



ENERGY RISK MANAGEMENT

Howard Rennell & Pat Shigueta
(212) 624-1132 (888) 885-6100

www.e-windham.com

ENERGY MARKET REPORT FOR AUGUST 19, 2005

Militants fired at two US warships in Jordan's Aqaba port on Friday but missed their targets and hit a warehouse and a hospital and the Israeli port of Eilat. A Jordanian soldier was killed in the attack. A Jordanian source said authorities were searching for three men in the Katyusha missile attack. A group claiming links to al-Qaeda, the Abdullah al-Azzam Brigades of the al Qaeda Organization said in a statement that it had carried out the attack. Jordanian Interior Minister Awni Yarfes said little damage has been caused to the warehouse in the port, which is a logistics hub for Iraq, used by the US military and

Market Watch

New Jersey Acting Governor Richard J. Codey signed a bill Thursday banning the sale of gasoline blended with MTBE. The bill will take effect in January 2009.

The International Monetary Fund expects record high oil prices to become a larger risk to world growth. It forecast oil prices averaging \$51/barrel this year and increasing to \$53/barrel in 2006.

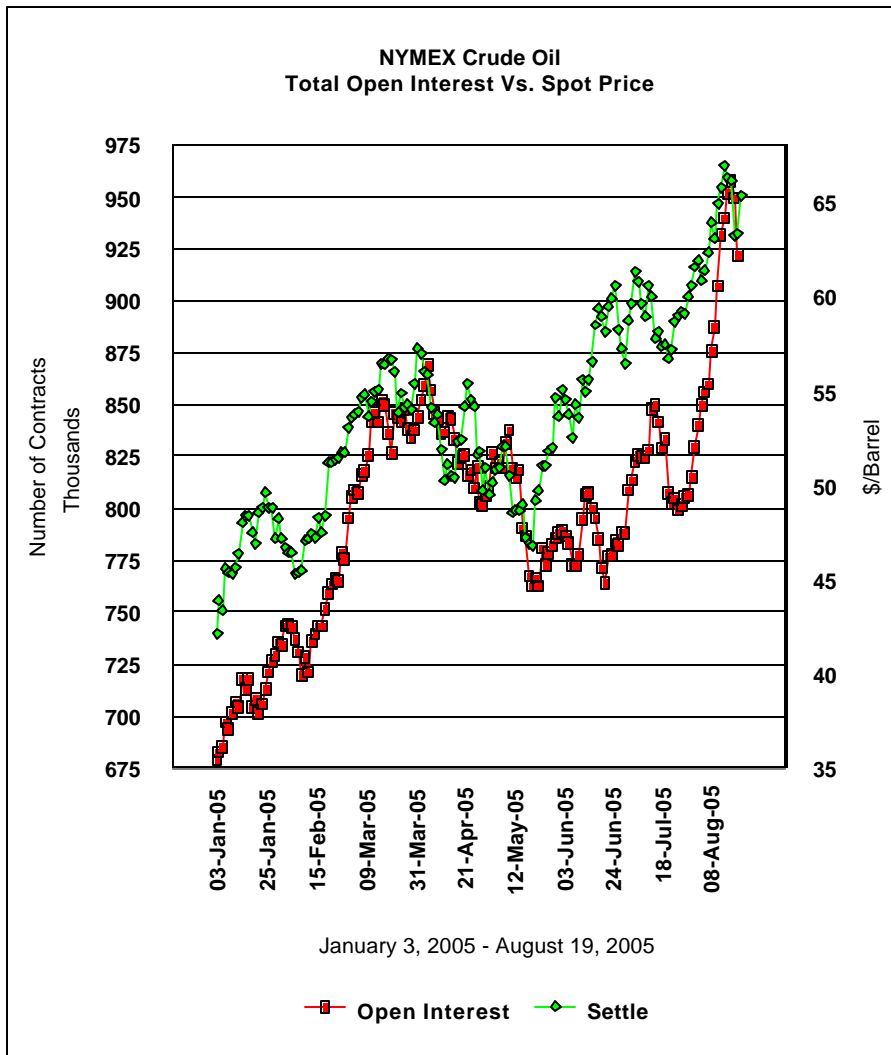
The NYMEX is in talks with the Chicago Mercantile Exchange to possibly shift electronic trading operations to the CME's Globex online trading platform for a minimum of \$6 million per year. The deal envisages moving NYMEX after hours Access trading to the Globex screen and keeping its lucrative e-miNY energy futures contracts on Globex for the next five years. The CME would receive clearing and trading fees for NYMEX contracts traded on Globex and sign a noncompete agreement with NYMEX. The NYMEX was seeking to move all its Access trading and its e-miNY futures contracts to its online trading platform, Clearport but sources close to NYMEX said the exchange's executives were told that the system would buckle under rising energy trading volume. The NYMEX however maintains Clearport technology is sufficient to support rising volume.

