



ENERGY RISK MANAGEMENT

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ENERGY MARKET REPORT FOR NOVEMBER 10, 2004

The Iraqi northern crude oil export line to Turkey remained down for the second straight day, following a "small" sabotage attack on Tuesday. Meanwhile attacks were reported across Iraq today, including the kidnapping of three members of Prime Minister Allawi's extended family.

The IEA reported this morning that rising world crude supplies and signs that higher energy costs are in fact

API Stocks

Crude – up 2.4 million barrels
Distillate – up 2.2 million barrels
Gasoline – down 1.3 million barrels
Refinery runs – up 2.7% at 93.2%

hurting economic growth suggest that the recent oil price rally may finally have peaked. But it warned that sustained near-capacity operations are needed to ensure an ample winter heating oil supply. It reported that oil stocks in industrial nations built by 560,000 barrels per day in the third

quarter and will build counter seasonally by another 1.3 million barrels per day in the fourth quarter if OPEC keeps supplies at current levels. The agency also noted that Chinese oil demand should ease given the recent power generation capacity gains which should reduce the need for oil burning

DOE Stocks

Crude – up 1.8 million barrels
Distillate – down 100,000 barrels
Gasoline – down 400,000 barrels
Refinery runs – up 3.2%, at 92.6%

Market Watch

Private weather forecaster EarthSat updated its winter temperature outlook today, in which it moderated its earlier outlook, but was still looking for heating needs to be some 4.5% higher than last year for the period of November-March. Last month the group had been looking for demand to run some 5% above a year ago and be 1.9% colder than normal. The group continues to look for December temperatures running 3-5 degrees below normal.

Chinese industrial output rose 15.7% in the year through October, slowing from a 16.1% growth rate the month before. Crude oil imports to China in October fell to its lowest level of the year, at 2.25 million barrels per day, but were still 34% higher than a year ago.

Taiwan's Bureau of Energy reported today that its has purchased 2.17 million kilolitres of oil through October and is planning to buy a total of 2.83 million kl by the end of the year to boost state reserves to 30 days.

Indian state oil companies saw petroleum sales in October rise 5% over year ago levels. Diesel sales led the way rising by 10.2%.

substitutes and as Indian demand contracted for the first time in a year. The IEA trimmed its world oil demand figures by 100,000 b/d for both the third and fourth quarters to 81.9 million b/d and 83.9 million b/d respectively. It also lowered its demand forecast for 2005 by 100,000 b/d to 83.8 million barrels. In a side note the agency commented that transportation fuels are replacing heating oil as the market

leader during the Northern hemisphere's winter because of better energy efficiency and fuel switching out of oil.

Refinery News

Euroilstock numbers were released this morning and it showed that total oil stocks in Europe dropped by 5.24 million barrels from September, with crude stocks dropping by 2.48 million, gasoline by 1.53 million and distillate by a sizeable 6.15 million barrels. But one must temper these bullish stock draws by the fact that all these individual stock levels had been revised upward in September, thus the effective stock draw for distillate would be just 150,000 barrels, while total oil stocks would have seen a nearly 8 million build if not for the revision. When compared to year ago levels total oil stocks in Europe stand 18.87 million barrels higher with middle distillates actually 6.37 million barrels higher. Only gasoline has a smaller stock level down just over 2 million barrels from October 2003.

Singapore's onshore middle distillate stocks fell by 685,000 barrels to 6.664 million barrels. The International Enterprise noted that this weekly report covered only six days to November 9th because of holiday this week in Singapore on Thursday. Stocks of naphtha and gasoline fell 610,000 barrels to 9.710 million, while fuel oil stocks also declined by 286,000 barrels to 11.091 million barrels.

