



ENERGY RISK MANAGEMENT

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ENERGY MARKET REPORT FOR JUNE 27, 2007

The IEA's chief economist, Fatih Birol said oil prices were unlikely to fall far from its near record levels of about \$70 and any move in the longer term was more likely to be upwards.

OPEC's President Mohammed al-Hamli warned US lawmakers

on Wednesday they were taking a really dangerous step in seeking legislation to sue the group. The US Senate last week approved a plan that would enable the federal government to take legal action against OPEC for price manipulation however the White House has threatened to veto the measure. OPEC's President also stated the call by oil consuming countries to cut their dependence on crude was the biggest threat to assuring the security of future supplies.

Refinery News

Murphy Oil Co on Tuesday was cleaning up a leak into the Mississippi River from a holding pond at its 120,000 bpd refinery in Meraux, Louisiana.

BP Plc reported a leak Tuesday at its Texas City refinery. A leak was discovered in the refinery's oil movement center when the line was opened to start transferring oil into a tank.

DOE Stocks

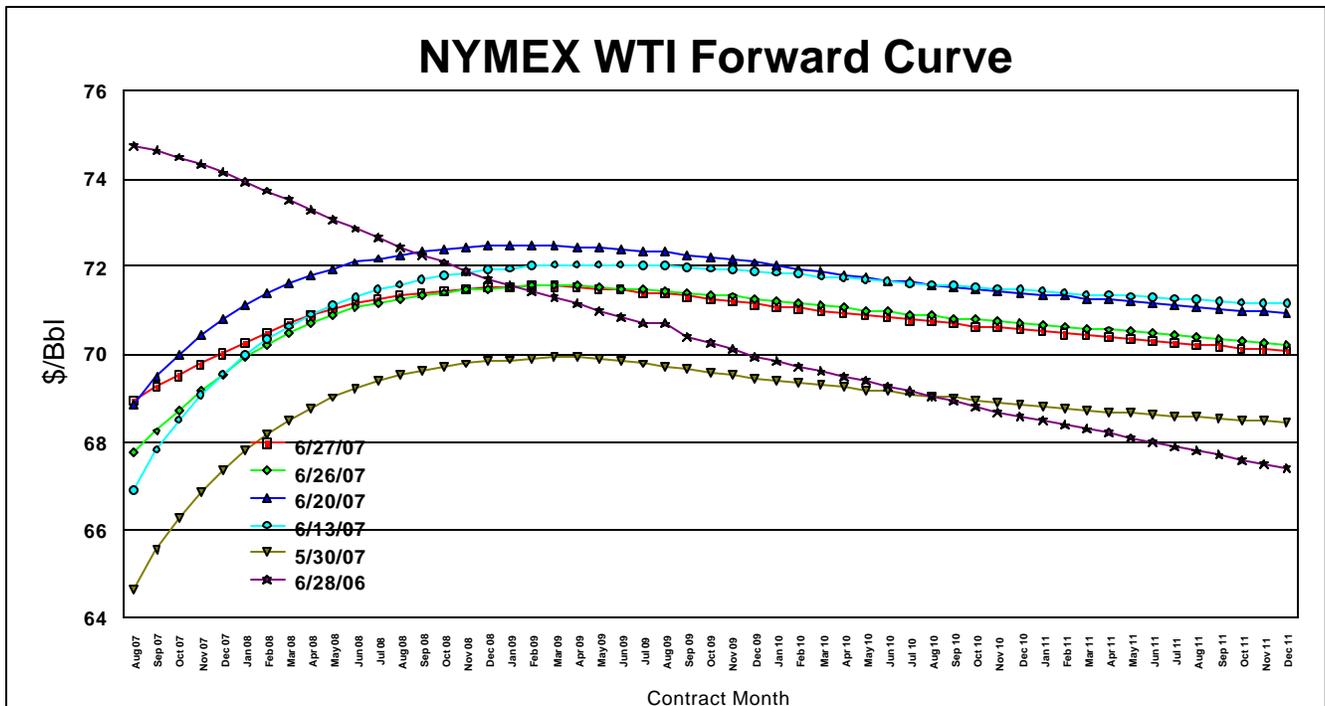
Crude – up 1.6 million barrels

Distillate – down 2.3 million barrels

Gasoline – down 700,000 barrels

Refinery runs – up 1.8%, at 89.4%

Japan's Nippon Oil Corp said it planned to increase its crude refining volumes on a year on year basis for the first time since December next month as all of its refineries returned to operations from scheduled maintenance. It is



expected to refine 4.15 million kiloliters or 842,000 bpd of crude in July, up 5% on the year.

Japan's Taiyo Oil Co said it aimed to double its crude oil refining volumes for July to 110,000 bpd as its refinery resumes operations from scheduled maintenance.

