



## ***ENERGY RISK MANAGEMENT***

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### **ENERGY MARKET REPORT FOR JUNE 14, 2007**

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Iran warned it may reconsider its cooperation with the UN's IAEA if further sanctions were imposed against the country. Iran's ambassador to the IAEA, Ali Asghar Soltanieh said Iran has mastered the means to enrich uranium for nuclear fuel and added that world powers had to accept the fact instead of trying to stop the work through sanctions.

Separately, the head of the UN's IAEA, Mohamed ElBaradei urged Iran to stop expanding its uranium enrichment in

#### Market Watch

A source said Palestinian President Mahmoud Abbas would shortly issue a decree dissolving the Palestinian government and declaring a state of emergency across the West Bank and Gaza Strip.

According to an analyst, WTI may maintain or widen its discount to Brent oil until 2009 due to pipeline bottlenecks in Cushing, Oklahoma. WTI has been at a discount to Brent since February. The analyst said the bottleneck at Cushing was a key constraint. Inventory in Cushing fell by 131,000 barrels to 26 million barrels in the week ending June 8 however stock remained about 15% above last year's level. He said the shortage of capacity to transport WTI could be alleviated by the construction of a new pipeline or the reversal of the Seaway pipeline.

Iran started the first phase of its gasoline rationing on Thursday. Fuel station workers were implementing the first stage of rationing to limit government owned cars to 300 liters a month. However they were not sure what would happen if drivers of such cars wanted to purchase fuel above that amount. Some lawmakers said fuel above the rationed amount would be offered at market rates but no official announcement has been made.

The Labor Department said higher energy costs increased producer prices 0.9% in May. Excluding volatile food and energy costs, producers prices increased by 0.2%. Core producer prices were up 1.6% from a year ago.

China's industrial output increased by 18.1% on the year in May, above market forecasts of 17.1%, increasing the prospect for further policy tightening. China's economy expanded 11.1% in the first quarter compared with a year earlier. Economists noted that figures so far pointed to another quarter of double digit growth. Among possible policy measures, China could increase interest rates for the third time this year and increase the proportion of deposits that banks must hold in reserve instead of lending out for the sixth time this year.

China's State Media reported that China has urged office workers to dress down so that air conditioners could be turned down to save energy. Last year, China vowed to cut energy consumption for every unit of economic activity by 20% by the end of 2010. However economic growth has so far defied the target.

Platts announced last Friday the North Sea's Forties crude blend would have to meet certain quality parameters to remain part of its market assessment. Dealers said the decision left the physical crude market in turmoil. Platts said the changes were necessary to preserve the integrity of its pricing assessments for benchmark North Sea crude grades. Under its new criteria, Forties would be considered one of the four North Sea benchmark grades if it has a minimum API gravity of 37 degrees and a maximum sulphur content of 0.6%.

