The Windham Group

Energy Futures Brokerage

ENERGY RISK MANAGEMENT

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

www.e-windham.com

ENERGY MARKET REPORT FOR JANUARY 5, 2005

OPEC's acting Secretary General, Adnan Shihab-Eldin said that world oil prices are starting to reflect market fundamentals. He said world stocks of crude and oil products are back to normal levels. He however declined to comment on whether he believed OPEC would need to cut its official output ceiling of 27 million bpd. He said OPEC will continue to work toward achieving more manageable prices.

Iran's Oil Minister Bijan Namdar Zangeneh said that the world oil market is oversupplied. He also reiterated that OPEC would review market fundamentals during its January 30 meeting before making a decision on output levels. He said Iran is producing close to 3.8 million bpd of crude oil, which is below its official quota of 3.964 million bpd. Meanwhile, Qatar's Oil Minister Abdullah bin Hamad al-Attiyah said the world oil market is oversupplied by 1.5 million bpd. He also reiterated that it is still too early to predict whether OPEC will need to cut production at its January 30 meeting.

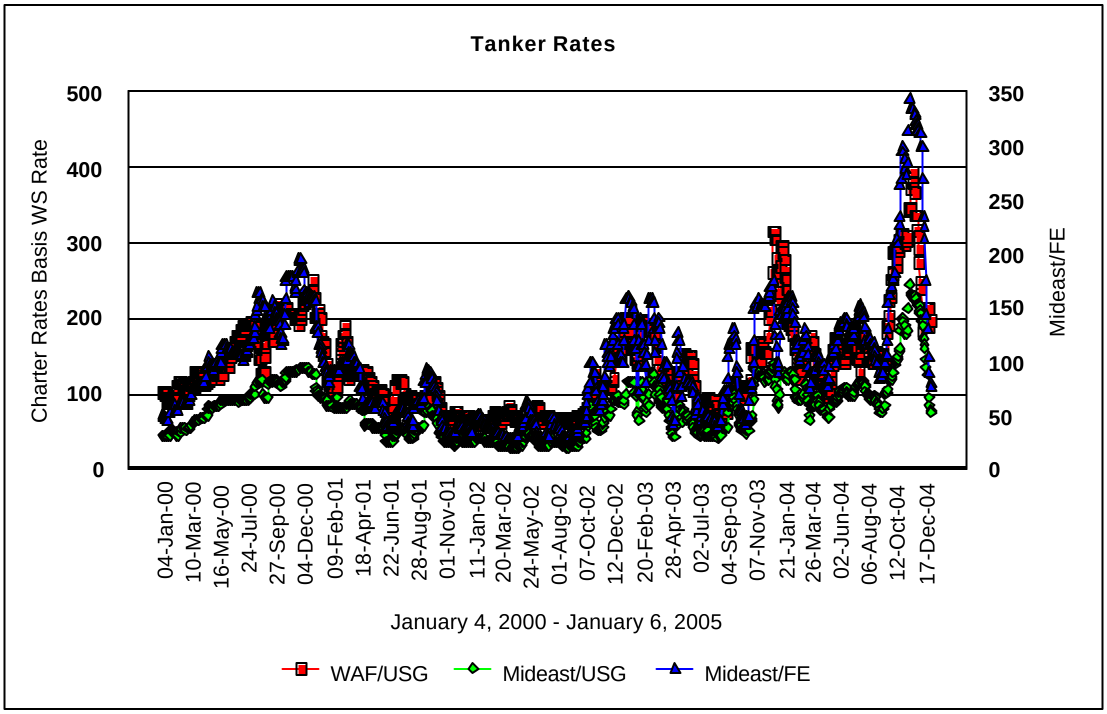
Market Watch

Deputy executive director of the IEA said weather has taken center stage in world oil markets. He said the market is looking for something to react to and called weather a key variable. He stated that while several wild cards remain in the market, he expects conditions to be clearer in the next few weeks, referring to Chinese demand and how the world economy is affecting oil demand growth.

Iraq's interim Prime Minister Ayad Allawi said Iraq extended a state of emergency for another 30 days on Thursday due to continued insurgent attacks in the country. The state of emergency was first declared on November 7 for a period of two months. On January 30, Iraqis are scheduled to elect a National Assembly however insurgents trying to prevent the elections have increased their attacks.

BP plans to increase its supplies of low sulfur fuel oil in northwest Europe next month by blending Doba crude with medium sulfur fuel oil. It plans to make about 100,000 tons of low sulfur fuel oil. The extra supplies will add to an LSFO market already struggling to find a place in Europe for existing cargos while the closed arbitrage to the US has shut that market for the product.

CNOOC, China's third largest oil and gas group, is considering a bid of more than $13 billion for its US rival, Unocal. The deal would market the largest overseas acquisition by a Chinese company. Sources close to negotiations warned the deal was at very early stages and detailed talks had yet to take place. It is understood that CNOOC is also looking at other overseas targets.



