



## ***ENERGY RISK MANAGEMENT***

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

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Iraqi shipping sources stated that sabotage attacks on oil facilities cut the country's crude exports in December to 1.16 million bpd, the lowest export level in 2004. Iraq exported about 35.8 million barrels from both its southern ports and through its northern pipeline to Turkey in December. Average exports for 2004 were 1.53 million bpd, down from pre-war levels of close to 2 million bpd. Sources stated that about 33.2 million barrels were exported through the southern ports of Basra and Khor al-Amaya, down from just over 35 million barrels in November due to bad weather conditions and power outages. In

#### **Market Watch**

According to UBS, comfortable US gasoline supplies helped push average crude refining profits lower last week to the lowest level in nearly a month. US average refining margins fell 55 cents to \$3.83/barrel. It said margins in the East Coast saw the largest decline, falling \$1.28/barrel to \$3.72/barrel. Margins in the Midwest fell 63 cents/barrel to \$2.83/barrel while margins in the Gulf Coast fell 52 cents/barrel to \$2.39/barrel. On the West Coast, margins fell by 48 cents/barrel to \$7.24/barrel. In Europe, margins fell by \$1.55/barrel to \$3.83/barrel while margins in Asia fell by \$2.26/barrel to \$7.77/barrel.

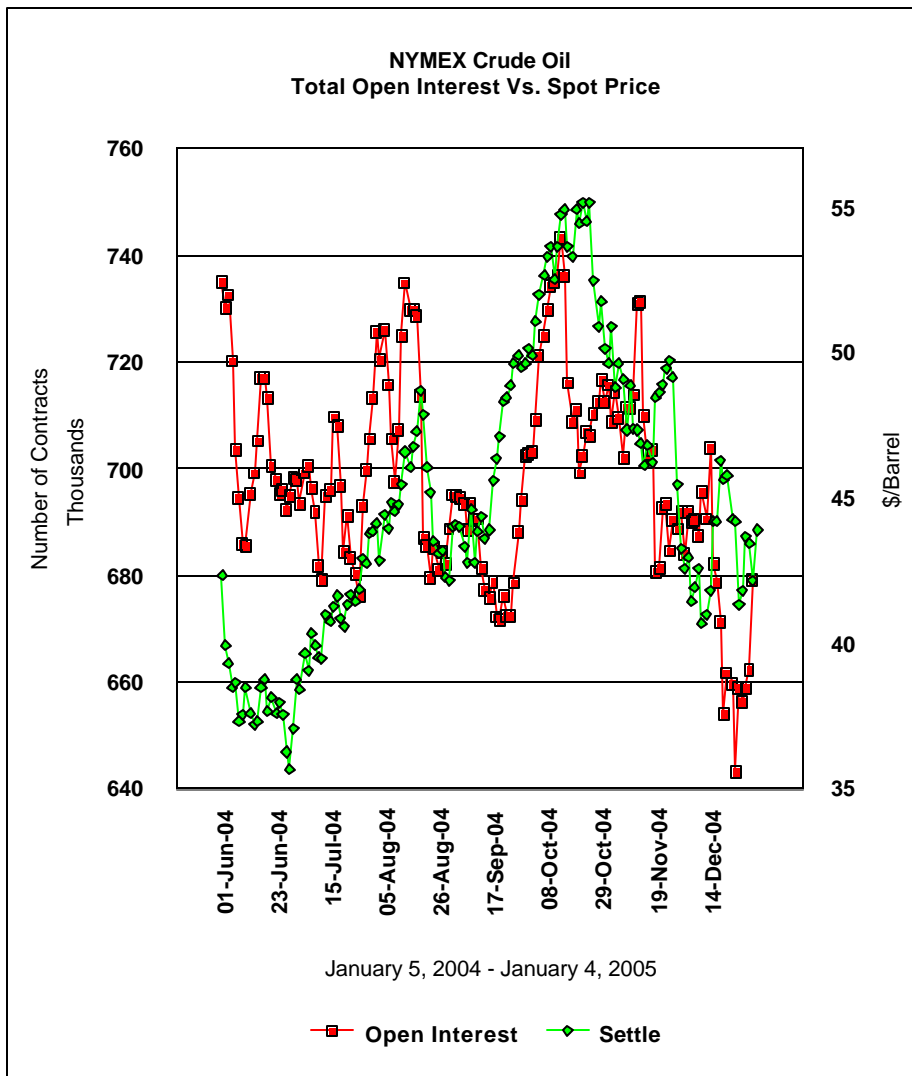
Shipping brokers stated that costs for shipping crude from the Gulf to world markets fell further on Tuesday, extending a three week decline. Very Large Crude Carriers rates from the Gulf to Asia fell to about W73 or \$1.22/barrel. Prices on core Asian export routes have lost 80% of their value from the 30 year peaks. Costs for shipping crude to the US have also fallen to W65 or \$1.77/barrel, down 75% from the record set in mid-November.

