



## ***ENERGY RISK MANAGEMENT***

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### **ENERGY MARKET REPORT FOR JANUARY 21, 2005**

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In its monthly report, OPEC said supply problems outside OPEC will begin to increase demand for OPEC's oil over the coming months. However world oil supply, particularly OPEC's production, remain strong and should easily offset the continued strength in demand growth. It said OPEC production would be more than sufficient to meet the expected demand and may lead to a stock build in the first quarter. It lifted its estimated call on OPEC crude by 400,000 bpd to 28.77 million bpd in the first quarter while its second quarter estimate was revised upwards by 540,000 bpd to 27.68 million bpd. The second quarter call is about 2 million bpd lower than the group's December production which OPEC said fell by 470,000 bpd to 29.72 million bpd.

On Thursday, port officials stated that berthing operations in Iraq's Basra Oil Terminal remained suspended due to adverse weather conditions. It was unclear when operations would resume.

According to Bloomberg, Iraq produced 1.96 million bpd in December in line with the average production over the past 12

#### **Market Watch**

An expected weekend snowstorm may slow barge traffic in the New York Harbor, possibly causing delays in deliveries of heating and gasoline. There were no delays so far on Friday. Also traffic on the Delaware River faced no weather related restrictions so far. The Coast Guard in New York said it has not issued warnings to barge and tugboat companies but may do so if the visibility is low and the winds are high this weekend. If distillate deliveries are delayed by the storm, it could force traders planning to fulfill supply commitments to seek barrels elsewhere.

Buckeye GP LLC announced that it has agreed to acquire a major refined petroleum products pipeline system. It has also agreed to acquire interests in five associated petroleum products terminals from affiliates of ExxonMobil Corp. The pipeline system delivers refined products from the Valero refinery in Paulsboro, NJ to destinations in New Jersey, Pennsylvania and New York. The acquisition is expected to close in the first half of 2005 subject to regulatory approvals.

Federal Reserve Bank of Minneapolis President Gary Stern said both the Federal Reserve and financial markets may have underestimated the long term effects of higher oil prices. However he said the US economy has fared respectably last year, despite the higher prices.

According to a consultancy, Energy Security Analysis Inc, energy demand growth from China and oil production from Iraq will be two of the biggest factors affecting crude oil prices in 2005. Rapid demand growth from China and lower exports from Iraq due to sabotage from militants contributed to a 33% increase in oil prices in 2004. It expects China's energy demand to increase by 500,000 bpd in 2005, in line with US government forecasts and reflecting a slowdown from 2004 when demand for electricity from oil fired plants increased. Meanwhile, oil exports from Iraq are expected to continue to get interrupted by sabotage.

months. However insurgents trying to disrupt the election this month have targeted oil pipeline and increased attacks against civilians, Iraqi police and occupying forces from the US and its allies. It is likely that the attacks may increase ahead of the January 30.

OPEC's Oil Minister Rafael Ramirez said OPEC is producing at least 1 million bpd above its quota and added that Venezuela will support a cut in production if needed.

According to a source familiar with Yukos' operations, most of the crude from Yukos' two remaining production units will be exported to China or fed into the company's domestic refineries.

The US Department of Energy on Thursday started seeking companies to deliver up to 9.5 million barrels of crude oil to the SPR for a four month period beginning April 1. It is part of a joint DOE-MMS three year program that uses royalty-in-kind oil from federal leases offshore the Gulf of Mexico to fill the country's SPR. MMS last week issued its part of the solicitation by seeking companies to deliver about 90,000 bpd of royal-in-kind crude.

### Refinery News

ExxonMobil's 514,000 bpd Baton Rouge, Louisiana refinery is in the process of restarting its 120,000 bpd fluid catalytic cracking unit from turnaround. Separately, a hydrocracking unit at its Baytown, Texas refinery is expected to be restarted on January 30, ten days after originally planned. The unit was shut on January 5 for planned maintenance work.

