



## ***ENERGY RISK MANAGEMENT***

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

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Nigeria's Presidential Adviser on Petroleum and Energy Edmund Dakouru said OPEC has not set a new floor for oil prices. However he stated that OPEC will act if prices become unrealistically low.

According to a Reuters survey, OPEC's total production fell to 29.25 million bpd, down 460,000 bpd from a revised output level of 29.71 million bpd in December. OPEC's production in January was at its lowest since June 2004. However production from the ten OPEC members, excluding Iraq, totaled 27.37 million bpd, about 370,000 bpd above the group's target of 27 million bpd. The majority of the cut came from Saudi Arabia, which cut its output by about 350,000 bpd to 9.07 million bpd. The UAE also cut its output by 80,000 bpd to 2.38 million bpd. Meanwhile, Iraq's crude production fell by 70,000 bpd to 1.88 million bpd due to the sabotage attacks.

OPEC's news agency reported that OPEC's basket of crudes fell to \$40.19/barrel on

#### **Market Watch**

US Secretary of State, Condoleezza Rice, speaking following a meeting with UK's Prime Minister Tony Blair said that attacking Iran is not on the US' agenda at this point in time. She said the US would use diplomacy to deal with Iran's nuclear program. However she condemned its human rights record and said its support for terrorism was harming the prospects for peace between Israel and Palestine.

Freight rates for very large crude carriers shipping crude from the Persian Gulf to Asia and the US Gulf have more than doubled in less than a week and are seen strengthening for loadings scheduled through the first half of March. The spike in freight rates follows a two month decline in demand for tankers. However while the decline in tanker rates was considered directly related to OPEC's decision to cut its output at its December meeting, the current surge is seen primarily as a result of other factors affecting supply and demand. The recent increase in rates is attributed to strong demand for crude shipments from West Africa and weather related delays in the Mediterranean.

Venezuela's Information Minister Andres Izarra denied reports that Venezuela's President Hugo Chavez announced that his government is planning to sell Citgo. Venezuela's President and PDVSA officials said the government is reviewing Citgo's operations as part of an overall strategy to try to diversify Venezuela's oil ties and markets to include other clients. Many analysts said the sale of Citgo would hurt Venezuela as much as the US. They said Venezuela benefits from having the Citgo refining network, which as the units needed to process heavy, high sulfur Venezuelan crude.

UN Secretary General Kofi Annan pledged to get the truth of any wrongdoing by the UN in the Iraq oil-for-food scandal. An independent inquiry on the oil-for-food program issued an interim report that found lax US controls, a shortage of audit staff and political favoritism when the program started in 1996.

Thursday from Wednesday's \$40.62/barrel.

### **Refinery News**

Premcor Inc is restarting its 260,000 bpd Port Arthur, Texas refinery on February 6 following the completion of planned turnaround.

Western Refining Co LP is scheduled to shut the North Plant at its 102,000 bpd El Paso refinery for scheduled maintenance on February 10 for about 21 days. The plant is expected to reopen on March 2.

Lyondell Chemical Co said it would shut a MTBE unit at its Channelview, Texas refinery for maintenance starting February 17.

### **Production News**

According to Baker Hughes, the number of rigs searching for oil and natural gas in the US fell by 8 to 1,248 in the week ending February 4. The number of rigs searching for oil increased by 2 to 187 while the number of rigs searching for natural gas fell by 10 to 1,049.

