



## ***ENERGY RISK MANAGEMENT***

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### **ENERGY MARKET REPORT FOR JANUARY 25, 2005**

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OPEC's Secretary General Sheikh Ahmad Fahad al-Sabah said OPEC should maintain its current output ceiling of 27 million bpd when it meets on January 30. He attributed the increase in oil prices to cold weather in the US and anxiety about security of oil supplies because of the situation in Iraq and the Gulf region. He said he believed OPEC would take these reasons into consideration however he did not elaborate.

Meanwhile, the head of OPEC affairs at Iran's Oil Ministry said OPEC is very unlikely to lower its output at its January 30 meeting if prices remain strong. He said if prices continue to increase and crude oil reserves remain in a good state, it is unlikely the production ceiling will change. Nigeria's Presidential Adviser on Petroleum Edmund Daukoru said OPEC will likely leave its output quota unchanged at its next meeting. He added that there is a consensus within the group to keep Brent crude within a range of \$35-\$50/barrel. Also, Indonesia's Oil Minister Purnomo Yusgiantoro said that in light of the current strong crude prices, Indonesia may propose a rollover of the current 27 million bpd ceiling.

#### **Market Watch**

Shell has fixed two 68,000 ton gas oil cargos from Europe to the US, which are scheduled to load in early February after the arbitrage opened. Trading house Projector sold a third cargo to the US on Monday. The cargo, also believed to be loading in early February is expected to carry about 70,000 tons of gas oil. Shipping brokers said the three cargos, carrying gas oil from the former Soviet Union were fully confirmed.

According to UBS, seasonal maintenance of refineries kept US oil refining margins high for third consecutive week. Overall, US margins in the week ending January 22 were up 32 cents at \$5.63/barrel. Gulf Coast margins were up 4 cents at \$4.87/barrel while WTI-based East Coast margins were up 33 cents at \$3.82/barrel. European margins increased slightly but were still low enough to keep open the transatlantic arbitrage windows for gasoline and distillate fuel. European refinery margins increased 82 cents to \$3.14/barrel. Meanwhile, Asian margins continued to fall, this week by 38 cents to \$6.00/barrel.

Private weather forecaster WSI called for a warmer than normal February in the US Northeast. WSI's forecast for the Northeast in February agrees with one issued last week by the US National Weather Service. WSI also stated that the Northeast along with most of the northern US will be warmer than normal in March.

Japan's Meteorological Agency reported that the weather in February in most parts of Japan will be colder than previously expected, suggesting an increase in demand for heating fuels. It said temperatures would be normal in February, revising its earlier forecast for normal to warmer temperatures in eastern and northern Japan. It said the weather would be normal in most parts of Japan in March.

Iraq's interim Prime Minister Ayad Allawi said it was futile to set a timetable now for the withdrawal of US and other foreign troops from Iraq and that the country must first build up its security forces to confront the insurgents. Separately, the US Army expects to keep its troop strength in Iraq at the current level of about 120,000 for at least two more years. The Washington Post reported that the official made it clear that the Army's assumption about future US force levels was not meant to prejudice likely trends in either Iraq's security situation or development of its security services.

Nigeria's Pengassan said it met Tuesday with government officials over its strike threat but reached no agreement and will meet again Wednesday. Union leaders refused to meet with representative of Wasco, sticking to its demand that two expatriate workers leave Nigeria. Pengassan threatened to start a strike to protest alleged racist behavior of two expatriate workers. It had given a seven day ultimatum to Wasco for the repatriation of the foreign workers, which expired on Monday. Local employees of Wasco started an indefinite strike last week. Pengassan and Nupeng unions said if the meeting failed to resolve the dispute, the strike at Wasco could extend nationwide after a few days.

OPEC's news agency reported that OPEC's basket of crudes increased to \$42.49/barrel on Monday, up from \$41.63/barrel on Friday.

The UN stated that the rise in world oil prices should moderate in 2005. However it stated that prices will not fall below 2003 levels. It predicted that the average price for North Sea Brent crude should average \$38/barrel this year, \$2/barrel below its 2004 average. It said the decline in demand as well as the slippage by OPEC and increased production elsewhere is expected to push prices down in 2005. It said global oil demand is expected to continue to increase in 2005, however at a declining rate. World oil demand is expected to increase by 1.5 million bpd to 83.3 million bpd compared with a 2.6 million bpd increase in 2004. The UN also stated that the fear premium will continue as the security situation continues to deteriorate in Iraq and threats to oil and installation facilities persist in Saudi Arabia.

Germany's Chancellor Gerhard Schroeder said oil prices must be pushed lower to a reasonable level.

### **Refinery News**

Marathon Ashland Petroleum LLC reported that scheduled maintenance on a gasoline producing unit and associated equipment at its Garyville, Louisiana refinery is seen completed in 7-10 days.

ConocoPhillips has reduced operations at its 257,000 bpd Alliance refinery in Belle Chase, Louisiana following a fire on Sunday. The company confirmed that the fire occurred in one of the refinery's operational units but would not specify which unit or say what percentage of crude runs were cut.

According to a filing with the Texas Commission for Environmental Quality, Valero Corp is scheduled to perform routine maintenance on Complex One at its 243,000 bpd Texas City, Texas refinery starting February 3.

PDVSA will shut a 64,000 bpd flexicoker at its Amuay refinery for a 60 day maintenance period on January 31, a week later than originally planned. It said it would continue to operate the unit for an additional week to build inventories ahead of the overhaul.

