



## ***ENERGY RISK MANAGEMENT***

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### **ENERGY MARKET REPORT FOR JUNE 29, 2006**

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The Group of Eight industrialized nations are expected to call on Iran in a statement on Thursday to respond soon to the incentive proposal. Iran's nuclear plans were the

focus of discussions of ministers from the US, Russia, Japan, France, Britain, Italy, Canada and Germany who gathered to prepare for a summit of G8 leaders in mid-July. The statement would also indicate disappointment by the G8 nations that Iran has not yet formally responded to the package of incentives. Meanwhile, Iran's Foreign Minister Manouchehr Mottaki stated that Iran would need until August to complete its initial review of the incentive package aimed at persuading it to halt its uranium enrichment.

#### Market Watch

Venezuela's President Hugo Chavez is expected to travel to Iran next month to discuss energy and other bilateral issues with his counterpart Mahmoud Ahmadinejad. Iran's ambassador to Venezuela, Ahmad Sobhani, said there were no plans for discussions on bilateral nuclear collaboration.

According to Oil Movements, OPEC's oil exports are expected to increase by about 260,000 bpd to 25.22 million bpd in the four weeks ending July 15. It said that tanker data from the Persian Gulf continued to indicate that production from Saudi Arabia was increasing.

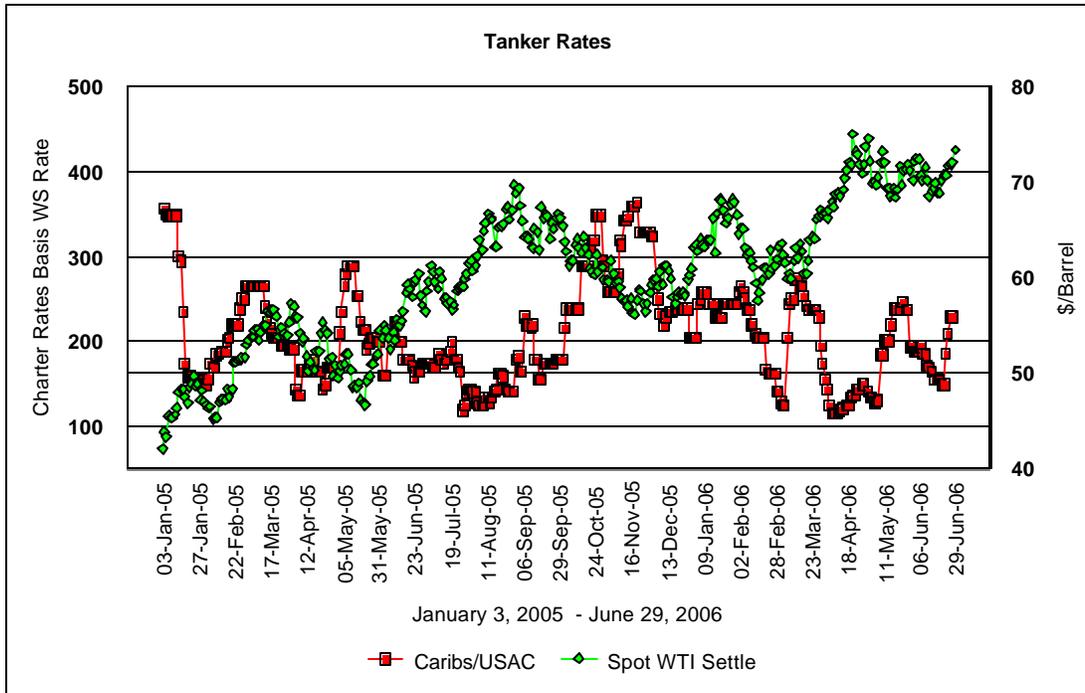
#### Refinery News

The US Coast Guard said it hoped to reopen the rest of the Calcasieu Ship Channel in the next couple of days. However that would depend on how a vessel test run through the channel affects continuing clean up efforts of an oil spill last week. On Wednesday, about nine miles of the channel was reopened.

Buckeye Partners LP halted deliveries Wednesday afternoon on its 701 line between Macungie Station in Lehigh County, PA to the Auburn Station in Cayuga County, NY due to the flooding of small streams and rivers in northeastern Pennsylvania and southern New York areas. The shutdown remained in effect on Thursday while the company evaluated the integrity of the line and its ability to operate it safely. There was no estimate on when operations would return to normal.

A hydrogen recovery unit at Shell Oil Products' 156,000 bpd Wilmington, California refinery malfunctioned, triggering flaring on Wednesday.

Lyondell-Citgo's refinery reported emissions from a fluid catalytic cracking unit and equipment associated with it for the second time this week. The operating status of the fluid catalytic cracking unit was not clear from a report filed with the Texas Commission on Environmental Quality.



PetroChina's Lanzhou refinery is expected to operate in July despite an explosion at the refinery on Wednesday. However its runs would likely remain below full capacity as it switches to use a smaller gasoline unit.

Sinopec's Jinling refinery is expected to

run at below its full capacity in July after the refinery delayed the start of planned maintenance on one of its crude units. Its July throughput is estimated at about 800,000 tons or 188,000 bpd.

Japan Energy Corp said it would refine 5.82 million kiloliters of 398,000 bpd, up 10% in the July-September period.

Singapore's International Enterprise reported that the country's overall oil products stocks increased by 2.884 million barrels to 29.014 million barrels in the week ending June 28. It stated that middle distillate stocks increased by 3.047 million barrels to 9.56 million barrels while light distillate stocks increased by 112,000 barrels to 7.258 million barrels and residual fuel stocks fell by 275,000 barrels to 12.196 million barrels on the week.