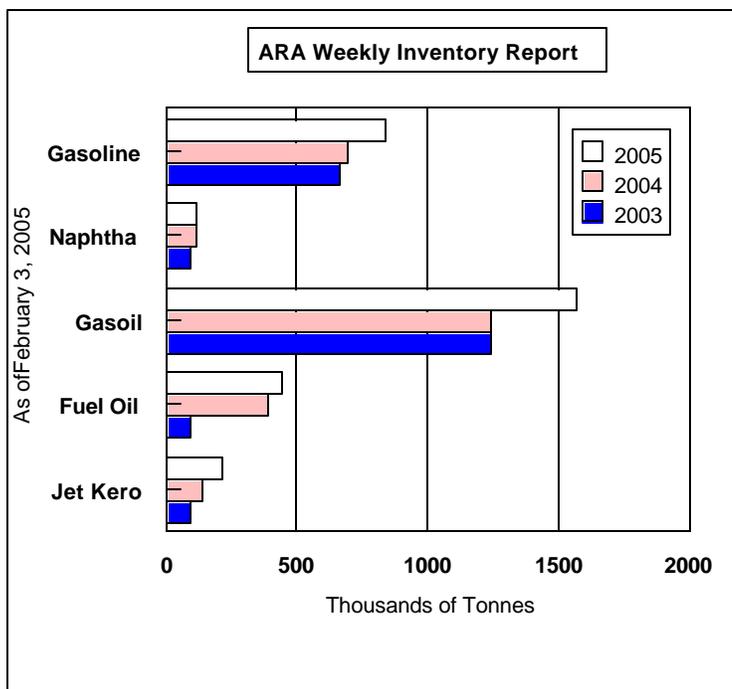
Nigerian security forces shot dead six protesters on Friday at an oil export terminal operated by ChevronTexaco. Hundreds of villagers from the Ugborodo community stormed the Escravos terminal near the city of Warri early on Friday and broke into the compound to protest against the lack of development in their village and to demand contracts and jobs. ChevronTexaco said it could not confirm the death toll but said its production and exports were not affected.

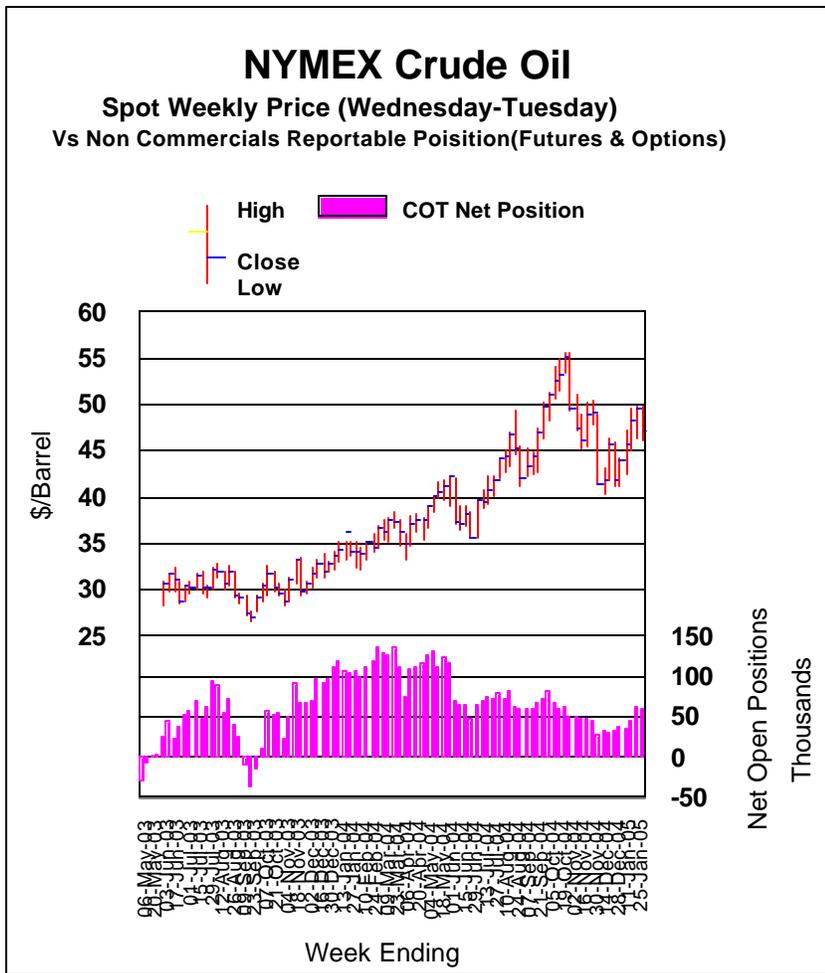
Output at Statoil ASA's 130,000 bpd Snorre oilfield has reached 50% of its capacity. A company source however could not state when production would resume full capacity.

