



ENERGY RISK MANAGEMENT

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ENERGY MARKET REPORT FOR JUNE 16, 2005

OPEC reported in its monthly report that it has revised downwards its estimate for 2005 world oil demand by 20,000 bpd to 83.9 million bpd. It is projecting a growth rate of 2.2% or 1.8 million bpd. It said the downward revision to last month's growth estimate resulted from slightly lower expected growth in North America and Western Europe as well as downward revisions to projections for Latin America and the Middle East. It also increased its demand estimates for its crude for the third quarter by 200,000 bpd to 29.1 million bpd and for the fourth quarter by 100,000 bpd to 30.6 million bpd. It said demand for OPEC crude will grow stronger as Russia's oil

Market Watch

The head of the New England Fuel Institute said only 10-15% of heating oil distributors that offered fixed price programs last year will do so this year due to high prices. The high prices and price volatility are also cutting distributor and wholesaler summertime stocking ahead of the winter heating season. The executive vice president of the New York Oil Heating Association said there is a disconnect between supply and demand market fundamentals and heating oil prices.

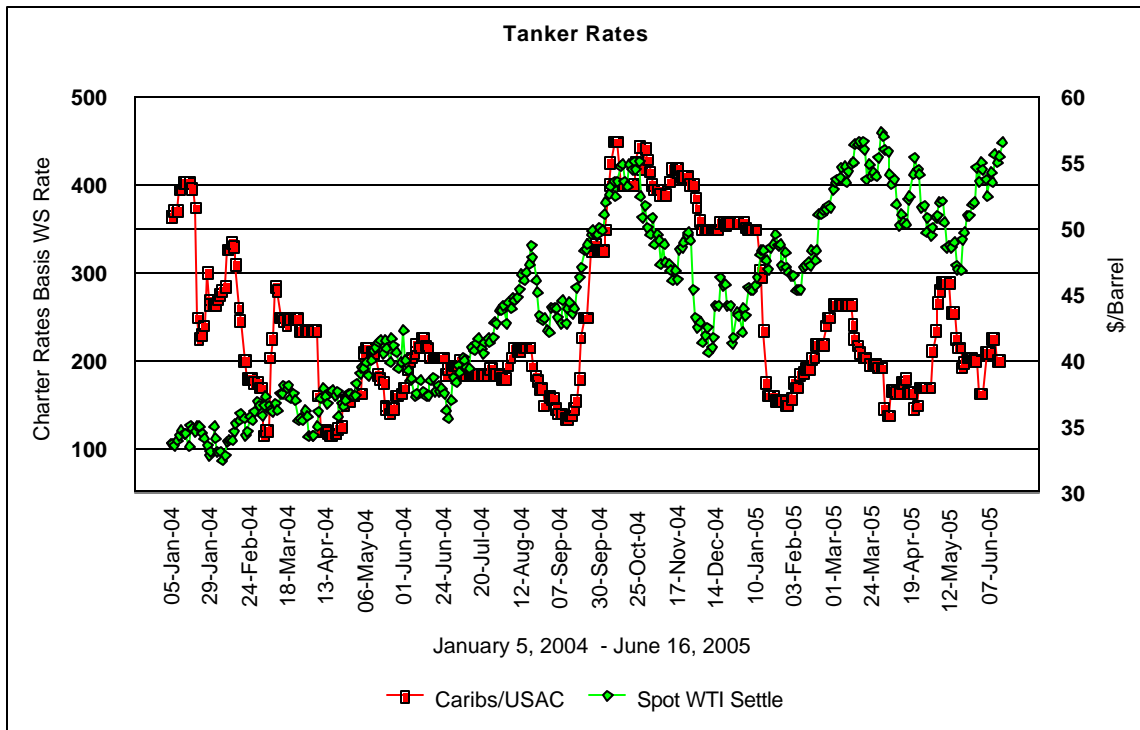
Core VLCC freight rates from the Gulf fell to 20 month lows on Wednesday, due to a surplus of tonnage as OPEC ministers ruled out any immediate real extra oil to the market. Costs have also been hit by seasonally lower second quarter demand.

China's National Statistics Bureau reported on Wednesday that industrial production in China increased 16.6% in May from a year ago. Production in China climbed to a record 570 billion yuan or \$69 billion after a 16% gain in April. The production growth in May exceeded most expectations and was the fastest in three months.

Russia's Economy Minister German Gref said Russia should have budget surpluses through to 2008 but warned that crude earnings were no longer capable of driving economic growth higher. The Economy Ministry recently cut its 2005 growth forecast to 5.8%, however he warned that if a sharp slowdown in the first quarter was not halted, it could fall to 5-5.5% this year and 5-5.2% next year. He also expects oil production growth of 3.5% this year and 2-3% next year, down from an average of 8.5% in 2000-2004. He forecast oil export growth at 5% in 2005 and 3% in 2006, down from an average of 14% in 2000-2004.

