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## ***ENERGY RISK MANAGEMENT***

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### **ENERGY MARKET REPORT FOR JUNE 8, 2006**

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Iran's President Mahmoud Ahmadinejad said it was ready to renew negotiations to clear up misunderstandings. He stated that Iran was not willing to abandon its nuclear rights. He said any talks over its nuclear program must be in a fair atmosphere and threats would not work. However some analysts said his speech reflected a greater readiness in Iran to hold talks over the country's nuclear ambitions. His speech was his first public comment since proposals backed by six world powers with the aim of defusing the nuclear standoff were presented to Iran on Tuesday. Although Iran has stated that it would not give up enriching uranium, Iranian

officials have hinted that that it may be willing to negotiate over its plans for industrial scale enrichment. Iran's President however did not state whether Iran accepted the proposal. Meanwhile, Iran's Oil Minister Kazem Vaziri-Hamaneh said he hoped that the nuclear dispute would not push Iran

#### Market Watch

Goldman Sachs said its Goldman Sachs Commodity Index would gradually replace the NYMEX unleaded gasoline futures contract with the Reformulated Gasoline Blendstock or Oxygen Blending or RBOB futures contract. Goldman Sachs is expected to roll from the HU contract to the RB contract over the period from August to October. One third of the portion of the GSCI attributable to the HU contract would be rolled into the RB contract during each of the regularly scheduled GSCI roll periods in August, September and October.

A communiqué scheduled to be issued by G8 countries this weekend is expected to state that high oil prices may damage the world economy more in the future than they have done so far. It however stated that world economic growth is currently strong. It is expected to state that the high and volatile prices as well as widening world imbalances, remain a threat that must be tackled.

JP Morgan Securities increased its 2006 and 2007 average Brent price forecasts to \$67.10/barrel and \$52.60/barrel, respectively. It said prices may continue to increase in the third quarter partly due to hurricane risks and US product specification changes.

Brazil loaded 14 vessels, including six for the US, with 139,803,719 tons of ethanol in May. In April, Brazil loaded 11 vessels with 86,047,068 tons of ethanol.

Tropical Storm Risk, a London based group of scientists, said they expected 14 tropical storms during this year's Atlantic storm season. It said eight of the storms would be hurricanes and three would be intense hurricanes. It said four tropical storms are forecast to make landfall in the US, two of them hurricanes.

A bi partisan group of US legislators said it would urge Congress to pass a non-binding resolution directing that the US obtain 25% of its energy from renewable sources by 2025.

A senior Finance Ministry official in India said the increase in domestic retail fuel prices may impact inflation and pose a risk to growth.

to use reserves of oil and gas as leverage in the dispute. His comments were similar to those of Yahya Rahim-Safavi, commander in chief of the Revolutionary Guards said that Iran was not seeking to make trouble in the region or imperil world energy supplies. However the commander in chief said he agreed with comments made by the Supreme Leader Ayatollah Ali Khamenei that world energy flows could be endangered if the US made a wrong move against Iran.

Separately, UK's Prime Minister Tony Blair said the US offer to engage in direct talks with the Iranian government was a significant step toward solving the standoff over Iran's nuclear program. He however did not comment on Iranian's President Mahmoud Ahmadinejad's statement that Iran was ready to discuss mutual concerns over its nuclear program.

The IAEA stated that Iran started a fresh phase of uranium enrichment this week as the EU presented it with a package of incentives to halt its nuclear program. It also stated that Iran was installing more cascades of centrifuge enrichment machines.

The Movement for the Emancipation of the Niger Delta said five South Korean workers taken hostage in Nigeria were freed on Thursday after being held for 40 hours in captivity. The hostages were released to custody of Senator David Brigidi, an ethnic Ijaw member who has spoken out in favor of securing greater local control of oil wealth. They were released at the request of jailed leader Mujahid Dokubo-Asari.