Indonesia's Ministry of Mines and Energy stated that the country's oil production fell to 952,600 bpd in January, down from 977,900 bpd in December. Indonesia remained unable to meet its OPEC quota of 1.4 million bpd due to dwindling reserves. Contradictory regulations have also hampered new exploration in the country.

Gas oil inventories held in independent storage in the Amsterdam-Rotterdam-Antwerp area increased by 75,000 tons in the week ending February 3<sup>rd</sup> to 1.575 million tons. It is up 325,000 tons or 26% higher than a year ago. The ARA data also showed a 50,000 ton increase in gasoline inventories to 850,000 tons. Meanwhile, fuel oil stocks extended the previous week's fall with a draw of 20,000 tons to 455,000 tons. Naphtha stocks fell by 25,000 tons to 125,000 tons on the week while jet fuel stocks fell by 15,000 tons to 225,000 tons on the week.

Russia's Black Sea port of Novorossissk was shut for a second day due to bad weather conditions.





Lithuania's Butinge offshore oil loading facility has resumed operations. The terminal had been closed since January 19 following adverse weather conditions that caused damage to equipment.

The controversy over Russia's sale of Yuganskneftegaz deepened on Friday when Yukos owner Menatep Group said it would ask Rosneft to pay back a \$900 million loan secured to Yuganskneftegaz. The managing director of Menatep Group said Rosneft had no choice but to pay Menatep as a secured creditor or face international arbitration. Rosneft has already been presented with an immediate payment order by international bank creditors on a \$540 million loan, also secured on Yuganskneftegaz assets.

Separately Rosneft has dispatched its first rail shipment of crude to China, displacing Yukos as the key supplier on the eastern export route.

Fuel oil exports from the former Soviet Union from Baltic and Black Sea ports fell in January as fog and stormy weather slowed shipments through the Turkish straits. Exports from the Black Sea ports fell to 1.05 million tons, down 15% from 1.23 million tons in December. Gas oil exports stood at 3 million tons.

Ukraine's Fuel and Energy Ministry reported that the amount of oil refined by Ukrainian companies fell by 8.1% on the year in January to 1.665 million metric tons. Oil supplies to oil refineries fell by 33.5% on the year to 1.441 million tons. Gasoline production fell by 17.7% on the year to 362,000 tons, diesel fuel production fell by 23.4% to 402,700 tons and fuel oil production fell by 27.7% on the year to 483,700 tons.

Azerbaijan's SOCAR said Azerbaijan cut refined products exports in January by 41% year on year as refinery maintenance meant it produced no gasoline or liquefied petroleum gas. A company official said it would resume gasoline and LPG production after February 20. Total Azeri refined products exports stood at 95,278 tons in January.

Georgian Railways said it is likely to see further cuts in oil and refined product shipments to the Black Sea ports this year. However volumes are set to increase after 2005 with the arrival of US oil majors. It said the launch of a major BP-led oil pipeline from Azerbaijan to the Turkish port of Ceyhan in mid-2005 would cut its oil shipments. The shipments are expected to fall to 7 million tons this year from 8 million tons last year.

Iran's ambassador to Kazakhstan said Kazakhstan may increase its oil exports to Iran to 500,000 bpd in 2005 as part of a swap agreement. In 1996, Iran and Kazakhstan signed a swap deal under which Kazakhstan was to deliver 2 million metric tons or 15 million barrels of crude a year to northern Iran and Iran in turn would ship its oil to world markets on behalf of Kazakhstan.

India's Oil Ministry stated that India's oil product exports increased by 52% in December to 1.51 million tons from the same month last year. In April-December, exports increased by 20.8% year on year to 13.02 million tons as refiners got better margins in the market compared with the same period a year ago. Diesel exports increased by 17% to 5.24 million tons while petrol exports fell by 5.4% to 2.11 million tons in the nine month period. In April-December, India's refineries processed 94.95 million tons or about 2.53 million bpd of crude oil, up 6.6% from the same period in 2003/04. The country's sales of refined products increased by 4.5% to 82.98 million tons in April-December.