### **Production News**

Iraq's South Oil Co denied reports that thousands of oil workers have threatened to strike and possibly halt much of Iraq's crude exports if the government does not meet their demands. The oil workers' syndicate has demanded a raise in their salaries and an improvement in working conditions.

Separately, an Iraqi oil official said two vessels, one from ExxonMobil and the other from Tupras, have started loading Iraq's Kirkuk crude oil. Both vessels are expected to complete their loading on Friday. A shipping agent said Iraq is expected to resume pumping Kirkuk crude to Ceyhan on Friday.

Nigeria has scheduled to export 2.06 million bpd of crude in August, unchanged from the previous month. The August export schedule showed planned loadings of about 63.85 million barrels, up 100,000 barrels from July. Nigeria's three refineries continued to run at about 220,000 bpd, implying Nigerian output in August at 2.28 million bpd.

India's May domestic oil product sales increased by 8.7% on the year to 10.42 million tons.

A Chevron-led venture developing Kazakhstan's Tengiz field would start exporting oil via the Baku-Ceyhan pipeline in mid-2007. TengizChevroil plans to transport 5 million tons a year or 100,000 bpd of oil via the route. Tengiz has been transporting 12-13 million tons a year through a pipeline running to Russia's Black Sea port of Novorossiisk, in which Chevron is a 15% shareholder.

Venezuela's Energy Minister Rafael Ramirez is expected to arrive in Ecuador on Thursday, where he is expected to sign agreements between the two countries to swap crude oil for oil derivatives. The swap could take place as early as late July, with Ecuador sending 35,000 barrels of oil and receive 23,000 barrels of diesel. The agreements would be signed with a phase out clause, in which either of the two parties could end the deals if market conditions are not favorable.

Ecuador's central bank reported that the country exported 1.41 million barrels in April, down 10% from 1.57 million barrels during the same month last year. Its oil export revenue in April totaled \$72.78 million, up 21% from \$59.93 million reported last year.

Foreign oil firms are expected to account for a rapid increase in Brazil's oil production. Foreign output at the end of the decade should reach more than 330,000 bpd or about 14% of projected oil production of 2.63 million bpd in Brazil. Meanwhile, Petrobras is expected to increase its Brazilian oil production to 2.3 million bpd by 2010. Its production in May stood at 1.793 million bpd, accounting for 97% of the country's oil production.

The startup of ENI's offshore oil field in Kazakhstan has been delayed until 2009-2010 from 2008. The delay was related to technical factors stemming from safety procedures.

OPEC's news agency reported that OPEC's basket of crudes increased by 10 cents/barrel to \$65.89/barrel on Wednesday from \$65.79/barrel reported on Tuesday.

Russia's Finance Ministry reported that it would increase oil export duties by 8% from August to a new record high of \$215-\$216/ton following another increase in world prices. The current duty is set at \$199.80/ton.

### **Market Commentary**

The oil market opened 31 cents higher at 72.50, its low, and continued to extend its gains amid the strength in the gasoline market. The crude market rallied to an early high of 73.50 and settled in a sideways trading range from 73.30 to 73.50. However the market later breached its range and posted a high of 73.55. It settled up \$1.33 at 73.52. The market was well supported by the strength in the gasoline

market as traders positioned themselves ahead of the June product expiration on Friday and the Independence Day holiday weekend.

<b>Technical Analysis</b>		
	<b>Levels</b>	<b>Explanation</b>
<b>CL</b> 73.52, up \$1.33	<b>Resistance</b> 73.52, up \$1.33	73.76, 74.20, 75.15 62% retracement(76.85 and 68.75), Previous highs
	<b>Support</b>	73.55 Thursday's high
<b>HO</b> 198.76, up 5.02 cents	<b>Resistance</b>	73.30, 72.50 Thursday's low
	<b>Support</b>	71.60, 70.40, 70.05 Double bottom, Previous lows
<b>HU</b> 229.48, up 8.89 cents	<b>Resistance</b>	203.16, 205.90 62% (212.10 and 188.70), Previous high
	<b>Support</b>	200.50 Thursday's high
<b>HU</b> 229.48, up 8.89 cents	<b>Resistance</b>	198.00, 196.00 Thursday's low
	<b>Support</b>	193.00, 189.10, 188.70 Previous lows
<b>HU</b> 229.48, up 8.89 cents	<b>Resistance</b>	237.00 Previous high
	<b>Support</b>	230.00 Thursday's high
		227.00, 223.25 to 221.00 Opening gap (June 29th)
		215.50 Previous low

The gasoline market, which continued to lend support to the complex, gapped higher from 221.00 to 223.25, its low and quickly traded to 229.00. The market settled in a sideways trading range from 227.00 to 229.00 as it was well supported by short-covering ahead of the June contract's expiration. The market later rallied to its high of 230.00 ahead of the close and settled up 8.89 cents at 229.48. Meanwhile, the heating oil market settled up 5.02 cents at 198.76 after it rallied to a high of 200.50 early in the session. Unlike the gasoline market, the heating oil market later retraced some of its gains and traded back towards the 198.00 level ahead of the close. Volumes were light with 157,000 lots booked in the crude, 35,000 lots booked in the gasoline while better volume was seen in the heating oil market with 57,000 lots booked on the day.

While the oil market may retrace some of its sharp gains, it is seen remaining supported as traders position themselves ahead of the four day Independence Day weekend. The market will also like remain supported ahead of the product expiration at Friday's early close. The crude market is seen finding support at 73.30 and its low of 72.50. More distant support is seen at its double bottom of 71.60. Meanwhile resistance is seen at 73.55 followed by 73.76 and 74.20. More distant resistance is seen at 75.15.