



ENERGY RISK MANAGEMENT

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ENERGY MARKET REPORT FOR JUNE 27, 2005

OPEC President Sheikh Ahmad Fahad al-Ahmad said he expects a decision this week on whether OPEC will release an additional 500,000 bpd of oil in an attempt to lower high oil prices. He said he spoke Friday by phone with his Saudi and Qatari counterparts, Ali al-Naimi and Abdullah al-Attiyah, on the possibility of increasing OPEC production ceiling, but no decision has been taken yet on the issue. He however stated that OPEC's four Gulf member countries will support a second 500,000 bpd increase its output ceiling. He said he is also in the process of calling other OPEC ministers on the possible output increase. Separately, Nigeria's President Olusegun Obasanjo said Nigeria is willing to consider a request by OPEC to increase its oil production.

Market Watch

The election of a nationalistic government in Iran has raised concern that foreign investment may suffer in the country. Iran's President Mahmoud Ahmadinejad said he would favor domestic companies to develop the country's oil reserves. He also plans to pursue a nuclear energy program to generate electricity. He appeared to rule out improving ties with the US, saying Iran did not really need the US. An analyst stated that if Iran's President gives preference to the national oil company over international oil companies, there is a possibility that Iran's oil production may have peaked.

The Bank for International Settlements said the world economy is on track to deliver another year of robust growth with subdued inflations. It said further increases in oil prices could hit world growth more than expected. It said oil prices may remain high for some time. World growth is expected around 3.9% this year, down from 4.8% last year. It said that particularly in Europe, a strong rally in oil prices could slow consumer spending severely. It also said the widening US current account deficit, which now accounts for over 5% of GDP and is financed by Asian purchases of US dollar denominated assets is a serious longer term problem.

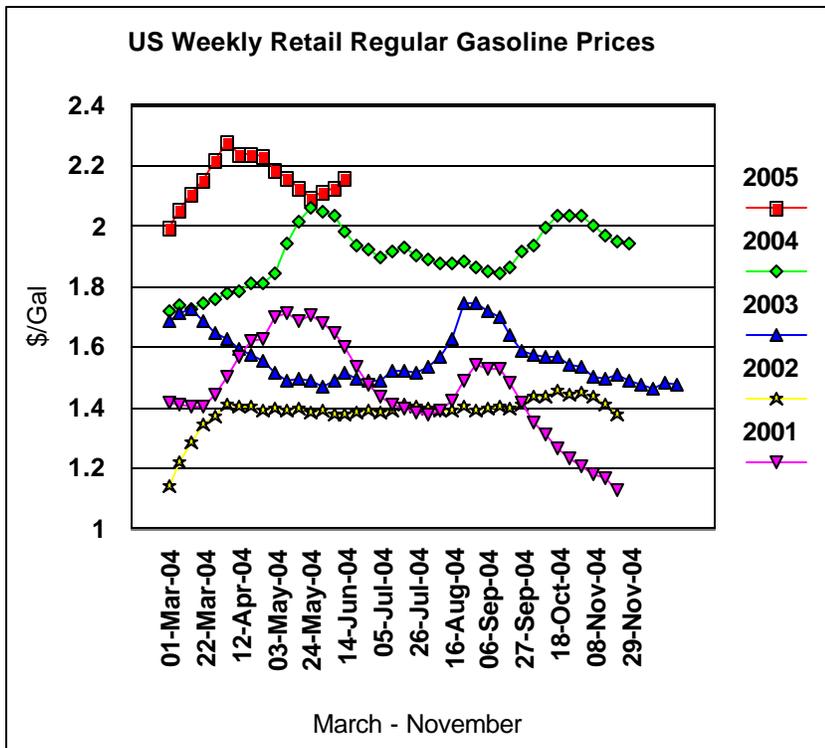
The head of the Arab Monetary Fund, Jassim Al-Mannai, said the world economy has weathered the inflationary impact from high energy costs but oil prices are likely to stay around \$50-\$60/barrel. He said the world economy is less energy intensive.

The IFW World Economics Institute said that the price of crude could soon reach \$100/barrel compared with the present historic high of \$60/barrel, if there was further supply disruption in Russia or a political upset in Saudi Arabia. It said that any number of unwelcome developments could provoke a crisis. It cited the risk of unrest spilling over from Iraq into Saudi Arabia and urged governments to lower car use, improve public transportation and develop other forms of energy.

Barclays Capital continues to see oil price risk to the upside. It said oil demand will rise to a level that will severely stretch current capacity limits in both crude and refining later this year.

India's Oil Minister Mani Shankar Aiyar said a surge in world oil prices was a cause for concern but added India had enough foreign currency reserves to purchase oil at high prices.

The vice minister for administrative affairs at Japan's Ministry of Economy, Trade and Industry, Hideji Sugiyama, said he was concerned about the impact of high oil prices on the country's economy and industry.