The Moscow Arbitration Court postponed until July preliminary hearings on Russia's Yukos' motion to annul the auction of 76.79% of Yuganskneftegaz and to reimburse more than 324 billion rubles in damages suffered as a result of the sale. Separately, Russia's Interfax reported that a Russian court has ruled in favor of Yuganskneftegaz in a 6.15 billion ruble or \$215 million debt claim against Yukos.

India's cabinet committee on economic affairs again deferred a decision on whether to raise diesel and gasoline prices. The government has not allowed oil companies to revise oil product prices since mid-November on fears that a revision may lead to inflationary pressures.



production falls. It also reported that OPEC production in May, including Iraq, increased to 30.2 million bpd, up 97,000 bpd on the month.

OPEC ministers said a capacity crunch on crude

supplies and refinery bottlenecks meant its latest agreement to increase its production was unlikely to cut oil prices. Venezuela's Oil Minister Rafael Ramirez said OPEC's agreement could prove counter productive because it highlighted OPEC's lack of spare capacity. Algeria's Oil Minister Chakib Khelil said he believed prices were likely to remain high. He said there is still a refinery capacity problem. Libya's Energy Minister Fathi Bin Shatwan expressed similar sentiment.

Meanwhile, Saudi Arabia's Oil Minister Ali al-Naimi said Saudi Arabia is ready to supply more oil to world markets if its customers increase their demand. He reiterated that there is no shortage of crude and added that refining bottlenecks had produced a shortage of refined products.

US Energy Secretary Samuel Bodman said OPEC acted responsibly in deciding to increase its official output ceiling by 500,000 bpd. He acknowledged OPEC ministers' argument that limits on refining not crude supply are driving oil prices higher. He said he hopes the US will add new refining capacity.

OPEC's news agency reported that OPEC's basket of crudes increased to \$52.26/barrel on Wednesday, up from \$52.05/barrel on Tuesday.

Mexico's Energy Minister Fernando Elizondo Barragan said he hoped that oil prices would stabilize around current levels or slightly lower after meeting with Norway's Oil Minister, Thorhild Widvey. However he stated that Mexico had no spare capacity to increase its production. He said he did not believe that current prices would hurt world economic growth. Norway's Oil Minister said Norway also did not have spare capacity.

Refinery News

Sunoco Inc said it will reduce emissions of sulfur dioxide and nitrogen oxides by 78% at some of its refineries as part of a recent settlement with the US EPA. The petroleum products company will modify refineries in Philadelphia, Marcus Hook, Pa, Toledo, Ohio and Tulsa, Oklahoma.

Valero Energy Corp has agreed to spend \$700 million to cut pollution at its refineries.

Production News

Norway offered oil and gas companies 64 blocks in the North Sea and Barents Sea in its 19th licensing round.

The Norwegian and Russian government are scheduled to sign an agreement on Monday to cooperate on developing their energy resources. Analysts stated that if the Norway helps open up development of the Barents Sea, it will give the US an alternative energy source in a more stable part of the world. The Barents Sea is estimated to hold over 40 billion barrels of oil equivalent.

Russia's Oil Ministry expects oil and gas condensate output to reach a record of 119 million tons in the third quarter of this year or 9.48 million bpd. It said 43.5 million tons or 3.466 million bpd of that would be exported by Transneft to markets outside the former Soviet Union. It also said 57.8 million tons or 4.605 million bpd would be routed to Russia's refinery network for processing into oil products.