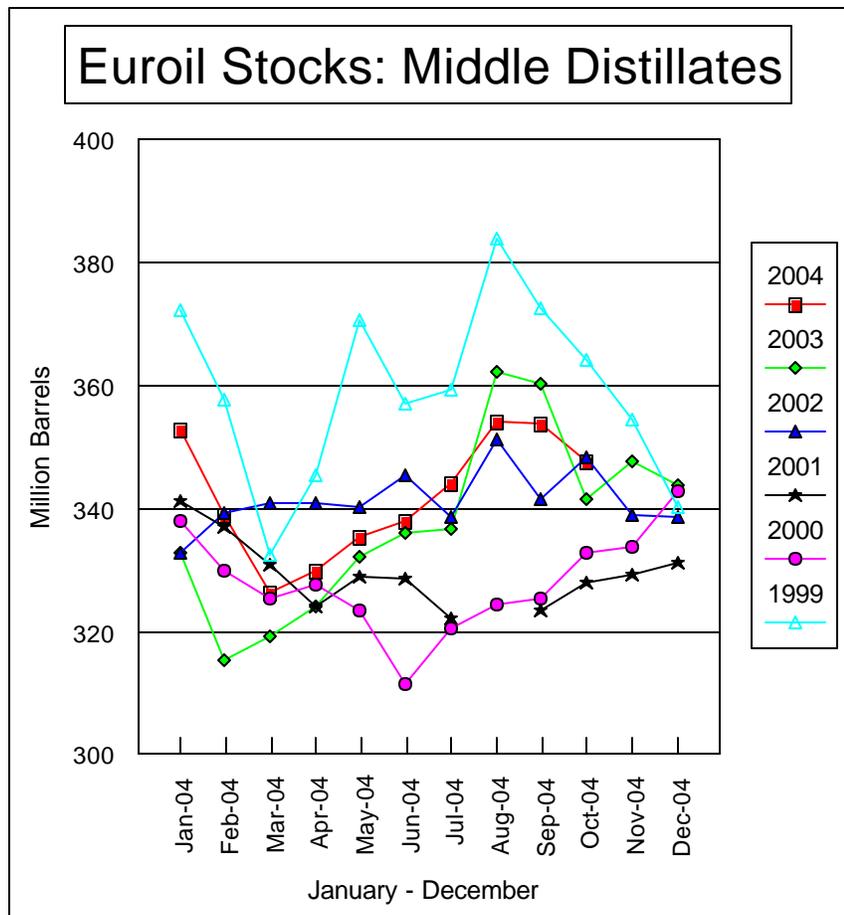
Japanese kerosene stocks rose by 1.38% for the week ending November 6th to 4.45 million kl. The average operating rate at Japanese refineries on the week jumped by 4% to 84.4% of capacity.

The EIA reported today that propane stocks fell by 400,000 barrels on the week to 67.1 million barrels. Current stocks though remain some 2.8 million above a year ago.

Kinder Morgan Energy Partners reported that its product pipeline near Walnut Creek, California was ruptured and shutdown Tuesday.

The pipeline transports gasoline, diesel and jet fuel from Concord to San Jose. A utility contractor digging a trench for a water pipeline ruptured the line Tuesday that resulted in an explosion and fire. The company warned it was premature to assess the extent of the damage and when operations would resume. Industry sources though expected the 10-inch line to be down for at least for two days. The rest of the Kinder Morgan's pipeline system will not be affected by the shutdown.

Following its inventory report, the EIA said today that U.S. refiners should be able to significantly increase their heating oil inventories, given the higher levels of OPEC oil on the market as well as returning USG crude oil production. It saw refiners which are just now returning from pre-



winter maintenance programs, should have an “adequate supply of crude oil needed to significantly boost heating oil inventories in time for the approaching winter heating season”.

Baltic and Black Sea gas oil sea-borne exports from the former Soviet Union fell in October 5.5% from September levels to 2.39 million tones.

German crude oil imports rose by 4.3% during the first nine months of this year to 81.9 million tones.

Reportedly the overhaul work on the hydrocracker at ChevronTexaco's 260,000 b/d refinery in El Segundo, California is taking longer than expected and its restart date is being pushed back.

Production News

The U.S. Minerals Management Service reported that that U.S. oil production in the Gulf of Mexico improved on Wednesday by 6,744 b/d leaving still some 205,054 b/d of production still shut in. This was largest single day gain in crude oil production returning since November 1st. Natural gas production also saw noticeable gains today as 45.5 Mmcf/d, leaving some 692.36 Mmcf/d of production still shut in.

PDVSA's president today noted that crude oil prices could decline further in the second quarter of 2005, and that this decline will be greater than what we are seeing right now. He also announced that the company expects production from four foreign financed extra heavy oil projects to rise by 86,000 b/d next year, to a total output of 624,000 b/d. The company also noted today that it had made a “significant” discovery of medium grade crude oil. The initial flow rate is some 4,694 b/d but the company declined to provide potential peak production levels.

