



ENERGY RISK MANAGEMENT

Howard Rennell, Pat Shigueta &
Zachariah Yurch

(212) 624-1132 (888) 885-6100

www.e-windham.com

ENERGY MARKET REPORT FOR JUNE 28, 2006

Iran's Foreign Minister Manouchehr Mottaki indicated that Iran may respond before mid-July to the international package of incentives aimed at resolving a standoff over its nuclear program. He said it could respond by mid-July if some open questions were cleared up before then. He however insisted that Iran did not agree on any date for an answer with the European Union's foreign policy chief, Javier Solana. Iran's top nuclear negotiator, Ali Larijani, and the European

Union's foreign policy chief are expected to meet on July 5 to discuss the incentive package. Separately, Germany's Defense Minister Franz Josef Jung said Iran should be allowed to enrich uranium for peaceful purposes with close monitoring by UN inspectors to ensure that it is not trying to develop atomic weapons. His comments suggested that Germany and other western countries may be willing to compromise with Iran on the enrichment issue in the interests of getting a peaceful resolution to the nuclear standoff.

Iraq is expected to restart pumping crude to Ceyhan late Thursday or early Friday when ExxonMobil Corp begins loading Kirkuk crude at the Turkish terminal for the first time in a year. The flow of crude oil from northern Iraq was halted, as storage in Ceyhan was full with 7.35 million barrels of crude.

DOE Stocks

Crude – down 3.4 million barrels
Distillate – up 1.8 million barrels
Gasoline – down 1 million barrels
Refinery runs – up 0.54%, at 93.8%

Market Watch

The AAA said travel in the US during the Independence Day holiday weekend is expected to be busier than ever despite high fuel prices. It estimated that 40.7 million Americans would travel 50 miles or more this coming weekend, up 1.2% on the year. It estimated an increase of 1.3% in car travel during the weekend, with 34.3 million motorists.

Merrill Lynch revised up its price forecast for WTI crude to \$68.25/barrel for the second half of 2006 from \$65.50/barrel to reflect the tighter than expected demand/supply balance this year. It also forecast that US light crude oil would likely trend lower and average at \$65/barrel in 2007, due to high OECD inventories and increasing non-OPEC supply.

A senior EIA analyst stated that the impact of the block Calcasieu Ship Channel was likely to show in the form of lower imports and reduced crude runs over the next couple of weeks. The week long closure of the channel has prevented at least seven vessels carrying crude from reaching four refineries in the region, forcing the refineries to scale back operations.

The IEA reported that world oil demand growth in the next few years may be weaker than previously expected due to high prices. The IEA is expected to release a new forecast for mid-term oil demand growth in July. In its most recent

report, the IEA cut its world demand growth forecast for 2006 by 10,000 bpd to 1.24 million bpd.

The DOE reported that US inventories of propane totaled 46.712 million barrels in the week ending June 23, up 1.918 million barrels on the week. It reported that propane inventories in the East Coast increased by 65,000 barrels to 4.623 million barrels while inventories in the Midwest increased by 1.105 million barrels to 19.835 million barrels and inventories in the Gulf Coast increased by 649,000 barrels to 20.961 million barrels on the week.

Refinery News

The US Energy Department approved a 250,000 barrel loan from the SPR for Citgo Petroleum's 440,000 bpd refinery in Lake Charles, Louisiana. It also approved a 500,000 barrel loan for ConocoPhillip's 225,000 bpd refinery in Lake Charles. US Energy Secretary Sam Bodman said the temporary loans would be repaid this fall after the summer driving season. He said he would not be surprised if other refiners also sought temporary federal crude stocks due to the closure of the Calcasieu Ship Channel.

The US Coast Guard said it was making progress in reopening the Calcasieu Ship Channel in Louisiana. It said about nine miles of the channel near Lake Charles were reopened while 11 miles remained closed and vessel traffic to the three refineries was still cut off. There was no estimate for the reopening of the rest of the channel.

Minnesota Pipeline Co has shut a 300,000 bpd pipeline network which carries Canadian crude to two refineries south of the St. Paul-Minneapolis area. The two lines in the network were shut Tuesday night after a leak was discovered. Minnesota's Pollution Control Agency reported that clean up efforts were underway Wednesday. It estimated that about 67,000 gallons of oil spilled after the pipeline ruptured.

Valero Energy Corp said it had to use the safety flare at its 214,000 bpd refinery in Texas City, Texas on Monday and Tuesday.

Saudi Aramco's residual fluid catalytic cracking unit in its Yanbu refinery was shut following a brief restart from a four month outage. As a result, Saudi Aramco sold three first-half of July vacuum gas oil parcels totaling 750,000 barrels, increasing its total volume of VGO sales to 3.5 million barrels since March. The three VGO cargoes are expected to be delivered to the US where they would be used as refinery feedstocks.

Italy's ERG said it was still awaiting official approval before restarting a gasoline making and other units at its 150,000 bpd Isab Nord refinery in Sicily.

