



ENERGY RISK MANAGEMENT

Howard Rennell, Pat Shigueta &
Zachariah Yurch

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

www.e-windham.com

ENERGY MARKET REPORT FOR AUGUST 17, 2006

Iran's President Mahmoud Ahmadinejad said the country could not abandon its nuclear program while the US was developing new atomic bombs every year. Iran has stated that it wants nuclear technology only to cope with rising electricity demand. Meanwhile, an Iranian diplomat said the timing of Iranian military exercises on August 22, the same day as the UN deadline for it to halt its nuclear program, was a coincidence.

Israel transferred control of 50% of southern Lebanon to a UN force on Thursday as Lebanese soldiers entered the region. Meanwhile, the countries that could contribute to an expanded UN peacekeeping force in Lebanon were scheduled to meet on Thursday. France's President Jacques Chirac said France would immediately double its contingent in the UN peacekeeping force in Lebanon to 400 troops.

OPEC's President Edmund Daukoru said a serious review of OPEC's production quotas was unlikely this year. He said he saw no reason for OPEC to revise its quotas right now. Separately, Iran's Oil Minister Kazem Vaziri Hamaneh said OPEC is not expected to cut its output at its meeting next month. OPEC is scheduled to meet on September 11.

Iraq's Prime Minister Nouri al-Maliki insisted the country's forces were ready to

Market Watch

Four refined product tankers loading in Europe during the last week of August are headed for the US East Coast. The 315,000 barrel cargoes are expected to arrive on September 9-17. Meanwhile, a large number of tankers were booked to the US West Coast due to BP's decision to shut in the eastern portion of the Prudhoe Bay oilfield. However the rush to book tankers is expected to end as the market begins to assess the ultimate impact of the supply disruption.

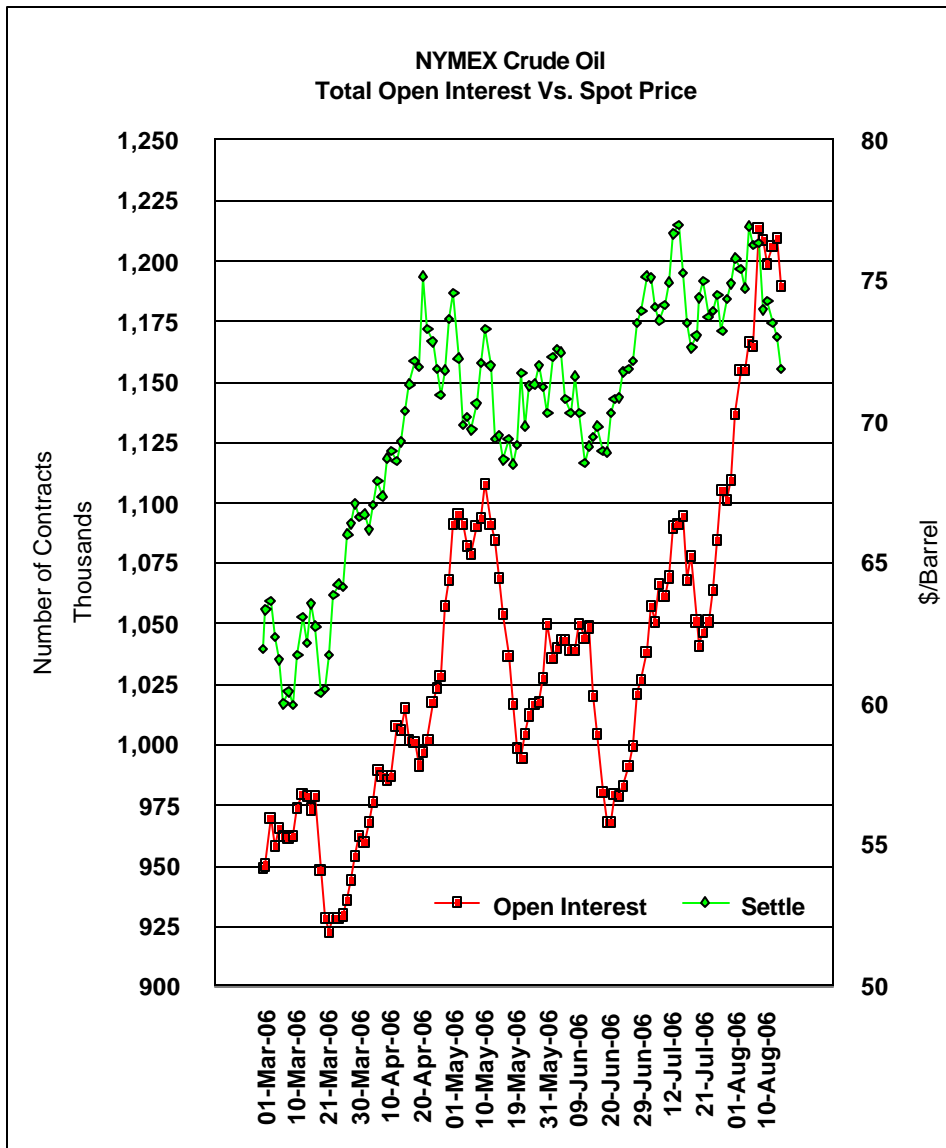
The EIA stated that gasoline prices were likely to fall in the next several weeks. It said last week's fall of 3.8 cents pointed to a probable significant decline in retail prices over the next few weeks, assuming no major events occur to alter their path, such as wars, international tensions, hurricanes and refinery problems.