Brent Blend crude oil liftings from the Sullom Voe terminal fell during the week ending November 9th to 144,805 tonnes from 424,816 tonnes lifted the previous week.

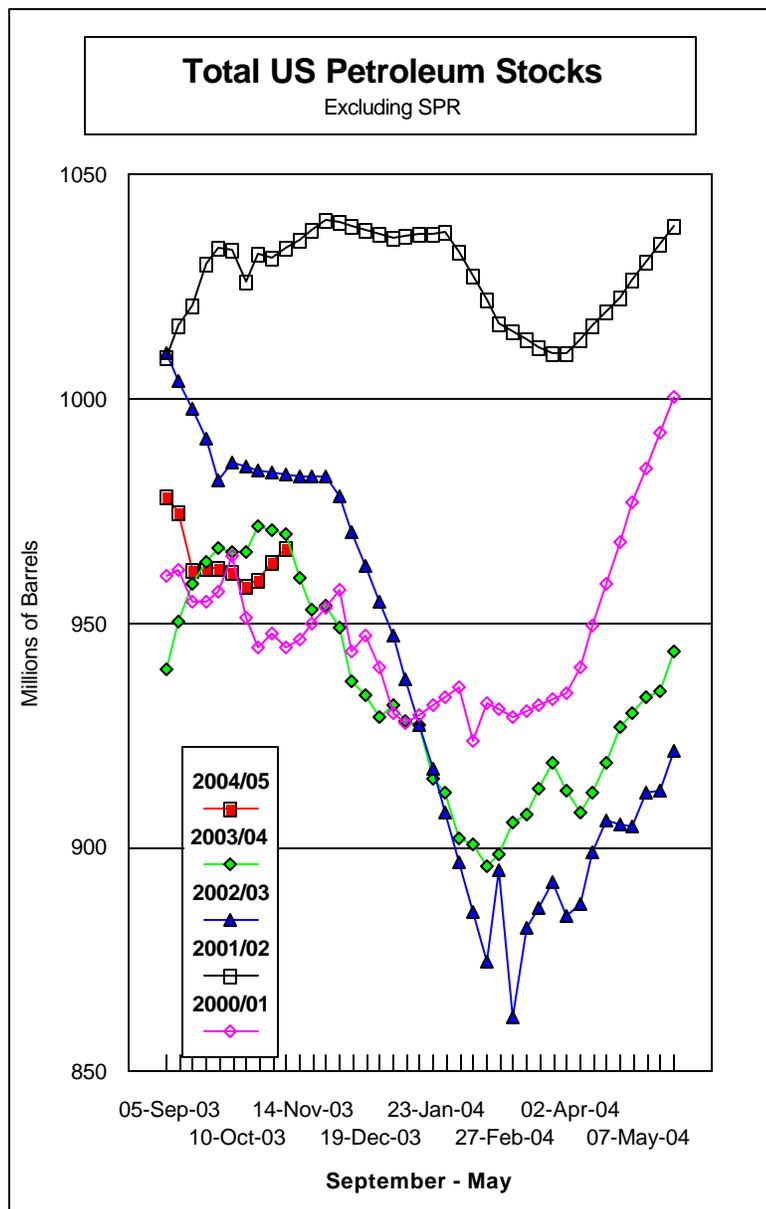
Shipping brokers noted today that prices for shipping crude from the Persian Gulf and West Africa reached new 30-year highs on Wednesday, spurred by strong December loadings.

Consultants Wood Mackenzie reported today that they see OPEC operational crude output capacity rising by 2.665 million barrels a day in 2005 from the 3Q2004 levels. The group estimates that by the end of this year OPEC will add some 1.565 million b/d of production capacity and then another 1.1 million b/d of capacity during 2005. Half of these gains will come from Saudi Arabia, with Algeria, Iran, Kuwait, Nigeria, Libya and Qatar expected to make up the remainder. Indonesia and Venezuela are seen losing a combined 75,000 b/d of capacity.

Trade sources reported today that Saudi Arabia would keep December crude sales to its contract customers equal to November levels. While Saudi U.S. customers were offered higher volumes for December, lifters refused to take extra supplies due to the current unattractive price levels. Meanwhile Saudi Aramco has urged their U.S. customers to boost their Saudi crude purchases by as much as 20% from current volumes in the first quarter of 2005, but little or no interest is seen by lifters until Aramco is more competitive in pricing these barrels.

