



## ***ENERGY RISK MANAGEMENT***

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### **ENERGY MARKET REPORT FOR FEBRUARY 1, 2005**

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According to shipping sources, Iraq's crude oil exports in January totaled 1.43 million bpd, down from 1.5 million bpd in December. The exports were entirely through the southern oil port of Basra and Khor al-Amaya. There were no exports from northern Iraq due to the closure of the Iraq-Turkey pipeline following sabotage attacks in December.

The head of the IEA, Claude Mandil, said high oil prices will damage economic growth in developing countries. He was responding to recent comments made by OPEC producers that \$50/barrel was not harming the world economy. He stated that OPEC should continue to build crude inventories in an attempt to halt further price increases. He played down fears by OPEC of a price crash during the second quarter when demand traditionally falls.

OPEC's news agency reported that OPEC's basket of crudes fell to \$40.95/barrel on Monday, down from Friday's \$41.88/barrel.

#### **Market Watch**

A Mobil Pipeline carrying oil products including gasoline exploded Tuesday morning near Allentown, Pennsylvania. The explosion was caused by a fuel leak that ignited. Valero Energy Corp said it does not expect a significant impact on operations of its Paulsboro, NJ refinery as a result of the fire and closure of a products pipeline. The line which initiates in Paulsboro, NJ transports and delivers gasoline through the central eastern portion of Pennsylvania and on to the northwest corner of New York state.

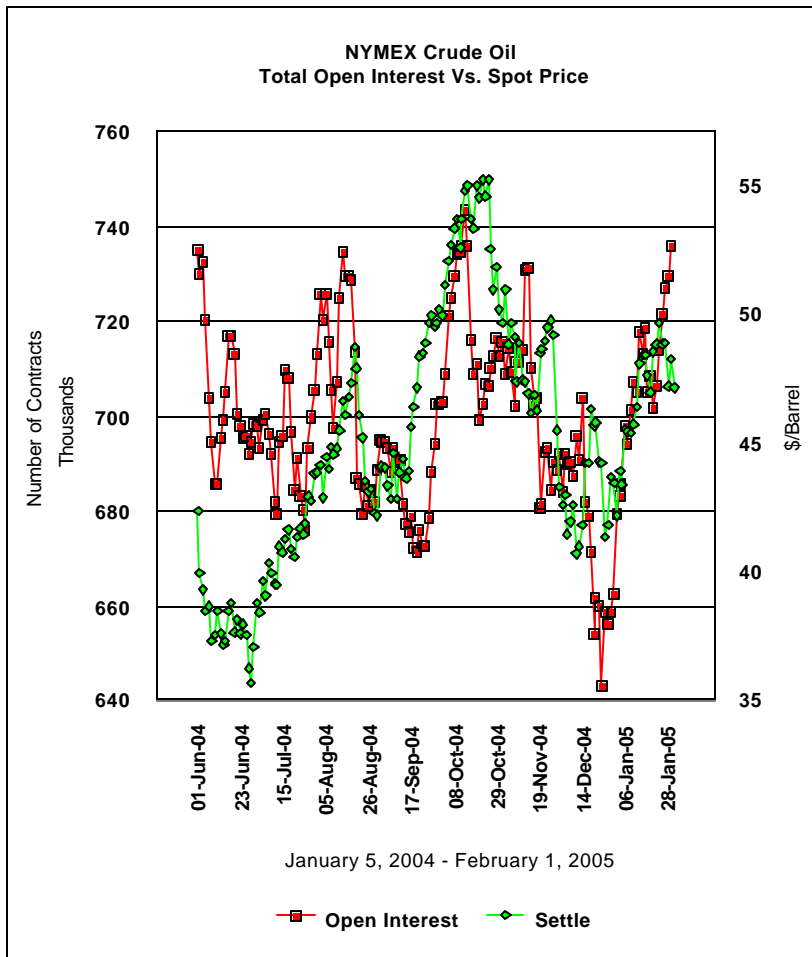
Nigeria's oil workers unions have issued a new strike notice after the Port Harcourt based oil driller, Wasco, refused to dismiss its expatriate manager. Nigeria's Nupeng and Pengassan called off a strike last week after the government intervened in the conflict over alleged harassment of local workers. Separately, Nigeria's Pengassan threatened to call a regional strike that could hit ChevronTexaco's production if a security firm engaged by the company fails to reinstate sacked local workers within two weeks.

Tomskeft, a Yukos subsidiary, hopes to continue to export crude to China despite Yukos' deputy CEO Alexander Temerko's statement that Yukos would stop exporting crude due to its inability to pay export duties and transportation fees. It plans to supply 250,000 metric tons or 65,178 bpd of crude to China in February via Russian Railways.

