



## ***ENERGY RISK MANAGEMENT***

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### **ENERGY MARKET REPORT FOR JUNE 16, 2006**

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Iran's President Mahmoud Ahmadinejad welcomed a package of incentives offered to resolve the dispute over its nuclear program as a step forward. He said he instructed his colleagues to consider the offer carefully. He also insisted that Iran was not seeking to develop nuclear weapons. Iran's President said Iran would formally

#### Market Watch

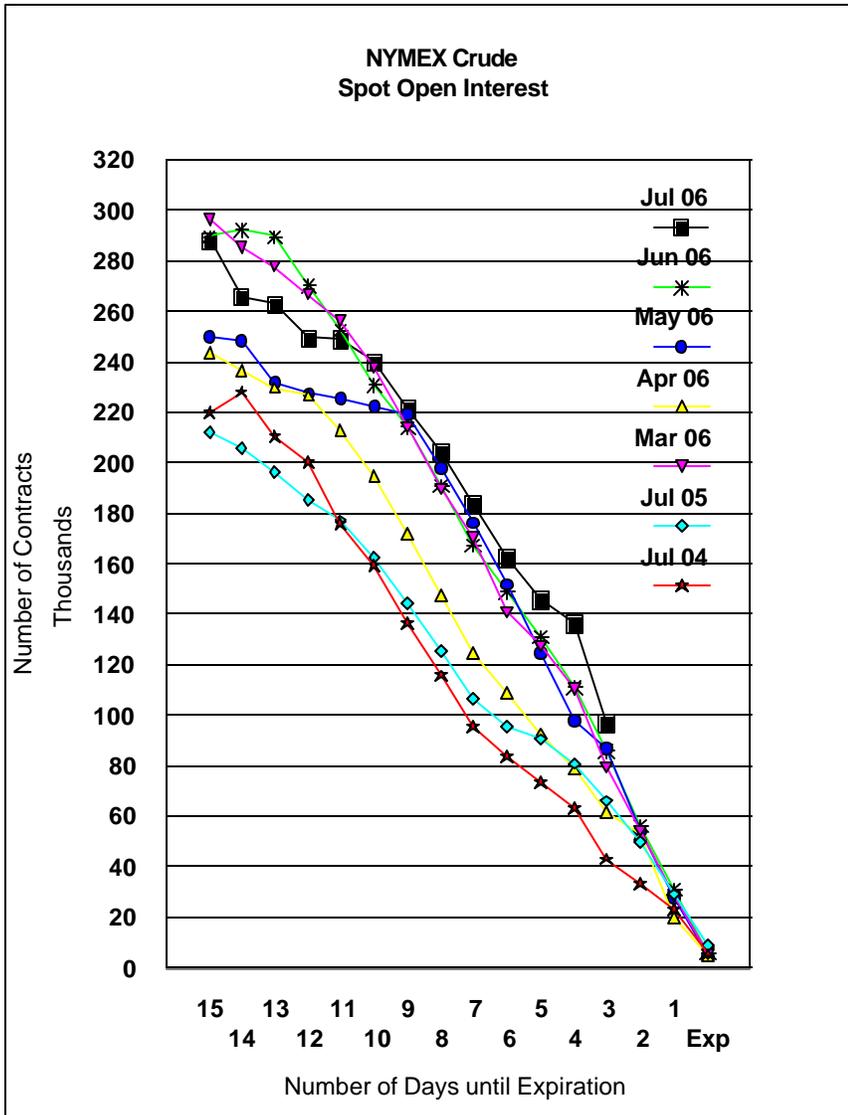
Brazil may ship twice as much sugar based ethanol to the US this year as it did in 2005, with sales expected to remain strong next year. The Renewable Fuels Association stated that US drivers are estimated to consume 5 billion gallons of ethanol this year, up 20% on the year as refiners eliminate MTBE use. As US ethanol demand increases, the share of ethanol blends in the domestic gasoline supply should reach 40% this year compared with 30% in 2005. In the first quarter of 2006, the US imported 91.6 million liters of ethanol from Brazil compared with 118.4 million liters in all of 2005. The Renewable Fuels Association stated that the US industry plans to build another 32 corn ethanol plants with 2.2 billion gallons of capacity over the next several years. As a result, the nation's need for cane based ethanol from Brazil and elsewhere should decline.

Sudan's Oil Minister Awad al-Jaz said he hoped his country would be able to join OPEC soon.

respond to the offer in due time and added that sanctions should not be used as a leverage or pressure against countries. This followed Thursday's comments made by Iran's Supreme Leader Ayatollah Ali Khamenei, who stated that Iran would not bow to pressure over its nuclear program. After holding talks with the leaders of Russia and China, Iran's President said Iran, Russia and China agreed on many issues. Meanwhile, Iran's Deputy Foreign Minister, Seyed Abbas Araghchi, stated that Iran wants to hold unconditional talks with Western powers. A UK foreign office official said the West's position may harden if Iran did not formally respond by the Group of Eight meeting on June 29.

