



## ***ENERGY RISK MANAGEMENT***

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### **ENERGY MARKET REPORT FOR JULY 1, 2005**

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According to Petrologistics, OPEC's total oil production in June stood at 30.03 million bpd. It is up 530,000 bpd from its previous forecast. Saudi Arabia's oil production was steady at 9.4 million bpd, while Iran's and Algeria's production was estimated at 3.95 million bpd and 1.35 million bpd, respectively. Meanwhile, Iraq produced 1.8 million bpd in June, down slightly from its previous estimate of 1.85 million bpd. Iraq's exports in June stood at 1.35 million bpd.

#### Market Watch

Goldman Sachs raised its 2005 IPE Brent crude forecast to \$50/barrel from \$47/barrel.

The DOE and API weekly petroleum stock reports will be delayed by one day to Thursday, July 7 due to the Fourth of July holiday.

Water shortages in western and southern Japan have forced at least two utilities to reduce hydroelectric generation and operate oil-fired power plants, spurring market expectations that utilities' demand for oil may increase this summer.

The Institute for Supply Management reported that its manufacturing index for June increased to 53.8 from 51.4 in May and 53.3 in April.

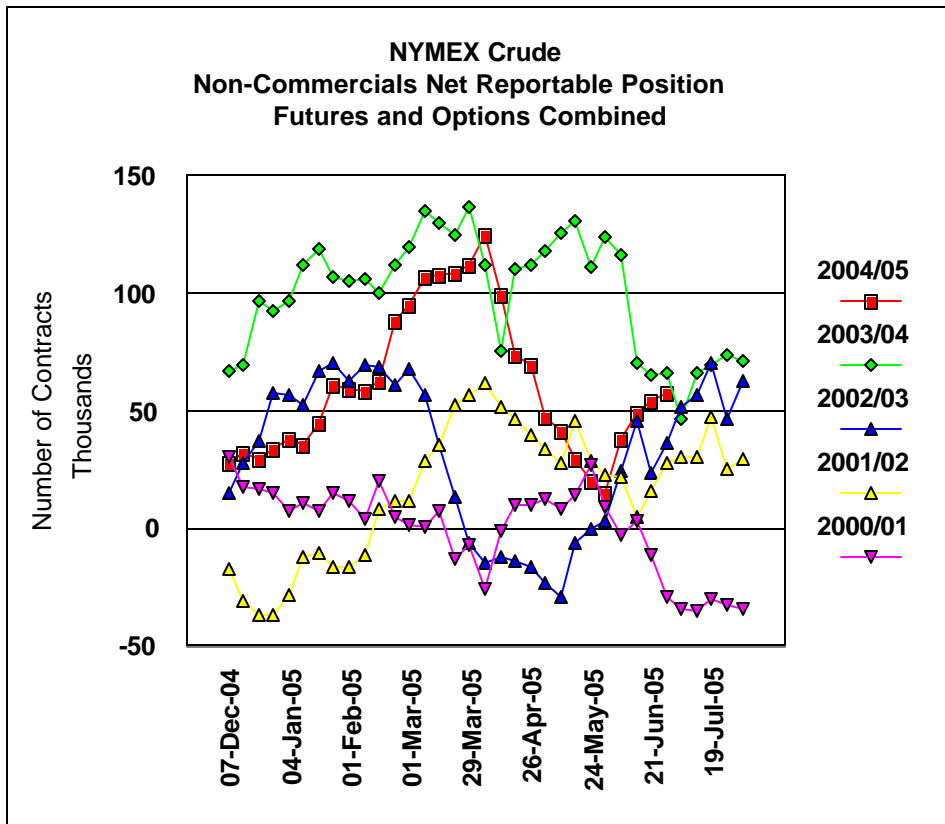
Shipping sources stated that Iraq exported a total of 1.42 million bpd of crude oil in June, up 40,000 bpd from 1.38 million bpd in May. Its exports increased as it exported 1.55 million barrels of oil from its northern oilfields via its pipeline to Ceyhan.

#### Refinery News

A 67,000 bpd fluid catalytic cracking unit at Deer Park Refining's 340,000 bpd refinery in Deer Park, Texas will not resume production until Tuesday. It failed its second attempt to restart since the restart procedure started on June 25. The catcracker was shut on June 15 to repair a ruptured heater steam coil.

Indian Oil Corp shut its 275,000 bpd Koyali refinery in western India due to floods caused by heavy monsoon rains. The refinery was shut as a precaution. Company officials could not say when the refinery would restart normal operations.

While China plans to cut some of its refinery operating rates in July, it is not necessarily a strong signal that demand has slowed in the country. Sinopec Zhenhai Refining & Chemical Co plans to process 1.47 million metric tons of crude this month, down from 1.48 million tons in June. Separately, Sinopec is seeking to resell millions of barrels of crude in the Asian and West African crude markets after cutting refinery runs.



**Production News**

Baker Hughes reported that number of rigs searching for oil and gas in the US remained at 1,370 in the week ending July 1. The number of rigs searching for oil increased by 8 to 157 while the number of rigs searching for natural gas fell by 8 to 1,211.

BP Plc said it expects an average production of 2.85-2.9 million barrels of oil equivalent/day from its wholly owned units in 2005, up from 2.795 million boe/d last year. It expects new oil and gas fields to come onstream this year, especially in the Gulf of Mexico, Angola and Algeria.

