



ENERGY RISK MANAGEMENT

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ENERGY MARKET REPORT FOR JUNE 15, 2005

OPEC agreed to increase its formal production limits by 500,000 bpd to 28 million bpd starting July 1. OPEC ministers also authorized OPEC President Sheikh Ahmad al-Fahd al-Sabah to consult on triggering a further 500,000 bpd increase should prices remain high in late July or early August. An OPEC delegate confirmed that OPEC is scheduled to meet again on September 19 in Vienna followed by a meeting on December 12 in Kuwait. Separately, an OPEC spokesman said OPEC will launch a reference basket of 11 crude oil grades on Thursday, replacing its current 7 crude basket. The new basket will include crudes from each member and

Market Watch

Boone Pickens said OPEC's decision to increase production quotas would not lower oil prices. He said any production increase will be overwhelmed by a seasonal increase in oil demand through year end. He said oil prices will reach \$60/barrel in three or four months.

The director of the International Center for Energy Studies, Mohammad-Ali Khatibi, said world oil producers will fail to meet rising oil demand in the fourth quarter, sparking oil price rises of up to about \$60/barrel. The Iranian oil analyst said current production of 85 million bpd would be surpassed by projected demand rises to 87 million bpd in the fourth quarter. He said the lack of spare refining capacity in oil consuming countries sparks more instability in world crude markets than the lack of spare production capacity by OPEC and non-OPEC producing countries. He said the rise in oil prices of up to \$60/barrel is likely by the winter. Separately, Iran's Deputy Oil Minister Hadi Nejad-Hosseini said OPEC does not have any additional spare capacity to increase real output.

The US Senate supported a plan to double the use of ethanol in gasoline by 2012, rejecting a move to remove the federal mandate for US refiners to use more ethanol. Lawmakers voted 7-26 for a pro-ethanol amendment. Sen Charles Schumer said the Senate ethanol plan was an unprecedented new ethanol gas tax that would increase gasoline prices and benefit big agribusinesses. The Senate bill would also protect ethanol makers from some liability lawsuits. The Senate will debate the energy bill through next week.

Deutsche Bundesbank President Axel Weber said that oil prices are likely to stabilize.

A German government spokesman said hedge funds will be a topic at the upcoming meeting of the G8 industrialized countries despite US skepticism over German calls for closer regulation of the sector.

India's Oil Minister is scheduled to meet the Prime Minister to discuss an increase in oil prices which have been frozen despite an increase in international prices.

Venezuela's Oil Minister Rafael Ramirez said Venezuela is preparing a reform to the country's income tax that will increase the rate on heavy oil projects in the Orinoco tar belt to 50% from 34%. He added that the Petrozuata Orinoco project is producing 30,000 bpd above the original contract and will have to pay back taxes on that illegal production. The Sincor Orinoco project has already been notified that it will have to pay back taxes on about 100,000 bpd of production that has exceeded the contracted limit.

The US Securities and Exchange Commission requested documents from Citgo, related to a debt repurchase last year. The SEC also requested to see documents related to payments made to certain individuals. If Citgo fails to provide the information, the SEC could launch a formal investigation and subpoena the company for the documents.

will reflect a lower value as it contains more heavier, high sulfur crudes.

OPEC's President Sheikh Ahmad al-Ahmad al-Sabah said consumers should not worry about OPEC's ability to meet demand in the fourth quarter. He said OPEC is willing to oversupply the market and let inventories build more than normal if necessary to stabilize prices and prevent damage to economic growth. He also said he will consult with other OPEC members if OPEC's reference basket remains between \$50-\$52/barrel for over seven days. Saudi Arabia's Oil Minister Ali al-Naimi said OPEC needs to see increased demand for its oil to trigger an additional 500,000 bpd production increase. He said there is no automatic price trigger. He said Saudi Arabia is already meeting demand and can sell no more. He said the market is well supplied and added that a lack of refining capacity was causing a bottleneck in the market. He also said he hoped the new OPEC reference basket price would provide a more accurate reflection of the oil produced by OPEC. Nigeria's Presidential Adviser on Petroleum and Energy, Edmund Daukoru said there was consensus among some OPEC ministers that talks on increasing production would take place is benchmark WTI prices exceeded \$55/barrel for 7-10 days. However, Iran's Oil Minister Bijan Namdar Zangeneh said there was no precise price trigger that had been agreed on. Iran's Deputy Oil Minister Hadi Nejad Hosseinian said world oil prices will not fall because OPEC cannot pump more to satisfy high world demand.