The NYMEX also announced that it will increase the margins of the October through July 06 crude oil futures contracts at the close of business on August 22. The margins for its light sweet crude futures, WTI calendar swap futures and Brent oil futures and Brent calendar swap futures are expected to increase from \$3,375 to \$4,725.

The Washington Times reported that Saudi King Abdullah promised US Secretary of State Condoleezza Rice a series of reforms that could give the country an elected government within 10-15 years. He made the pledge during a June 20 visit by the Secretary of State to Riyadh, when he was still crown prince and the country's de facto ruler. They agreed to maintain strategic dialogue in areas such as regional security, counterterrorism, the economy, including energy and bilateral issues, including political reforms.

An FBI terrorism task force in Los Angeles issued a warning that al Qaeda plans to fuel trucks as vehicle borne explosive devices in an effort to cause mass casualties in the US prior to September 19. The attacks are planned for New York, Chicago and Los Angeles. The attackers are described in the FBI advisory as members of small al Qaeda cells which are spread out through the US.

Northwest Airlines Corp's mechanics union said would resume contract negotiations after the airline made an offer that provided little hope for avoiding a strike before Friday's midnight deadline. Northwest has said it must cut annual labor expense by \$1.1 billion, including the \$176 million from the mechanics union, to avoid a bankruptcy filing. It has contracted replacement mechanics so that it can operate during a strike. It has stated that rising fuel prices have increased its need of savings on labor costs.



for moving commodities.

According to the Middle East Economic Survey, OPEC's total oil production increased by 5,000 bpd to 30.04 million bpd in July. However the ten OPEC members cut their production by 125,000 bpd to 28.09 million bpd in July, from 28.215 million bpd in June.

Shipping brokers stated that another seven cargoes of gasoline have been booked from Europe to the US since late Wednesday, increasing total spot arb shipments since August 11 to 1.2 million tons.

Merrill Lynch raised its forecasts for long term US light crude prices by 40 % to \$42/barrel. It also increased its price forecasts for US light sweet crude to \$56/barrel this year, up \$6/barrel from its previous forecast and \$52/barrel in 2006, up \$10. It said longer term, \$60/barrel is unsustainable and expect prices to retrace. It also stated

that US oil prices would likely stay around \$42/barrel from 2009 as it believes new production capacity should emerge from 2007. Separately, the head of energy research at Barclays Capital said the market has not yet fully convinced itself that more than \$60 is sustainable in terms of growth.

US commodities pundit Jim Rogers said oil prices will increase to more than \$100/barrel as part of a sustained commodities bull run while equities will languish as high oil prices has an inflationary impact. He said the rush of speculative and investment money into oil markets had probably had little impact on the overall price. He saw current oil price strength as based on strong demand and a serious shortage of supply while alternative energy sources remain uncompetitive. Also, oil companies have been slow to invest to find new oil elsewhere.

Refinery News

A 77,000 bpd fluid catalytic cracking unit at PDVSA's Punta Cardon refinery is expected to restart early next week. The unit was shut for repairs about a month ago. It was in the pre-start process late Thursday and plans to have the unit back online on Monday. Separately, a distillation unit at the Amuay refinery is due to resume operations on Monday or Tuesday following an outage of a few weeks.

Federal officials confirmed that they have the authority to shut problem facilities such as BP's Texas City refinery but said that extreme measure is not being considered at this time. Under a federal statute, the Occupational Safety and Health Administration may close facilities that pose an imminent danger.

