



## ***ENERGY RISK MANAGEMENT***

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

**www.e-windham.com**

---

### **ENERGY MARKET REPORT FOR MAY 4, 2005**

---

Saudi Arabia's foreign affairs adviser Adel al-Jubeir said there is no oversupply of crude oil despite increasing US inventories and added that Saudi Arabia will allow world oil stocks to build ahead of the winter. He said the country is currently producing slightly above 9.5 million bpd and had about 1.5 million bpd in untapped reserves, mostly heavier grades of crude supplies. He however declined to say whether Saudi Arabia would increase its production to over 10 million bpd in May. He also refused to identify a target price range that it would like to see. He said \$50/barrel was too high while at \$40/barrel the impact on economic growth was negligible.

Indonesia said it expected oil prices to

#### Market Watch

Merrill Lynch forecast oil prices would stay above \$50/barrel, despite a recent fall in prices, citing refinery bottlenecks and the higher prices commanded by crude on the futures market. It expects WTI crude prices to average \$52.50/barrel in the second quarter, \$51.25/barrel in the third quarter and \$53.50/barrel in the fourth quarter. It said infrastructure constraints in refining crude and the lack of spare capacity in oil production will continue to pressure oil prices upwards.

The head of the IEA, Claude Mandil, said oil companies should scrap low price forecasts that are keeping them from investing in new oil fields. International oil companies use conservative estimates of \$20-\$25/barrel as the break even point for assessing new projects. He also stated that world oil production capacity has fallen from 10 million bpd 15 years ago to less than 2 million bpd today. He called on Russia, Mexico and the Middle East to further open oil markets, including upstream exploration and downstream refining operations.

An analyst at Abu Dhabi National Oil Co said while world oil demand has increased by 4.5 million bpd since 2002, the refining capacity has increased by 1.3 million bpd and with refinery runs currently at about 95% there is no immediate scope for further improvement in refining capacity. He said world consumption will outpace refining capacity substantially particularly in the fourth quarter. He estimated that world demand will total 86 million bpd while refining capacity will total 83 million bpd. In regards to Asia, it is expected to add 700,000 bpd of refining capacity by the end of 2005 however demand is increasing at a higher pace.

The chair of a meeting of OECD ministers said growth in OECD countries should accelerate later this year but oil prices and current account and fiscal imbalances pose risks.

The Finance Ministers of China, Japan and South Korea have warned that high oil prices pose a serious risk to regional economies. The ministers said they would welcome efforts to increase energy supplies in order to lower prices. Separately, the head of the Asian Development Bank said the recent tension between China and Japan was unlikely to disrupt economic ties between the two countries but added that economic ties could be hurt if strains persisted.

ChevronTexaco said it will change the way it distributes aid in Nigeria amid fears that the present system is stoking conflict. It found that handing funds directly to communities near oil installations was fueling local tensions and creating opportunities for corruption. It stated that violent, inter and intra ethnic conflicts have left many of the development projects funded by the company destroyed. It also uncovered theft of funds by corrupt local officials. Its findings echo those of Royal Dutch/Shell, which concluded that it was inadvertently contributing to the problem it was trying to solve. It decided to phase out its cash aid.

continue their retreat. Indonesia's Mines and Energy Minister Purnomo Yusgiantoro said it has not been consulted by OPEC on production developments. The increase of 500,000 bpd in OPEC's official quota has not yet been decided.

According to Dow Jones, OPEC's production increased by 110,000 bpd in April to 29.95 million bpd. Meanwhile crude production by the ten OPEC members increased by 110,000 bpd to 28.05 million bpd from a revised total in March of 27.94 million bpd. Saudi Arabia increased its crude supplies in April by 50,000 bpd to 9.4 million bpd from a revised level of 9.35 million bpd in March. Iraq's production was unchanged on the month at 1.9 million bpd.

The EIA said US retail gasoline prices may continue to fall in May, weighed down by increasing petroleum supplies. It said retail gasoline prices are expected to fall during May, unless supplies are disrupted, either through reduced crude oil availability or from a refinery or pipeline outage.

The DOE reported that US inventories of propane totaled 33.185 million barrels in the week ending April 29, up 1.7 million barrels on the week. It reported that propane stocks in the East Coast built by 360,000 barrels to 2.43 million barrels while stocks in the Midwest increased by 574,000 barrels to 11.254 million barrels and stocks in the Gulf Coast increased by 681,000 barrels to 18.953 million barrels.

