



ENERGY RISK MANAGEMENT

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ENERGY MARKET REPORT FOR JUNE 17, 2005

According to Oil Movements, shipments of OPEC crude will fall by 90,000 bpd to 24.19 million bpd through July 2 compared to the previous four week period. The four week running average of OPEC's exports increased by 50,000 bpd from 24.14 million bpd seen last week. It also reported that tanker charter rates are not rising, a sign that OPEC's decision to increase its quota ceiling will not put extra oil in the market.

OPEC's news agency reported that OPEC's new reference basket of eleven crudes was pegged at \$50.18/barrel on Thursday, up from \$50.03/barrel on Wednesday.

The Norwegian trade union for managers and supervisors warned that its members working for Statoil would begin a strike June 22nd if forthcoming arbitration fails. The union was threatening to shut in almost 1 million b/d of crude output. The state's arbitrator is due to begin mediating a conflict between the two sides on

Market Watch

Investment banker Matthew Simmons states in his recently released book Twilight in the Desert: The Coming Saudi Oil Shock and the World, that despite the importance of Saudi Arabia's oil to the well being of the world economy, little is known about the detail of the country's exploration and production industry. He contends that the country's official oil reserve count could be overstated and the country's oil production could fall, throwing the world's supply and demand balance off and increasing prices. He believed that Saudi Arabia's ability to produce ever increasing amounts of oil looks bleak. However his critics say that Saudi Arabia has been a dependable oil source for the US. According to Sadad al-Husseini, Saudi Aramco's former head of exploration and production said the numbers are there to back up the country's claims.

The US shut its consulates in Lagos, Nigeria on Friday following terror threats. The UK, Germany and other nations followed suit, closing their diplomatic missions in Lagos. Intelligence from foreign Islamic militant channels indicated a specific threat.

Two German oil workers that had been kidnapped by militants in Nigeria's southern delta were released.

The Saudi Foreign Ministry once again reported that King Fahd is expected to leave the hospital shortly following his extended treatment for pneumonia. The King has been hospitalized since May 27th.

China's central bank said that the Chinese economy was still growing at more than 9% annually. Last year the economy grew at a 9.5% rate. He said that China wanted to achieve a 1.8% inflation rate and that conditions for meeting those aims were better this year. He noted that the economy was more stable, but the government was watching the price of oil and raw materials.

The Governor of the Bank of Japan warned that record high oil prices could hurt the world economy but recent efforts by producers to stabilize the market may have a positive impact.

June 20th and has 48 hours to find a solution.

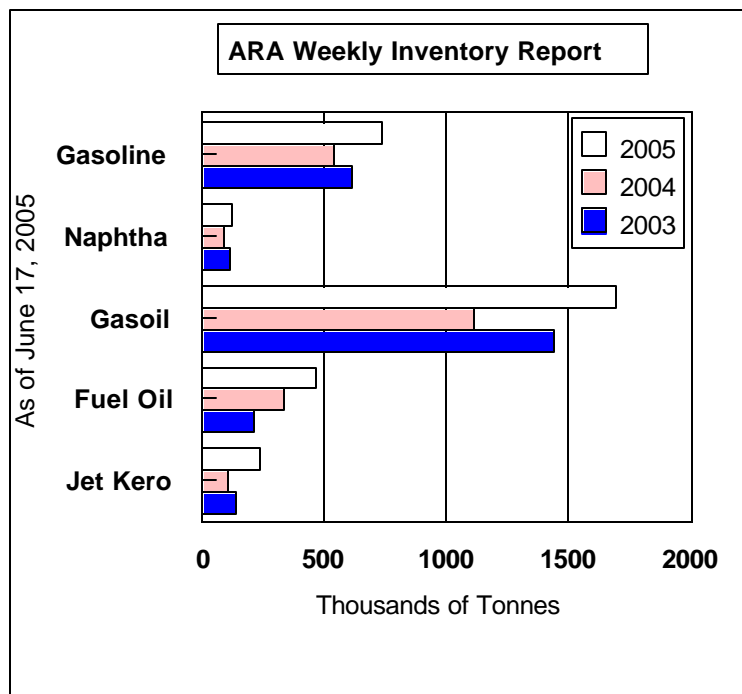
Refinery News

According to a report filed with the Texas Commission on Environmental Quality, a boiler in a fluid catalytic cracking unit at ExxonMobil's Baytown refinery tripped on Thursday. A boiler in the same catalytic cracker tripped on June 5. The report did not specify whether the latest problems in the unit impacted production.

