



ENERGY RISK MANAGEMENT

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ENERGY MARKET REPORT FOR JUNE 15, 2006

The US and Europe urged Iran to lift the veil of secrecy about its nuclear activities and halt its uranium enrichment, with the US warning continued defiance could result in tough measures by the UN Security Council. Iran's chief

Market Watch

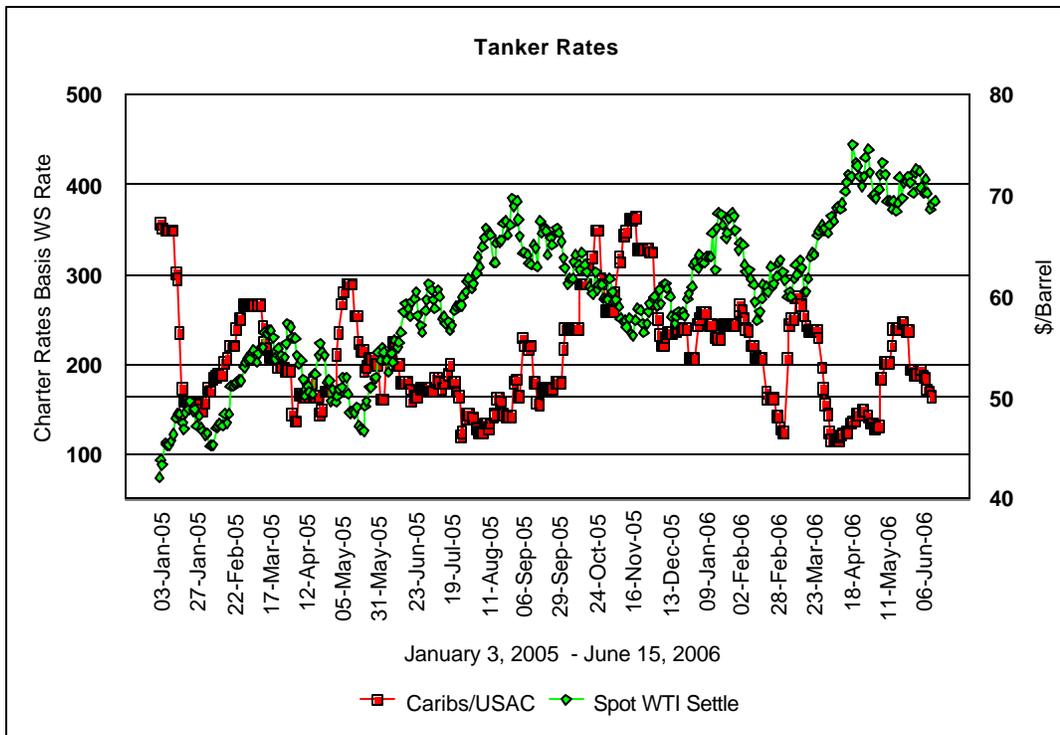
Federal Reserve Chairman Ben Bernanke said US inflation developments bear watching. He stated that energy prices would likely remain elevated for a long time and lead US consumers and business to more significantly alter their behavior. He said the cumulative increases in energy and commodity prices have been large enough that they could account for some of the recent increase in core inflation.

representative, Ali Ashgar Soltanieh said Iran would examine the package. However he warned against the use of threats in trying to persuade Iran to cooperate. Iran said it was ready to negotiate only without any precondition. Meanwhile, Iran's Supreme Leader Ayatollah Ali Khamenei vowed to resist pressure over its nuclear program. Separately, Iran's President attended a summit of the Shanghai Cooperation Organization and offered energy cooperation to China and other countries, avoiding direct mention of its nuclear standoff with the West.

A trade source stated that stocks of Iraqi crude in the Turkish port of Ceyhan have reached 4.47 million barrels, more than enough for Iraq to issue a sell tender. The flow of oil through its northern pipeline was briefly halted on Wednesday but resumed later in the day. Iraq said it planned within days to issue a sales tender for at least 4 million barrels of Kirkuk crude from Turkey's Ceyhan terminal, the first tender since last August. Meanwhile, an industry source stated that Iraq would sell 1.52 million bpd of Basra Light crude in term contract volume during the second half of the year.