South Korea's SK Incheon Oil was preparing its 75,000 bpd No. 1 crude distillation unit for restart in July. The CDU is expected to restart and deliver on spec products from July 12. The refinery would have a total capacity of 275,000 bpd with the start of the unit.

PetroChina is expected to complete its crude oil pipeline in northwest China by the end of the month. It has also built an oil product pipeline, which would eventually be connected to the China-Kazakhstan crude pipeline.

Production News

Brazil's Oil Workers' Federation said about 80 oil workers in five Brazilian states voted on Tuesday to walk off the job as part of five day national strike threatened to start after July 5. The strike if it occurs, is expected to disrupt output at Petrobras. Oil workers in Petrobras' main producing area in Rio de Janeiro and Espirito Santo are expected to vote on the proposed strike by Thursday. Dates for the work stoppage would be set if remaining workers approve.

An Iraqi adviser to Iraq's Prime Minister said the estimated cost of increasing the country's oil production to 6 million bpd has increased as high as \$75 billion. He said about \$25 billion would be needed to triple its current production level.

The UAE's Energy Minister Mohammed al-Hamli said the profitability in oil refining needs to increase before the country would invest in expanding its capacity. Its current refining capacity is 620,000 bpd. He estimated that its crude oil capacity would increase to 3.5 million bpd by 2011, up from current capacity of about 2.8-2.9 million bpd.

Industry sources stated that China was importing 3.1-3.2 million tons of fuel oil for June, up 36% on the month, in the wake of an import tax cut. About 1.1-1.2 million tons are bound for South China while the remainder is bound for the northeastern refining region.

The Petroleum Association of Japan reported that Japan's gasoline inventories fell by 3.1% to 1.98 million kiloliters or 12.44 million barrels in the week ending June 23. It reported that the country's crude stocks fell by 4.02 million barrels to 109.15 million barrels on the week while kerosene stocks built by 490,000 barrels to 15.86 million barrels. It reported that crude runs fell by 60,000 bpd to 3.45 million bpd while its refinery utilization rate fell 1.3% to 71.4%.

OPEC's news agency reported that OPEC's basket of crudes increased to \$67.43/barrel on Tuesday from Monday's \$67.28/barrel.

Market Commentary

Reacting to gasoline inventories and perhaps a little over done to the downside yesterday, the August crude contract fought back once it broke above the 67.87 trend line. Any weak shorts covered and the bulls stayed on for the ride. This market is continuing to provide the opportunity to buy and sell at the listed support and resistance numbers. Resistance is set at 69.59, 70.00, 70.45, 71.10, 71.90 and 72.39. Support rests at 67.87, 67.40, 66.92, 66.40 and 65.57. With the slight lightening of inventories at Cushing, WTI is retracting some of its losses against the Brent. After bottoming out at -5.10, WTI finished the day at -1.53, the strongest level since the beginning of May. A close eye needs to be kept on the inventory situation at Cushing, if one wants to or has to trade this arbitrage, which has been trading at a discount since the beginning of this year. The Aug/Sept spread continues to post gains, trading at a discount of -.28 close to the -.20 high of March 30th. With gasoline inventories starting to post declines, we would look for the spread to strengthen and with a test above the -.17 level, we could easily see the positive side of Aug/Sept. Meanwhile the RBOB market, which lent support to the complex in light of the unexpected draws in gasoline stocks, ended the session just 77 points higher 225.46. The market bounced off a low of 220.81 early in the session and extended its gains to over 3 cents as it rallied to a high of 227.83 in light of the supportive inventory reports. However the market later retraced little more than 50% of its earlier uptrend and settled in a sideways trading pattern. The heating oil market also bounced off a low of 197.50 and rallied to a high of 203.95 amid the large draw in distillate stocks. The market retraced some of its gains and traded sideways ahead of the close. It settled up 3.13 cents at 202.46. The product markets may retrace some of its gains, however its losses are seen limited, as the market will continue to focus on the inventory reports. The RBOB market is seen find support at 224.20, 223.49 followed by 220.81, 220.32, 217.43 and 215.00.

Resistance is seen at 227.83 followed by 229.50, 232.97 and 234.19.

| Technical levels | | |
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| | Levels | Explanation |
| CL | Resistance 69.59, 70.00, 70.45, 71.10, 71.90, 72.39 | |
| | Support 67.87, 67.40, 66.92, 66.40, 65.57 | Wednesday's high |
| HO | Resistance 204.10, 206.06, 206.85 | Previous highs Wednesday's high |
| | Support 202.25, 201.49, 200.73, 199.96 197.50, 195.77, 195.71 | Wednesday's low, 62% (188.92 and 206.85), Previous low |
| RB | Resistance 229.50, 232.97, 234.19 | Previous highs |
| | Support 227.83 224.20, 223.49 220.81, 220.32, 217.43, 215.00 | Wednesday's high Wednesday's low, Previous lows |