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ENERGY MARKET REPORT FOR JULY 20, 2005

OPEC's President Sheikh Ahmed Fahad al-Sabah said he is satisfied with the recent fall in oil prices and hoped oil markets were entering a period of stability. He said the fall in oil prices was a positive development. He also added that the markets are current well supplied.

The US embassy in Saudi Arabia warned US citizens that militants were planning attacks in the country. The embassy however said it has no specific information concerning timing, target or method of any possible attacks.

Separately, Saudi security forces uncovered a militant hideout filled with bomb making materials south of Riyadh.

Market Watch

The API said high heating oil prices is discouraging consumers from filling their tanks early for the upcoming winter, causing primary heating oil inventories to increase above normal levels in the US Northeast. It said heating oil inventories in the New England region is 46% above the five year average. API chief economist John Felmy said if primary heating oil inventories continue to remain high, finding storage for the fuel may become a problem for some refineries.

US Federal Reserve Bank chairman Alan Greenspan said a further rise in energy prices could cut into private spending and dampen the rate of economic expansion. He also stated that if energy prices continue to increase, gasoline usage could fall as US consumers seek vehicles with more fuel efficiency. He warned that the preponderance of oil and gas revenues of the dominant national oil companies is perceived as necessary to meet the domestic needs of growing populations. He said these factors have the potential to constrain the ability of producer to expand capacity to keep up with the projected growth of world demand.

Saudi Arabia's government said Saudi Arabia's envoy to the US, Prince Bandar bin Sultan, has resigned for personal reasons. A foreign ministry statement said he had appealed to King Fahd to relieve him of his duties for private reasons. The monarch accepted his resignation and will nominate former intelligence chief Prince Turki al-Faisal, currently ambassador to London, to replace him. Prince Turki al-Faisal's appointment is not expected to cause major changes.

Unocal Corp endorsed a \$17 billion takeover offer from Chevron Corp, preferring it to a higher bid from China's CNOOC Ltd. Chevron raised its stocks and cash bid to \$63.01/share from roughly \$60/barrel. Unocal's board has favored Chevron's bid partly due to concern Us regulators may reject the CNOOC deal based on national security grounds or the deal may be held in a long review process. A CNOOC spokesman said the company remained comfortable with its \$18.5 billion bid and believed its offer had a distinct advantage.

According to a Reuters' survey, oil analysts expect US crude prices to fall \$4/barrel in 2006 to an average of \$48/barrel.

China's National Bureau of Statistics said the country's economy has grown faster than expected in the first six months of the year despite the government's efforts to slow its growth. It said the economy grew by 9.5% from a year earlier. Total GDP between January and June reached 6.7 trillion yuan or \$811 billion.

The DOE reported that US propane inventories built by 2.26 million barrels to 57.574 million barrels on the week. It reported that propane stocks in the East Coast fell by 184,000 barrels to 3.53 million barrels while inventories in the Midwest built by 440,000 barrels to 19.491 million barrels and inventories in the Gulf Coast increased by 1.562 million barrels to 32.838 million barrels.

Refinery News

A fire started in a crude unit at Chevron's El Segundo refinery on Wednesday morning. The crude unit was taken out of service and the cause of the fire is under investigation.

Meanwhile, Chevron Corp's 325,000 bpd Pascagoula, Mississippi refinery will resume normal operations by the end of the week. The refinery was shut on July 9 ahead of Hurricane Dennis.

Royal Dutch/Shell has declared force majeure on all fuel oil barge contract supplies from its 418,000 bpd Pernis refinery in Rotterdam. The force majeure was declared in the wake of a shutdown at the refinery last Thursday caused by a power outage.

Brazil and Venezuela will build a \$2.5 billion oil refinery in the northeastern Brazilian state of Pernambuco that is expected to the capacity to produce 250,000 bpd. The refinery is expected to process heavy oil.

Japan's Taiyo Oil Co restarted a 32,000 bpd crude distillation unit following a two week maintenance shutdown. It also resumed operation of a 30,000 bpd condensate splitter on Wednesday following a maintenance shutdown that started on July 8.

Taiwan's Chinese Petroleum Corp has decided not to proceed with its plan to increase the capacity of its No. 5 naphtha cracker at Kaohsiung due to opposition from the local government. It has planned to raise the cracker's 500,000 ton per year capacity by 100,000 tpy or 20% during a turnaround in 2006.

China's Yangzi refinery has cut its operating rates by 50% to 73,000 bpd following the start of routine maintenance at a crude unit and ethylene plant. It has shut its 90,000 bpd crude distillation unit and 650,000 tpy ethylene plant for at least 20 days from Wednesday.

Production News

According to the MMS, there was a small recovery in the amount of oil and natural gas production shut in by Hurricane Emily. It reported that 87,680 bpd of crude oil was shut in. The cumulative lost oil production now reached 215,478 barrels.

Mexico has resumed shipments of crude oil from its three main Gulf of Mexico ports after operations at its port of Dos Bocas and Cayo Arcas were closed. Pemex was unable to confirm exports had restarted, although a source at the company said that exports would restart on Wednesday as evacuated workers are returned to oil rigs in the Campeche Sound.

Shell Oil Co has delayed connection work at its Mars platform in the Gulf of Mexico for the second time due to strong currents. The work on the platform's flexjoints was first delayed in May.