Separately, Russia's Rosneft has obtained a \$6 billion loan from China's state oil firm CNPC guaranteed by future crude oil deliveries. Rosneft is expected to use the money to repay Russian banks that helped to finance the firm's \$9.3billion purchase of Yukos' main oil unit, Yuganskneftegaz.

Meanwhile, Yukos is considering possible legal action against buyers of crude oil produced by Yuganskneftegaz.

The NYMEX is working closely with UK regulators to set up a London energy futures exchange. The exchange faces one major obstacle that could take several months to overcome which is obtaining approval from the UK's Financial Service Authority. The move will allow the NYMEX to shift its Brent crude futures contract from Dublin to London to compete directly with the IPE.



Iraqi Defense Minister Hazem Shaalan said Iraq would only ask US and other forces to leave when the country's own troops were capable of fighting insurgents. Earlier, Iraq's President Ghazi al-Yawer said it would be "complete nonsense" to ask foreign troops to leave the country now, although he added that some could leave by year's end.

### Refinery News

ConocoPhillips is scheduled shutdown a unit at its 233,000 bpd refinery in Sweeny, Texas on February 10 for planned maintenance.

ExxonMobil Corp on Monday cut production at a catalytic desulfurization unit at its 360,000 bpd refinery in Beaumont, Texas.

Kuwait National Petroleum Corp has restarted a 120,000 bpd crude distillation unit at its 460,000 bpd Mina al-Ahmadi refinery after three weeks of planned maintenance. The

unit was restarted on Sunday and was operating at 60% of capacity. It is expected to reach full capacity later on Tuesday. Its other 120,000 bpd crude unit which was shut in mid-January will be restarted around February 22. Its third and largest CDU 4, a 200,000 bpd unit will continue to be fully operational during the other outages but will undergo 35-40 days of planned work in March.

Venezuela's President Hugo Chavez announced his government plans to sell eight Citgo refineries in the US. Venezuela's PDVSA said it will take two years to sell its Citgo refining operations in the US. Meanwhile, Valero Energy Corp said it will consider acquiring the US refineries that PDVSA plans to sell.

China's Sinopec Zhenhai Refining & Chemical Corp plans to reduce crude runs by 12.8% on the month in February to 1.23 million metric tons. The planned February's throughput is equivalent to 77.7% of the refinery's crude processing capacity of 19 million tons a year.

According to a Reuters survey, maintenance at Japan's refineries will take nearly 9% of crude distillation offline in the second quarter of this year, less than last year's heavy turnaround schedule. Shutdowns of crude distillation units will take an average 409,300 bpd offline between April and June, against a total refining capacity of 4.77 million bpd. The majority of the maintenance is scheduled for May, when 11.5% of overall capacity or nearly 550,000 bpd of crude distillation will be offline. In June about 460,000 bpd or 9.7% will be offline and only 2% of total capacity will be in turnaround over the third quarter.

Norway's Statoil has scheduled four weeks of maintenance at its 110,000 bpd Kalundborg refinery in Denmark during the fall of this year.

### **Production News**

The head of Norway's Petroleum Safety Authority said the gas leak on Statoil's ASA's Snorre A rig was caused by "top to bottom" management system failures. Statoil has admitted that the incident could have been prevented, as the company had sufficient knowledge about a weak casing that caused the gas leak.

Russia's head of the Federal Energy Agency, Sergei Oganessian, said the country's crude oil production will increase by 5.7% in 2005 to 485 million tons or 9.74 million bpd of crude oil in 2005, up from 458.8 million tons or 9.19 million bpd last year. He also estimated that exports would total 285.5 million tons or 5.733 million bpd in 2005. Separately, Russia's Natural Resources Minister Yury Trutnev said Russian oil companies' output is expected to increase by 30 million metric tons by 2010. In 2004, Russia oil companies' oil output increased by 8.6% on the year to 443 million tons.

The Kazakh government said it may seek to purchase all of British BG's stake in the oil consortium exploiting the Kashagan field. The oil companies, led by Italy's ENI are due to meet Prime Minister Danial Akhmetov on Wednesday for talks seeking to end months of infighting over BG's sale of its 16.67% stake.

Russia's White Sea port of Vitino will resume loading oil on Wednesday after customs and supply problems halted shipments for nearly seven weeks. The port, which has seen declining volumes as shippers move to other outlets in Russia's northwest, last loaded a tanker on December 17.

An Indian Petroleum Ministry source said India's exports of petroleum products in December totaled 1.5 million metric tons, up 51.52% on the year.

