



ENERGY RISK MANAGEMENT

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ENERGY MARKET REPORT FOR JUNE 27, 2006

Iran's Supreme Leader Ayatollah Ali Khamenei rejected the prospect of talks with the US on its nuclear program. He said negotiations with the US would have no benefit for Iran.

The IEA's Executive Director Claude Mandil said oil market tensions were likely to persist for another couple of years. He said oil prices were remaining high due to geopolitical tensions that could disrupt supply.

Refinery News

The US Coast Guard stated that the clean up of oil spilled from Citgo Petroleum's Lake Charles, Louisiana refinery was progressing as expected. Earlier Tuesday, the spill response team was

considering allowing one vessel through the blocked channel to test how traffic would affect the clean up of the spill. The test, which could happen Wednesday or Thursday would be determining factor for opening the channel by the end of the week. Three oil refineries with a combined capacity of 765,000 bpd have cut their operations due to the shipping disruption.

Market Watch

Saudi Arabia's ambassador to the US, Prince Turki al-Faisal said Saudi Arabia cannot sell some of its crude production due to a lack of buying interest from oil refiners. He said about 300,000-400,000 bpd was not being sold. Meanwhile Qatar's Oil Minister Abdullah al-Attiyah stated on Monday that a lack of heavy crude oil refining capacity was making it difficult for OPEC to sell all of its production although he added that OPEC should not alter its production policies until oil prices fall to \$50/barrel.

The Louisiana Offshore Oil Port in the US Gulf Coast has cut its expected response time to potential power outages during the hurricane season after acquiring backup power generators. The LOOP can offload about 1.2 million bpd of oil. Its contingency plan would cut the response time to two days, instead of the 4 -1/2 days seen during the hurricanes last year. However the crude offloading operations at the port would run only at 75% of the maximum capacity.

Ecuador has ruled out the possibility of rejoining OPEC, saying that it was a marginal oil producer and it would be obligated to restrict its small production quota.

Standard & Poor's said Latin American governments would likely remain tempted to assert greater control over energy resources as oil prices remain high. It said the trend was generally unfavorable for the credit quality of those companies operating in the region. However it said the risks involved varied from country to country.

Meanwhile, ConocoPhillips said it requested a loan of 500,000 barrels of crude from the US SPR for its 250,000 bpd oil refinery in Lake Charles, Louisiana. A DOE spokesman said approval of the request by the DOE has not been granted yet.

According to a report filed with the Texas Commission on Environmental Quality, a malfunction with a carbon monoxide boiler associated with a fluid catalytic cracking unit at ExxonMobil Corp's 563,000 bpd refinery in Baytown, Texas resulted in emissions from the fluid catalytic cracking unit 3. ExxonMobil later stated that the catcracker was operating and noted that the refinery was able to meet its customer commitments.

Valero Energy Corp said late Monday that an upset on a unit at its Port Arthur, Texas refinery did not affect production at the refinery.

A unit at Shell Oil Products' 156,000 bpd refinery in Wilmington, California was flaring on Monday afternoon due to an upset. A report filed with state and local public safety agencies did not specify which unit was flaring.

Delek US Holdings reported maintenance activity at its 60,000 bpd Tyler, Texas refinery on Monday that required the saturate gas plant's debutanizer tower to go offline briefly. The incident had no impact on production.

BP Plc plans to sell its 172,000 bpd Coryton refinery in England as it seeks to decrease its refining business in Europe.

Algeria's Sonatrach's 335,000 bpd Skikda refinery has resumed most of its operations following a rolling shutdown for maintenance which ended last week. Separately, Sonatrach's 53,000 bpd Arzew refinery was scheduled for a full scale rolling shutdown for about a month in September.

Authorities have halted shipping through Venezuela's Lake Maracaibo channel as a security measure after an oil tanker was left stranded. A port captain official said traffic should be moving through the channel by Tuesday night.

Russia's gas oil exports out of Russia's Black Sea port of Novorossiisk are expected to total about 420,000 tons in July.

Indonesia's Pertamina is expected to import between 12-13 million barrels of oil products in August compared with 12.71 million barrels in July. Meanwhile Pertamina said consumption of government subsidized fuel in 2006 may fall 13% below the government's quota for the year. Domestic demand for subsidized fuels would likely total 36 million-39 million kiloliters in 2006 compared with an official quota of 41.5 million kiloliters.