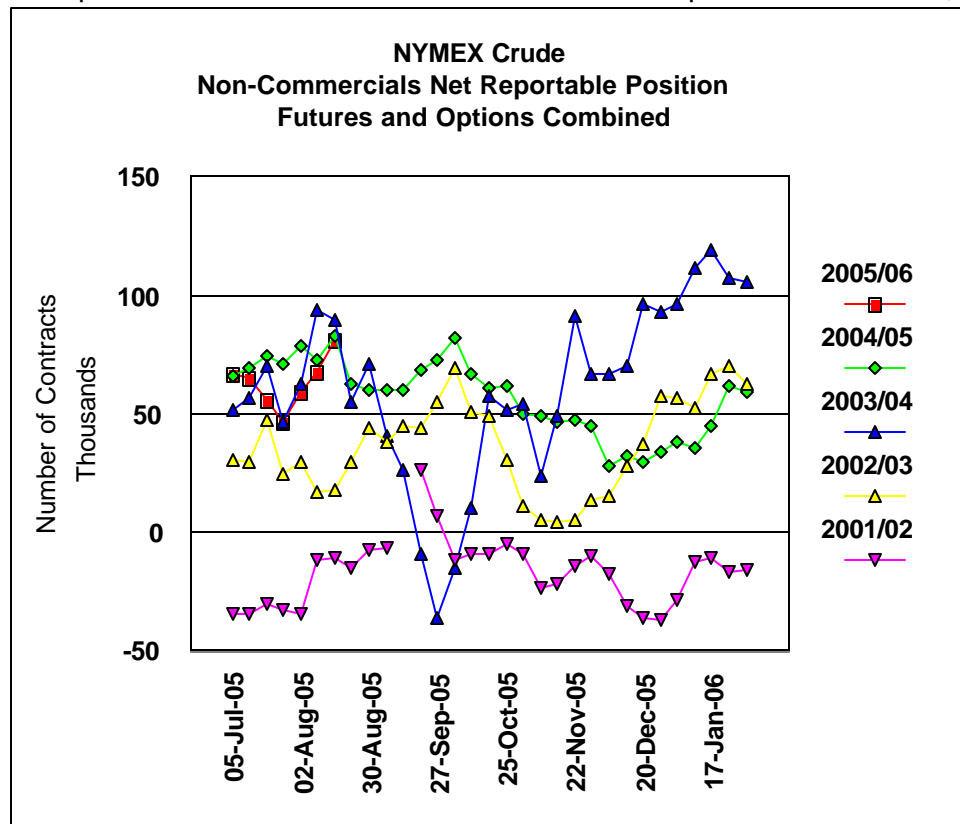
A coker unit at China's Guangzhou Petrochemical Corp was shut temporarily Thursday following a fire at the unit. The fire started after an accident during repair work on a pipe at the coking unit.

Production News

Ecuadorian troops took control of government buildings in two Amazon provinces and reinforced security at oil wells as they moved to quell protests. Petroecuador started to recover some of its oil production on Friday after Ecuador's armed forces regained control of several wells in the Libertador oil field. It is pumping 26,000 bpd. Earlier, Petroecuador said the force majeure on oil exports that it declared on Thursday may last up to 60 days. It was forced to declare a force majeure on oil exports on Thursday after five days of protests in the Sucumbios and Orellana provinces. The protesters have been demanding oil companies hire more locals, pay higher wages and invest more in local infrastructure. They are also demanding that the US's Occidental Petroleum Corp and Canada's EnCana leave the country. Separately, EnCana has declared force majeure on all of its Ecuadorean oil production because of protests. In addition to the force majeure, EnCana has evacuated its entire staff from the areas affected by the protests. Meanwhile, Ecuador's Economy Minister Magdalena Barreiro said Ecuador has asked Venezuela to loan it oil so that the country can continue to honor export contracts after declaring a force majeure on oil exports. Venezuela's Oil Minister Rafael Ramirez however stated that Venezuela has not received a request from Ecuador to provide the country with oil. He did not say whether Venezuela would be willing to help Ecuador meet its crude supply contracts.

Citgo Petroleum Corp restarted operations on a section of the West Shore Pipeline in Oakbrook, Illinois late Thursday following the repair of a small leak discovered earlier in the day. The line was shut as a precaution after workers found a spill of about 5 gallons of refined petroleum product in the area being excavated for routine repairs. A trader said market participants dropped offers for third cycle unleaded gasoline in Chicago as they expected any delay in pipeline shipments to back up supply.

BP Plc distanced itself from an estimate by OPEC that its Thunder Horse platform in the US Gulf of Mexico would delay the start of



production by six months. The platform has been due to begin production sometime in the last three months of 2005.

Norsk Hydro won three operatorships of oil and gas exploration blocks in the Gulf of Mexico.

Petrobras' US unit, Petrobras America, won 53 offshore oil and gas exploration and production blocks in the Gulf of Mexico at an auction by the US Minerals Management Service. Petrobras will have the operatorship in the blocks, for which it will have to pay \$30.1 million. Petrobras expects to reach an oil production in the US of more than 100,000 bpd.

Russian domestic fuel oil prices increased by about 10% in dollar terms to \$173/ton in August as oil firms continued to demand volumes for exports to take advantage of low fuel oil export duties.