Separately, a senior Iraqi oil official said Iraq was studying a plan to export its crude oil produced in its northern oil fields through an Iraqi-Syria pipeline. The plan aims to avoid exporting crude through the northern pipeline to Turkey. The official stated that Iraq's Oil Minister al-Shahristani was planning to form a committee to study the possibility of resuming exports from the pipeline.

Kuwait's Oil Minister Sheikh Ahmad al-Fahd al-Sabah said Kuwait expects world oil prices to stabilize in the near term, while admitting that geopolitical risks would continue to impact prices. He also stated that concern about the coming hurricane season in the US was keeping the market tense. He believed prices would stabilize between \$65-\$70/barrel. Kuwait's Oil Minister also stated that OPEC would not lower its current output ceiling. Separately, Libya's top oil official said OPEC had no option but to leave current crude production levels unchanged as crude prices remain near \$70/barrel.



According to Oil Movements, OPEC's crude exports are expected to remain mostly steady in the four weeks ending July 1 at 24.81 million bpd. It is down from 24.82 million bpd in the four weeks ending June 3 and up from 24.8 million bpd reported in the four weeks ending June 24.

Refinery News

According to a report filed with

the Texas Commission on Environmental Quality, Marathon Oil Corp was restarting a regenerator stack associated with a fluid catalytic cracking unit at its Texas City, Texas refinery.

Valero Energy Corp said a malfunction in a processing unit at its 80,000 bpd refinery in Wilmington, California was not affecting production. The refinery was overhauling a reformer and hydrotreater.

A 22,000 bpd hydrocracker was shutdown at ExxonMobil's 155,000 bpd refinery in Torrance, California after a compressor failed late Wednesday. Los Angeles spot gasoline market sources said Exxon was seen actively buying gasoline on Thursday morning.

The California Energy Commission said gasoline production at the state's refineries remained above 1 million bpd. The refineries averaged daily gasoline production of 1.17 million barrels last week, however an average of 970,000 bpd were of gasoline formulated to meet California's environmental guidelines.

Shell Oil Co said output had not been cut at its 340,000 bpd joint venture refinery in Deer Park, Texas as workers prepared to repair a leak in a hydrogen plant. It said workers were attempting to find a way to repair a leak in a heat exchanger gasket without shutting down hydrogen plant 1, which could cause a cut in gasoline production.

Sweden's Preem has been offering surplus high sulfur gas oil barrels due to an ongoing glitch at a new hydrocracking unit at its 210,000 bpd Lysekil refinery. It has also been offering vacuum gas oil and high sulfur kerosene, instead of the ultra low sulfur diesel produced by the hydrocracker.

Royal Dutch Shell's 500,000 bpd Singapore refinery was operating normally contrary to market talk of technical problems at the refinery.

The startup of Sinopec Group's new 160,000 bpd refinery has been postponed to July due to a technical problem. A company official said crude cargoes arriving at the refinery have been diverted to other places. The refinery may restart importing crude cargoes in July.

Stocks of gasoline, gas oil and fuel oil held in storage tanks in the Amsterdam-Rotterdam-Antwerp are increased over the past week. Gasoline stocks in ARA storage tanks increased by 45,000 tons to 765,000 tons in the week ending June 15th. Meanwhile gas oil stocks increased by 15,000 tons to 1.68 million tons while fuel oil stocks increased by 115,000 tons to 730,000 tons on the week. Naphtha stocks however fell by 15,000 tons to 35,000 tons while jet fuel stocks fell by 25,000 tons to 355,000 tons on the week.

An official at National Iranian Oil Co said it aimed to secure a deal soon to sell half of its Soroush and Nowruz crude production to a domestic plant, allowing it to cut back significantly on floating storage. A deal to sell about 100,000 bpd of the crude to the Bandar Abbas refinery would take up the remaining Soroush/Nowruz supply not committed into term contracts with an Asian and a European refiner sealed this year.