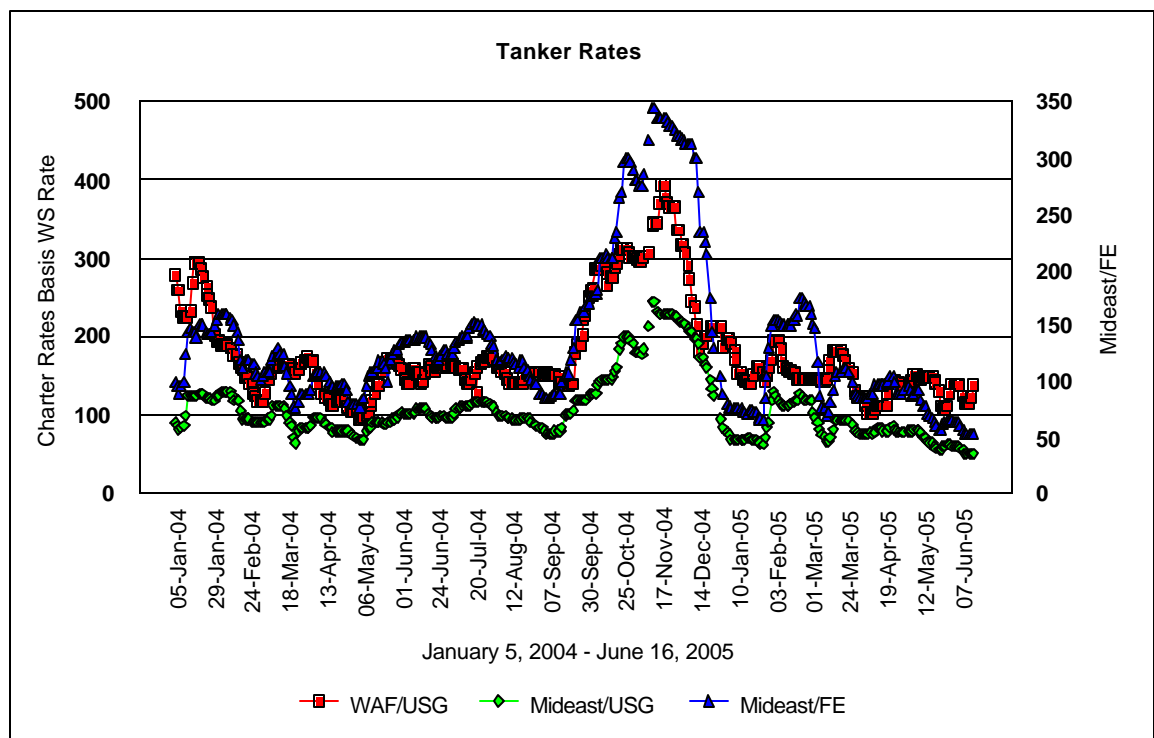
Russia's Federal State Statistics Service reported that Russian companies' oil production fell by 0.5% on the year to 146.5 million tons in January-April. In April, oil production increased 3% on the year but fell 3.4% on the month to 38.1 million tons. In January-April, Russia's oil exports fell by 0.9% on the year to 80.7 million tons while exports in April totaled 20.3 million tons, down 7.5% on the year.

Kazakhstan's State Statistics Agency reported that its crude oil and gas condensate output stood at 26.091 million tons or 1.31 million bpd in January-May, up 11.6% on the year. Its crude oil production stood at

21.195 million tons, up 4.4% on the year while production in May was down 4.3% on the year at 3.973 million tons.

Kazakhstan said it is interested in bringing Caspian oil to the Baltic Sea via the Odessa-Brody pipeline.

The Odessa-Brody pipeline had originally been planned to run further, to Poland's Baltic port of Gdansk but under Russian pressure Ukraine reversed the planned oil flow. Kazakhstan's Energy and Mineral Resources Minister Vladimir Shkolnik said that oil output is expected to increase to 1.8 million bpd in 2010 and 3.5 million bpd in 2015 from this year's expected 1.3 million bpd. He also stated that in the next few months Kazakhstan would sign an agreement with Azerbaijan on switching to the recently launched Baku-Tbilisi-Ceyhan pipeline.



China's Customs General Administration reported that China exported 2.69 million metric tons of crude oil in the January-May period, up 5.4% on the year. Its oil product exports increased by 53.1% to 6.4 million tons in the same period.

Chinese industry officials said China is drawing down inventories of domestic high sulfur diesel ahead of cleaner fuel specifications that take effect next month. The stock draw is allowing Sinopec Corp and PetroChina to refrain from diesel imports again in July despite the increase in demand during the summer. The power crunch is expected to ease marginally this year but diesel demand should still grow over the summer, when air-conditioning use spikes electricity consumption.

Indonesia's Pertamina is expected to buy at least six cargoes of crude oil or 3.6 million barrels for August arrival. The volume is up sharply from last month when Pertamina bought 2.15 million barrels for July arrival, its lowest spot imports in seven months.

Singapore's International Enterprise reported that the country's residual fuel stocks built by 970,000 barrels to 12.269 million barrels in the week ending June 15. Its light distillate stocks fell by 727,000 barrels to 8.203 million barrels while middle distillate stocks increased by 668,000 barrels to 7.467 million barrels.

BP Plc may withdraw from exploration activities off the mouth of the Amazon River in Brazil after investing some \$300 million with partners there. BP has until September to either continue exploration in a deepwater offshore block or return the exploration block to Brazil's National Petroleum Agency.

