



ENERGY RISK MANAGEMENT

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ENERGY MARKET REPORT FOR JUNE 20, 2005

OPEC's President Sheikh Ahmad Fahad al-Sabah said he will start consultations with other OPEC members about increasing the output ceiling by a further 500,000 bpd if prices remain high. He said OPEC is willing to raise its ceiling from 28 million bpd to 28.5 million bpd if needed.

Norway's trade union for managers and supervisors, the Lederne union, said it will start a strike late on Tuesday if a resolution is not reached with the Norwegian Oil Industry Association. The union said the strike could halt 920,000 bpd of oil and 210 million cubic meters/day of natural gas production. It started negotiations on Monday over pensions, shift pay and older-employee benefits. Statoil operated platforms on the Gullfaks, Statfjord, Heidrunn, Kristin, Kvitebjorn, Sleipner, Troll, Veslefrikk, Aasgard, Snorre and Visund fields would be affected. The Norwegian Oil Industry Association

Market Watch

The US Consulate in Lagos, Nigeria reopened on Monday after a phoned in threat from foreign Islamic militants prompted it to close down last week. The other missions that also closed their offices were reopened on Monday. The consulates of Italy, Germany, the UK and Russia were among those that closed along with the US consulate. The Nigerian Foreign Ministry said the police were investigating an alleged security situation of interest to both Nigeria and the US.

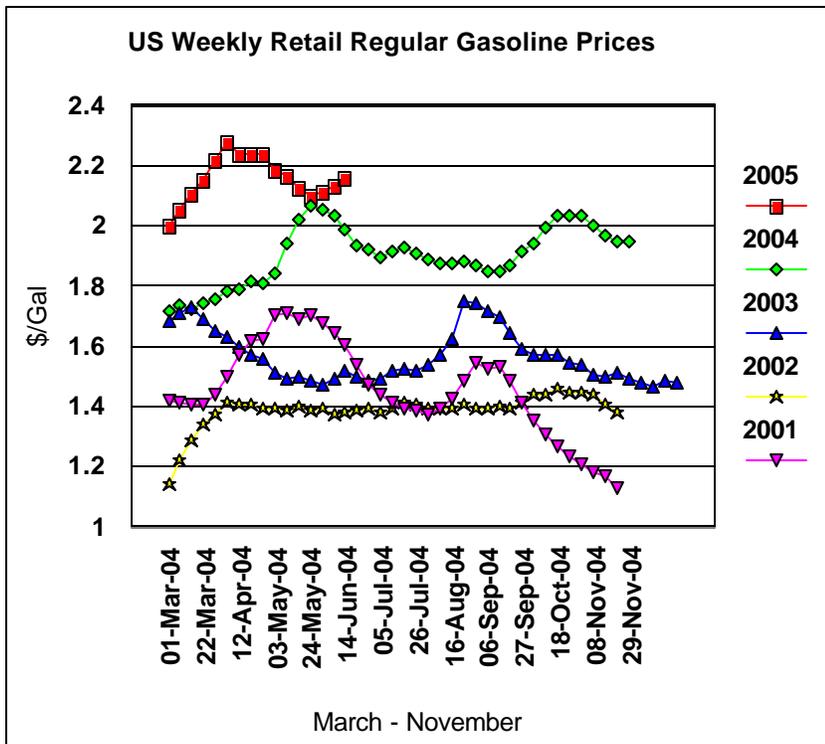
Tension in southern Nigeria continued, despite the earlier release of several kidnapped oil workers. An official of the Ijaw Monitoring Group warned of dire consequences unless all foreign oil workers in the Niger Delta leave. The threat comes after the breakdown of a national dialogue on how to allocate Nigeria's resources. He said no oil worker would be allowed to operate in the region while the struggle for resources continues.

European Economic and Monetary Affairs Commissioner Joaquin Almunia said that high oil prices threatened to hinder European Union growth this year and next year. The commissioners said the EU needed to continue looking at more efficient use of energy, strengthen dialogue with oil producers and create better conditions and incentives for investment to increase oil production capacity.

India's economic affairs secretary said that the increase in retail fuel prices would have a limited impact on inflation. The government announced earlier that it was increasing prices of petrol by 2.50 rupees/liter and diesel by 2 rupees/liter starting Tuesday. Petroleum Minister Mani Shankar Aiyar said the increase was to bring prices more in line with increasing world crude prices and stem the losses of state run oil firms.