The AAA stated that the average US price of gasoline fell to \$2.977/gallon from \$2.985 the day before.

According to a Reuters survey, US oil prices are expected to average \$68.37/barrel in 2006 and fall to \$64.42/barrel in 2007. Oil prices are expected to fall further in 2008 as high crude prices cut world demand growth and production expands in West Africa and the Middle East. The price of WTI is expected to average \$56.11/barrel in 2008 followed by a fall to \$48.33/barrel in 2010.

Austrian oil group OMV said oil prices were set to fall to between \$60 and \$70/barrel in the coming months. It said prices would then decline further in the next three to five years.

The IntercontinentalExchange said it would expand its daily trading hours of crude oil futures and some other contracts by an hour starting August 21. It said ICE futures would stay open until 6:00pm EDT for Brent crude futures and options, WTI futures, heating oil futures and RBOB gasoline futures.



take over security duties in most provinces despite rising violence.

Refinery News

Traders stated that differentials for ethanol-blend California gasoline fell by 6 cents in the Los Angeles spot market on Thursday as refiners stopped purchasing gasoline. Ethanol blended gasoline for August sold in the LA market at 17.5 cents and 17.25 cents over the NYMEX's September RBOB contract on Thursday.

According to a report filed with the Texas Commission on Environmental Quality, ConocoPhillips is scheduled to perform maintenance on blowers associated with a fluid catalytic cracking unit at its Sweeny oil refinery in Texas on Thursday.

Flint Hills Resources' 280,000 bpd refinery in Rosemount, Minnesota cut

its runs to one of the refinery's three crude units following a fire on Wednesday. A source stated the company was working to repair it as quickly as possible and added that no decision was made to move up a three week turnaround on the unit scheduled for mid to late September.

Chevron's Pascagoula, Mississippi refinery was preparing for a nine to ten week planned turnaround of its 63,000 bpd catcracker and adjunct units. The catcracker is tentatively seen shutting down during the last week in September. An overhaul would be done to expand its catcracker's capacity by 25%.

Statoil said it planned to perform maintenance work at several units at its 204,000 bpd Mongstad refinery next year. The partial shutdowns in the spring and autumn next year would involve a coker unit and another auxiliary unit.

Oil Movements reported that OPEC's oil exports are expected to increase 2.6% or 630,000 bpd in the four weeks ending September 2 to 25.27 million bpd.

Gas oil stocks in independent Amsterdam-Rotterdam-Antwerp storage tanks increased by 225,000 tons to 2.285 million tons in the week ending August 17. Traders and oil majors have been encouraged by a wide price contango on ICE gas oil futures to build up gas oil inventories. Meanwhile, total ARA gasoline stocks increased by 45,000 tons on the week to 660,000 tons while fuel oil stocks fell by 95,000 tons to 520,000 tons on the week. Naphtha stocks also fell by 20,000 tons to 55,000 tons while jet fuel stocks increased by 20,000 tons to 380,000 tons on the week.

An Iraqi oil official said Iraq is expected to double the money allocated for the import of oil products in August and September to curb the worst fuel shortage since Saddam Hussein was ousted. The head of SOMO said the money allocated by the government to buy oil products has been increased from \$213 million in August to double the amount. He said the shortage has been further aggravated by the closure of the 140,000 bpd Baiji refinery. He said sabotage of pipelines carrying crude from Kirkuk oil fields shutdown the refinery for the last four weeks.

China's refineries are expected to skip diesel imports for the eighth consecutive month in September as crude throughput is set to increase. Exports would also be limited to about 50,000 tons for next month's lifting.