China's Sinopec Zhenhai Refining & Chemical said its profits during the first six months of the year fell by 1.2% to 1.26 billion yuan as high oil prices ate into earnings. Analysts stated that the company's performance in the second half of the year will depend on whether China allows further increases in the price of refined oil products. Many refiners are suffering losses and have cut processing levels because they cannot pass on high crude costs to consumers.

Indonesia will finalize the \$2 billion Cepu oil project with ExxonMobil Corp in early September after replacing the head of Pertamina. The signing of the deal would end four years of negotiating that had clouded the future of a development with as much as half a billion barrels of reserves and that could add 180,000 bpd to Indonesia's production.

Pertamina said its crude oil production reached 133,000 bpd during the first half of the year. It is optimistic that its target to produce 141,000 bpd of crude oil for the whole year will be achieved as some new fields are scheduled to start producing later in the year.

Shipping agents said Asia will ship 90,000 tons of diesel to Europe next month. They said 90,000 tons of high sulfur diesel was bound for Europe from South Korea in early September. The fuel has a sulfur content of 500 parts per million, above the 50 ppm level now required in the European Union, so it is likely to need further desulphurization. Asian traders shipped 200,000 tons of diesel both to Europe and North America in August.

OPEC's news agency reported that OPEC pegged the value of its crude at \$56.51/barrel on Thursday, down \$1.20/barrel from \$57.71/barrel.

Market Commentary

The energy complex settled sharply higher after regaining its upward momentum. The oil market was well supported in light of reports that Petroecuador declared a force majeure on its exports after its production was halted due to protests. The market was also supported by the news that militants fired missiles at two US ships in a Jordanian port. The oil market gapped higher from 63.65 to 64.40 and it partially backfilled its gap as it quickly posted a low of 64.10. The market continued to erase its recent losses as it retraced more than 62% of its move from a high of 67.10 to a low of 62.25. It rallied to a high of 65.50 ahead of the close and settled up \$2.08 at 65.35. Volume in the crude was excellent with over 249,000 lots booked on the day. Open interest in the crude fell by a total of 26,969 lots, with open interest in the September contract falling by 23,536 lots ahead of its expiration on Monday. Meanwhile, the gasoline market opened up 2.71 cents at 189.00 and posted a low of 187.30. However the market erased its losses and rallied to a high of 191.25 ahead of the close. It settled up 4.10 cents at 190.39. The heating oil market also settled up 3.23 cents at 182.28 after the market gapped higher from 180.70 to 180.80 and rallied to a high of 184.80 late in the session as it retraced its sharp losses.

Volumes in the products were good with 38,000 lots booked in the gasoline and 41,000 lots booked in the heating oil.

The Commitment of Traders report showed that non-commercials in the crude increased their net long positions by 5,407 contracts to 40,395 contracts in the week ending August 16th. The combined futures and options report also showed that non-commercials increased their net long positions by 13,281 contracts to 80,943 contracts on the week. It is the largest net long position since the week ending April 12 when they were net long 99,585 contracts. The non-commercials have however cut their net long positions during the past few trading sessions as funds were seen liquidating some of their long positions. Open interest fell by over 35,000 lots in the previous two trading sessions. Meanwhile, non-commercials in the product markets also increased their net longs, with non-commercials in the gasoline increasing their net long positions by 3,836 lots to 43,905 contracts and non-commercials in the heating oil increasing their net long positions by 4,142 contracts to 18,206 contracts on the week.

The oil market on Monday will be driven by the expiration of the September crude contract. It will likely remain supported in light of the force majeure declared on Ecuador's exports. The market is seen finding resistance at its high of 65.50 followed by more distant resistance at its previous highs of 66.60, 66.85 and 67.00-67.10.

Meanwhile, support is seen at its gap from 64.10 to 63.65 while more distant support is seen at its previous low of 62.25.

Technical Analysis		
	Levels	Explanation
CL 65.35, up \$2.08	Resistance 66.60, 66.85, 67.00-67.10 65.50	Previous highs Friday's high
	Support 64.10 to 63.65 62.25	Friday's low Thursday's low
HO 182.28, up 3.23 cents	Resistance 186.50, 188.50 184.80	62% retracement (193.30 and 175.50), Previous high Friday's high
	Support 181.80, 180.80 to 180.70 175.50, 175.00-173.50	Opening gap Previous low, Remaining gap
HU 190.39, up 4.10 cents	Resistance 192.45, 194.92 191.25	50% and 62% retracement (202.90 and 182.00) Friday's high
	Support 187.30 182.00	Friday's low Previous low