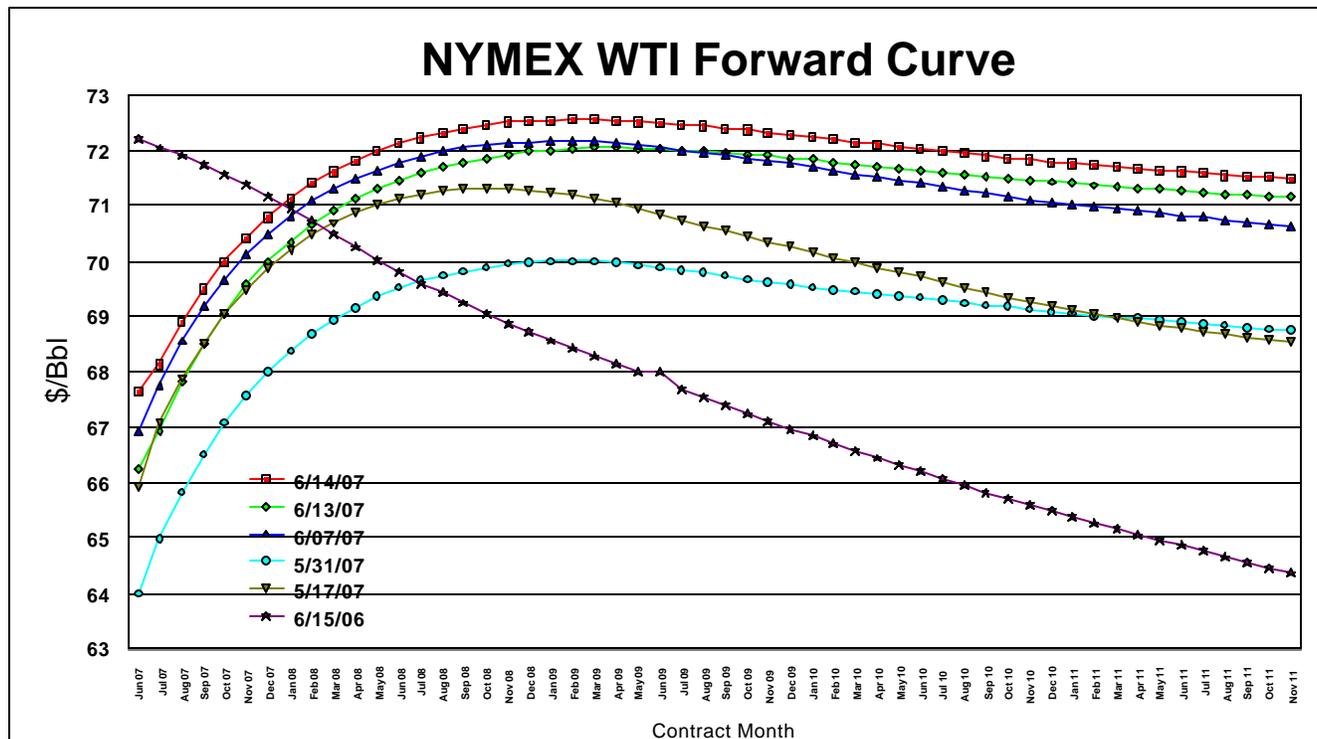
order to ease a standoff over its nuclear program. He said the standoff was leading to confrontation but cautioned that an attack on Iran over its refusal to freeze its nuclear program would be an act of madness. He said Iran would likely be running close to 3,000 uranium enriching centrifuges by the end of next month.

OPEC said it cut 83,000 bpd of oil production on the month in May to 30.03 million bpd. It reiterated that it saw no need to supply additional crude to world markets. It however said it stood ready to increase its supply if needed. In its Monthly Oil Market Report, OPEC's outlook for 2007 world oil demand growth was relatively unchanged from its April report, with expectations for growth of 1.3 million bpd or 1.5% over 2006. It said demand for its oil in 2007 was expected to average 30.6 million bpd, down 200,000 bpd on the year. The call on OPEC crude for the third quarter was revised up 210,000 bpd to 30.64 million bpd while the call on OPEC crude for the fourth quarter was revised up 360,000 bpd to 30.98 million bpd.

OPEC's Secretary General Abdalla Salem el-Badri said 12 member OPEC would maintain its daily output of 30 million bpd.

Algeria's Energy and Mines Minister Chakib Khelil said OPEC is expected to keep its output ceiling unchanged when it meets in September because the world oil market was well supplied. He said oil prices were supported by reduced refinery capacity, strong demand and geopolitical crises.

The head of the EIA, Guy Caruso said despite the recent increase in US gasoline imports, inventories would likely remain tight for the rest of the summer which would continue to support prices. He said gasoline imports at or above 1.2 million bpd would likely be needed to avoid persistent pressure on gasoline prices. He said retail gasoline prices should ease some over next month but then increase again towards the end of the summer as demand increases.