Lithuania's Klaipedos Nafta reloaded 668,000 tons of oil products in January, down 13% on the year.

Belarus has increased fees for oil product transit by about 75% to \$0.89/ton in one of its pipelines.

South Korea's oil refiners are slowly increasing their investments in plant upgrades to meet the growing trend for cleaner motor fuel specification in Asia. Refinery upgrades in South Korea are needed to meet the country's switch to tighter motor fuel specifications in January 2006, when the maximum permitted sulfur content of diesel will fall to 30 parts per million or 0.003% from 430 ppm. Gasoline's allowable sulfur level will be cut to 50 ppm from 130 ppm.

Brazil's Petrobras will invest \$1.6 billion to increase the quality of gasoline it produces in order for it to export more. It aims to reduce sulfur content in gasoline by 20 times and meet other anti-pollution requirements by 2009. It is also investing in diesel quality and has already spent \$750 million to cut sulfur content. By 2009, sulfur content in diesel used as fuel for urban vehicles should fall to 50 ppm from 2,000 ppm.

### **Market Commentary**

The energy complex settled in negative territory as the markets erased some of Monday's sharp gains. The oil markets however posted inside trading days as they failed to breach Monday's trading range ahead of the release of the weekly petroleum stock reports on Wednesday. The crude market opened down 25 cents at 47.95 in follow through selling seen in overnight trading and quickly posted its intraday high of 48.10. However the market continued to retrace its previous gains and settled in a sideways trading pattern for most of the session as traders lacked any conviction ahead of the release

of the weekly petroleum stock reports on Wednesday. The March crude contract later breached its support at 47.50 and sold off to a low of 47.05 in a late bout of selling ahead of the close. The market settled down \$1.08 at 47.12. Volume in the crude market was good with 191,000 booked on the day, of which 103,000 lots traded via spreads. Open interest in the crude market built by a total of 6,381 contracts to 736,055 contracts. The majority of the build was reported in the April contract which built by 3,954 contracts during Monday's rally. The March heating oil contract, in its first session as the spot contract, settled down 3.42 cents at 131.39. The market opened down 71 points at 134.10 and posted an intraday high of 134.55 before it continued to retrace Monday's gains. The heating oil market settled in a range from 132.30 to 133.75 for most of the session. However it later breached its support at 132.00 and sold off to a low of 131.10 ahead of the close. The heating oil market was pressured amid the expectations that the reports would show draws in distillate stocks once again. Meanwhile the gasoline market also saw some profit taking as it opened down more than 1 cent at 133.70. The market traded mostly sideways within a range from its high of 134.00 to 132.70. It however breached its support at 132.00 and sold off to a low of 131.30 on the close. It settled down 3.31 cents at 131.45. Volumes in the product markets were light with 44,000 lots traded in the heating oil and 39,000 lots traded in the gasoline market.

The crude market on Wednesday will seek direction from the weekly petroleum stock reports after posting an inside trading day during today's session. The DOE and API reports are expected to show builds in crude stocks of about 1 million barrels, draws in distillate stocks of about 2.5 million barrels and a small draw in gasoline stock of about 500,000 barrels. Technically, the crude market is seen trading lower with its stochastics still trending downwards. However if the reports do show large draws in product stocks, the markets will retrace today's losses. The market is seen finding support at its low of 47.05 followed by 46.55. More distant support is seen at its low of 46.05 and 45.20. Meanwhile

resistance is seen at 47.85, followed by 48.25 to 48.60, its remaining gap.

Technical Analysis		
	Levels	Explanation
<b>CL</b> 47.12, down \$1.08	<b>Resistance</b> 48.25 to 48.60 47.85, 48.10	Remaining gap (January 28th) Tuesday's high
	<b>Support</b> 47.05, 46.55 46.05, 45.20	Tuesday's low, 38% retracement (41.40 and 49.75) Monday's low, Previous low
<b>HO</b> 131.39, down 3.42 cents	<b>Resistance</b> 136.80 to 138.20 134.55, 135.00	Remaining gap (January 28th) Tuesday's high, Monday's high
	<b>Support</b> 131.10, 129.50 128.35, 125.93, 125.50	Tuesday's low Monday's low, 62% (116 and 142), Previous low
<b>HU</b> 131.45, down 3.31 cents	<b>Resistance</b> 135.50, 138.40 134.00, 135.00	Previous highs Tuesday's high, Monday's high
	<b>Support</b> 131.30, 129.60 128.10, 127.17, 123.70	Tuesday's low Monday's low, 38% and 50% retracement (109 & 138.40)