Deer Park Refining LP reported that Thursday it shut the 67,000 b/d catalytic cracking unit at its 340,000 b/d refinery for up to 14 days of repairs following a heater steam coil rupture on June 15th.

India's Hindustan Petroleum Corp will shut a 3 million ton/year crude distillation unit and a 1 million ton/year catalytic cracking unit at its 7.5 million ton/year Vizag refinery for maintenance from the first week of July until the middle of August.

Valero Energy said Friday that it would post record second quarter earnings and noted that Wall Street forecasts for its full year profit were too low. The company noted that its "exceptionally strong" margins for distillates were behind its performance. It noted the discount in sour crude prices versus sweet crude also continued to help its bottom line.



Lyondell and Citgo reportedly have resolved a dispute with the United Steelworkers union, thus clearing the way for the companies to offer a contract extension to workers at their refineries. The current contract runs through February 2006 for the 270,000 b/d joint venture plant in Houston.

An analyst reported that gas oil stocks held in the Amsterdam-Rotterdam-Antwerp storage fell by 100,000 tons to 1.7 million tons in the week ending June 17th. It is however up from last year's level of 1.125 million tons. Gasoline stocks fell by 25,000 tons to 750,000 tons while naphtha stocks fell by 40,000 tons to 135,000 tons. Fuel oil stocks increased by 75,000 tons to 475,000 tons while jet fuel stocks increased by 25,000 tons to 250,000 tons on the week.

Kinder Morgan Energy Partners LP reopened the West Line and CalNev refined product pipelines Thursday night following a shutdown of several hours due to an earthquake in southern California. The pipelines were opened after several hours of inspection.

Production News

Chief executive of Suncor Energy Inc said Canada's crude oil production will increase in the years to come. He said increasing investment in oil sands and exploration will result in increases to Canada's oil production.

Traders stated that Nigeria's is scheduled to export 66.9 million barrels or 2.23 million bpd of oil in June. It is up from May's schedule of 2.14 million bpd and April's 2.12 million bpd.

Britain's North Sea Flotta crude oil stream plans to load 2.6 million barrels or 84,000 bpd in July, up from 80,000 bpd in June.

Norway's Statoil said its Statfjord late life project in the North Sea was approved by the UK authorities. Statoil said its aim is to achieve a recovery factor of close to 70% for the oil and 75% for the natural gas.

According to Germany's MWV, total sales of oil products in Germany increased by 13% on the year in May to 9.28 million metric tons. It was also up from April's 6.29 million tons. Its total sales of heating increased by 50.9% on the year to 2.38 million tons while gasoline sales increased by 1.1% to 2.12 million tons.

Oil shipments via Ukraine's seaports fell by 47.5% on the year to 4.4 million tons in January-May.

Russia's Lukoil said it is the first Russian company to have commenced a large scale production of low sulfur or 0.005% diesel fuel and launched it to the market.

Singapore's National Environment Agency reported that Singapore will make ultra low sulfur diesel mandatory starting in December. The new requirement lowers the sulfur content in diesel to just 0.005% or 50 parts per million, down from the current 0.05% of 500 ppm requirement as of December 1. It is making the move ahead of enforcing Euro IV emissions standards in diesel powered vehicles from October 2006.

Singapore's oil export value increased by 79% in May to \$4.63 billion due largely to high world oil prices. Oil export volume increased by 42% on the year.

Indonesia's Pertamina has purchased seven cargoes or about 4.2 million barrels of crude oil in its tender for August. The volume is almost twice the 2.15 million barrels bought last month, when Pertamina cut back sharply on crude and product imports due to a cash crunch.

Indonesia and ExxonMobil have made progress in talks over the Cepu oil block on Java Island. Pertamina decided last year not to extend a contract for ExxonMobil after it expires in 2010 but the government ordered officials to work out an agreement in an effort to improve the country's investment image and increase oil production. The main issue was over how much ExxonMobil has spent on the project.