Global ocean freight prices for minerals have fallen to levels not seen since 2003 as falling steel prices deter iron imports by China. The Baltic Exchange's Capesize Index of world trade routes for minerals such as iron ore and coal fell to 2,720 on Monday, the lowest level since April 2003. Steel mills in China have deferred fresh imports of iron ore amid falling profits and worries over a crash in world prices due to overproduction.

Russia's Federal Statistics Service said the country's economy grew by only 5.2% year on year in the first quarter of 2005. It is down from an annual growth rate of 6.4% in the third quarter of last year and represents the fourth successive quarter in which gross domestic product growth has slowed. It said the growth in the extraction of natural resources, including oil, gas and metals, slowed to only 3% in the first quarter from 7.9% a year earlier.



was trying to assess whether a walkout by 500 union members could have any indirect impact on production at installations run by oil companies other than Statoil.

An Iraqi oil official said Iraq has resumed Kirkuk exports to the Turkish port of Ceyhan, increasing stocks to 5.5 million barrels. The official said the North Oil Co resumed pumping via the northern oil export pipeline on Saturday after exports were halted due to a shortage of crude production from northern oil fields. Separately, Iraq's SOMO issued a tender to sell 4 million barrels of Kiruk crude for loading July 1-10 from the Ceyhan terminal. The crude is in lots of 1 million barrels each. Meanwhile, crude exports from the southern oil fields via the Basra and Khor al-

Amaya terminals in the Persian Gulf continue as normal, averaging 1.45 million bpd.

Saudi Arabia may not be shipping as much crude from the Gulf as it claims. Shipping company executives said the volume of oil being floated out of the Persian Gulf is lower than one would expect. Rates for VLCCs, transporting oil from the Persian Gulf to Asia and the US have fallen to their lowest levels in almost two years. A shipping company executive said an above average portion of OPEC crude production out of the Middle East is not being exported and instead being held domestically.

OPEC's news agency reported that OPEC's basket of crudes increased to \$51.58/barrel on Friday, up from \$50.18/barrel on Thursday. It also reported that OPEC's basket of crudes increased by \$0.89/barrel to \$51.62/barrel last week, up from \$50.73/barrel during the previous week.

Officials in Iraq said insurgents sabotaged one of the main water plants that feed Baghdad, leaving the city without fresh water. More than two years after the fall of Saddam Hussein and five months after the election that many hoped would bring order to the country, there was a sense of deep disappointment. Some local people are skeptical of the new government's will and ability to provide for them.

The EIA reported that the average retail price of gasoline continued to increase, by 3.1 cents/gallon in the latest week to \$2.161/gallon. It also reported that average retail price of diesel increased by 3.7 cents/gallon to \$2.313/gallon on the week.

According to preliminary data released last week by the EIA, US crude oil imports averaged 10.314 million bpd in April, up 170,000 bpd on the month. It reported that Canada's crude exports to the US increased to 1.651 million bpd in April, up from 1.451 million bpd in March. Mexico fell to second place with 1.541 million bpd, down from 1.59 million bpd in March. Saudi Arabia exported a total of 1.449 million bpd to the US, down from 1.553 million bpd in March. Meanwhile, Venezuela exported 1.391

million bpd in April, up from 1.315 million bpd in March. Iraq exported a total of 542,000 bpd to the US, down from 548,000 bpd.

Refinery News

Alon USA's 61,000 bpd Big Spring, Texas refinery shut a diesel hydrotreater for five hours of repairs on Friday. An offgas compressor had some valve problems that needed repair.

According to a report filed with the Texas Commission on Environmental Quality, Valero Energy Corp's McKee refinery in Sunray, Texas reported emissions Saturday afternoon. The emission release came from flares attached to two fluid catalytic crackers. Valero also reported emissions from an unknown source at its Texas City refinery. The source of the emissions is currently being investigated.

Oil and Natural Gas Corp Ltd said it plans to build a new 5 million ton refinery in southeast India. It also plans to build a 5-7.5 million ton refinery with Cairn Energy.

A private oil firm in China, the Longdu Oil Co, plans to invest 1 billion yuan or \$120 million in a Russian refinery joint venture that will allow it to import about 2 million tons of oil product a year to China. It has signed a deal with Russia's Tyumen to build a plant in the Urals region.

