



ENERGY RISK MANAGEMENT

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ENERGY MARKET REPORT FOR JUNE 14, 2005

OPEC President Sheikh Ahmad al-Sabah said OPEC's Ministerial Monitoring Committee will recommend an increase in OPEC's ceiling of 500,000 bpd from July 1. He also stated that the committee will propose a second increase of 500,000 bpd although such a move would be contingent on prices rising further and if the market needs it. He said OPEC will begin talks on a second production increase only if its reference basket price exceeds \$50/barrel for some time. Earlier he said OPEC should target a price below \$50 for its basket of crudes. He also stated that additional barrels of crude will come from Saudi Arabia, Kuwait and the UAE in July. He said

Market Watch

Goldman Sachs commodities strategists stated that even with record distillate yields, healthy domestic demand and depressed imports owing to strong seasonal demand elsewhere in the world would have prevented large stock builds. It said if demand follows its seasonal norm and ease through the summer, record distillate yields would generate large stock builds, pushing US distillate stocks to near record highs by the end of July.

An official from the EIA said China's increasing investment in oil and natural gas projects in Canada and Latin America is not a concern to the US. A global quest for energy sources to fuel its expanding economy has taken China to Central Asia, Latin America, Africa, the Middle East and even Canada, all areas that the US is counting on to meet its own demand.

BP's chief economist, Peter Davies, said the growth in world oil consumption is showing a slight slowdown in 2005 compared with 2004 though production capacity remains tight.

The administrator for the EIA, Guy Caruso, said the US will need 11 new liquefied natural gas import terminals across the country by 2025 to cope with an expected increase in demand for imports. The US currently has five regasification terminals and five new projects have so far received federal approval. The EIA estimated that LNG imports by the US will increase to 6.4 trillion cubic feet or 25% of US demand by 2025 compared to 15% in 2004.

Saudi authorities hope King Fahd will be discharged from the hospital in the next few days after being hospitalized since May 27.

US Treasury Secretary John Snow said Europe and Japan are not doing enough to drive the world economy and must embark on structural reforms to quicken growth and help address world imbalances.

Venezuela's Oil Minister Rafael Ramirez said Venezuela's government is attempting to determine what proportion of payments owed to oil contractors operating in the country will be paid in the local currency and what portion will be paid in US dollars. The government earlier stated that it would no longer pay the expenses of the foreign oil companies with dollars but would use local currency instead of dollars.

Separately, Venezuela's government has started a tax review of all four heavy crude upgrading projects located in the country's Orinoco River region. The head of the tax agency Seniat, Jose Vielma Mora said companies with operating contracts could own in excess of \$3 billion in taxes.

there will be real oil in the market from now until the fourth quarter to meet demand. Meanwhile, Saudi Arabia's Oil Minister Ali al-Naimi urged consumers not to panic about OPEC's ability to meet demand. However he reiterated that there was no more refinery capacity left to process its spare capacity. Saudi Arabia has few takers of its remaining 1.5 million bpd of crude, most of its high sulfur grades that are difficult for many refiners to use. He urged oil consuming nations to build more refineries. He said Saudi Arabia will continue to produce 9.5 million bpd of crude in July. He also stated that he would prefer to see crude oil prices below \$50/barrel, adding the costs of new oil field developments in the country are rising sharply. He later said he would support a two stage increase in OPEC's output quota but added that such a move above a 28 million bpd ceiling would be contingent on demand. Iran's Oil Minister Bijan Namdar Zanganeh said increasing OPEC's ceiling by 500,000 bpd will not make any difference to the actual market. The move would merely sanction existing supplies. Also, Venezuela's Energy Minister Rafael Ramirez said OPEC should keep its production quota and actual output unchanged as the market is already well supplied. Meanwhile, Qatar's Oil Minister Abdullah bin Hamad al-Attiyah said OPEC should discuss the key issue of increasing oil inventories at its meeting on Wednesday. He said the market is well supplied. Nigeria's presidential adviser on petroleum and energy, Edmund Daukoru, stressed the need for action to try to lower current prices. He said current oil prices are above comfort levels and added that he remains concerned the impact such prices will have on the world economy. He said an option open to OPEC is, in addition to a 500,000 bpd increase, to give OPEC's President the authority to increase the ceiling if prices remain high before the next OPEC meeting in September. The UAE's Oil Minister Mohammed al-Hamili said the country will support any move that would make the market comfortable.