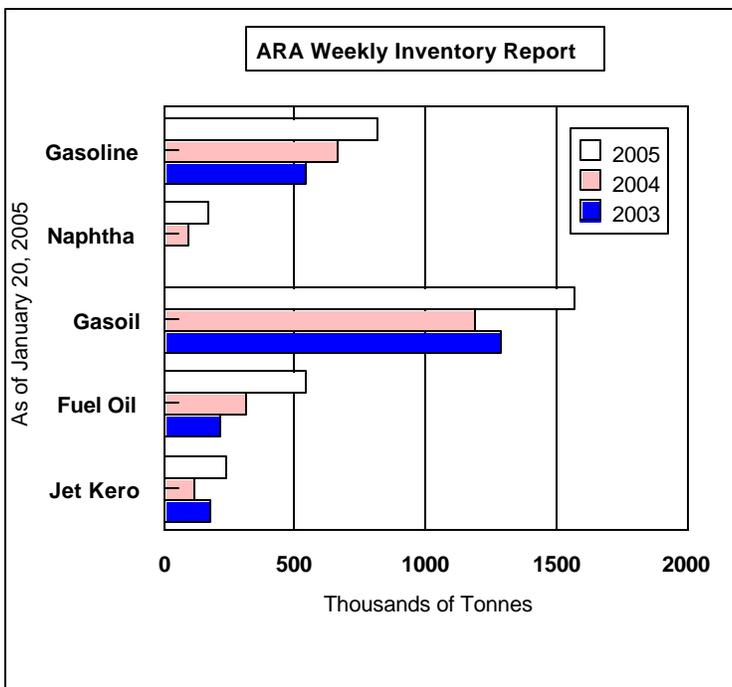
### Production News

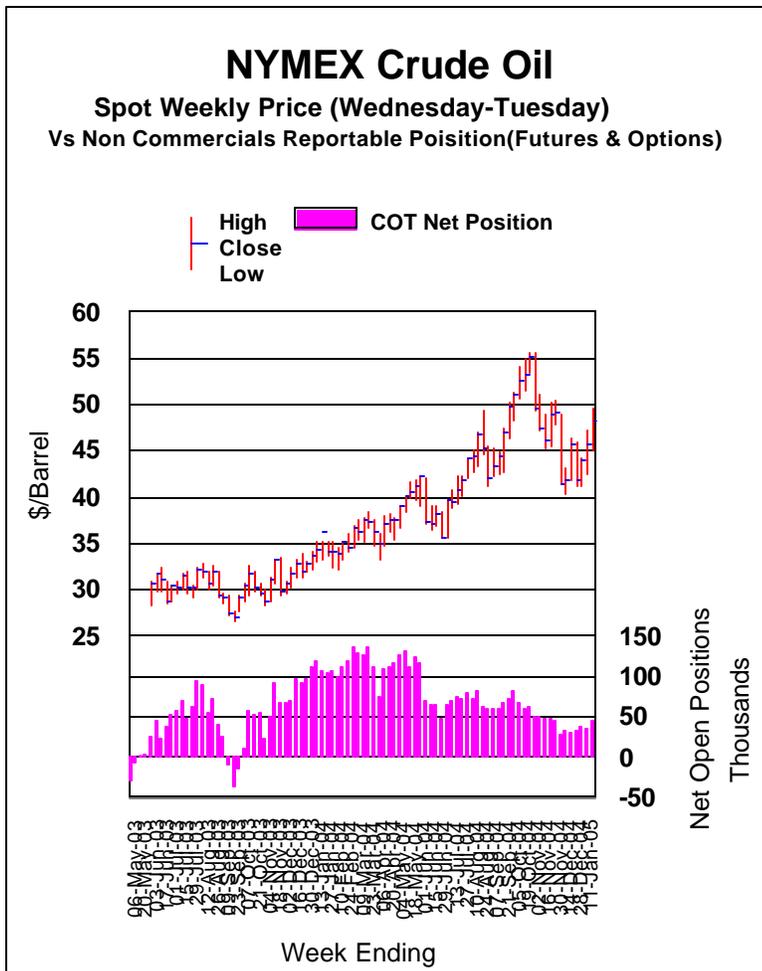
The Houston Ship Channel was in the process of reopening on Friday morning following a 5 hour closure. An official stated that 10 inbound and 7 outbound ships were affected at the time of the shutdown.

