



ENERGY RISK MANAGEMENT

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ENERGY MARKET REPORT FOR JULY 14, 2006

Israel intensified its attacks on Lebanon, striking bridges, airports and the main highway leading to Syria to put pressure on the government and force Hezbollah to free the Israeli soldiers it captures on Wednesday. Israeli warplanes targeted residential neighborhoods south of Beirut, a stronghold of the Shiite Muslim Hezbollah's leadership. Meanwhile, Hezbollah guerrillas continued to fire rockets from Lebanon on four Israeli towns on Friday. Meanwhile, an Israeli naval ship off Lebanon was lightly damaged in an attack. Meanwhile Syrian officials said it did not want to become involved in the conflict between Israel and Lebanon, while the Iranian President called on Israel not to take action against Syria, say such an act would "...be the same as an aggression against the entire Islamic world." Reports of Syrian and Iranian forces being placed on high alert circulated in the markets. Both Jordan's King Abdullah and Egyptian President Mubarak held a hastily called meeting Friday to discuss escalating Mideast tensions. President Bush promised Lebanese Prime Minister Saniora that he will press Israel to restrict its attacks on Lebanon, but Bush appears to fall short of supporting the Lebanese leaders' call for a cease fire and a lifting of the blockade.

Market Watch

US Energy Secretary Sam Bodman said the US economy has remained resilient in the face of record high oil prices.

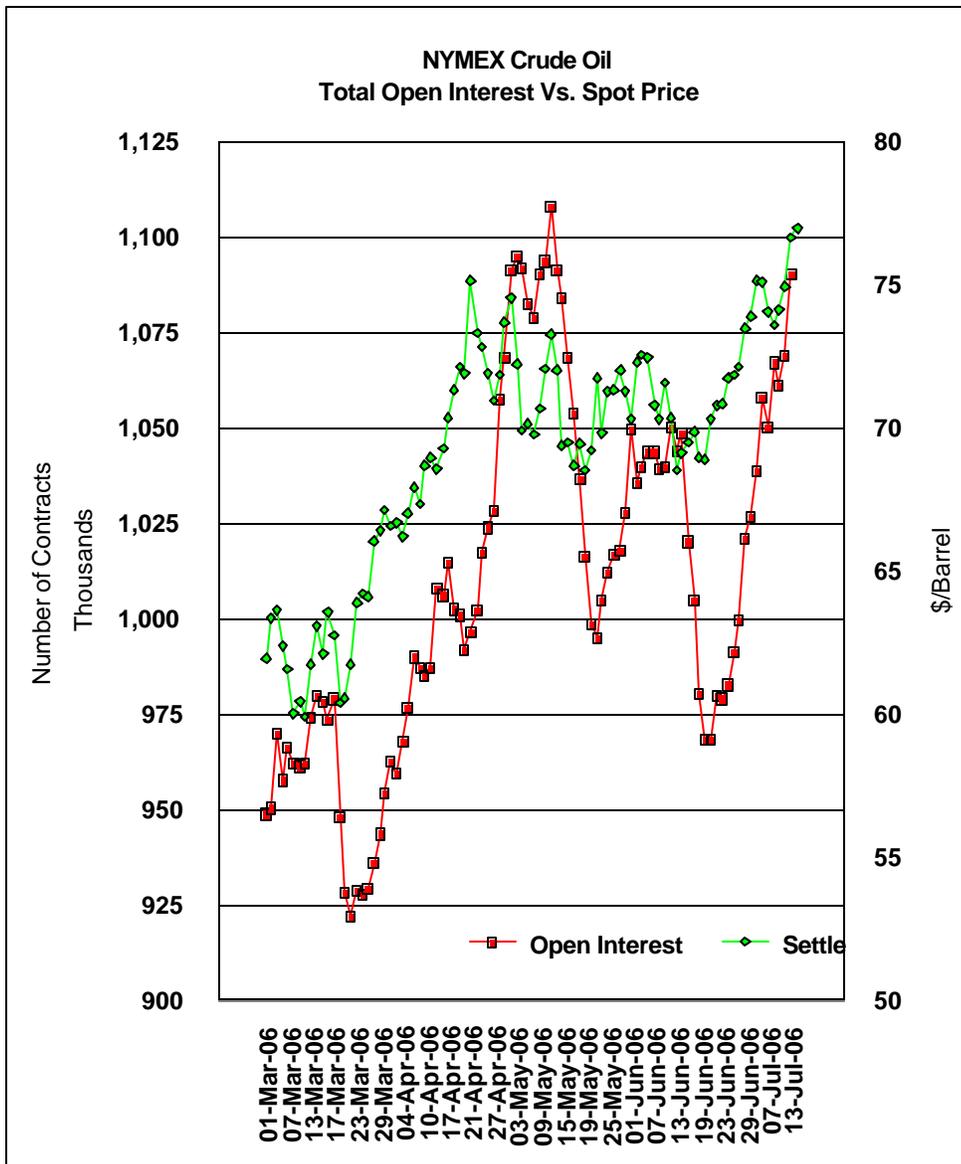
UBS increased its estimates for WTI crude for 2006 and 2007. It forecast 2006 WTI at \$68.40/barrel, up from \$64/barrel and 2007 WTI at \$69/barrel, up from its previous estimate of \$66/barrel.

Valero Energy Corp's chief executive Bill Klesse said US consumers should not expect gasoline prices to fall following the peak summer driving season. He said geopolitical events were driving world oil prices and in turn gasoline prices higher.