A gas leak at a residual fluid catalytic cracking unit in China's Lanzhou refinery sparked an explosion on Wednesday. The PetroChina stated that its main refinery operations were stable.

Venezuelan authorities reopened the Lake Maracaibo ship channel following a fuel tanker grounding reported on Tuesday. The tanker has not yet been moved but traffic was restored in both directions as of Wednesday morning.

Nippon Oil Corp said it would reduce its July crude oil refining volume by 1% on the year to 4.5 million kiloliters or 943,000 bpd after cutting June volumes by 7% due to unit outages and low domestic product demand.

The Petroleum Association of Japan reported that Japan's gasoline stocks rebounded from a 10 month low last week as more refineries resumed operations following maintenance work. Japan's gasoline stocks increased 0.4% to 2 million kiloliters or 12.58 million barrels in the week ending June 24. It reported that Japanese refiners operated at an average of 78.6% of their total 4.77 million bpd capacity last week, up from 71.4% reported last week. It also reported that commercial crude stocks increased by 1.3% to 19.39 million kl or 121.96 million barrels on the week while kerosene stocks increased by 4.6% to 2.16 million kl or 13.59 million barrels.

Thailand's Energy Ministry stated that the country expects its crude oil demand to contract 6% this year, double its earlier forecast. Free floating domestic prices of fuels and incentives for motorists to use bio-fuels would cut crude imports below the 870,000 bpd level reported in 2005. The expected fall in crude imports could save the country 50 billion bath or \$1.3 billion after spending \$17 billion in imports last year.

Production News

Iraqi officials stated that production from the 50,000 bpd Majnoon oil field in southern Iraq restarted on Tuesday following a two day halt caused by a group of Shi'ite tribesmen demanding jobs for their sons. An official with the South Oil Co said there could be more such incidents in other southern oil fields such as the West Qurna field, if the oil ministry does not take measures to stem youth unemployment.

Royal Dutch Shell Plc plans to increase its exploration and development drive in the Arctic regions, particularly in the Alaskan Beaufort Sea in the next year.

Oil production at Kazakhstan's Kashagan oilfield is expected to start in 2009 or early 2010, a year later than the planned start up date in 2008.

OPEC's news agency reported that OPEC's basket of crudes increased further to \$65.79/barrel on Tuesday, up from \$64.59/barrel reported on Monday.

Market Commentary

The crude market ended the session with modest gains following the mostly supportive inventory report. The crude market opened up 18 cents at 72.10 and held good support at the level as it rallied to a high of 72.77 following the release of the DOE and API reports, which showed larger than expected draws in crude stocks of 3.4 million barrels and 1.542 million barrels, respectively. The market however erased its gains and posted a double bottom at 71.60 amid the losses in the heating oil market. The crude market later bounced off its low and traded above the 72.00 level ending a mostly neutral trading session as it settled up 27 cents at 72.19. Volume in the crude market was better with 162,000 lots booked on the day. The gasoline market also ended the session in positive territory following the release of the DOE report, which reported a draw for the first time in nine weeks. The market traded to a high of 220.60 early in the session before it erased its gains and sold off to a low of

215.50 despite the supportive reports. However the market later bounced off its low and rallied

Technical Analysis		
	Levels	Explanation
CL 72.19, up 27 cents	Resistance 72.80, 73.20, 73.76 72.77	50% retracement(76.85 and 68.75), Previous high, 62% Wednesday's high
	Support 71.60 70.40, 70.05	Double bottom Previous lows
HO 193.74, down 2.13 cents	Resistance 200.20, 200.40, 203.16, 205.90 195.00, 197.00	Tuesday's high, 50% and 62% (212.10 and 188.70), Previous high Wednesday's high
	Support 193.00 189.10, 188.70	Wednesday's low Previous lows
HU 220.59, up 74 points	Resistance 223.00 221.00, 221.50	Previous high Wednesday's high, Tuesday's high
	Support 218.00, 215.50 212.30, 211.00	Wednesday's low Previous lows

to a high of 221.00 ahead of the close. It settled up 74 points at 220.59. Meanwhile, the heating oil market also settled down 2.13 cents at 193.74 following the reports showing builds in distillate stocks. The market traded to a high of 197.00 early in the session and settled in a sideways trading pattern before further selling pushed the market to a low of 193.00 ahead of the close. Volume in the gasoline market was light with 34,000 lots booked in the gasoline market while volumes in the heating oil market was better with 56,000 lots booked on the day.

The oil market on Thursday will likely remain supported following the release of the weekly petroleum stocks reports. The market is also seen retracing its some more of its earlier losses as traders position themselves ahead of the shortened trading session on Friday and the long 4th of July weekend. The crude market is seen finding support at its double bottom of 71.60 followed by its previous lows of 70.40 and 70.05. Meanwhile resistance is seen at its high of 72.77 followed by 72.80, 73.20 and 73.76.