US Energy Secretary Spencer Abraham said he believed that with the new composition of the Senate it is feasible and likely that both ANWR and a national energy plan will be passed. The small Republican Senate majority in the last Congress failed to overcome a filibuster and pass the country's first overhaul of energy policy in more than a decade. On another key energy priority for President George W. Bush's second term, the Energy Secretary said the US administration would continue to fill the US SPR with a target of 700 million barrels.

The US Federal Reserve concluded at its session last month that risks of inflation remained balanced for now but they were concerned about the potential for higher prices. Several participants noted the recent depreciation of the dollar on foreign exchange markets, elevated energy costs and the possibility of a slowing in underlying productivity growth as factors tending to increase the upside risks to their inflation outlook.

The European Commission is waiting for confirmation that the European Union's 25 member states switched to lower sulfur gasoline as scheduled on January 1. The EU is following a nine year plan to reduce the sulfur content of gasoline.

the north, however, exports were far more seriously disrupted by repeated sabotage attacks. At the Turkish port of Ceyhan, 2.6 million barrels of crude was loaded in December, down from 3.8 million barrels in November. Iraq expects to export 1.8 million bpd of crude in 2005.



Saudi Arabia's Oil Minister Ali al-Naimi stated that the country had honored its pledge to cut 500,000 bpd of its crude supply.

OPEC's news agency reported that OPEC's basket of crudes fell by 76 cents/barrel to \$35.67/barrel on Monday from \$36.43/barrel on Friday.

According to a UAE newspaper, al-Bayane, Abu Mus'ab al-Zarqawi, whom US occupation forces declared the number one target, has been arrested in the city of Baakuba. Al-Zarqawi, leader of the terrorist group Al-Tawhid Wa'al-Jihad, was recently appointed the director of the Al-Qaeda organization in Iraq. However US military and intelligence sources denied print and broadcast reports that Abu Mus'ab al-Zarqawi was arrested in Iraq. Meanwhile, the terrorist group, Al-Tawhid Wa'al-Jihad said it had assassinated

Baghdad governor Ali al-Haidri on Tuesday. Gunmen assassinated Baghdad's governor in Iraq's highest profile assassination in 8 months while a suicide bomber killed 11 people at a police checkpoint in an escalating campaign to derail an election scheduled for January 30.

In response, the White House condemned the assassination of Baghdad's governor, acknowledging security challenges in Iraq. White House spokesman Scott McClellan said the country is however secure enough to move forward on holding elections at the end of the month. He confirmed President George W. Bush had spoken with Iraqi Prime Minister Ayad Allawi on Monday but said the two leaders did not discuss postponing the elections. Meanwhile, Iraq's national security adviser, Mouwaffaq al-Rubaie said that any delay to the poll would provoke a crisis because the interim authority's mandate expires at the end of January. He said it would trigger a civil war.

Separately, Iraq's Intelligence Service Director General Muhammad Abd Allah Shahwani estimated there are more than 200,000 active fighters and sympathizers in the country. He added that the

resistance is larger than the US military in Iraq. Previous US military assessments on fighter numbers have been increased from 5,000 to 20,000 full and part-time members in the past half year. He said fighters have gained strength through Iraq's tribal bonds and links to the 400,000 in Iraq's army, dissolved by the US occupation.

The Saudi wing of al-Qaeda said it attempted to assassinate Saudi Arabia's Interior Minister, Prince Nayaf bin Abdul Aziz, during two suicide bombings in Riyadh last week. The internet statement, signed by the al-Qaeda organization in Saudi Arabia also promised to wage more attacks in the country.