OPEC's Secretary General Adnan Shihab-Eldin said OPEC will leave its forecast for world oil demand this year unchanged, despite revising growth forecasts from China and the US in the second half of the year. OPEC is scheduled to release its monthly oil market report on Thursday.

OPEC's news agency reported that OPEC's basket of crudes increased by \$0.09/barrel on Monday to \$50.83/barrel, up from Friday's \$50.74/barrel.

Several OPEC members further increased the prices they charge US and European traders and refiners for their oil. The decision to increase the costs of actual crude oil from the Middle East has been largely undetected as oil futures prices have remained almost the same. The level of discount to international futures benchmark prices at which the Middle East countries sell their crude to the US and Europe is what has changed. Compounding the increase in Europe is the fall in the value of the euro against the dollar. For US and European consumers, the price increase has driven the cost of a barrel of Middle East oil from \$37/barrel last October to \$50/barrel. OPEC is concerned about increased stockpiles of oil in the US, Europe and Asia, which threaten to reduce the power of the group to determine the timing and volume of its own oil in the market.

The US Chambers of Commerce is urging the Senate to pass a comprehensive energy bill next week. It said the bill would help improve domestic security, ensure the US has adequate and affordable energy, decrease US dependence on foreign oil and create jobs. It pointed out that US demand for energy is outstripping the country's ability to develop and deliver the diverse energy supplies the nation needs to sustain this growth. It urged the Senate to include provisions in the bill that would lift a ban that prohibits oil and natural gas drilling off the coasts of some states.

Refinery News

Valero Energy Corp's Houston refinery is planning online maintenance in Complex 1 on June 23. Complex 1 contains a fluid catalytic cracking unit.

A sour water stripper at Total Petrochemicals USA's Port Arthur, Texas refinery restarted on June 14. The unit's operations were interrupted following the trip of the sulfur recovery unit on Monday. The sulfur unit tripped as a result of an Entergy power interruption to the refinery. Meanwhile, Total plans to shut two diesel hydrotreaters on June 18 for work.

Sudan hopes to finalize a deal with Malaysia's Petronas next month to build a new 100,000 bpd refinery. The refinery will be able to run the country's new Dar Blend crude which is set to reach near its 200,000 bpd peak output by the end of September.

Production News

The US Minerals Management Service reported that US producers had 5,686 bpd of oil and 59 mmcf/d of natural gas production still shut in the Gulf of Mexico on Tuesday. The cumulative amount of crude shut in since Friday stood at 574,747 barrels, while the cumulative amount of natural gas shut in stood at 3.428 bcf.