US Energy Secretary Samuel Bodman said comments made by Iran's President Mahmoud Ahmadinejad on the proposal offered to end the dispute over its nuclear program were encouraging. He stated that he did not know the specifics of any timetable the Bush administration may have for Iran to respond.

Separately, Israeli Vice Premier Shimon Peres said Iran would suffer deepening poverty and isolation if it defies international appeals for it to halt its nuclear activity. He said he believed an emerging coalition of nations that was urging Iran to halt its nuclear program would eventually prevail in negotiations.



### Refinery News

Los Angeles spot gasoline prices increased 5.5 cents/gallon on news of problems with a crude unit at ExxonMobil's 150,000 bpd refinery in Torrance, California on Thursday.

According to a notice filed with the Texas Commission on Environmental Quality, BP Plc was looking for the source of a hydrocarbon vapor leak on ultraformer No. 4 at its 460,000 bpd refinery in Texas City, Texas. The leak was believed to be coming from an exchanger on the ultraformer.

Marathon Oil Corp began to restart a fluid catalytic cracking unit at its Texas City, Texas refinery late Thursday following an emergency shutdown of the unit's regenerator stack.

The head of the US Senate Energy and Natural Resources Committee said he was considering legislative proposals that would help increase oil refining capacity in the US. He said a House refinery bill had been referred to the committee. The House approved a bill that would streamline the permitting process for new oil refineries. The bill has

also been supported by the Bush administration.

A trade source reported that stocks of Iraqi crude in the Turkish port of Ceyhan increased to about 5 million barrels as oil continued to flow at a steady rate through Iraq's northern pipeline.

Indonesia's Pertamina said the country planned to cut its imports of oil products such as gasoline and diesel to 9 million barrels in July, due to lower demand from state utility PLN. It is down from the 12 million barrels it is scheduled to import in June.

The Central Bank of Nigeria reported that the country's crude oil exports fell to 1.8 million bpd in the first quarter of the year, down from an average of 2 million bpd in the fourth quarter of 2005. Attacks by militants on oil facilities in the Niger Delta cut Nigeria's oil production and shut in exports this year.

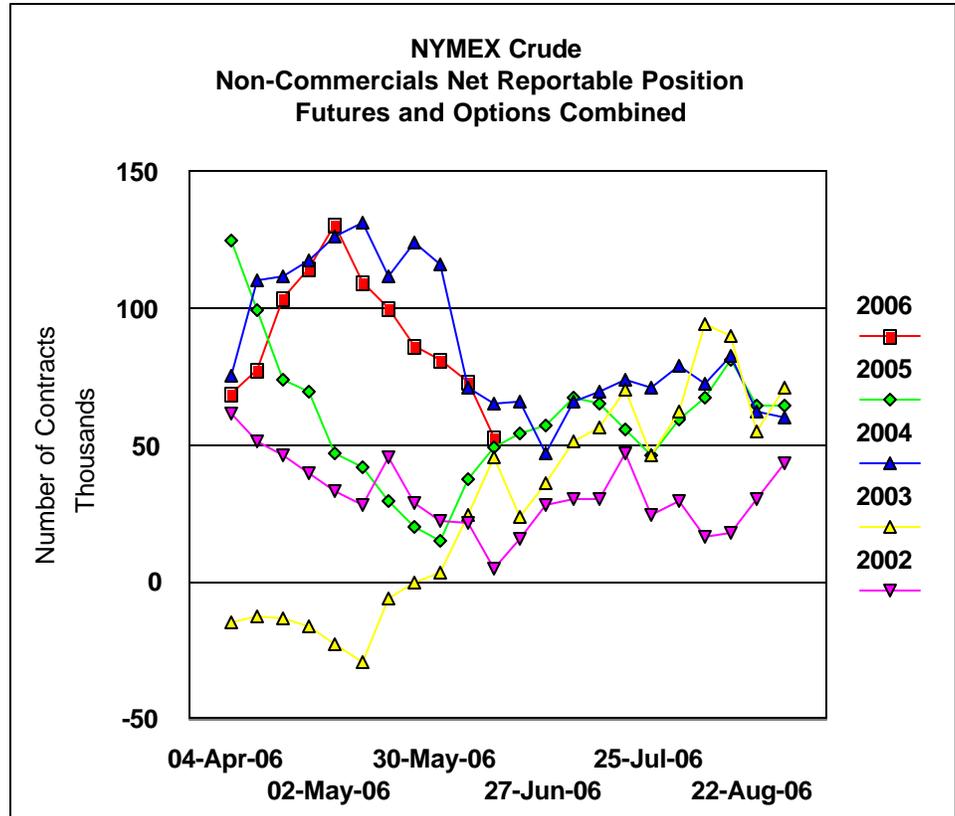
The Presidents of Kazakhstan and Azerbaijan signed an agreement that would allow the transportation of Kazakh oil to the Mediterranean through the Baku-Tbilisi-Ceyhan pipeline. The agreement

envisages, the transportation of 25 million tons or 183 million barrels of Kazakh oil over an unspecified period.