### **Refinery News**

Industry sources stated that there is less US refinery maintenance work planned in the first quarter of 2005 compared to last year. A lighter maintenance schedule will allow producers to maintain higher output through the winter, allowing for better supply in the last months of the heating season and higher gasoline inventories heading into Spring. An analyst stated that at the peak of maintenance last year, in mid February 2004, a low US production rate for the first quarter was 14.5 million bpd, while this year the low should be 14.7 million bpd. Among the refineries scheduled for maintenance during the first quarter are Alon USA's Big Spring, Texas refinery which is expected to perform maintenance on its 23,000 catcracker starting January 9, Hovensa has scheduled maintenance on its 140,000 bpd catcracker at its St. Croix refinery for 4-6 weeks starting in late January, Citgo's 80,000 bpd catcracker at its Corpus Christi, Texas refinery will start its maintenance on January 8 while ExxonMobil's hydrocracker at its Baytown, Texas refinery will undergo maintenance starting January 5-7. Also, Lyondell Citgo has scheduled maintenance of its coker compressor at its Port Arthur, Texas refinery, Premcor scheduled maintenance of its vacuum unit, 2 sulfur recovery units and delayed coker at its Port Arthur, Texas refinery in January, Tesoro has scheduled maintenance on its hydrocracker complex at its Golden Eagle refinery January 6-February 6. Meanwhile Valero is performing maintenance on its catcracker at its Corpus Christi, Texas refinery January 6-February 3 while its Ardmore, Ok refinery will also undergo maintenance in March.

BP expects over the next 24-48 hours to restart an 80,000 bpd reformer at its 450,000 bpd Texas City, Texas refinery after it was shut for unplanned maintenance about a week ago. It suffered a loss of 650,000 bpd in reformer components. Meanwhile it reported that the same reformer and a 60,000 bpd hydrocracker are seen down at the end of February for planned maintenance. A 60,000 bpd heavy oil hydrocracker is expected to be shut on Wednesday for planned work.

Citgo Petroleum Corp is scheduled to shut a fluid catalytic cracking unit at its 165,000 bpd Corpus Christi, Texas refinery starting January 8 for 16 days of maintenance. The unit will be shut to allow maintenance work on reactor cyclones, the regenerator, heat exchangers and the cooling tower.

Suncor Energy Inc said that one of the upgraders at its Alberta oil sands facility had caught fire. Oil production at the facility is currently operating at about 110,000 bpd and it does not yet know when production will resume to full rates of about 225,000 bpd.

Exports from Venezuela's Sincor synthetic crude project were fully restored following recent maintenance on an upgrading unit. Sincor, which upgrades 200,000 bpd of extra heavy Orinoco crude into 180,000 bpd of lighter synthetic crude started exporting crude on December 18.

Sweden's Preem plans to restart a reformer at its 210,000 bpd Lysekil refinery next week. The 32,000 bpd reformer was shut down more than two weeks ago, forcing the refiner to declare force majeure on gasoline and diesel cargoes.

## **Production News**

Colonial Pipeline notified its shippers that it cancelled the front fifth distillate cycle in order to catch up with a delivery schedule that had fallen behind because of heavy shipping nominations since October. The front fifth cycle would have moved distillate oil products in mid-February.

Statoil said that attempts to resume production at Snorre A and Vigdis oil fields are still being delayed. It added that it was unable to set a new start-up date. Statoil had planned to restart the oil fields by the end of 2004, but its efforts to do so were delayed by rough weather in December.

Royal Dutch/Shell said it ended a dispute over jobs and development with the Nigerian community of Kula that forced it shut in 100,000 bpd of crude for a month. A company source said production shut in at the flow stations, which were besieged by Kula villagers on December 5, would likely resume on Wednesday following routine checks. The shutdown prompted shell to declare force majeure on 114,000 bpd on December 22. Last week, leaders of a remote fishing village struck a deal with ChevronTexaco, allowing it to resume production from its 20,000 bpd Robertkiri flow station after the company agreed to pledge money for road building.

Russia's Yuganskneftegaz has stabilized its oil production after fluctuations followed its take over by Rosneft. A Rosneft spokesman said it has started to cover Yugansk's power debts, pay its contractors and cover salary arrears.

A Kuwaiti oil official stated that Kuwait will restart an oil gathering center next week with an initial production capacity of up to 100,000 bpd. Gathering center 15 has been undergoing major repairs following a fire in 2002. It will have a capacity of about 300,000 bpd by the end of 2005.