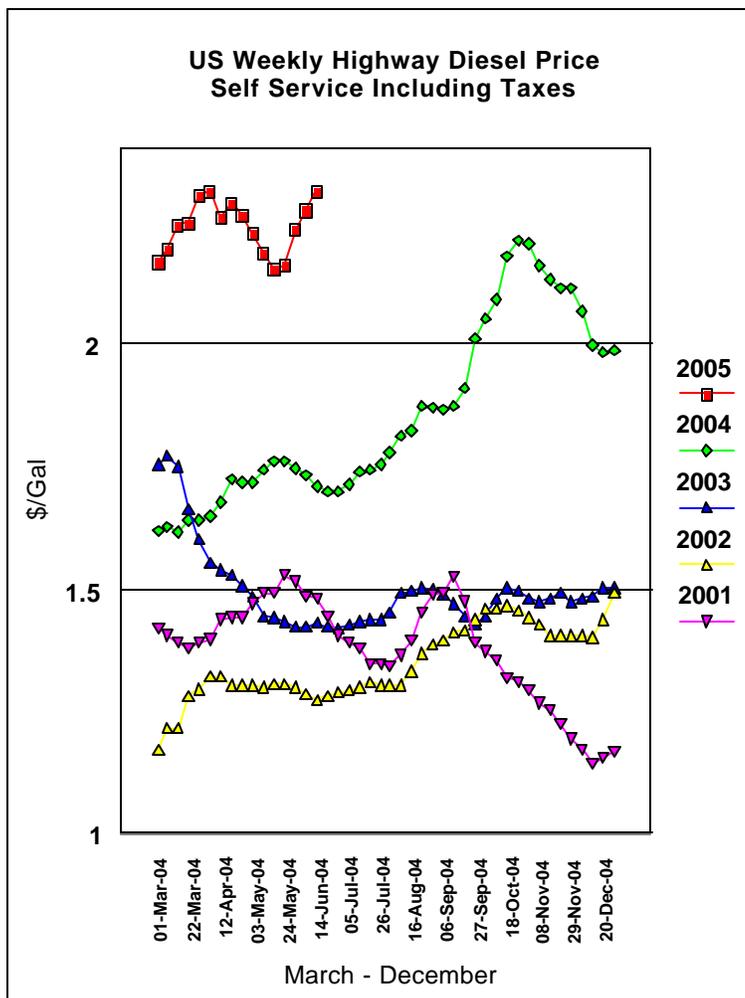
Production News

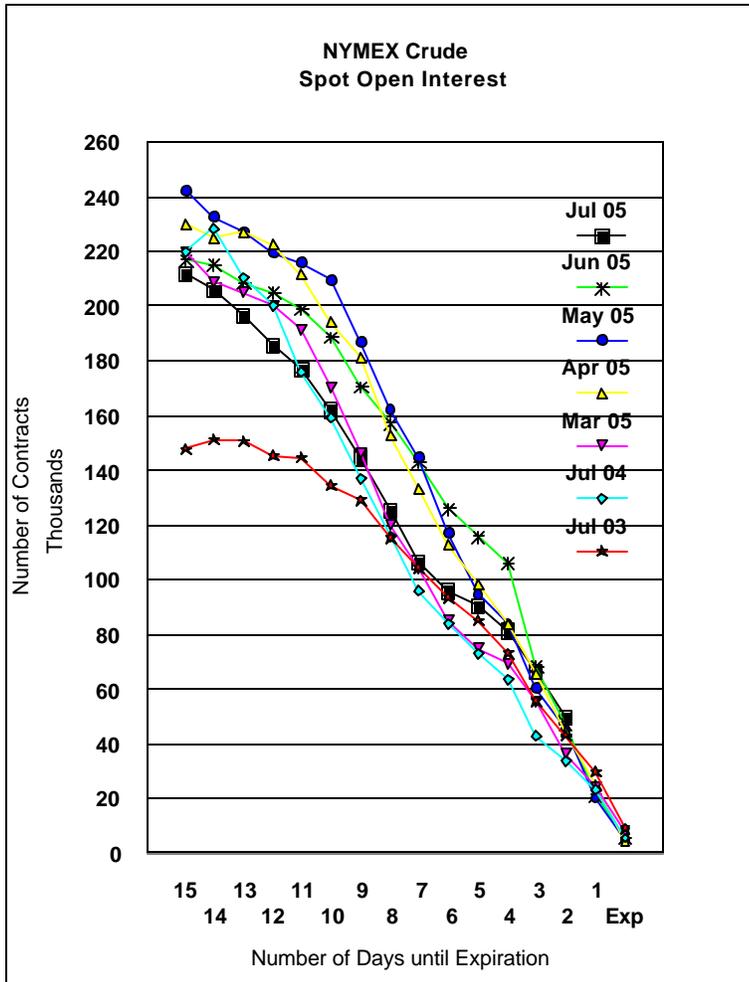
Norway's 300,000 bpd Oseberg oilfield returned to full production at the weekend after problems slowed its restart from maintenance. Cargoes scheduled to load from June 10-30 had been delayed as a result of the slow restart.