Baker Hughes reported that the number of rigs searching for oil and natural gas in the US increased by 5 to 1,263 in the week ending January 21<sup>st</sup>. The number of rigs searching for oil in the US increased by 5 to 177 while the number of rigs searching for natural gas was unchanged at 1,084.

Norway's Petroleum Safety Authority denied Statoil's request to resume full production at its 130,000 bpd Snorre oilfield in the North Sea as it wants more information from a partial restart. Statoil sought approval to restart production from Snorre platform wells after the authority on January 12 permitted it to resume output at the 75,000 bpd Vigdis satellite field and limited production from Snorre subsea equipment. The rejection was due to lack of information from the partial restart. Meanwhile a Statoil internal investigation into its Snorre-A gas blowout has revealed major safety dangers that could have caused an uncontrollable fire and the shutdown of the platform.

An industry analyst stated that gas oil stocks held in independent storage in the Amsterdam-Rotterdam-Antwerp area fell by





50,000 tons to 1.575 million tons in the week ending January 20<sup>th</sup>. Gas oil stocks are however 375,000 tons higher than a year ago. A mild European winter has so far been keeping ARA stocks well above year ago levels as consumers, especially consumers in Germany, have minimized purchases and held down their tank storage levels. Meanwhile, gasoline stocks in the ARA area fell by 25,000 tons on the week to 825,000 tons while naphtha stocks remained unchanged at 175,000 tons. Fuel oil stocks increased by 25,000 tons to 550,000 tons and jet fuel stocks fell by 50,000 tons to 250,000 tons on the week.

Venezuela's PDVSA signed a collective contract with the country's main oil unions on Friday, ending four months of negotiations.

Analysts stated that Venezuela's plan to increase crude production through higher foreign investment may not occur and output could actually fall if the government limits their operations without explanation. Foreign companies have been caught off guard in recent

months by unilateral actions by PDVSA to limit their operations without explanation. ConocoPhillips had its development proposal for the Corocoro oil find rejected by PDVSA this month while in December companies producing oil from fields through operating agreements with PDVSA had their budgets cut. One of the companies, Harvest Natural announced it had been forced to suspend its drilling operations after PDVSA failed to approve its program and ordered production to be cut. Analysts pegged Venezuela's output at about 2.6 million to 2.7 million bpd compared with 3.1 million bpd before the stoppage. They however stated that despite lower oil production levels, PDVSA has been able to keep government coffers high with petrodollars due to high oil prices.

Russia's Economic Development and Trade Minister German Gref said there is no need to create a strategic oil reserve in Russia. He said oil reserves are justified in countries that import oil, however Russia exports several times more oil than it consumes.

Russia's main Black Sea port of Novorossiisk was again forced to close due to bad weather conditions. The port had been closed last weekend and reopened on Wednesday.

Oil and gas tanker traffic was suspended through the Dardanelles on Friday due to dense fog, increasing delays through the Turkish Straits up to 14 days for a round trip to the Black Sea. Meanwhile, the Bosphorus strait was reopened on Friday after it was shut on Thursday due to dense fog.

Crude oil exports from the Butinge oil terminal in Lithuania will be halted until at least Monday to repair an underwater hose at the facility. A crack was reportedly found in the hose during an inspection. Separately, crude shipments via Lithuania's Butinge oil terminal fell by a third in 2004 due to competition from the Russian port of Primorsk. It handled 7.24 million tons of crude last year, down by 32% compared to the previous year.

China's Sinopec produced 274.15 million barrels of crude in 2004, up 1.18% on the year. It processed 132.95 million metric tons of crude, up 13.94% on the year.

According to customs figures, China's increasing demand for energy helped increase crude oil imports in December by 31% on the year to 12.1 million metric tons or 2.86 million bpd. The increase in December contributed to an annual increase of 34.8% to 122.72 million tons. Meanwhile exports of crude fell by 22.1% on the year in December to 816,499 tons or 193,063 bpd. Separately, China's imports of fuel oil increased by 33.2% on year to 2.52 million tons in December, contributing to an annual increase of 28.2% to 30.5 million tons in the year. Diesel imports increased by 581.6% to 550,203 tons in December.