Qatar Petroleum cut the December official selling price for its Land crude by 92 cents/barrel to \$37.80/barrel in December. Its Marine crude December official selling price was lowered by 70 cents/barrel on the month to \$34.83/barrel.

Colombia will load 2.75 million barrels of sour crude Vasconia for export in February, unchanged from the past two months. Colombia's Ecopetrol will market three of the five 550,000 barrel cargos while Brazil's Petrobras and US' Valero load the remaining two cargos in the second half of February.

Ecuador's central bank reported that the country's oil export revenues totaled \$3.625 billion between January and November, up 71% from the \$2.118 billion reported in the same period of 2003. In terms of volume, Ecuador exported 118.89 million barrels in the first 11 months of year, up 44% from 82.7 million barrels shipped a year earlier.

China's Sinopec Zhenhai Refining & Chemical Co plans to cut its January crude runs by 2.8% on the month to 1.4 million metric tons. The planned crude runs for January is equivalent to 88% of the company's current refining capacity, which was recently expanded to 19 million tons a year.

## **Market Commentary**

The energy complex reversed Monday's sharp losses during today's session with the crude market settling up \$1.79 at 43.91. The February crude contract opened 13 cents higher at 42.25 and quickly traded to a high of 42.60 as it partially backfilled Monday's opening gap from 42.25 to 42.62. The market however traded to a low of 41.92 after failing to backfill its gap. It later bounced off that level and backfilled its gap as it rallied despite the lack of any news. The crude market extended its gains to over \$2.00 as it traded to a high of 44.13 ahead of the close. It retraced more than 50% of its move from a high of 46.65 to a low of 41.20. The oil market was well supported by the strength in the product markets which also settled sharply higher following Monday's losses. The heating oil market opened almost 1 cent higher at 120.20 and quickly posted an intraday low of 119.80. However the market bounced off that level and never looked back. The February heating oil contract backfilled Monday's gap from 120.60 to 123.75 as it extended its gains to over 7 cents on good spread buying. It rallied to a high of 126.45 late in the session before it retraced some of its gains ahead of the close. The February heat crack settled at 8.447, up from Monday's 7.95. Meanwhile the gasoline market, which was leading the complex higher early in the session, settled up 4.04 cents at 117.21. It retraced more than 62% of its move from a high of 123.50 to a low of 106.50 as it rallied to a high of 118.00 ahead of the close. Volumes were better today with 174,000 lots booked in the crude, 46,000 lots in the heating oil

and 45,000 lots in the gasoline market. Open interest in the crude market built by a total of 16,968 contracts to 679,452 contracts as the market held its support at its recent lows. Open interest in the

<b>Technical Analysis</b>			
		<b>Levels</b>	<b>Explanation</b>
<b>CL</b>	<b>Resistance</b>	44.57, 45.95	62% retracement (46.65 and 41.20), Previous high Tuesday's high, Previous high
	43.91, up \$1.79	44.13, 44.40	
	<b>Support</b>	43.50, 42.50	Tuesday's low, Previous lows
	41.92, 41.25-41.10		
<b>HO</b>	<b>Resistance</b>	127.88, 128.50, 129.30	38% retracement (145.80 and 116.80), Previous highs Tuesday's high, Previous high
	124.66, up 5.44 cents	126.45, 126.50	
	<b>Support</b>	122.00	Tuesday's low
	119.80		
<b>HU</b>	<b>Resistance</b>	121.00, 121.20	Previous highs Tuesday's high
	117.21, up 4.04 cents	118.00	
	<b>Support</b>	115.00, 112.40	Tuesday's low
	111.50		

February through April contracts built by a total of 5509 contracts while larger builds were seen in the back months.

The oil complex will seek further direction from the weekly petroleum stock reports, which are expected to show draws in crude stocks of about 1 million barrels, a small build in distillate stocks of less than 200,000 barrels and a build in gasoline stocks of about 1 million barrels. The market will mostly be concerned over distillate stocks. The market will continue to trend higher if the reports show unexpected draws in stocks. The crude market is seen finding support at 43.50 followed by 42.50. Further support is seen at its low of 41.92 followed by its previous low of 41.25-41.10. Meanwhile resistance is seen at its highs of 44.13, 44.40 followed by its 62% retracement level at 44.57 and its previous high of 45.95.