Venezuela's PDVSA signed a one year contract with PetroChina Co to supply China with 30,000 bpd of fuel oil. A first batch of about 1.8 million barrels was shipped to China last Friday. PDVSA believes that the contract will help China meet its growing demand for fuel and to help it consolidate bilateral relations through trade exchanges in energy.

Russia's TNK-BP said its oil output would continue to grow above the Russian industry average in 2005 despite a slowdown across the sector.

Russia's Transneft said it may drop its plan to build an oil pipeline to the Arctic coast as it sees little interest from private oil firms. The comment comes a few months after the head of Transneft said he would try to build pipeline to the Arctic coast of the Barents Sea despite a plan to spend at least \$11.5 billion on a pipeline to the Pacific coast.





Oil product exports via Russia's Arkhangel'sk seaport fell by 12% on the year to 517,400 tons in January-May.

China's Sinopec Corp plans to increase diesel exports by 25% in July to 150,000 tons. It will raise sales from 120,000 tons in June as China's refiners ramp up operations in excess of slowing domestic demand to take advantage of strong international margins. It is also raising exports amid strong hydropower generation and a drawdown in high sulfur diesel inventories.

Colombia's Ecopetrol will open a bidding process in August to choose a partner for a heavy crude oil exploration and production project. The heavy crude exploration and production project will cover three fields called Cano Sur, Aguila and Macarenas. The fields have proven reserves of 452 million barrels of heavy crude.

Market Commentary

The oil market continued to trend higher in follow through buying seen in overnight trading. The market traded higher as it

shrugged off reports that OPEC is scheduled to start consultations on whether to increase its production by a further 500,000 barrels on Friday. The market however was supported by reports that Norway's union may proceed with its strike on Tuesday if no resolution is reached during talks on Monday. The strike could cut production by 920,000 bpd as it will affect Statoil's production. The July crude contract, which expires at the close of business on Tuesday, once again gapped higher from 58.60 to 58.70 and traded to 59.15 early in the session as it attempted to test its overnight high of 59.23. However the market technically failed to test its resistance and quickly took some profits. It backfilled its opening gap as it traded to a low of 58.10. The market bounced off its low and traded in a range before further buying ahead of the close pushed the market to a high of 59.52. It settled up 90 cents at 59.37. The August crude contract breached the 60.00 level and posted a high of 60.02 ahead of the close and settled up 70 cents at 59.88. Volume in the crude was good with over 240,000 lots booked on the day. Open interest in the crude fell by a total of 5,067 contracts to 795,479 lots. Open interest in the July contract fell by 16,522 lots to 49,940 lots, still leaving it with more open interest at this time before expiration than the previous expiring contracts. The product markets ended the session mixed with the heating oil market settling up 1 cent at 166.18 and the gasoline market settling down 15 points at 164.56. The heating oil market posted an outside trading day and ended basically neutral as it settled near its opening price after posting a range from 163.50 to 167.00. Meanwhile, the gasoline market posted its high of 165.30 on the opening and failed to maintain its gains and settled in negative territory. Volumes in the product markets were good with 39,000 lots traded in each heating oil and gasoline.

The crude market will continue to see a volatile trading session ahead of the July contract's expiration at the close. The market is seen continuing on its uptrend ahead of its expiration. It is likely that even if the strike in Norway is averted, the July crude contract may technically target the 60.00 level. It is seen finding initial resistance at 59.52 followed by 59.70. More distant resistance is seen at 60.47. Meanwhile,

support is seen at 59.00, 58.10 followed by its gap from 57.25 to 56.90.

Technical Analysis		
	Levels	Explanation
CL 59.37, up 90 points	Resistance 60.47 59.52, 59.70	Basis trendline Monday's high, Previous high
	Support 59.00, 58.10 57.25 to 56.90	Monday's low Opening gap (June 17th)
HO 166.18, up 1 cent	Resistance 167.90-168.00 167.00	Double top Double top
	Support 163.50 163.40 to 163.00	Monday's low Backfills gap (June 17th)
HU 164.56, down 15 points	Resistance 168.00, 168.46 165.30	Previous high, Basis trendline Monday's high
	Support 162.70 161.80 to 160.30	Monday's low Backfills gap (June 17th)