BP could not confirm whether it will give the block back, however the block has so far turned out to be dry. BP still needs to drill another well in the

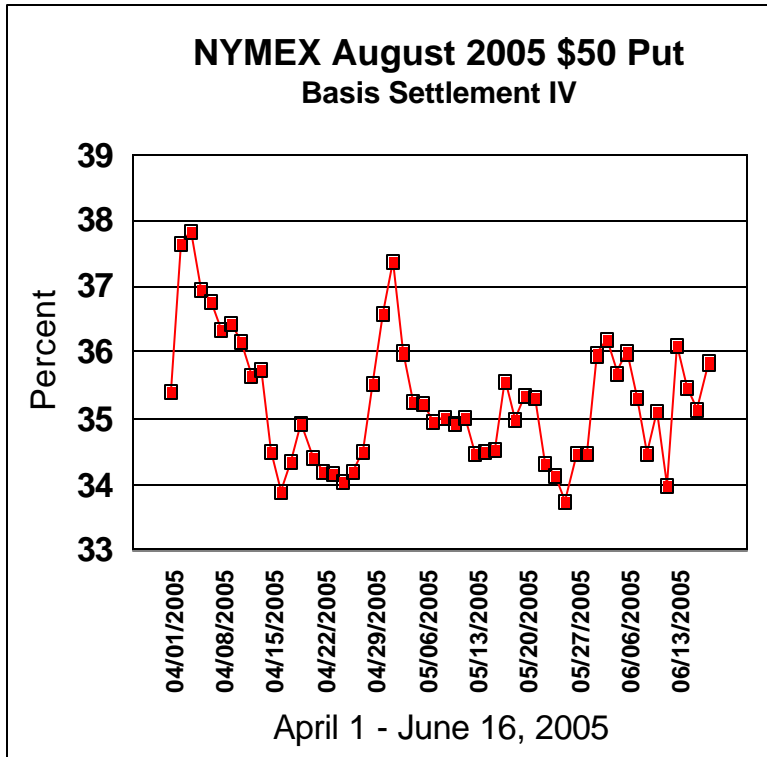
Technical Analysis		
	Levels	Explanation
CL Resistance 56.58, up \$1.01 Support	57.00, 57.20 56.90	Previous highs Thursday's high
	56.00, 55.40 55.20, 54.83, 54.68, 54.15	Double bottom 38% (52.45 and 56.90), Tuesday's low, 50%, 62%
HO Resistance 162.55, up 44 points Support	167.00, 167.90-168.00 163.00, 164.00, 165.20	Wednesday's high, Double top Thursday's high
	160.30 156.60	Thursday's low Previous low
HU Resistance 159.78, up 3.53 cents Support	162.40, 164.50, 166.50 160.30	Previous highs, Basis trendline Thursday's high
	158.50, 156.00 155.68, 154.80, 154.30	Basis trendline, Thursday's low, Previous low

block this year before returning it to ANP or it will face a fine. However BP said even if it decided to withdraw from its exploration activity, it would still remain interested in Brazil.

Market Commentary

The oil market traded mostly sideways early in the session as it opened up 13 cents at 55.70 and quickly posted a double bottom at its low of 55.40. The market seemed to have been supported amid the rally in the natural gas market following the release of the EIA natural gas storage report, which showed a smaller than expected build of 73 bcf. The crude market traded to a high of 56.40 before it once again erased its gains and traded below the 56.00 level. However the market bounced off its support and rallied to over \$1.30 as it breached Wednesday's high of 56.75 and posted a high of 56.90 ahead of the close. It settled up \$1.01 at 56.58. Volume in the crude market was good with over

243,000 lots booked on the day. The product markets ended the session in positive territory with the gasoline market once again taking the lead. The gasoline market settled up 3.53 cents at 159.78 after it rallied to a high of 160.30 ahead of the close. The market opened down 25 points at 156.00 and quickly sold off to a low of 154.80. However as it failed to test its previous low of 154.30, the market bounced off its low amid some good buying by locals. It later breached Wednesday's high of 158.70 and rallied to its high on the close. Meanwhile the heating oil market retraced more than 50% of its move from a low of 155 to a high of 168 as it traded to a low of 160.30 early in the session. However the market was later well supported by the gains in the natural gas market as it traded to 163.00, where it held good resistance throughout the session. It settled up 44 points at 162.55. Volumes in the product markets were good with 44,000 lots booked in the gasoline market and 43,000 lots in the heating oil.



While today was option expiration day for the July crude oil options, the biggest interest was in other months as the August \$50 puts traded over 13,660 lots between 22 and 32 cents. The second most active strike was the December 2007 \$100 calls which traded 3200 times at \$1.20, establishing the first open positions in this strike. But at the end of the day the strike was settled at \$2.07, some 3-4% higher in volatility than other strikes out of the money strikes that were already open in that month.

The oil market, which may retrace some of its late gains early on Friday will likely remain supported ahead of the weekend. The market, which settled near its high, is seen continuing to trend higher as its stochastics still have not crossed to the downside as previously thought. The market is seen finding support at 56.00

followed by 55.40, its double bottom. More distant support is seen at 55.20, followed by 54.83, 54.68 and 54.15. Meanwhile, resistance is seen at 56.90 followed by 57.00 and 57.20.