Indian Oil Corp has issued a monthly tender to purchase 40,000 tons of kerosene for early August.

Production News

Shipping agents stated that Iraq should restart pumping crude to Ceyhan after ExxonMobil starts loading the first Iraqi cargo from the Turkish terminal for nine months on Thursday. An agent said pumping from Iraq was halted after storage at Ceyhan was full with about 7.35 million barrels of Kirkuk crude. Meanwhile, ExxonMobil fixed a vessel, Olympic Loyalty, to load 2 million barrels of Kirkuk crude for export to the US Gulf. The vessel is scheduled to load from June 29-July 1. Turkey's Tupras also bought 2 million barrels in the tender but has yet to nominate its loading dates.

PDVSA's Director Luis Vierma said Venezuela's oil exports to the US have declined due to changes in the company's export markets, not a fall in production. The EIA reported that Venezuela exported 1.171 million bpd to the US in April, down 12,000 bpd on the month.

Saudi Aramco has set its July contract prices for propane and butane at \$502/ton, up \$32 from June. In June, Saudi Aramco kept the propane and butane prices unchanged from May at \$470/ton.

Russia's Tatneft reported that its oil reserves remained unchanged in 2005, which means that it managed to fully replace its annual production of 182 million barrels. Total proved oil and gas condensate reserves stood at 5.85 billion barrels.

OPEC's news agency reported that OPEC's basket of crudes increased further to \$64.59/barrel on Monday from \$64.40/barrel on Friday.

Market Commentary

The crude market gapped higher from 71.90 to 72.20 as it extended Monday's rally amid the strength in the gasoline market. The complex was supported in light of the extended closure of the Calcasieu Ship Channel and other refinery problems, including an upset at ExxonMobil's Baytown, Texas refinery which caused a temporary shutdown of a catalytic cracking unit. The crude market rallied to a high of 72.50 early in the session. However in light volume trading, the market partially backfilled its gap and settled in a sideways trading pattern as it held support at 72.00 for most the day. The crude market later breached its support and sold off to a low of 71.60 before it traded back towards its 72.00 level on the close. It settled up 12 cents at 71.92. Volume in the crude market was light with 123,000 lots booked on the day. The gasoline market, which continued to support the complex, settled up 1.97 cents at 219.85. The market quickly rallied to a high of 221.50 amid more reports of refinery problems. The market however erased some of its gains and settled in a sideways trading pattern for much of the day as it held support at its low of 218.30. The market also remained supported amid expectations of a small draw to a small build in stocks in gasoline stocks. Meanwhile, the heating oil market rallied to a high of 200.20 early in the session amid the strength in the gasoline market. However the market retraced its gains and sold off sharply ahead of the close. It posted a low of 195.50 amid the expectations that distillate stocks continued to build by 1 million barrels. It settled down 2.02 cents at 195.87. Volumes in the product markets were light with 34,000 lots booked in the gasoline market and 42,000 lots booked in the heating oil market.

The oil market will seek further direction from the weekly petroleum stock reports. The reports are expected to show draws in crude stocks of close to 1 million barrels, a small draw to a small build in gasoline stocks and a build in gasoline stocks. If the reports however fail to show builds in product stocks, the complex will also remain supported amid the refinery problems. The crude market is seen finding support at its low of 71.60 followed by 70.40 and 70.05. Meanwhile resistance is seen at 72.00,

72.50 and 72.55. More distant resistance is seen at 72.80, 73.20 and 73.76.

Technical Analysis			
		Levels	Explanation
CL	Resistance	72.55, 72.80, 73.20, 73.76	Previous high, 50% retracement(76.85 and 68.75), Previous high, 62% Tuesday's high
	71.92, up 12 cents Support	72.00, 72.50	
HO	Resistance	71.60	Tuesday's low
	195.87, down 2.02 cents Support	70.40, 70.05	Previous lows
		200.40, 203.16, 205.90	50% and 62% retracement (212.10 and 188.70), Previous high
HU	219.85, up 1.97 cents Support	198.00, 200.20	Tuesday's high
		195.50	Tuesday's low
	Resistance	194.40, 193.10, 189.10	Previous lows
HU	219.85, up 1.97 cents Support	223.00	Previous high
		221.50	Tuesday's high
	Resistance	219.00, 218.30	Tuesday's low
		212.30, 211.00	Previous lows