds in product stocks, the markets are seen trading lower. The market is seen finding some support at its low of 72.05 followed by 71.55 and its low of 71.35. More distant support is seen at

71.15 followed by 70.05. Meanwhile resistance is seen at 72.65 followed by 73.40 and 74.35.

Technical Analysis		
	Levels	Explanation
CL	Resistance	73.40, 74.35
		72.65
	Support	72.05, 71.55, 71.35
		71.15, 70.05
HO	Resistance	210.70
		204.80, 206.25 to 206.30
	Support	204.00, 202.00, 201.00
		199.70, 195.00
HU	Resistance	223.00
		218.75
	Support	216.50, 214.00
		212.11, 208.75, 206.25

Previous highs
 Tuesday's high
 Tuesday's low
 Previous lows
 Tuesday's high, Remaining gap (May 15th)
 Tuesday's low
 Previous lows
 Monday's high
 Tuesday's high
 Tuesday's low
 38% and 50% (194.50 and 223.00), Previous low