Norway's Gullfaks crude production is estimated to load some 386,000 b/d in December down from 399,000 planned for November, while the Staffjord crude stream plans to load just 441,300 b/d down 43,200 b/d from November. Oseberg production is placed at 361,000 b/d up 47,000 b/d from the previous month. Meanwhile Britain's Flotta crude production is estimated to run at 103,000 b/d up 16,000 b/d from November levels. Forties loading in December are estimated at 565,000 b/d down 2,000 b/d from November.

Oil is expected to begin flowing through the Azeri-Ceyhan export pipeline during the first half of 2005. Exports are expected to run at 200,000 b/d in 2005 and rise to 600,000 b/d in 2006 and reach 1 million b/d in 2008-09.



Algeria's energy minister said today that he expected it is unlikely that OPEC will change its production quotas when it meets on December 10th. He also noted he did not expect the price of oil to go below \$30 next year but beyond that time frame it was anyone's guess.

OPEC's basket price fell 64 cents on Tuesday and stood at \$38.03 per barrel.

U.S. Energy Secretary Abraham said today that he was optimistic that the new Congress next year will finally vote to allow drilling in the Alaskan wildlife refuge.

Kuwait announced it had reduced its official selling price for its crude sales to Asian buyers for December by 15 cents to the average of the Dubai/Oman quotes minus \$3.30 a barrel.

Market Commentary

Momentum trading remains the key description of these markets to us. The oil markets today opened basically unchanged as traders awaited the release of the oil inventory reports. With the release of the DOE report, despite showing a 3 million barrel build in total commercial stocks, posting the third consecutive weekly counter seasonal stock build, the market rallied higher driven by the news that distillate stocks posted a 100,000 barrel decline on the

week. This was the eight consecutive weekly decline in distillate stocks. The rally though was dealt a staggering blow though some 10 minutes later when the API report was released that despite showing similar crude build but in fact posted a 2.2 million barrels build in distillate. The market quickly reversed course and sold off and challenged yesterday's lows. But these lows effectively held, with products failing to breach yesterday's lows, while crude oil did breach yesterday's lows by 10 cents but still help a trend line support line at \$47.10. This support seemed to embolden the bulls to return and the market once again reversed direction and prices headed higher. While crude oil prices by midday stalled just below yesterday's highs, the rally in heating oil continued throughout the day dragging crude up with it. By late in the day the crude set new highs and the bleak technical picture that was the crude oil market yesterday was suddenly a totally different picture. The crude by the end of the day had posted an

outside trading session and today's price action would appear as a key reversal day possibly. Volumes on the day were good with 259,000 contracts booked in the crude with 53,000 in the heating oil market and 48,000 in gasoline.

Technical Analysis		
	Levels	Explanation
CL	Resistance \$48.86, up \$1.49	\$49.59-\$49.70, \$50.37 \$49.00 & 49.10
	Support	\$48.26, \$48.03 & \$47.79 \$47.21 & \$47.10
HO	Resistance 140.29, up 6.09 cents	144.25, 147.45 & 150.65 142.90 & 143.20
	Support	138.52 & 138.50 138.13, 137.33 & 136.52
HU	Resistance 128.52, up 5.13 cents	131.29, 133.85 & 136.41 129.00-129.10
	Support	123.7 & 123 122.95, 119.50-118.24

Today's open interest reports caught us by surprise. It showed crude oil's open interest levels basis Tuesday's trading did not fall as had been believed based on rumored fund liquidation, but rather these

levels jumped significantly by just under 10,000 contracts. As a result one has to look at yesterday's downward price dive had been fueled by new shorts coming into the market. Thus today's price action has to be then seen in a different light, in that much of today's volatility and price escalation was driven not by funds returning to the long side of the market we feel, but rather the covering of positions by weak shorts, which had just established new positions yesterday. Thus we feel there is less potential for continued price gains tomorrow. We further base this belief on the rather bearish reports coming out of the IEA today, which were widely overlooked, which are calling for a counter seasonal build in 4Q04 of 1.3 mbd in OECD nations as well as the news late this afternoon that the USG crude oil production finally posted significant improvements once again. Thus we do not rule out the possibility that this market could easily be exposed to a price session tomorrow that could be similar to last Thursday when basically all the gains from last Wednesday were erased by the end of the trading session.