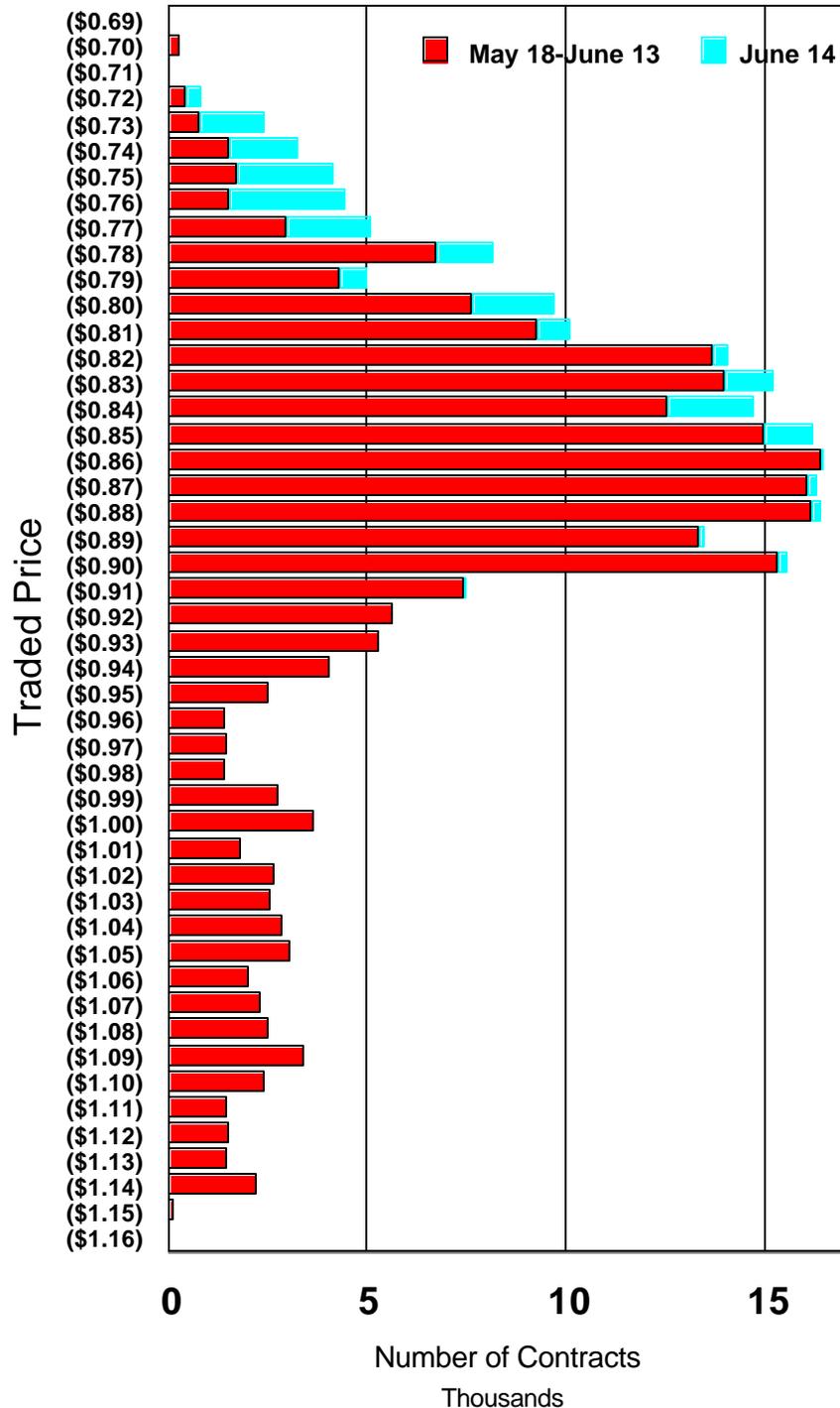


Oil Movements reported that OPEC's oil exports, excluding Angola, is expected to increase by 190,000 bpd in June to 24.19 million bpd.

## NYMEX WTI: August September Spread

Price Vs Volume for May 18 - June 14, 2007

Trade Weighted Avg: 6/14 -.786 6/13 -.886 6/12 -.899 6/11 -.85 6/8 -.80



A Nigerian court freed on bail former militia leader Mujahid Dokubo-Asari, meeting a demand by armed groups. The release of the former militia leader came after militant groups freed hostages, declared a truce and said they were willing to talk with the government of newly inaugurated President Umaru Yar'Adua.