Iraq's al-Qaeda leader, Abu Musab al-Zarqawi, was killed in a US air raid north of Baghdad. According to analysts, the death of Abu Musab al-Zarqawi would not bring more security to the oil sector in the country, where political instability and violence would continue to hamper exports and investment. An analyst at the Center for Global Energy Studies said insurgents were more to blame for attacks on energy infrastructure than al-Qaeda. Deputy Prime Minister Barham Salih said Iraq aimed to double its production in four years to 4.3 million bpd. Oil officials stated that they could not increase production alone, but most foreign firms were holding back from investing until security improved and the new government passed a proper legal framework.

Separately, Iraq's parliament approved on Thursday Prime Minister Nuri al-Maliki's candidates for new interior and defense ministers. It approved Jawad al-Bolani, a Shi'ite as interior minister and General Abdel Qader Jassim, a Sunni as defense minister.

According to Oil Movements, OPEC is expected to increase its oil shipments by 210,000 bpd in the four weeks ending June 24 to 24.85 million bpd, up from 24.64 million bpd in the four weeks ending May 27.

According to Friedman Billings Ramsey, US gasoline demand estimates may be understated by the US DOE. The bank stated that it should refine its sampling surveys to account for increased ethanol blending after this year's MTBE phase out and added that the corrections to production could result in higher gasoline demand estimates by the DOE.

### **Refinery News**

ConocoPhillips shut a crude unit and cut rates at its 233,000 bpd refinery in Sweeny, Texas.

PDVSA said a fluid catalytic cracking unit, alkylation and oxygenate unit were shut at its 130,000 bpd El Palito refinery following a regenerator failure.

Deer Park Refining LP shut equipment associated with a fluid catalytic cracking unit on Thursday, a move that may reduce gasoline production from the refinery. An electrical short in a motor resulted in an emergency shutdown of its cat feed hydrotreating unit.

ExxonMobil Corp has fixed a Suezmax tanker to return 500,000 barrels of Cerro Negro heavy synthetic crude from a storage facility on the Caribbean island of St. Lucia to the Jose terminal in Venezuela. This prompted speculation among crude oil traders that it could be related to the deteriorating commercial relationship between Exxon and Venezuela or the tightening crude oil storage situation in the Caribbean.

Nippon Oil Corp restarted its 27,000 bpd hydro catalytic cracker in Hokkaido after it was forced shut due to a fire. Crude runs at the 180,000 bpd crude distillation unit at its Muroran refinery were cut to half capacity following the fire but have since returned to normal.

China's Energy Research Institute under the National Development and Reform Commission said the country would push ahead with filling its oil tanks for strategic reserves by the end of the year. It said the government would obtain oil for the reserves from domestic production and overseas fields where Chinese oil companies have stakes. Some industry sources had stated that China may delay filling its reserves due to high prices and limited government funds.

A group of companies running Kazakhstan's Kashagan oil field is conducting a feasibility study into a \$4 billion transportation system that would take the field's oil to the Baku-Tbilisi-Ceyhan pipeline. Meanwhile, Kazakh President Nursultan Nazarbayev said the country would sign an agreement next week to pump its oil through the Baku-Tbilisi-Ceyhan pipeline. However he reaffirmed his country's commitment to send the bulk of its oil through Russian routes.

### **Production News**

Iran's Oil Ministry said the world oil market was losing stability as consuming countries' strategic oil reserves increase by about 1 million bpd. It said OPEC's continued production of oil at the current levels would raise the level of reserves substantially and make the international oil market more fragile.

The Norwegian Petroleum Directorate said the country's oil production increased to 2.38 million bpd on average in May, up from 2.22 million bpd reported in April.

Singapore's International Enterprise said the country's middle distillate stocks fell by 305,000 barrels on the week to 7.136 million barrels in the week ending June 7. It reported that light distillate stocks increased by 99,000 barrels to 7.177 million barrels while residual fuel stocks increased by 588,000 barrels to 10.398 million barrels on the week.

OPEC's news agency reported that OPEC's basket of crudes fell by 50 cents/barrel to \$65.43/barrel on Wednesday from \$65.93/barrel on Tuesday.