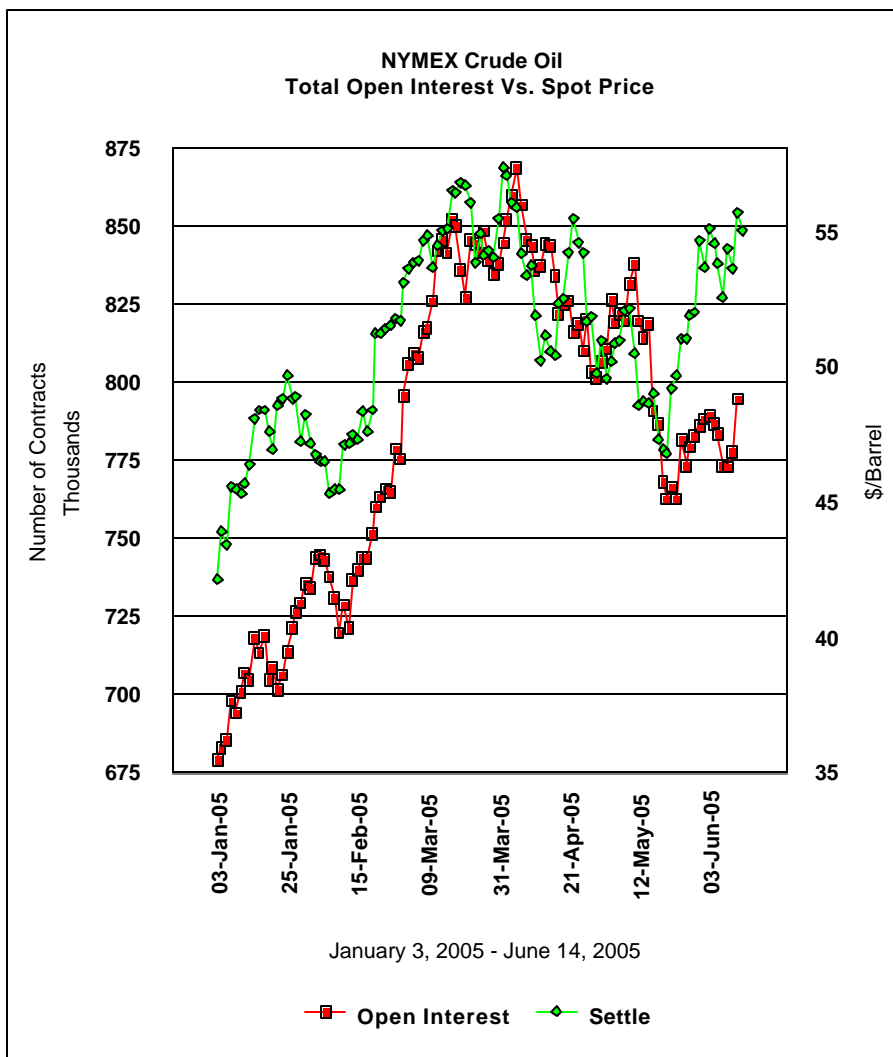
The Houston Ship Channel is scheduled to close from 11am-3pm CDT on Tuesday to remove some submerged dredge pipeline.

A top Iraqi Oil Ministry official said Iraq is still only able to produce about 1.5 million bpd of crude oil.

There is also about 300,000 bpd from the north but it is intermittent. Iraq plans to raise its production in the long term to 6 million bpd but it requires an investment of \$15 billion to \$20 billion.

Nigeria's presidential adviser on petroleum and energy, Edmund Daukoru, said Nigeria will increase its oil production by 500,000 bpd within 18 months. He said Nigeria's Bonga field should produce its first oil in September, adding that within six months the field should be producing up to 200,000 bpd followed by 250,000 bpd within nine months. The Akpo field should add a further 250,000 bpd of oil.

Russia's Industry and Energy Minister reported that Russia's gasoline exports fell by 2.7% on the year to 364,100 tons in May. Russia's gasoline output in May stood at 2.64 million tons, up 3.7% on the year. Meanwhile Russia's diesel



exports increased by 10.7% on the year to 2.415 million tons in May.

Russia's Lukoil plans to increase the capacity of the Varandeya oil terminal on the Barents Sea to 16 million tons of oil by 2007. The company has started work on the expansion, adding that the terminal currently has a capacity of 3 million tons.

Kazakhstan's KazMunaiGaz said its crude production in the first five months of the year increased by 9% to 3.799 million metric tons or about 184,880 bpd. The company has a full year production target of 9.323 million tons. It plans to refine 2.6 million tons of oil, down from 2.9 million tons in 2004.

Ukraine's Naftogaz Ukrainy said Ukrainian oil companies produced 1.728 million tons of crude in January-May, down 1.3% on the year while their natural gas production fell by 0.3% to 8.5 billion cubic meters.

Thailand's PTT Plc said total oil product consumption in January-April increased by 3.3% on the year to 748,900 bpd. Its total petroleum demand increased by 5.7% to 1.181 million bpd while total oil imports increased by 1.4% to 1.029 million bpd.