OPEC's news agency reported that OPEC's basket of crudes fell by 39 cents to \$47.40/barrel on Tuesday, down from Monday's \$47.79/barrel.

### **Refinery News**

Flint Hills Resources began the start up of a fluid catalytic cracker in the East plant of its 300,000 bpd Corpus Christi, Texas refinery following a brief outage. The restart is seen lasting until May 6. According to a filing with the Texas Commission for Environmental Quality, the unit has been shut unexpectedly due to an unknown cause.

A reformer unit at Sunoco Inc's Philadelphia refinery was shut on Sunday due to an operational problem. It is currently undergoing repairs. It is expected to remain down for about two weeks. Meanwhile, maintenance scheduled at a desulfurization unit in May or June at the refineries will be postponed until the fall due to refining margins that favor the production of low sulfur diesel over gasoline.

Deer Park Refining Ltd is studying a possible expansion of two units at its 334,000 bpd refinery. It is considering a \$30 million expansion of its 70,000 bpd catalytic cracking unit and a debottlenecking of its delayed coker. The work on the coker unit will increase its capacity from 88,000 bpd to 92,000 bpd.

Indian Oil Corp said it upgraded its 150,000 bpd Mathura refinery to produce lower sulphur diesel. It started a diesel hydrotreating unit with a capacity of 1.8 million tons a year at the refinery.

### **Production News**

Saudi Arabia signaled to the oil market that world inventories may have built sufficiently. Saudi Aramco raised the prices it will charge US buyers of its crude in June by as much as \$2.90/barrel over may contract levels. It set its Arab Light at WTI minus \$6.05/barrel, up \$1.75 on the month while its Arab Medium was set at WTI minus \$8.25/barrel, up \$2.20/barrel on the month and its Arab Heavy crude was set at WTI minus \$10.65/barrel, up \$2.90/barrel on the week. Saudi Aramco also increased its prices for crude bound to Europe. Its Arab Extra Light crude bound to Europe was set at the IPE Brent weighted average minus \$2.25/barrel, up \$0.20/barrel on the month. Its Arab Light was set at the Brent weighted average minus \$5.45/barrel, up \$1.30/barrel, its Arab Medium was set at the Brent

weighted average minus \$7.75/barrel, up \$1.85/barrel and its Arab Heavy was set at the Brent weighted average minus \$10.25/barrel, up \$2.00 on the month.

Venezuela's President Hugo Chavez said production from western oil fields was 100,000 bpd below budgeted levels due to negligence and possible sabotage. Senior military officers said foreign intelligence organizations, including the US CIA may be behind the sabotage attacks, but offer no evidence. The head of the National Defense Commission said the suspected sabotage, including a "silent strike" had caused a chain reaction of shutdowns and failures in western oil wells and plants. The military said it has launched a special operation to reinforce security in the western oil sector.

Production at ChevronTexaco's Boscan oil field in Venezuela is normal at its maximum capacity of about 115,000 bpd. Its production has not been affected by ongoing talks with workers over a new contract. ChevronTexaco was responding to local newspaper reports that workers at Boscan had walked off the job to protest over contract negotiations. An official said negotiations over the new contract with workers were going ahead normally.

Russian producers are seeking to increase their May exports before the new higher export duty on crude oil is introduced in June. The loading program from the Black Sea port of Novorossiisk has been set at 3.95 million tons while the exports from the Baltic Sea port of Primorsk has been set at 4.8 million tons. Russia plans to increase crude export duty to a record \$136.20/ton from June 1, up 33% from the current level of \$102.60/ton. However traders stated that the higher export duties are not expected to cause a fall in export volumes.

Total former Soviet Union fuel oil exports from the Baltic and Black Sea ports rebounded in April as weather related delays eased and refineries returned from maintenance turnarounds. Fuel oil exports increased by 16.5% or 487,000 tons from March to 3.43 million tons last month after declining during the three previous months. Fuel oil exports from Baltic ports increased by 271,000 tons or 12.8% from March to 2.39 million tons while shipments from the Black Sea ports increased by 217,000 tons or 26% to 1.04 million tons.

Russian Railways transported 2.302 million tons of oil to China in January-March, up 53.3% on the year.

Russia's Samotlorneftegaz has started oil production at the Ust-Vakhskoye deposit of the Samotlor oil field located in western Siberia. The company plans to produce 1 million tons of oil this year. The deposit's reserves are estimated at 76 million tons.