Danish Underground Consortium's oil production from its 14 fields in the Danish part of the North Sea fell by 8% year on year in June to 306,300 bpd.

The Shetland Island Council reported that Brent crude liftings from Sullom Voe increased to 218,673 tons in the week ending July 20th, up from 172,213 tons during the previous week.

Norway's Statoil ASA said the Kizomba B development has started operations five months ahead of schedule. It is the third field to start production in the block. It is estimated to contain 1 billion barrels of recoverable oil and aims to produce 250,000 bpd at plateau.

The Azerbaijan International Operating Co plans to halt oil transportation via the Baku-Supsa pipeline for 10 days in late July due to maintenance work at the oil terminal in Supsa. The shutdown of oil transportation via the Baku-Supsa pipeline would not affect the oil exports from the Azeri-Chirag-Guneshli field. Instead oil produced would be moved via the pipeline linking Baku with Russia's Black Sea port of Novorossiisk and transported by railway to Georgia's port of Batumi.

Russian oil products exports via pipeline monopoly Transnefteproduct increased slightly in the first half of 2005 to 9.2 million tons from 8.9 million tons a year earlier. Transnefteproduct's main export destination remained the Baltic Latvian Ventspils port, which received 3 million tons while other Baltic ports received 1.3 million tons.

Russian Railways transported 3.75 million tons of oil to China in January-June, up from 2.9 million tons last year. In June alone, Russia transported more than 626,900 tons of crude to China.

Azerbaijan's SOCAR tendered to sell two 82,000 ton cargos of Urals crude for loading at Russia's Black Sea port of Novorossiisk in August.

South Korea exports of high sulfur fuel oil in August are likely to be less than 50% of July's level, mainly due to SK Corp switching to low sulfur fuel oil and a planned GS Caltex plant shutdown. South Korea's five oil refiners were expected to export 266,000 tons in August compared with 580,000 tons in July. SK Corp is expected to cut its exports by two thirds due to a cut in production.

China's National Bureau of Statistics reported that China's crude oil production in January-June increased by 4.8% on the year to 89.797 million tons. Its gasoline production increased by 2.4% on the year to 26.253 million tons while its diesel production increased by 9.2% to 53.595 million tons. It also reported that hydropower generation was up 25% in June, account for 20% of total power output compared with 18% in June 2004. China also increased the amount of coal it mines, up 13% at 158.6 million tons in June. The reduced demand for fuel oil and diesel in power plants and small scale generators may be one of the main reasons that China's apparent oil demand has fallen flat this year, in spite of robust economic indicators.

OPEC's news agency reported that OPEC's basket of crudes fell to \$51.90/barrel on Tuesday from \$52.38/barrel on Monday.

Market Commentary

The oil market ended in negative territory following the DOE report which failed to show large draws in crude stocks following the storm related disruptions. The August crude contract settled down 74 cents at 56.72 after posted an outside trading day. It gapped higher as it opened 64 cents higher at 58.10 in follow through buying seen in overnight trading following the reports that the US embassy in Saudi Arabia was warning US citizens that militants were planning attacks in Saudi Arabia. The market traded to a high of 58.40 but quickly erased its gains and backfilled its opening gap from 58.10 to 57.75 as the market was pressured following the release of the weekly petroleum stock reports. The market sold off more than \$1 to a low of 56.10. The market was pressured in light of the smaller than expected draw in crude stocks. Most in the market were expecting a large draw in crude stocks following the storm related disruptions in production. The market later retraced some of its losses ahead of its expiration at the close. The September crude contract also settled down 67 cents at 58.02 after it sold off from a high of 59.65 to its low of 57.45. Volume in the crude market was excellent with

over 250,000 lots booked on the day. The product markets once again ended mixed with the heating oil market settling down 3.24 cents at 159.77 and the gasoline market settling up 25 points at 167.60. Similar to the crude market, the heating oil market traded to a high of 165.40 early in the session but quickly sold off to a low of 159.00 following the release of the weekly petroleum stock reports showing builds in distillate stocks. It later settled in a 2 cent trading range during the remainder of the session. The gasoline market gapped higher from 167.50 to 169.75 on the opening and traded to a high of 173.00. However the market erased its gains and backfilled its gap as it traded to a low of 165.50 following the inventory reports. It held good support at its low as it bounced off that level and settled in positive territory. Volumes in the products were good with 59,000 lots booked in the heating oil market and 66,000 lots in the gasoline market.

The crude market will likely trade sideways on Thursday following today's session when it was supported by the bullish headlines regarding attacks in Saudi Arabia and pushed lower by the surprising inventory reports. The market is seen finding support at its low of 57.45 followed by further support at 57.00.

Resistance is however seen at 58.50, 59.00 and its high of 59.65. More distant resistance is seen at 59.80.

Technical Analysis		
	Levels	Explanation
CL 58.02, down 67 cents	Resistance	59.65, 59.80
		58.50, 59.00
	Support	Sep
		57.45
HO 159.77, down 3.24 cents		57.00, 56.30
	Resistance	165.40
		163.95
	Support	159.00
HU 167.60, up 25 points		157.50, 156.00
		173.00, 173.70
		168.00
		165.50