Norway's Norsk Hydro said it submitted plans for a new extension to the Oseberg oil and gas field in the North Sea. Hydro and its partners will invest about 1.8 billion Norwegian crowns or \$274.5 million to develop the Oseberg Delta satellite oil and gas field with production due to start in October 2007. The estimates for recoverable gas from Oseberg are about 8 billion cubic meters. The field also contains about 2.7 billion cubic meters of recoverable oil and condensates.

OPEC's news agency reported that its basket of crudes fell further to \$52.01/barrel on Thursday, down from \$52.50/barrel on Wednesday.

Russia's Finance Ministry will raise crude oil export duty to a record high of \$140/ton in August from the current level of \$136.20/ton. The duty on light products will rise to \$106.60/ton from \$104.10/ton while the duty on heavy products will increase to \$57.40/ton from \$56/ton.

Former Soviet Union fuel oil exports from the Baltic and Black Sea ports increased sharply in June as refinery in central Russia increased their shipments. Fuel oil shipments increased by 469,000 tons or 15% from May to 3.7 million tons in June, with fuel oil exports from the Baltic Sea increasing by 100,000 tons to 2.56 million tons. Meanwhile exports from the Black Sea increased by 51% to 1.13 million tons.

Oil and oil product exports via the Caspian Sea port of Aktau increased to 4.7 million tons or 197,000 bpd in January-June compared with 3.8 million tons in the first half of 2004.

Russia's Rosneft and China's Sinopec agreed to create a joint venture that would explore for hydrocarbons of Sakhalin Island in an area called Sakhalin-3. The two companies are expected to

approve an exploration program soon, which is expected to include the drilling of an exploratory well in the area in 2006. Rosneft also signed a long term cooperation agreement with CNPC. The agreement between CNPC and Rosneft said the two firms would study the possibilities of increasing supplies to China, possibly by using the Pacific route or the Atasu-Alashankou pipeline from Kazakhstan.

ConocoPhillips and Lukoil jointly announced that they finalized the creation of Naryanmarneftegaz joint venture to develop resources in the northwest Arctic Russia. The joint venture is expected to produce and market about 200,000 barrels of oil equivalent/day at peak.

### **Market Commentary**

The oil complex started the second half of the year remarkably strong. The crude market rebounded from its three days of losses as the heating oil market rallied to a record high ahead of the long Fourth of July holiday weekend. The crude market opened at its low of 56.70 and never looked back. It traded higher as the strength in overnight trading continued during the open outcry session. Early in the session, the market seemed ready to hold some resistance at 57.70, just below Thursday's high of 57.80. However the market breached that level and quickly found further buying which pushed it above the 58.00 level. The oil market extended its gains to \$2.50 as it traded to a high of 59.00 ahead of the weekend. It settled up \$2.25 at 58.75. Volume was good during the shortened session, with 176,000 lots booked on the day. The heating oil market remained strong after it opened at its low of 165.00 and never looked back. It rallied from its low and quickly breached its previous high on good paper buying. The market extended its gains to 9.89 cents as it rallied to a record high of 173.50 by mid-day despite the lack of any fundamental change. During the last hour of trading, the market settled in a sideways trading range and settled up 7.50 cents at 171.11. Similarly, the gasoline market settled up 8.27 cents at 164.85 after it too opened at a low of 158.20 and never looked back. It quickly retraced most of its recent losses as it rallied to a high of 165.20, up over 8 cents on the day. Volumes in the product markets were good with over 40,000 lots booked in the heating oil and 37,000 lots booked in the gasoline market.

Barring any bullish news over the weekend, the oil market on Monday is initially seen retracing some of Friday's sharp rally. However the complex is seen remaining strong as buying may continue during the first few trading sessions of the new quarter. The oil market is seen remaining supported, especially if the heating oil market continues to rally. The market is seen finding support at 58.60, 58.00 and 57.20. Meanwhile further support is seen at 56.70 followed by 55.90. Resistance is found at 59.00 followed by 59.75 to 60.10 and 60.95.

According to the latest Commitment of Traders report, the non-commercials in the crude market increased their net long position by 2,161 contracts to 22,008 contracts in

<b>Technical Analysis</b>		
	<b>Levels</b>	<b>Explanation</b>
<b>CL</b> Resistance 58.75, up \$2.25 Support	59.75 to 60.10, 60.95 59.00	Remaining gap(June 28th), Previous high Friday's high
	58.60, 58.00, 57.20 56.70, 55.90	Friday's low, Previous low
<b>HO</b> Resistance 171.11, up 7.5 cents Support	182.22 173.50	Basis resistance line Friday's high
	171.00, 170.00, 168.00 165.00	Friday's low
<b>HU</b> Resistance 164.85, up 8.27 cents Support	166.90, 169.40 165.20	Previous highs Friday's high
	162.00, 160.00 158.20	Friday's low

the week ending June 28<sup>th</sup>. The funds, which seemed to have liquidated some of their position on Wednesday and Thursday following the release of weekly petroleum stock reports, may have likely come back into the market during today's session and helped support the market at the start of a new quarter. The combined futures and option report also showed that non-commercials in the crude increased their net long position by 3,127 contracts to 57,422 contracts. Meanwhile non-commercials in the heating oil market increased their net long position slightly by just 236 contracts. However given the market's strength, non-commercials have likely continued to add to their positions. In the gasoline market, non-commercials cut their net long positions from 29,883 contracts to 28,716 contracts.