Pemex said it will increase the differentials used to calculate its heavy crude prices next month. The discount for Maya crude shipments to the US Gulf coast was narrowed by 35 cents to \$5.90/barrel while the discount for Maya crude to the US West Coast was narrowed by 35 cents to \$11.05/barrel.

Ecuador's Central Bank reported that its oil revenues totaled \$3.899 billion in 2004, up 64.4% from the \$2.372 billion registered the year before. In terms of volume, Ecuador exported 129.41 million barrels in all of 2004, up 39.9% from 92.44 million barrels shipped a year earlier.

### **Market Commentary**

The oil market gapped higher this morning from 46.55 to 46.85 in follow through strength seen in overnight trading following the market's recent sell off. The market retraced about 38% of its move from a high of 49.75 to a low of 45.75 as it traded to a high of 47.25 early in the session. However as the market failed to find further upside momentum, the market erased its gains and backfilled its opening gap as it traded to a low of 46.50 in afternoon trading. The market later breached its support and sold off to a low of 46.25 where it held good support. It erased its losses ahead of the close as traders covered their shorts and settled up just 3 cents at 46.48. Volume in the crude market was light with 155,000 lots booked on the day. The March heating oil contract settled slightly lower at 127.42, down 23 points. The market opened up 50 points at 128.15 and posted its intraday high of 129.30 early in the session. However the market erased its losses and traded to a low of 127.00 as traders started to roll their positions from the March to April contract. It however bounced off its low and traded back

towards the 128.00 level ahead of the close. The March/April spread settled at 2.85, up from 2.16 on Thursday. Unlike the crude and heating oil markets, the gasoline market

<b>Technical Analysis</b>			
		<b>Levels</b>	<b>Explanation</b>
<b>CL</b>	<b>Resistance</b>	47.55, 48.10, 48.25-48.60	Previous highs, Remaining gap (January 31st) Friday's high
	46.48, up 3 cents	46.80, 47.25	
	<b>Support</b>	46.25, 45.75	Friday's low, Thursday's low 50% retracement (41.40&49.75), Previous low, 62%
		45.58, 45.20, 44.59	
<b>HO</b>	<b>Resistance</b>	131.50, 132.10, 133.50	Previous high Friday's high
	127.42, down 23 points	129.30	
	<b>Support</b>	127.00, 126.30	Friday's low, Thursday's low 62% retracement (116 and 142), Previous low
		125.93, 125.50	
<b>HU</b>	<b>Resistance</b>	128.40-128.70, 132.50	Remaining gap (February 3rd), Previous high Friday's high
	126.05, down 79 points	127.00, 128.00	
	<b>Support</b>	125.00, 124.80-124.20	Double bottom, Remaining gap (January 13th) 50% retracement (109 & 138.40)
		123.70	

opened lower this morning at 126.50 and rallied to a high of 128.00 early in the session. However the market erased its gains and sold off to a low of 125.00 amid some spread rolling in the March/April, which settled at 8.23 compared with 7.97 on Thursday. The March contract retraced some of its losses ahead of the close and settled down 79 points at 126.05. Volumes in the product markets were good with 46,000 lots booked in the heating oil and 41,000 lots booked in the gasoline market.

The latest Commitment of Traders report showed that non-commercials in the crude market cut their net long positions by 2,898 contracts to 30,952 contracts in the week ending February 1<sup>st</sup> amid the market's sell off after finding resistance at 49.65-49.75. The combined futures and options report also showed that non-commercials in the crude market cut their net long positions from 61,408 contracts to 59,319 contracts on the week. Given the market's continued sell off, non-commercials in the crude market have likely continued to cut their long positions. Meanwhile non-commercials in the heating oil market cut their net short positions from 6,319 contracts to 4,430 contracts while non-commercials in the gasoline market increased their net long positions from 18,022 contracts to 20,973 contracts on the week.

Technically, the oil market is still seen trading lower as its stochastics still have room to the downside. Barring any bullish headlines over the weekend, the market is seen testing its support at 46.25 followed by more distant support at 45.75, 45.58, 45.20 and 44.59. Meanwhile resistance is seen at 46.80 followed by its high of 47.25. More distant resistance is seen at 47.55, 48.10 and its gap from 48.25-48.60.