The director of the Bureau of Fuel Trade and Stockpile at the Department of Energy Business, Poonsub Sakunee said Thailand will lower its mandatory commercial oil stock levels by 5% soon to relieve refiners from some of the financial burden of holding expensive inventories. Thailand currently requires oil companies to maintain an oil stockpile equivalent to 36 days of the country's demand. Thailand consumes about 900,000 bpd of oil, implying a minimum stock level of about 32 million barrels.

Ecuador's central bank reported that the country's oil export revenue totaled \$1.48 billion between January and April, up 34.5% on the year. In terms of volume, Ecuador exported 42.97 million barrels in the first four months of the year, up 5% from the 40.88 million barrels shipped a year earlier.

Market Commentary

The oil market posted an inside trading day after failing to breach Monday's trading range as the market took some profits ahead of the close. The market opened down 32 cents at 55.30 and traded to 55.15 before it tested Monday's high of 55.80. However the market posted a double top at that level as it failed to find further upside momentum. It erased some of its gains and traded back towards its low. The market later breached its earlier low and sold off to a low of 54.83 ahead of the close. It settled down 62 cents at 55.00. The market traded lower as most were awaiting Wednesday's release of the weekly petroleum stock reports and the outcome of OPEC's ministerial meeting. Volume in the crude was good with over 256,000 lots booked on the day. Open interest in the crude market built by a total of 16,629 lots. Open interest in the July contract fell by 10,768 contracts while open interest in the August contract built by 20,499 lots amid the market's rally on Monday. Meanwhile the product markets also settled in negative territory following some profit taking ahead of the close. The heating oil market continued to drive the complex higher early in the session as it breached Monday's high of 167.90 and traded to a high of 168.00. However the market later gave up its gains and settled in a sideways trading range. The market later breached its support and sold off to a low of 163.50 ahead of the close. It settled down 2.45 cents at 163.86. The gasoline market also settled down 1.33 cents at 154.09 after the market posted an inside trading day. The market bounced off a low of 154.00 early in the session and quickly posted a double top at its high of 156.70. However the market later erased its gains and tested its low, where it continued to hold good support before further selling pushed it to a low of 153.30 on the close. Volumes in the product markets were good with 51,000 lots booked in the heating oil market 37,000 lots booked in the gasoline market.

The oil market will likely seek further direction from the weekly petroleum stock reports which are expected to show a small draw in crude stocks of less than 500,000 barrels, a build in distillate stocks of about 1.5 million barrels and a small build of about 500,000 barrels in gasoline stocks. The market will however most likely shrug off OPEC's decision as it is expected to simply legitimize its overproduction as it increases its output ceiling by 500,000 bpd. Also, while OPEC is expected to propose a second increase in production of 500,000 bpd, the ministers have stated that most of the spare capacity is made up of high sulfur crude, which is difficult to refine amid the lack of refining capacity. The market is seen finding resistance at its high of 55.80 followed by more distant resistance at 57.00 and 57.20. Meanwhile, support is seen at its low of 54.83, 54.52, 54.13 and 53.73. More distant support is seen at 53.50 and 53.35.

Technical Analysis		
	Levels	Explanation
CL 55.00, down 62 cents	Resistance 57.00, 57.20 55.80	Previous highs Double top
	Support 54.83, 54.52, 54.13, 53.73 53.50, 53.35	Tuesday's low, 38% (52.45 and 55.80), 50%, 62% Monday's low, Previous low
HO 163.86, down 2.45 cents	Resistance 172.38 168.00	Basis resistance line Tuesday's high
	Support 163.50 161.00, 160.55	Tuesday's low Monday's low, Previous low
HU 154.09, down 1.33 cents	Resistance 162.40, 163.64, 164.50 156.70, 158.30-158.40	Previous high, Basis resistance line, Previous high Double tops
	Support 153.30, 152.65 150.50, 149.00	Tuesday's low, Monday's low Previous lows