Taiwan's Formosa Petrochemical Corp said it planned to restart a 73,000 bpd residual fluid catalytic cracker at its Mailiao refinery around August 20 after it was shutdown following a mechanical problem last week. It also shutdown a 70,000 residual desulphurization unit, which is expected to restart at the end of September. Formosa also shutdown a 180,000 bpd No. 1 crude distillation unit to repair a mechanical glitch on August 13. The unit is expected to resume operations on August 20.

Singapore's International Enterprise reported that the country's residual fuel stocks increased by 234,000 barrels to 14.964 million barrels. Meanwhile, Singapore's light distillate stocks increased by 1.427 million barrels to 8.905 million barrels while its middle distillate stocks increased by 1.175 million barrels to 9.16 million barrels.

Production News

The US Minerals Management Service stated that the Western Gulf Lease Sale 200 attracted about \$341 million in high bids from 62 companies despite the uncertainty and delays created by ongoing litigation. The lease sale was delayed a few hours due to two days of legal wrangling by the MMS, the state of Louisiana and oil industry groups. Louisiana, which opposed the lease sale on the ground that it could damage its coastal environment, asked a federal court to block the sale. However the court denied the motion on Monday. The judge warned that state's claim had merits and that the leases granted could be overturned.

Total SA said it restarted its 33,000 bpd Matterhorn platform, which was shut due to damage caused by Hurricane Katrina last year.

Royal Dutch Shell said a pipeline carrying Bonny Light crude was operating at 173,000 bpd capacity after the company called a force majeure on the pipeline last month. A company spokeswoman said the force majeure was still in place.

A Lebanese construction worker was kidnapped in Nigeria on Wednesday. Unidentified men kidnapped the man on a road close to the border between Rivers and Bayelsa states in the southern delta. The abduction brought to about 17 the number of foreign oil workers seized this month. Nine have so far been released. On Tuesday, President Olusegun announced a crackdown on violence and hostage taking. He threatened to impose sanctions on companies caught paying ransoms.

OPEC's news agency reported that OPEC's basket of crudes fell further to \$68.24/barrel on Wednesday from \$69.01/barrel on Tuesday.

Market Commentary

The oil market gapped lower from 71.70 to 70.80 as it continued to trend lower. It posted a high of 71.05 and remained well pressured by the liquidation as it failed to completely backfill its gap. The market sold off to a low of 70.00 as a play on the September crude options, which expired at the close, kept the market well supported at that level. The market later traded in a sideways trading pattern ahead of the close. It settled in negative territory for the fourth consecutive session, down \$1.83 at 70.06. Volume in the crude was good with over 244,000 lots booked on the day. Open interest in the crude market fell by a total of 19,625 contracts, with open interest in the September contract falling by 15,561 contracts as traders liquidate their positions ahead of its expiration on August 22. The product markets also ended the session sharply lower, with the gasoline market settling down 4.65 cents at 193.16 and the heating oil market settling down 5.19 cents at 196.50. The gasoline market gapped lower from 196.50 to 192.50 and partially backfilled its gap as it posted a high of 195.50 early in the session. The market however erased its gains and extended its losses to 6.3 cents as it posted a low of 191.50. It later settled in a sideways trading pattern ahead of the close. Similarly, the heating oil market gapped down from 201.00 to 198.75, which it partially backfilled as it posted a high of 200.50. The market later traded to 196.50 and traded mostly sideways as it held support at that level. The heating oil market however found further selling and posted a low of 196.25 ahead of the close. Volumes in the product markets were good with 27,000 lots booked in the gasoline and 43,000 lots booked in the heating oil market.

The market is not seen trading much lower as it previously held support just below the 70.00 back in June. While the crude market's stochastics are still trending lower, they are also indicating an oversold market. The crude market on Friday is seen retracing some of its recent sharp losses ahead of the weekend. The market is seen finding support at its low of 70.00 followed by 69.60 to 69.30. More distant support is seen at a low of 68.80. Resistance is however seen at 70.50 followed by its

gap from 71.05 to 71.70. More distant resistance is seen at 73.15 followed by 73.90.

Technical Analysis		
	Levels	Explanation
CL 70.06, down \$1.83	Resistance	73.15, 73.90
	Support	70.50, 71.05 to 71.70
		70.00
HO 196.50, down 5.19 cents	Resistance	69.60 to 69.30, 68.80
	Support	204.05, 205.00, 207.30 to 210.00
		198.50, 200.50 to 201.00
HU 193.16, down 4.65 cents	Resistance	196.25
	Support	194.50, 193.90
		202.25, 203.20, 206.80
		194.00, 195.50 to 196.50
		191.50
		191.00, 189.50, 185.00