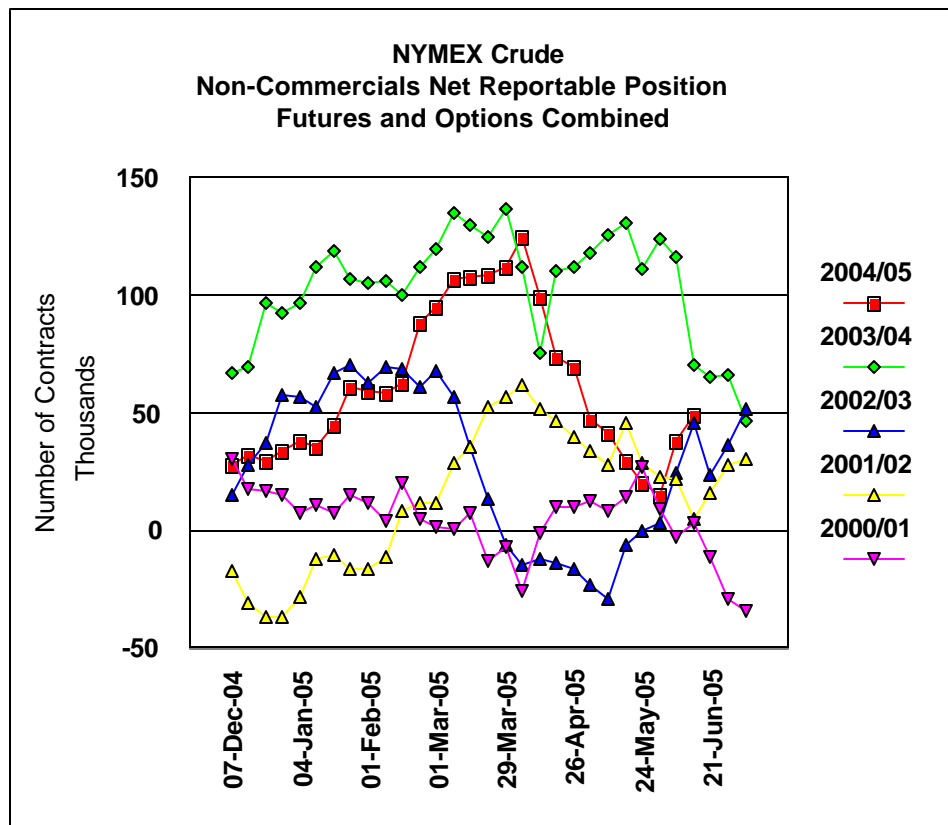
The trans-Alaskan oil pipeline was scheduled to be shut for 36 hours this weekend for planned maintenance and upgrade projects. The shutdown is expected to start on Sunday at 6 AM local time. Oil tanker loading and shipping operations at Valdez will not be affected. A second shut down is scheduled for July 23-24th.

PEMEX reported that Mexican oil exports rose 3.4% to an average of 1.842 mbd in May from April, but still below its export target of 1.95 mbd. May crude oil production reached 3.441 mbd up 32,000 b.d from April.

Market Commentary

The oil markets all gapped higher this morning on fears that the news of terrorist threats in Nigeria to Western consulates there may be a foreshadowing of increased threats to oil production in that country. This event coupled with threats of a Norwegian oil strike and further news of refining problems in the U.S., this time at the Deer Park refinery sent the bears running for cover and basically allowed the bulls to have their way with the market. As a result the market basically trended higher throughout the day. The crude oil market near the end of the day saw the spot contract month set a new high for a spot contract at \$58.60, before settling just off the highs, but still up \$1.89 on the day at \$58.47. Crude oil continues to lead this market higher this week as the crack spreads continued to contract overall on the week. The heating oil market which had been the main bullish force for the oil markets over the first half of this month, has seen three quarters of its gains relative to the crude oil market erased in just the last four days, as it appears speculative interest has been dumping out of these positions. Despite periods of low trading activity at midday, overall trading interest was good with over 216,000 crude contracts changing hands. The gasoline and heating oil contracts traded 54,000 and 41,000 lots respectively.

This afternoon's Commitment of Traders Report showed that for the period through Tuesday June 14th, the non-commercials had altered their overall net position in the products market by very little, but in the crude oil market, this group had significantly increased their net long position by over 11,000 contracts. Given the price movement since that time and especially today, we feel that the commodity funds have continued to build this net long position even further. But what is scary for the bears is the fact that the last time the crude oil markets were up at these price levels was back in March and April of this year, when the non-commercial sector was holding net length in the crude oil market that was basically twice the size it is currently. As a result one has to feel that this shows that this market could easily move significantly higher, given the funds ability to add significant length to their current long position if they so desire.



As a result while we are not a believer in oil prices being supported at these price levels by current supply/demand fundamentals, we feel that the technical buying spree by the macro hedge funds is probably still not over, and that any sell offs by the market will be seen by this group of traders as buying opportunities, rather than the start of a new bear move. One must remember the bear move earlier this spring began in a period of gloomy economic statistics that were believed to be the result of high energy prices finally dragging the economy downward. Since that time though these bearish reports seem to have evaporated and the economic expansion continues to move along especially in China, and to a lesser degree in the United States as well. Until these bearish

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economic reports begin to return and or the hedge funds rebuild the net length to near record levels we feel that this market will continue to see the bears in hibernation.