The recent upward trend in oil and metals markets is expected to continue despite Japan's first interest rate increase in six years. Investors were concerned that the Bank of Japan's rate increase could cut fund inflows into commodities. However the rate hike barely affected the markets. The Bank of Japan raised its overnight call rate target to 0.25% from about zero. It also raised the official discount rate to 0.4% from 0.1%.

Japan Meteorological Agency reported that Japan's weather would be mostly average to above average during the next two weeks starting on Saturday. Consumer demand is a key swing factor for gasoline during the peak summer season as base demand from business and industry users usually holds steady regardless of the weather.

OPEC stated that it is committed to keeping the oil market stable. It said geopolitical developments, over which OPEC has no influence, has played a significant role in driving up prices. OPEC said the increase in oil prices and market volatility has occurred despite the fact that the market remains well



supplied with crude. However OPEC said that to be truly effective in increasing stability in the market, it requires the full support of the other major players in the market.

Separately, Venezuela's Energy Minister Rafael Ramirez said US support for Israel was contributing to the rally in oil prices. Venezuela's President Hugo Chavez has consistently blamed the recent rally in oil prices on US foreign policy.

A German government official said the Group of Eight nations should give a signal to help calm markets.

Japan insisted on a UN Security Council resolution threatening sanctions against North Korea for its recent missile tests. It proposed a resolution that would ban North Korean missile

tests and prevent the country from acquiring or exporting missiles, related technology, weapons of mass destruction or their components. It was hoping for a UN Security Council resolution before the Group of Eight summit. South Korea said it was dispatching envoys to China, Japan and the US to coordinate a response to the crisis. The Group of Eight major industrialized nations are expected to issue a statement demanding North Korea refrain from any more missile launches during a summit this weekend.

Refinery News

ConocoPhillips Corp is expected to perform maintenance on Friday at its 216,000 bpd refinery in Sweeny, Texas to clean the excess catalyst particles from the electrostatic precipitator. Half of the plates are expected to be cleaned on Friday with the other half scheduled for Monday.

Nigeria's Oil Minister Edmund Daukoru said the Nigerian government has exempted the Port Harcourt refinery from privatization. He said the refinery was producing at about 90% of its installed capacity of 210,000 bpd. The Nigerian government had plans to privatize the country's four refineries.

Indonesia's Pertamina stated that Indonesia is estimated to import 11.5 million barrels of oil products for July while its imports in August are estimated to fall to 10.5 million barrels as its domestic refinery production increases. Indonesia is expected to import 6.7 million barrels of diesel and 2.8 million barrels of gasoline in August. Meanwhile Pertamina's 120,000 bpd Dumai refinery was operating at 70% of its capacity.

Shipping sources stated that export of Sudan's 140,000-200,000 bpd Dar Blend crude could start in November or December, later than expected, due to delays in completing loading facilities. The Dar Blend field is expected to almost double Sudan's production to 500,000 bpd.

Production News

Petroecuador reported that its oil export revenues totaled \$257 million in June, up 30% from the \$197 million reported last year. It exported a total of 4.28 million barrels of crude oil in June, down from 4.49 million barrels reported last year.

China Shenhua Energy Co said that its coal output increased by 10.6% on the year in the first six months of the year. Commercial coal production increased to 66.7 million tons while coal sales increased by 19.5% to 81.5 million tons.

Market Commentary

The escalating violence in the Middle East, which helped send crude prices more than \$1 higher on Access to a high of 78.40, continued to support the market on Friday. The market gapped higher from 76.85 to 77.75 and quickly posted a high of 77.95. The market however retraced its gains and partially backfilled its gap as it traded to a low of 76.90. The oil market later bounced off its low and traded in a sideways trading pattern ahead of the close. It however once again retraced some of its gains as worries over the Middle East conflict eased despite the continued escalation of violence. The market settled up 33 cents at 77.03. Volume in the crude market was excellent with over 230,000 lots booked on the day. Open interest in the crude market built by a total of 21,000 lots as of Thursday amid the rally in the market. Open interest in the August contract fell by 20,943 contracts as traders rolled their positions to the September contract, which saw open interest increase by 22,742 and added to their longs in the outer months. The gasoline market also gapped higher from 231.50 to 232.25 and quickly rallied to a high of 234.50. The market however retraced its gains and backfilled its gap as it traded to a low of 230.50. It later retraced its losses and settled in a sideways trading pattern ahead of the close. It settled up 2.36 cents at 232.49. Unlike the crude and gasoline market, the heating oil market settled in negative territory. It opened 2 cents higher at 210.00 and quickly rallied to a high of 211.10. The market however retraced its gains and sold off to a low of 207.00 ahead of the close. It settled

down 39 points at 207.60.

Volumes in the product markets were good with 34,000 lots booked in the gasoline market and 52,000 lots booked in the heating

Technical Analysis		
	Levels	Explanation
CL	Resistance	78.48, 80.00
		77.95
	Support	76.90 to 76.85
		75.85 to 75.05
HO	Resistance	212.90, 214.00
		211.10
	Support	207.00, 205.60 to 202.00
		198.20, 195.30
HU	Resistance	237.00
		234.50
	Support	231.50, 230.50
		226.50 to 226.00

oil market.

The crude market on Monday will be driven by any news regarding the situation in the Middle East over the weekend. If there is no further escalation over the weekend, the market will likely continue to retrace its gains. The market is seen finding support at its gap from 76.90 to 76.85 followed by its previous gap at 75.85 to 75.05. Meanwhile, resistance is seen at its high of 77.95 followed by 78.48, basis its trendline and the 80.00 level.