**Production News**

The Norwegian Oil Industry Association, or OLF, said it would lockout 2,700 oil service workers Wednesday if negotiations with union leaders fail next week. Negotiations on the oil services agreement between Norwegian Oil and Petrochemical Workers Union, or NOPEF, and OLF are scheduled to continue on Monday. The deadline to reach an agreement is Tuesday. The OLF said it would start a lockout if NOPEF began a strike. NOPEF has been

seeking a 45,000 Norwegian kroner or \$7,232 increase in employee wages over the next two years. NOPEF said the strike would impact all offshore oil and gas well drilling on the Norwegian continental shelf and halt some exploration drilling.



According to the Middle East Economic Survey, Saudi Arabia cut its oil production to 9.5 million bpd in May from a revised level of 9.1 million bpd in April. MEES said it revised down its April assessment of OPEC-10 output to 27.37 million bpd or 630,000 bpd below its output ceiling.

China's Energy Research Institute said the country should make changes to energy prices and tax policy to curb fuel demand. Meanwhile China's government was considering an increase in royalties for key resources including coal, petroleum and gas after increasing retail petroleum prices twice this year.

Kuwait's Oil Minister, Sheikh Ahmad al-Fahd al-Sabah said he was hopeful a joint project between Indian and Kuwaiti oil firms could be launched soon, with operations in both countries.

OPEC's news agency reported that OPEC's basket of crudes increased to \$63.10/barrel on Thursday from \$62.66/barrel on Wednesday.

**Market Commentary**

The oil market gapped lower from 69.45 to 69.30 as it gave up some of its overnight gains. The market quickly backfilled the gap as it traded to 69.60 early in the session. However it continued to retrace its gains and sold off to a low of 68.80. The market, which settled in a sideways trading pattern, later bounced off the 69.00 level and rallied to a high of 70.15 as traders covered their positions ahead of the weekend. The crude market settled up 38 cents at 69.88. Volumes in the crude market were light with 179,000 lots booked on the day. Open interest in the crude market fell by

a total of 28,530 lots, with the open interest in the July contract falling by 38,730 lots to 97,647 lots as traders liquidate their positions ahead of the contract's expiration on June 20<sup>th</sup>. With three days ahead of expiration, open interest in the July contract is about 11.5% higher than the June contract and about 30% higher than the July 05 and July 04 contracts. The gasoline market also gapped lower from 203.00 to 201.75 as it continued to give up its gains seen Thursday evening on Access. The market breached the 200.00 level and traded to a low of 198.50. The market however later bounced off its low and retraced its losses. The market posted a high of 205.00 ahead of the close. It however settled down 14 points at 203.82. The heating oil market also settled down 45 points at 193.24. Similar to the crude and gasoline market, the heating oil market gapped lower from 193.40 to 192.50 and sold off to a low of 191.25. The market however bounced off its low and rallied to a high of 194.25 late in the session. It later erased some of its gains ahead of the close. Volumes in the product markets were light with 32,000 lots booked in the gasoline market and 42,000 lots booked in the heating oil market.

The latest Commitment of Traders report showed that non-commercials in the crude market continued to cut their net long positions by 6,328 contracts to 37,552 contracts in the week ending June 13<sup>th</sup> amid the losses seen early in the week. The combined futures and options report showed that non-commercials in the crude market cut their net long position by 20,596 contracts to 52,779 contracts on the week. Meanwhile, non-commercials in the product markets cut their net long positions. Non-commercials in the heating oil market cut their net long positions by 3,459 contracts to 6,160 contracts while non-commercials in the gasoline market cut their net long positions by 4,631 contracts to 10,733 contracts.

The oil market on Monday is seen remaining supported. The market, which remains headline driven amid concerns over the situation in Iran and a possible strike in Norway, will also be driven by the liquidation of the July contract ahead of its expiration on Tuesday. The market is seen finding support

at 69.60, 68.95 followed by its lows of 68.80 and 68.30. Meanwhile resistance is seen at 70.15, 70.25 and its previous high of 71.90.

Technical Analysis		
	Levels	Explanation
<b>CL</b> 69.88, up 38 cents	<b>Resistance</b>	71.90 Previous high
	<b>Support</b>	70.15, 70.25 Friday's high, Thursday's high
		69.60, 68.95
		68.80, 68.30 Friday's low, Double bottom
<b>HO</b> 193.24, down 45 points	<b>Resistance</b>	196.00, 196.25 to 198.60 Previous high, Remaining gap (June 13th)
	<b>Support</b>	194.25 Friday's high
		191.25 Friday's low
		189.65, 188.90, 188.00 Previous lows
<b>HU</b> 203.82, down 14 points	<b>Resistance</b>	207.50, 210.50 to 212.00 Previous high, Remaining gap (June 13th)
	<b>Support</b>	205.00 Friday's high
		202.00, 199.00
		198.50, 198.00, 197.25 Friday's low, Previous lows