According to an Iraqi official, Iraq's crude oil exports from its southern offshore oil terminals returned to normal as weather conditions improved. Exports resumed on Sunday at a rate of about 1.44 million bpd. Iraq's oil exports from the South were cut on Friday and Saturday to 1.2 million bpd due to high winds and swells. In northern Iraq, the flow of crude via the northern export pipeline remained shut due to leak in the pipeline. Flows of Iraqi crude from northern oil fields to the Turkish port of Ceyhan has been suspended since Monday due to a shortage of output and problems with the pipeline.

Traders stated that European gasoline exports to the US will fall below 1 million tons in June as refiners concentrate on domestic

markets. However exports should recover in July. They estimated June exports at around 900,000 tons, down from May's 1.4-1.6 million tons.

An analyst at Barclays Capital said inventories were very tight last year and added that they will be even tighter this year given production constraints and demand that is growing at a rate of about 7%. At the current distillate demand level of about 4.1 million bpd, heating oil inventories should build to 58 million to 60 million bpd by the end of September. According to the EIA, the US had 42.2 million barrels of heating oil inventory. However Barclays said it will be more difficult this year to close the gap. EIA analyst Doug MacIntyre expressed caution optimism about getting to the autumn comfort level of 60 million barrels of heating oil and 75 million barrels of diesel. Credit-stretched heating oil distributors, however are reluctant to take advantage of the economic incentives in the heating oil futures market.

The EIA stated that the US average retail price of gasoline increased by 5.4 cents/gallon in the week ending June 27 to \$2.215/gallon. It also reported that the average retail price of diesel increased for the fifth consecutive week, by 2.3 cents/gallon to \$2.336/gallon.

According to the Lundberg Survey gasoline prices surged an average of 8 cents/gallon and reached \$2.24/gallon as of Friday, up from \$2.16/gallon on June 10.

Refinery News

Shell is restarting a 67,000 bpd fluid catalytic cracking unit at its 340,000 bpd Deer Park, Texas refinery and expects the unit will resume operations on Wednesday. It expected the unit to return to normal production rates by the weekend.

Total will restart two distillate hydrotreaters on June 29 after planned maintenance at its 233,500 bpd refinery in Port Arthur, Texas.

Seven international oil companies have submitted separate bids for a contract to upgrade the 110,000 bpd Doura refinery. It said the contract is for the installation of a 10,000 bpd light naphtha isomerization unit for the refinery. The contract forms part of the oil ministry's plan to increase Iraq's refining capacity from 500,000 bpd to 1 million bpd by the end of 2010.

Japan's Idemitsu Kosan Co and Japan Energy Corp said they would process more crude oil July as the peak summer season for gasoline demand nears. It will refine 2.34 million kiloliters or about 475,000 bpd of crude oil in July up 2% from a year earlier. It is also up 2% from an estimated 2.20 million kiloliters in June.

China's CNOOC said wants to participate in a national security review of its proposed purchase of Unocal Corp as soon as possible.

Production News

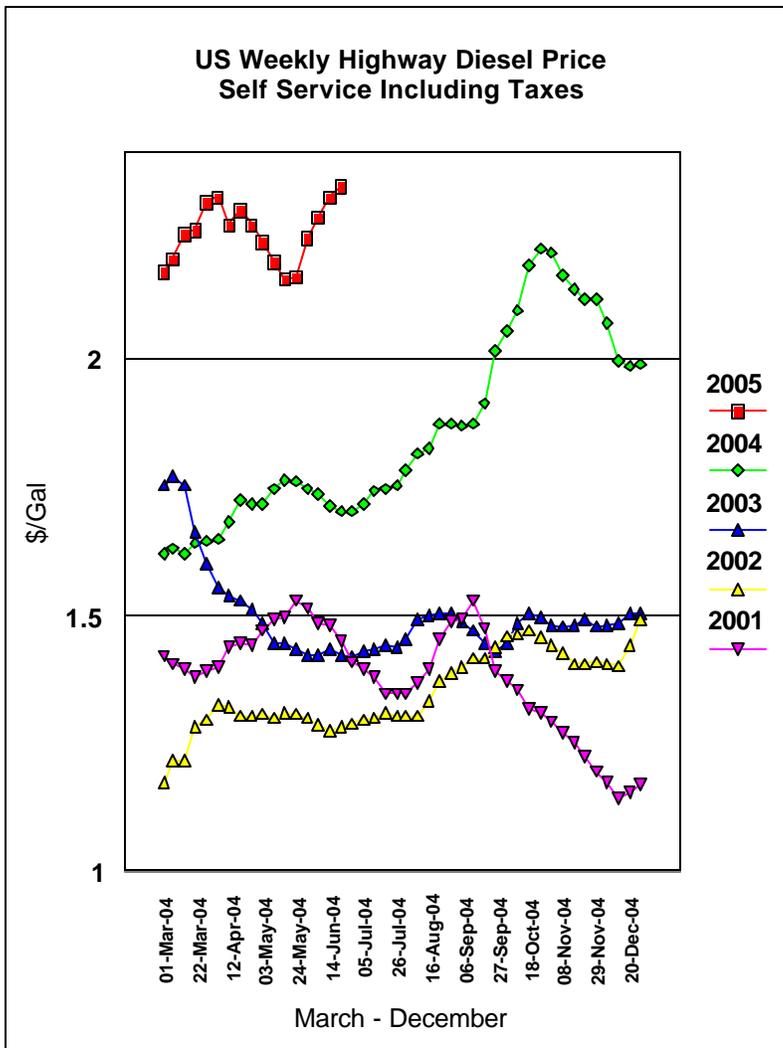
OPEC's news agency reported that OPEC's basket of crudes increased to \$53.36/barrel on Friday, up from \$52.69/barrel on Thursday. It also reported that OPEC's basket of crudes increased by \$0.83/barrel to \$52.45/barrel in the week ending June 23.