White House spokesman Scott McClellan said that oil prices were still too high.

An OPEC delegate said Venezuela has not asked OPEC to audit the country's oil production, contradicting a report by PDVSA. PDVSA says the country is currently pumping 3.3 million bpd. Industry observers say PDVSA failed to fully recover from a two month strike in 2003. It has also spent billions of dollars of windfall revenue on social programs, leaving the company without enough cash to invest in exploration and production.

Petrologistics estimated OPEC's production in June at 29.5 million bpd, down 1 million bpd from 30.05 million bpd in May. It said Saudi Arabia is producing 9.4 million bpd in June. Meanwhile, Iraq is seen pumping an average of 1.85 million bpd in June, unchanged on the month.

Iraq's Oil Minister Ibrahim Bahr al-Uloum said the country's oil exports in the fourth quarter would be virtually unchanged on the month at 1.5 million bpd. In response, Libya's Oil Minister Fathi bin Shatwan said the news was a shock and made the supply-demand balance far more critical.

OPEC's news agency reported that its basket of crudes increased to \$52.05/barrel on Tuesday, up from \$50.83/barrel on Monday.

The EIA stated that US refiners have shifted away from gasoline and started making greater amounts of diesel and heating oil amid the strong profit margins and robust demand. It reported that US distillate production increased to a record 4.4 million bpd last week as refineries ramped up utilization to 97% of capacity and cut gasoline output. It said it remains optimistic distillate stocks will continue to grow. However it stated that the distillate production rate could come at the cost of gasoline stocks.

The API reported that US distillate demand increased by 7% on the year in May, twice the rate of overall oil demand. Overall oil demand increased 3.5% in May. It said distillate inventories increased by 5 million barrels on the month to 108 million barrels.

The IEA said world oil production and refining capacity should be adequate to meet fourth quarter demand. The IEA's executive director, Claude Mandil said production capacity was set to expand faster than demand, leaving a sufficient supply cushion to meet demand for the fourth quarter. He also stated that refiners will be able to build adequate inventory to meet demand.

Refinery News

Premcor's fluid catalytic cracking unit at its Port Arthur, Texas refinery resumed operations late Tuesday following problems on Saturday. It temporarily shut the unit after a catalyst plugged a line and caused the unit's blower to trip on Saturday.

Nippon Oil Corp said it expected its refineries to increase their average operating rate at 93-94% of capacity in the July-September period.

Chinese refineries processed 6% more crude in May than a year earlier as crude runs stood at 24.56 million tons. Crude throughput in the first five months of the year increased by 8.3% on the year to 121 million tons. Refineries produced 9.23 million tons of diesel in May, up 8% on the year while fuel oil production increased by 10.5% on the year to 1.92 million tons. Gasoline production was however almost unchanged on the year at 4.36 million tons.

India's Hindustan Petroleum Corp Ltd will shut some units at its 152,000 bpd Visakh refinery for maintenance for two months from early July. The complex is operating near capacity ahead of the turnaround.

Production News

Saudi Arabia's Oil Minister Ali al-Naimi said the country is likely to add another 300,000 bpd of light crude to its output in April 2006.

Kuwait's Oil Minister and OPEC's President Sheikh Ahmad al-Sabah said Kuwait's refining capacity is about 970,000 bpd and it operating at full capacity. He said Kuwait has earmarked an expansion of 400,000 bpd possibly this year and added that in 2010, Kuwait will have a refining capacity of 3-3.5 million bpd.

German consumer stocks of heating oil increased to 45% of capacity by June 1 from 44% a month earlier as a fall in prices prompted buying.

Norway's Statoil resumed oil production at its Lufeng field in the South China Sea after an 11 month shutdown. Its output is expected to stabilize at 10,000-20,000 bpd in coming months.