### Refinery News

A fluid catalytic cracking unit at Citgo Petroleum Corp's Corpus Christi, Texas refinery was in restart mode following an unplanned shutdown. It is expected to be at normal rates by Saturday morning.

Flint Hills Resources was restarting a fluid catalytic cracking unit and a sulfur recovery unit at the east plant of its 288,000 bpd Corpus Christi, Texas refinery on Thursday. The units were shut last Friday for repairs to a fluid catalytic cracking unit regenerator. The restart could last through Monday.

Neste Oil's new diesel unit at its 200,000 bpd Porvoo refinery has started operations following a 2 month delay. The unit has been operating at more than 50% of its capacity since last weekend.

According to China's National Bureau of Statistics, refiners processed 27.96 million tons or 6.58 million bpd in May. It was up 9.7% on the year, the fastest growth rate in 11

months. Refinery throughput rates over the first five months of the year increased 6.5% to 132.79 million tons or 6.42 million bpd.

Saudi Aramco has restarted its 350,000 bpd crude unit at its Ras Tanura refinery following scheduled maintenance. Separately, Saudi Aramco is expected to build an estimated \$8 billion refinery in Ras Tanura to meet rising domestic demand. The refinery would be the fourth new facility planned in the country, which would increase total capacity to about 3.5 million bpd by 2012. The refinery would process 400,000 bpd of crude.

According to ED&F Man said Brazil's 2007-08 ethanol exports are expected to be below 2006-07's export amount of 3.7 million cubic meters due to an expected cut in US import demand.

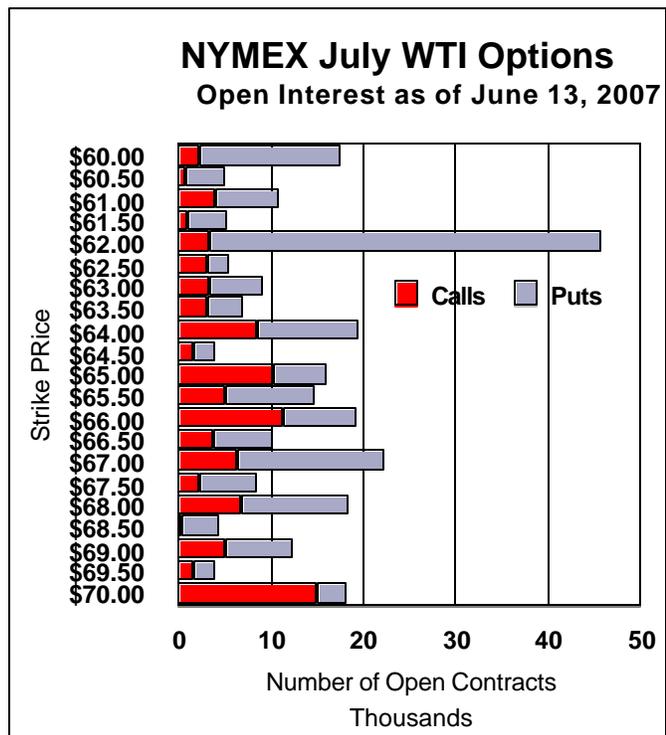
### **Production News**

The average loading rate of the nine main North Sea crude systems increased by 16% in July to 77.92 million barrels of 2.515 million barrels.

The loading plan for Norway's North Sea Troll oil system increased to 181,000 bpd in July, up from 159,000 bpd the previous month.

Gasoline stocks in independent Amsterdam-Rotterdam-Antwerp storage tanks fell 8,000 tons to 656,000 tons in the week ending June 14. It was down from 765,000 tons reported last year. Gas oil stocks increased for the second week by 61,000 tons to 1.915 million tons. Gas oil stocks were 235,000 tons above year ago levels. Fuel oil stocks increased by 11,000 tons to 510,000 tons while naphtha stocks fell by 62,000 tons to 39,000 tons and jet fuel stocks increased by 8,000 tons to 368,000 tons.

Trade sources stated that German consumer heating oil stocks stood at 53% of capacity as of June 1, unchanged on the month amid high prices. Stocks stood at 47% of capacity last year. A mild European winter has left an overhang of heating oil stocks though export options have helped to prevent a collapse in prices relative to crude.