According to Oil Movements, OPEC crude shipments in the four weeks ending January 22 are expected to fall by 370,000 bpd to 24.12 million bpd, down from 24.49 million bpd in the four weeks ending December 25. It said spot shipments from the Gulf fell by 1.757 million bpd to 7.461 million bpd in the middle 10 days of January compared with the same period in December. This is in line with OPEC's decision to cut its production. Also, freight prices from the Gulf on core export routes to Asia have fallen by 80% from all time peaks hit in mid-November.

According to a Reuters survey, total OPEC production in December fell to 29.55 million bpd, down 260,000 bpd from November. OPEC's production fell as sabotage attacks cut Iraq's crude exports to just 1.16 million bpd, the lowest level in more than a year and down 140,000 bpd from November. The ten OPEC members produced 27.94 million bpd last month, down 150,000 bpd from November's level.

OPEC's news agency reported that OPEC's basket of crudes increased further to $37.24/barrel on Wednesday, up from Tuesday's $36.57/barrel.

Refinery News

Shell Oil was forced to halt operations of its 67,000 bpd fluid catalytic cracking unit at its Deer Park, Texas refinery on Wednesday to facilitate pump repairs. The unit is expected to return to service on Friday.

According to the Texas Natural Resource Conservation Commission, Premcor's Port Arthur, Texas refinery is undergoing planned maintenance from January 6 to February 2.

Seasonal maintenance has started at ConocoPhillips' oil refinery in Rodeo, California. Sources stated that its crude unit, hydrotreater and reformer will be down at various times throughout the month.

Paramount Petroleum Corp has also started turnaround on one of two crude units at its 48,000 bpd Paramount, California refinery. The seasonal maintenance is expected to take place throughout the month of January.

Valero Energy Corp confirmed a report that the reformer at its Krotz Springs, Louisiana refinery would undergo maintenance during the first quarter of the year but said that information that the refinery's crude unit would be in turnaround was incorrect.

BP Plc's Texas City, Texas refinery is scheduled to perform maintenance on equipment associated with a catalytic cracking unit on January 6 to avoid a possible shutdown of the unit.

Production News

Colonial Pipeline extended shipping order allocations to the second cycle on its distillate line 2 from Collins, Mississippi to Greensboro, North Carolina.

ConocoPhillips started initial oil production at its Magnolia project in the Gulf of Mexico last month. It is currently producing about 10,000 bpd and is expected to produce about 35,000 bpd by the end of the year.

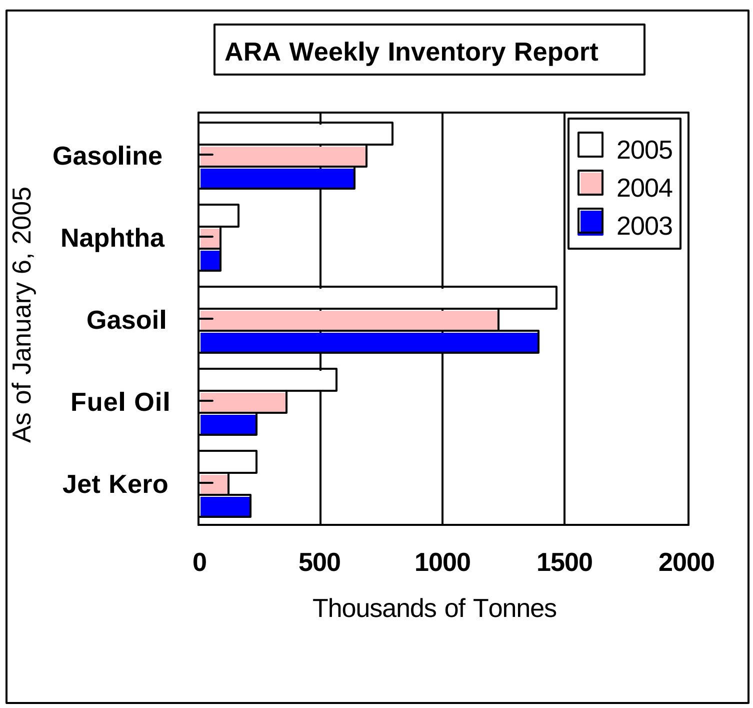
Saudi Arabia's Oil Minister Ali al-Naimi reassured Asian oil consuming countries that the country would do all it could to meet increasing oil demand from the region. He reiterated that Saudi Arabia plans to maintain spare production capacity of 1.5 million bpd. He also said Saudi Arabia produced 9.5 million bpd during the second half of 2004 and noted that Saudi Arabia could produce more on short notice.

Royal Dutch/Shell resumed 22,000 bpd of oil production in Nigeria after ending a community dispute that had shut in 100,000 bpd for a month. Output from the Kula area is expected to increase to 43,000 bpd. However vandalism around two flow stations may keep 38,000 bpd shut for another week.

Meanwhile, a senior Nigerian oil official said that Nigeria did not have to cut its oil production due to the ongoing crude production losses amid the protests.

Royal Dutch/Shell's 140,000 bpd North Sea Draugen field may be shut down on Friday if continuing bad weather prohibits the necessary repairs to the platform's loading equipment. Output at the field has been reduced to 75,000 bpd after the loading riser was damaged.