Crown Central Petroleum will sell its 100,000 bpd Pasadena, Texas refinery and its 60,000 bpd Tyler, Texas refinery to Astra Oil Co. Under an agreement, Astra supplied crude to the refinery which processed it into gasoline, diesel, heating oil and jet fuel and was sold by the company in 2004 while Crown collected a fee for Astra's use of the refineries.

Workers on the morning shift at Total's refinery in the port of Antwerp went on strike to protest against under-staffing. Union officials said the day shift workers would meet later to decide whether to continue the strike.

### **Production News**

Kinder Morgan stated that an explosion at an industrial site adjacent to its petroleum and dry bulk terminal did not affect its facility in Perth Amboy, NJ.

A diesel fuel storage tank in Holtsville, Long Island owned by Northville Industries exploded early Tuesday. The tank has a capacity of 609,000 gallons of fuel but was holding only 90,000 gallons at the time of the fire. The cause of the explosion was not known. Operations will return to normal on Tuesday.

Royal Dutch/Shell has shut 35,000 bpd of crude production in Nigeria's Abia state following community protests.

Russia's main Black Sea port of Novorossiisk was operating normally on Tuesday after bad weather disrupted loading over the weekend. The port was closed on Friday and Saturday but reopened on Sunday.

Kuwait announced the official restart of a major gathering center at its northern oilfield with a capacity of 380,000 bpd, increasing the country's maximum crude production capacity to 2.8 million bpd. Oil officials said the amount that Kuwait will pump from the gathering center will depend on the level of its OPEC quota.

Russian Railways expects its oil transportation to increase by 60% between 2004-2010 to 38 million metric tons. It expects to transport 19 million tons of oil in 2007 and 21 million tons in 2008.

The completion of a merger between Russia's Gazprom and Rosneft has been further delayed until March 2005 from January. The merger was to have been completed before the end of 2004 but was later postponed until the end of January after Rosneft acquired Yuganskneftegaz.

The head of the Financial and Economic Committee at Kuwait's parliament said that the committee would begin reviewing the government's oil development plan next week. The committee is under pressure from local, foreign media and other civil societies to complete its report on the project, which is a \$7 billion development plan to double crude oil production from existing fields in northern Kuwait. The government withdrew a plan earlier this month and submitted a modified draft aimed at signing operation deals with foreign companies instead of production sharing agreements, which the parliament is rejecting.

According to a government official, India's oil product sales in December increased by 6.25% on the year to 10.2 million metric tons.

### **Market Commentary**

The energy complex settled sharply higher following reports of refinery problems, the continuing problems in Nigeria and reports of a fire at a diesel fuel storage tank. The March crude contract settled up 83 cents at 49.64 amid the strength in the product markets, especially the gasoline market. The crude market traded sideways for most of the session after it opened relatively unchanged at 48.80 and traded to a high of 49.15 before it sold off to its low of 48.35 within the first hour of trading. Late in the session, the market breached its resistance amid the strength in the product markets in light of reports of refinery problems at ConocoPhillip's Alliance refinery and an explosion of a diesel fuel storage tank in Holtsville, Long Island. Shell also reported that it shut in 35,000 bpd of production in Nigeria following community protests. The crude market rallied to a high of 49.75 on further buying ahead of the close. Volumes in the crude market were good with 176,000 lots booked on the day. Meanwhile, the gasoline market settled up 4.55 cents at 134.45 amid the refinery news. The market

opened 40 points higher at 130.30 and quickly posted an intraday low of 129.60. However the market bounced off that level amid talk of refinery problems. It traded to 132.50 before it settled in a sideways trading pattern. It however breached its earlier high and rallied to a high of 134.80 ahead of the close. The heating oil market also settled up 2.16 cents at 142.48 in follow through strength seen in the gasoline market. The market traded to a low of 129.60 an early in the session before it bounced to an early high of 141.50. The heating oil market however settled in a range before it rallied further ahead of the close to a high of 142.85. Volumes in the product markets were good with 64,000 lots booked in the gasoline and 53, 000 lots booked in the heating oil market.

The oil market on Wednesday will seek direction from the weekly petroleum stock reports. The reports are expected to show builds in crude stocks of about 1 million barrels, builds in gasoline stocks of less than 1 million barrels and draws in distillate stocks of 2.5 million barrels on the week. The oil complex is seen remaining supported if the reports show the draws expected in distillate stocks in light of last week's cold temperatures. It will also continue to be driven by the headlines. Technically, the crude market is seen targeting the 50.00 level on the upside. More distant resistance is seen at its high of 50.40. Meanwhile support is seen at 49.00, followed by its low of 48.35 and 48.28. More distant

support is seen at its lows of 47.80 and 47.75.

Technical Analysis		
	Levels	Explanation
<b>CL</b> 49.64, up 83 cents	<b>Resistance</b> 50.00, 50.40	Previous high
	<b>Support</b> 49.75	Tuesday's high
<b>HO</b> 142.48, up 2.16 cents	<b>Resistance</b> 145.80	Previous high
	<b>Support</b> 142.85	Tuesday's high
<b>HU</b> 134.45, up 4.55 cents	<b>Resistance</b> 142.00, 140.00	Tuesday's low, Previous low, basis trendline
	<b>Support</b> 139.30, 137.80, 137.36	
	<b>Resistance</b> 135.80, 136.30	Previous highs
	<b>Support</b> 134.80	Tuesday's high
	<b>Resistance</b> 132.40	Tuesday's low, Previous low
	<b>Support</b> 129.60, 128.25	