Pemex stated that Mexico narrowed its July discount on exports of Maya crude to the US Gulf coast by 40 cents to \$4.85/barrel under the monthly adjustment to its oil export price formula. The discount on exports of Maya crude to the US West Coast was also narrowed by 40 cents to \$11.10/barrel. The discount on exports of lighter Isthmus crude was widened by 20 cents to \$4.95/barrel, while the premium on Olmeca crude was cut by 45 cents to \$0.25/barrel. For Europe, the discount for Maya crude was widened by 20 cents to \$3.40 while the discount on the Isthmus crude was widened by 40 cents to \$2.81/barrel.

The IEA stated that China's gas demand was growing by more than 14% on the year and looked set to grow into one of the world's largest markets for gas in less than two decades. It stated that by 2010, gas consumption is expected to reach about 60 billion cubic meters a year, up from 47 bcm in 2004. The Chinese government's target is for gas consumption to increase to 200 bcm by 2020. The IEA also stated that countries would become more reliant on gas imports from Russia and the Middle East to meet rising power generation demand. Europe would see its dependence on imports from outside the OECD surge from 40 to nearly 50% by 2010. North American imports would grow from close to zero to about 10% by 2010. The IEA warned that Russia's Gazprom would struggle to meet the needs of western customers unless it increased its investment in production.

### **Market Commentary**

The oil complex opened lower following the news of militant Abu Musab al-Zarqawi's death in Iraq. The crude market gapped lower from 70.50 to 69.75 as it continued to sell off in follow through selling seen in overnight trading on Access. The July crude contract remained pressured and sold off to a low of 69.10. However the market later bounced off its low and retraced its sharp losses. The market partially backfilled its gap as it rallied to a high of 70.45 ahead of the close. The market's turnaround late in the session reflected a reassessment that while al-Zarqawi's death was a victory for the US and Iraqi forces, it would do little to stem the violence in the country. The market settled up 47 cents at 70.35. Volume in the crude market was good with 259,000 lots booked on the day. Meanwhile, the gasoline market settled down 2.18 cents at 210.22 following the news that Goldman Sachs would change the composition of its Goldman Sachs Commodity Index to reflect the transition from unleaded gasoline to RBOB on the NYMEX. The market sold off to a low of 204.50. However the market bounced off its low and rallied to a high of 211.00 ahead of the close. The heating oil market traded mostly sideways early in the session as it found good support at its low of 195.50. However, the market later retraced its losses and rallied to a high of 199.10 ahead of the close. It settled down 98 points at 198.56. Volumes in the product markets were good with 46,000 lots booked in the gasoline market and 65,000 lots booked in the heating oil market.

The oil market on Friday is seen further retracing Thursday's earlier losses as traders position themselves ahead of the weekend. The market is seen finding support at 69.95, 69.50 and its low of 69.10. More distant support is seen at its low of 68.40. Meanwhile resistance is seen at 70.45

followed by its previous highs of 71.90, 72.65 and 73.40.

<b>Technical Analysis</b>		
	<b>Levels</b>	<b>Explanation</b>
<b>CL</b> 70.35, down 47 cents	<b>Resistance</b> 71.90, 72.65, 73.40 70.45	Wednesday's high, Previous highs Thursday's high
	<b>Support</b> 69.95, 69.50 69.10, 68.40	Thursday's low, Previous low
<b>HO</b> 198.56, down 98 points	<b>Resistance</b> 202.00, 204.80, 206.25 to 206.30 199.10	Previous highs, Remaining gap Thursday's high
	<b>Support</b> 197.00, 195.50 195.00, 192.50	Thursday's low Previous lows
<b>HU</b> 210.22, down 2.18 cents	<b>Resistance</b> 215.75, 218.75, 223.00 211.00	Previous highs Thursday's high
	<b>Support</b> 208.75, 204.50 203.25, 202.00, 200.00	Thursday's low Previous lows