Meanwhile, Statoil's 205,000 Snorre and Vigdis field remain shut. Poor weather conditions have been hindering required start up inspections. The Petroleum Safety Authority said it does not expect even a limited startup until at least next week.



Gas oil stocks held in the Amsterdam-Rotterdam-Antwerp area fell by 7.8% in the week ending January 1st to 1.475 million tons amid the lower prices which prompted buying. Gas oil inventories remained at comfortable levels despite a draw of 125,000 tons from last week's 1.6 million tons. Gasoline inventories rebounded by 75,000 tons to 800,000 tons while naphtha stocks increased by 25,000 tons to 175,000 tons. Fuel oil stocks built by 75,000 tons to 575,000 tons while jet fuel inventories fell by 25,000 tons to 250,000 tons on the week.

Nigeria's Central Bank reported that the country's oil production increased by 60,000 bpd in November to 2.46 million bpd from 2.4 million bpd in October. It said crude oil exports in November were estimated at 2.01 million bpd or 60.3 million barrels for the month, up from 1.95 million bpd in October.

The Shetlands Islands Council reported that Brent crude oil liftings from Sullom Voe increased to 371,691 tons in the week ending January 4 from 156,390 tons in the previous week.

Fuel oil exports from the former Soviet Union via Baltic and Black Sea ports increased last month as refineries increased output and shipped surplus barrels left over from November. Exports from the Baltic ports increased to 2 million tons last month, up 4% or 76,000 tons from November. Shipments from Black Sea ports increased to 1.23 million tons in December, up 7.9% from 1.14 million tons the previous month.

According to Singapore's International Enterprise, the country's middle distillate stocks increased by 983,000 barrels in the week ending January 5 to 8.216 million barrels. Meanwhile, light distillate stocks increased by 89,000 barrels to 8.741 million barrels while residual fuel stocks increased to 1.764 million barrels to 12.172 million barrel.

A senior economic official said China is likely to start filling its strategic oil reserves next year as the country's demand continues to increase. China's oil demand is expected to continue growing at or above forecast GDP growth of 8% this year. Ten million barrels of storage capacity is due to be ready for use in August, the first phase of a strategic petroleum reserve of 150 million barrels planned for completion in three to five years.

Ecuador's Central Bank reported that the country's oil export revenues totaled $324.08 million in November, up 44% on the year. In terms of volume, Ecuador exported 10.6 million barrels in November, up 16% on the year.

Market Commentary

The oil complex recovered from its losses seen on Wednesday as the markets settled sharply higher following an early rally on the EIA natural gas storage report. The markets may have also been supported by a change in a private weather forecast showing colder temperatures at the end of the month. The February crude contract opened down 19 cents at 43.20 and posted an intraday low of 43.15. However the market quickly bounced off that level and rallied amid the strength in the heating oil market.

Technical Analysis

		Levels	Explanation
		45.95, 46.15-46.20, 46.65	Previous highs
	Resistance	45.75	Thursday's high
CL	45.56, up $2.17		
	Support	44.90	
		43.15, 42.60	Thursday's low, Previous low
		131.30, 132.80, 134.72	50% (145.80 and 116.80), Backfills gap (Dec 27), 62%
	Resistance	129.00, 129.30	Thursday's high, Previous high
HO	128.13, up 6.29 cents		
	Support	126.00	
		122.50	Thursday's low
		125.65, 129.80	50% retracement (144.80 and 106.50), Previous high
	Resistance	123.30, 123.50	Thursday's high, Previous high
HU	122.29, up 5.19 cents		
	Support	121.50, 120.00	
		115.90	Thursday's low

Unlike the natural gas market, which surprisingly sold off upon the release of the EIA natural gas inventory report showing a larger than expected draw of 151 bcf, the oil complex rallied sharply higher. The crude market rallied above the 45.00 level and traded to a high of 45.75 later in the session as it remained well supported by the strength in the product markets, particularly the heating oil market. The crude market, which held good support at the 45.00 level, settled up $2.17 cents at 45.56. The heating oil market, which lent support to the energy complex, seems to have traded higher on private weather forecasts calling for colder temperatures at the end of January. The heating oil market opened up 66 points at 122.50, its intraday low and never looked back as it continued to retrace its previous losses. The market rallied over 7 cents to its high of 129.00 late in the session following its initial rally on the EIA natural gas report. The market breached several resistance levels as it traded to its high. It settled up 6.29 cents at 128.13. Meanwhile, the gasoline market also settled up 5.19 cents at 122.29 after it too rallied over 6 cents to its high of 123.30. Volumes were good with over 256,000 lots booked in the crude, 49,000 lots booked in the heating oil and 51,000 lots booked in the gasoline market.

Technically, the market still has some room to the upside as stochastics crossed back to the upside. However the market will continue to be driven by the winter weather forecasts. Even though they are now calling for colder temperatures at the end of January and February, the overall picture for the winter now seems to have changed to slightly warmer winter than was first predicted. The crude market is seen holding support at 44.90 followed by its low of 43.15 and 42.60. Meanwhile, resistance is seen at its high 45.75 followed by 45.95, 46.15-46.20 and 46.65.