Korea National Oil Corp said the country imported about 825.8 million barrels of oil and produced 886.2 million barrels of oil products in 2004. During the year, South Korea produced 212.5 million barrels of diesel, 167.8 million barrels of naphtha, 76.6 million barrels of jet fuel and 49.4 million barrels of kerosene.

Thailand's state run oil and gas firm PTT PCL said the country's total oil and oil product demand in the January-November period increased by 14.6% on the year to 1.133 million bpd. Its total imports increased by 12.5% to 1.02 million bpd in the first 11 months of the year.

### **Market Commentary**

The oil complex settled sharply higher on Friday, unlike Thursday's session when the markets settled in negative territory. The crude market continued to retrace Thursday's losses early in the session after it opened up 44 cents at 47.75, its intraday low. The market which quickly traded above the 48.00 level traded back towards its low to 47.80 as the natural gas market initially sold off following the release of the EIA natural gas storage report. However the crude market just as quickly bounced off that level amid the rally seen in the natural gas market in light of the natural gas storage report showing a draw of 110 bcf. The March crude contract rallied to a high of 48.90 before it settled in a 60 cent trading range. It later posted an intraday high of 48.95 but held good resistance at that level as its gains were limited by the natural gas market's losses amid the moderating

<b>Technical Analysis</b>				
	<b>Levels</b>	<b>Explanation</b>		
<b>CL</b> 48.53, up \$1.22	<b>Resistance</b>	49.35 48.95	Previous high Thursday's high	
	<b>Support</b>	47.75, 46.71 45.20, 45.05	Friday's low, Thursday's low Previous lows	
	<b>HO</b> 138.37, up 4.39 cents	<b>Resistance</b>	141.70, 142.20 139.80	Previous highs Friday's high
		<b>Support</b>	137.80, 135.90 131.90	Friday's low Previous low
<b>HU</b> 129.96, up 4.2 cents	<b>Resistance</b>	133.85 130.90	Previous high Friday's high	
	<b>Support</b>	129.30, 127.00 123.50	Friday's low Previous low	

weather forecasts. The crude market settled up \$1.22 at 48.53. Volume in the crude was good with over 204,000 lots booked on the day. Meanwhile the heating oil market settled up 4.39 cents at 138.37 after the market opened at its intraday low of 135.90. The market quickly rallied to its intraday high of 139.80 amid the strength in the natural gas market. However the market later gave up some of its gains and settled in a range from 137.80 to 139.60 during the remainder of the session. Unlike the natural gas market, the heating oil market still managed to hold onto its gains ahead of the close despite the moderating weather forecasts. The gasoline market also settled up 4.2 cents at 129.96 after it too settled in a sideways trading range for most of the session. Early in the day, the market traded off its low of 127.00 to a high of 130.90 amid the strength in the heating oil market. Volumes in the product markets were good with 53,000 lots booked in the heating oil market and 45,000 lots booked in the gasoline market.

The latest Commitment of Traders report showed that non-commercials in the crude market increased their net long positions by 7,311 contracts to 15,925 contracts in the week ending January 18<sup>th</sup>. The combined futures and options report also showed that non-commercials in the crude market increased their net long positions by 9,194 contracts to 44,639 contracts on the week amid the market's rally back above the 49.00 level. Meanwhile, the non-commercials in the heating oil market cut their net short positions from 15,035 contracts to 13,322 contracts on the week while non-commercials in the gasoline market increased their net long positions from 8,066 contracts to 11,733 contracts on the week.

The crude market on Monday will likely retrace some of today's sharp gains, barring any bullish news over the weekend or any change in the weather forecasts which have continued to moderate. The latest 8-14 day forecast showed normal to above normal temperatures for most of the country and below normal in the west. The market is seen finding resistance at its high of 48.95 followed by its previous high of 49.35. Meanwhile support is seen at 48.35 followed by its lows of 47.75 and 46.71. More distant support is seen at 45.20 and 45.05.