Singapore's International Enterprise said the country's middle distillate stocks fell by 411,000 barrels to 6.725 million barrels in the week ending June 14. It reported that Singapore's light distillate stocks increased by 272,000 barrels to 7.449 million barrels while its residual fuel stocks increased by 2.172 million barrels to 12.57 million barrels on the week.

Russia is expected to increase its oil exports in the third quarter of 2006 to 55.88 million bpd from 52.51 million bpd in the second quarter.

Production News

The average daily loading rate of the nine main North Sea crude oil systems is scheduled to increase about 1.7% in July to 2.663 million bpd from 2.62 million bpd in June.

Statoil said it aimed to produce 1.2 million barrels of oil equivalent/day on average worldwide in 2006 and increase output to 1.4 million boed in 2007. It extended by five years its goal of maintaining Norwegian output at 1 million bpd until 2015.

The Danish Energy Authority said Denmark increased its forecast for oil production from its North Sea fields this year by 7% to 133.3 million barrels or 366,000 bpd. It also forecast its production in 2007 at 123.9 million barrels and 112 million barrels in 2008.

According to Mainland Marketing Research Co, China's crude oil production increased by 2% on the year to 76.3 million tons in the first five months of the year. China's crude production in May increased by 2.5% to 15.7 million tons.

Market Commentary

The crude market continued to retrace its recent losses and gapped higher from 69.40 to 69.70, which it partially backfilled as it traded to a low of 69.60. The market however bounced off its low after it failed to completely backfill its gap and rallied to a high of 70.25. The market was supported amid a broad recovery in commodities, which tumbled earlier in the week on concerns that rising interest rates would slow economic growth. Comments made by an Iranian official that Iran was ready to negotiate only without any preconditions also lent some support to the market. The oil complex was further supported by the strength in the natural gas market following the release of the EIA natural gas storage report, which showed a lower than expected build of 77bcf. The crude market settled in a sideways trading pattern for much of the day before the market breached its support and sold off to a

low of 69.45 ahead of the close. It settled up 36 cents at 69.50. Volume in the crude market was good with over 252,000 lots booked on the day. Meanwhile the gasoline market, which pressured the complex ahead of the close, settled up just 37 points at 203.96. The gasoline market rallied to a high of 207.50 early in the session amid some talk of refinery problem as well as the strength in the natural gas market. It later settled in sideways trading pattern before some selling pressure ahead of the close pushed it to a low of 203.00. The market sold off on some profit taking ahead of the close. Meanwhile, the heating oil market also settled up just 10 points at 193.69 after the market sold off to a low of 193.40 amid the sharp losses seen in the gasoline market. Volumes in the product markets were lighter today with 34,000 lots booked in the gasoline market and 40,000 lots booked in the heating oil market.

The crude market on Friday will likely continue to retrace its late losses and follow through on its strength seen in overnight trading. The market will also hold its support as the market remains concerned over the dispute over Iran's nuclear program. The market is seen finding support at its gap from 69.45 to 69.40 followed by its double bottom at 68.30. Meanwhile resistance is seen at 70.00

followed by its high of 70.25. More distant resistance is seen at its previous high of 71.90.

Technical Analysis		
	Levels	Explanation
CL 69.50, up 36 cents	Resistance 71.90	Previous high
	Support 70.00, 70.25	Thursday's high
	Support 69.45 to 69.40 68.30, 67.85, 67.60, 67.25	Remaining gap Double bottom, Previous lows
HO 193.69, up 10 points	Resistance 196.25 to 198.60	Remaining gap (June 13th)
	Support 196.00	Thursday's high
	Support 193.40 191.50, 189.65, 188.90, 188.00	Thursday's low Previous lows
HU 203.96, up 37 points	Resistance 210.50 to 212.00 204.50, 207.50	Remaining gap (June 13th) Thursday's high
	Support 203.00	Thursday's low
	Support 200.50, 198.00, 197.25	Previous lows