The Renewable Fuels Association announced that the US ethanol industry reached a record production level of 238,000 bpd in April. Production was up more than 9% on the year while ethanol use was reported at 231,000 bpd.

Russian crude exports from the Black Sea port of Novorossisk will increase to 3.775 million tons or 892,600 bpd in July, up 225,000 tons from the current month. June volumes from Novorossisk has fallen 400,000 tons from the previous month due to pipeline maintenance and lower volumes were scheduled from almost all the other ports too. Meanwhile oil exports from Russia's port of Primorsk will increase to 5.1 million tons compared with 4.7 million tons in June.

Caltex Pacific Indonesia said it could not increase oil production from its operation in Sumatra but it is working to keep output from declining at too fast a rate. Caltex produces just below 500,000 bpd and will keep the rate at about 5% a year.

A Pertamina official said Indonesia has arranged to provide Pertamina with dollars through state run banks, enabling the company to increase fuel imports without hurting the rupiah. It received 9.3 trillion rupiah or \$963.5 million from the government this weekend to reimburse it for selling fuel at subsidized



prices. Its oil product imports in July are expected to increase by 42% on the month to 10.73 million barrels.

Market Commentary

The oil market settled sharply higher after the market was able to breached its recent top from 59.93-60.02 in overnight trading, when it posted a high of 60.64. The market gapped higher on the opening from 59.93 to 60.35 and quickly tested its overnight high. The oil market was well supported by concerns of a clash between the US and Iran following Iran's recent presidential elections as Iran's new president appeared to rule out improving relations between the two countries. Iran's new president stated that he favored domestic companies to develop Iran's oil reserves. The crude market later erased some of early gains and partially backfilled its gap as it traded to a low of 60.10. However the market bounced off its low and never looked back. It later breached its resistance and rallied to a high of 60.95 amid further buying as the market attempted to test the 61.00 level. The market retraced some of its gains ahead of the close but was still able to settle above the 60.00 level for the first time. It settled up 70 cents at 60.54. Volumes were light with 166,000 lots booked on the day. The product markets remained well supported with the heating oil market settling up 2.57 cents at 167.61 and the gasoline market settling up 1.93 cents at 167.50. The heating oil market opened sharply higher in follow through strength seen in overnight trading and traded to a high of 167.80 before it posted a low of 166.10. The market bounced off its low and breached its resistance levels as it rallied to a high of 168.50 late in the session. Meanwhile, the gasoline market breached its recent range as it traded to a high of 168.70 late in the session. Volumes in the product markets were moderate with 45,000 lots booked in the heating oil and 46,000 lots booked in the gasoline market.

The crude market on Tuesday may continue to retrace today's gains. It is likely to settle in a range as traders await the release of the weekly petroleum stock reports on Wednesday. If the market however does breach its high of 60.95, more distant resistance is seen at 61.55, basis a resistance line.

Meanwhile, support is seen at 60.30 followed by its opening gap from 60.10 to 59.93 and 59.17.

Technical Analysis			
	Levels	Explanation	
CL 60.54, up 70 cents	Resistance	61.55 60.95	Basis resistance line (weekly continuation chart) Monday's high
	Support	60.30 60.10 to 59.93, 59.17	Opening gap (June 27th), Previous low
HO 167.61, up 2.57 cents	Resistance	170.00 168.50	Monday's high
	Support	166.10 164.50, 163.25, 160.60	Monday's low Previous lows
HU 167.50, up 1.93 cents	Resistance	169.10, 171.70 168.00, 168.70	Previous highs Monday's high
	Support	167.20, 166.00 165.70, 163.70	Monday's low, Previous low