The Petroleum Association of Japan reported that Japan's gasoline stocks fell by 7.6% to 2.125 million kiloliters or 13.33 million barrels in the week ending June 11 compared with the previous week's 2.298 million kl. It reported that gasoline imports increased by 60% to 110,887 kl or 697,000 barrels while exports fell to 46,000 kl from 47,746 kl. It also reported that crude oil stocks increased by 1.137 million kl to 20.742 million kl. The average operating rate of Japanese oil refineries was 74.9%, up from the previous week's 70.5%.

China's National Bureau of Statistics reported that crude oil production in May increased by 5.3% on the year to 15.336 million tons while its crude production in the first five months of the year increased by 5% to 74.809 million tons. Its gasoline production in May increased by 0.5% to 4.357 million tons while production in January-May increased by 3.4% to 22.161 million tons. Its kerosene production in May increased by 7.6% to 811,300 tons while its diesel production increased by 7.9% to 9.231 million tons and its fuel oil production increased by 10.5% to 1.918 million tons.

Market Commentary

The oil market opened 60 cents higher at 55.60 as it shrugged off the news that OPEC decided to increase its production ceiling by 500,000 bpd to 28 million bpd, which merely legitimized its current

production. Ministers also authorized OPEC President to consult on triggering a further 500,000 bpd increase if prices remain high. The market posted an intraday low of 55.40 early in the session as it awaited the release of the weekly petroleum stock reports. The market however quickly bounced off its low and rallied to a high of 56.75 within the first hour of trading following the release of the reports. The energy complex was well supported despite the reports being somewhat bearish. While the DOE reported a draw in crude stocks of 1.8 million barrels, the API reported a build of 4.49 million barrels. Also distillate stocks continued to build amid higher distillate production. The crude market however erased some of its gains and settled in a sideways trading pattern. The market, which was unable to test its early high, later sold off sharply ahead of the close and traded back towards its low. It posted a mostly neutral trading session as it settled near its opening at 55.57, up 57 cents on the day. Volume in the crude was excellent with over 243,000 lots booked on the day. The heating oil market led the complex lower on the close as it settled down 1.75 cents at 162.11. Early in the session, the market traded to a low of 162.80 following the release of the DOE and API reports, which showed larger than expected builds in distillate stocks. However the market bounced off its low and rallied to a high of 167.00. The heating oil market later erased its gains after failing to test its previous highs and sold off to its low of 161.80 on the close as the market seems to have taken a second look at the reports. Meanwhile, the gasoline market bounced off its low of 154.30 and rallied to a high of 158.70 late in the session as it remained supported amid the DOE report showing that refiners seemed to have shifted from making gasoline to producing heating oil. The market later erased some of its gains and traded to 156.00 ahead of the close. It settled up 2.16 at 156.25. Volumes in the product markets were good with 59,000 lots booked in the heating oil market and 49,000 lots booked in the gasoline market.

The oil market may continue to retrace its gains, especially if the heating oil market remains under pressure. Its daily stochastics are also ready to cross to the downside. The crude market which ended up posting a mostly neutral trading session is seen finding resistance at 56.00, 56.75 followed

my more distant resistance at 57.00 and 57.20. However support is seen at 55.40 followed by 55.11, 54.83, 54.60 and 54.09.

Technical Analysis			
	Levels	Explanation	
CL 55.57, up 57 cents	Resistance	57.00, 57.20 56.00, 56.75	Previous highs Wednesday's high
	Support	55.40 55.11, 54.83, 54.60, 54.09	Wednesday's low 38% (52.45 and 56.75), Tuesday's low, 50%, 62%
HO 162.11, down 1.75 cents	Resistance	167.00, 167.90-168.00 164.00, 165.20	Wednesday's high, Double top
	Support	161.80 161.00, 160.55	Wednesday's low Monday's low, Previous low
HU 156.25, up 2.16 cents	Resistance	162.40, 164.50 158.70	Previous highs Wednesday's high
	Support	154.30 153.30, 152.65, 150.50	Wednesday's low Previous lows