Russia's Lukoil won Azeri state oil firm Socar's tender for an 85,000 tons or 623,000 barrel cargo of Urals crude. A Socar official said the cargo would be loaded at Russia's Black Sea port of Novorossiisk on May 30-31.

Germany's crude oil import bill increased by 38% to 26.6 billion euros or \$34.22 billion in the 12 months to March 2005 compared with the same year ago period. Its crude oil imports increased by 4.9% to 111.5 million tons from 106.3 million in the previous 12 months. In March, Germany imported 8.5 million tons of crude up 15.6% on the year.

Brazil's Petrobras said the Nigerian National Petroleum Corp authorized the development of the Akpo field. Petrobras has a 16% stake in the project, while France's Total is the operator of the field with a 24% stake in the project. The companies will drill 22 wells that will be linked to a floating production rig with a storage capacity of 2 million barrels. The rig is expected to start operating in 2008 and is expected to reach maximum capacity of 225,000 barrels of oil equivalent/day.

## Market Commentary

The oil market surprisingly reversed its early course and rallied above the 50.00 level as the market seemed to have dismissed the larger than expected builds in crude stocks. The June crude contract opened unchanged at 49.50 and traded to 50.10 early in the session. The market however tumbled to its low of 48.80 immediately following the release of the DOE and API reports which showed builds in crude stocks of 2.6 million barrels and 10.17 million barrels, respectively. The market later bounced off its low and surprising erased its earlier losses as it traded back towards the 50.00 level, where it held some good resistance. However the market later breached the 50.00 level as stops were triggered and extended its gains to \$1.45 as it rallied to a high of 50.95. The June crude contract which failed to test its previous high of 51.05 retraced its gains and traded back towards 49.50 before some further buying ahead of the close pushed the market above the 50.00 level once again. It settled up 63 cents at 50.13. The market ended well off its low despite the bearish reports and the lack of any supportive news. Volume in the crude was excellent with over 273,000 lots booked on the day. Meanwhile, the product markets also settled well off their lows, with the gasoline market settling up 70 points at 146.64 and the heating oil market settling up 1.85 cents at 145.45. The gasoline market opened up 31 points at 146.25 as it retraced some of Tuesday's losses. The market traded to a high of 147.00 before it sold off to a low of 142.20 following the release of the weekly petroleum stock reports which showed larger than expected builds in gasoline stocks. However the market retraced its losses amid the renewed strength in the crude market. The market rallied to a high of 148.00 before it retraced some of its gains ahead of the close. The gasoline market continued to hold good resistance at its downward trendline, which stood at 148.30. Similarly, the heating oil market opened 60 points higher at 144.20 and traded to an early high of 146.00 before it plummeted to a low of 142.10 amid the weakness in the crude market. The market however bounced off its low and rallied to a high of 147.50 in afternoon trading as it followed in the crude market's footsteps. It later retraced its gains but still ended well off its low. Volumes in the product markets were good with 48,000 lots booked in the gasoline and 42,000 lots booked in the heating oil market.

The oil market is seen continuing its late trend higher early on Thursday. However the market's gains are seen limited, with resistance seen at its highs of 50.95 and 51.05. Technically, even though stochastics are indicating that the market is oversold, they still have not crossed to the upside. The

market is seen finding support at 50.00 followed by 49.50 and its lows of 48.80 and 48.70-48.50.

Technical Analysis		
	Levels	Explanation
<b>CL</b> 50.13, up 63 cents	<b>Resistance</b> 51.05, 51.60, 51.69, 51.85 50.95	Previous highs, 38% (55.88 and 49.10), Previous high Wednesday's high
	<b>Support</b> 50.00, 49.50 48.80, 48.70 to 48.50	Wednesday's low, Previous lows
<b>HO</b> 145.45, up 1.85 cents	<b>Resistance</b> 148.00, 148.65, 149.00 146.50, 147.50	Previous high, 50% (156.30 and 141.00), Previous high Wednesday's high
	<b>Support</b> 144.00, 142.10 142.00, 141.50, 141.00	Wednesday's low Previous lows
<b>HU</b> 146.64, up 70 points	<b>Resistance</b> 149.90, 151.90 147.10, 148.00	Previous highs Wednesday's high
	<b>Support</b> 146.00, 143.70 142.20	Wednesday's low