Russia is expected to cut its oil exports by about 170,000 bpd in the third quarter of 2007. Traders said oil firms would increase domestic refining amid record high crude export duties. Russia's overall seaborne and pipeline exports to countries outside the former Soviet Union would amount to 4.06 million bpd, down from 4.23 million bpd in April-June.

Singapore's International Enterprise said the country's residual fuel stocks fell by 1.017 million barrels to 12.632 million barrels in the week ending June 14. It also reported that Singapore's light distillate stocks built by 444,000 barrels to 9.503 million barrels while middle distillate stocks built by 685,000 barrels to 7.784 million barrels on the week.

China is expected to build more oil tankers to meet the demand from rising imports and reduce

its dependence on foreign carriers. China imported 145 million metric tons of crude last year, 90% of which was transported by ship. However domestic tankers shipped only 16% of the crude in 2006.

OPEC's news agency reported that OPEC's basket of crudes increased to \$65.56/barrel on Wednesday from \$65.39/barrel on Tuesday.

Russia's Gazprom said it could raise its production to 670 billion cubic meters a year by 2020 rather than the planned 590 bcm, if needed.

### **Market Commentary**

Prices continued higher today, aided by tensions in the Middle East. The July crude oil is now trading out of the area of consolidation and prices are at their highest level since the beginning of May. Upon examination of the spot continuation chart and using the high of 78.40 and the low of 50.28, prices are now above the 62% retracement level of 67.66. For tomorrow's action, we would look for a pull back in before continuing higher. We would continue to buy and sell against the listed support and resistance numbers. Resistance: 68.15, 68.47, 68.65, 69.03 and 69.59. Support: 67.66, 67.42, 66.95, 66.68 and 66.15. As mentioned in yesterday's wire we liked selling the July/Aug spread against buying the Aug/Sept spread.

This butterfly has moved out 10 cents since yesterday and should have at least 15 cents left in it. Meanwhile

<b>Technical Levels</b>			
	<b>Levels</b>	<b>Explanation</b>	
<b>CL</b>	<b>Resistance</b> 67.65, up \$1.39	68.15, 68.47, 68.65, 69.03, 69.59 67.89	Thursday's high
	<b>Support</b>	67.66, 67.42, 66.95, 66.68, 66.15 65.95, 64.91	Thursday's low, Previous low
<b>HO</b>	<b>Resistance</b> 201.61, up 5.41 cents	206.75 202.27	Previous high Thursday's high
	<b>Support</b>	200.00, 198.85, 197.17, 195.60, 195.71 194.02, 190.42	38%, 50% retracement (188.92 and 202.27), Thursday's low 62% retracement, Previous low
<b>RB</b>	<b>Resistance</b> 222.47, up 6.94 cents	223.00, 223.46, 226.46, 227.00 222.94	Previous highs Thursday's high
	<b>Support</b>	222.00, 220.40, 218.50, 215.00 210.16	Thursday's low Previous low

, the product markets ended sharply higher once again. The RBOB market settled up 6.94 cents at 222.47 after the market rallied over 7.4 cents to a high of 222.94. The market bounced off a low of 215.00 and never looked back. It retraced more than 50% of its move from a high of 234.19 to a low of 210.16. The market was well supported despite reports stating that refineries were restarting their fluid catalytic cracking units. The market seemed to still be focused on Wednesday's release of the weekly petroleum stock reports. The heating oil market also traded off a low of 195.71 early in the session and continued to trend higher in follow through strength seen on Wednesday. The market extended its gains to over 6 cents as it posted a high of 202.27 late in the session. It settled up 5.41 cents at 201.61. The markets will likely retrace some of their sharp gains on Friday. However their gains are seen limited ahead of the weekend. The RBOB market is seen finding support at 222.00, 220.40, 218.50, 215.00 and 210.16. Resistance is however seen at its high of 222.94 followed by 223.00 and 223.46, 226.46 and 227.00.

Tomorrow is last trading day for July crude oil options. There appears to be no on single strike that this market may gravitate towards by the close of trading tomorrow.