



## ***ENERGY RISK MANAGEMENT***

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### **ENERGY MARKET REPORT FOR MARCH 10, 2005**

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Algeria's Energy Minister Chakib Khelil said OPEC does not have the oil production capacity to enable it to lift supply quotas at next week's meeting in Iran. He added that even a 1 million bpd increase would not reduce prices. Separately, Iraq's Deputy Oil Minister, Ahmed al-Shammaa said OPEC is likely to rollover its current production ceiling at its March 16 meeting.

The head of the IEA, Claude Mandil said he would support a decision by OPEC to roll over its 27 million bpd production ceiling.

The Financial Times reported that the IMF will recommend that OPEC more than double its spare capacity to cushion the oil market against shocks. It will warn in a report to be published next month that it considers OPEC's current level of spare capacity of about 1.5 million bpd to be insufficient. It is expected to say OPEC's production cushion needs to increase to between 3 million and 5 million bpd. It predicts the oil market will remain

#### **Market Watch**

The US Environmental Protection Agency is still considering California's request for a temporary exemption from clean burning gasoline rules to ease fuel prices. Sen. Dianne Feinstein again asked the EPA this week to stop requiring the state to blend its gasoline with ethanol this summer, with gasoline prices in California at \$2.23/gallon.

OPIS reported that with the EPA requiring most refiners to produce diesel fuel with no more than 15 parts per million sulfur starting in mid-2006, the next 8 months will be crucial. Capital expenditures to comply with ultra low sulfur diesel is expected to increase. It stated that ULSD requirements are already being phased in.

The benchmark Reuters CRB index has increased 11% this year. Surging prices for commodities on Thursday morning lifted the CRB index to 314.57, its highest level since December 1980 and just under the January 1981 peak at 314.50. Given its recent rally, it is now within reach of the record of 337.60 from November 1980. Even as metals and energy prices, which had helped lead the index higher for the last nine consecutive sessions, backed off their near record highs, other commodities rallied. The combined investment in commodities indexes has increased to about \$40 billion, of which \$30 billion is in the Goldman Sachs Commodity Index.

BP Plc said it made almost \$2 billion from trading oil, gas, power and associated derivatives on international financial markets last year. It made a net gain of \$1.4 billion from trading oil products and derivatives, \$461 million from dealing in natural gas and \$160 million from electricity.

London's IPE stated that a total of 75,000 tons of gasoil will be physically delivered following the expiry of the March gasoil futures contract. It is down from 90,000 tons delivered in February.

Increasing US gasoline prices are impacting sales of large sport utility vehicles and pickup trucks. The SUV segment lost 1.2% of US market share over the last two months while fuel efficient compact cars gained 2.2% in the same period. The concern is that the slowdown in these categories may represent the start of a structural change, most likely sparked by consumers' concerns over higher oil or gasoline prices.

tight until 2010, with demand for OPEC oil increasing slowly.

According to Oil Movements, OPEC crude shipments are expected to fall 130,000 bpd to 23.93 million bpd in the four weeks ending March 26.

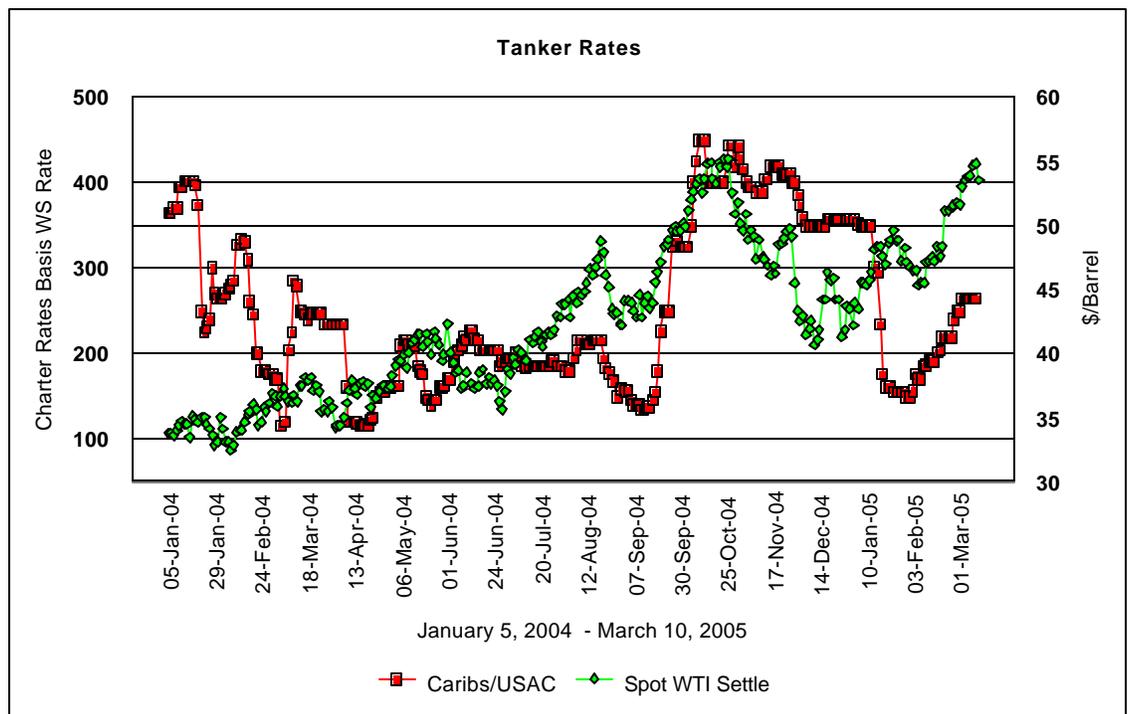
OPEC's news agency reported that OPEC's basket of crude set another record high on Wednesday of \$49.87/barrel, up 86 cents/barrel from Tuesday's level.

US Energy Secretary Samuel Bodman said the near record level of crude oil prices and the high cost of gasoline should motivate lawmakers to pass President George W. Bush's package of energy legislation. He also called on the public to lobby Congress to approve the energy legislation, though he conceded that even if legislation was passed now, it would have no effect on oil prices for years to come. Separately, the head of the House Resources Committee unveiled a plan that aims to achieve energy self sufficiency for North America by 2025. His proposal would create a 16 member commission to develop ways to achieve energy self sufficiency in the US, Canada and Mexico. The panel would have one year to prepare specific recommendations. The measure would be added to an energy bill that has failed to pass in Congress for four years.

Meanwhile, Canada's environment minister said the US plan to drill for oil in the Alaskan wildlife refuge was a mistake and promised the keep pressuring the US to scrap the idea.

A proposed alliance between Shi'ite and Kurdish parties to form Iraq's next government may be in jeopardy, as several issues remain unresolved. The disagreements over who receives what has stalled a deal, leaving the country in limbo since the January 30 elections. The Kurds are demanding the presidency, foreign and defense ministries, a larger share of oil revenue and a commitment to include the ethnically mixed oil center of Kirkuk in a federal region. The Shi'ite Alliance has suggested leaving the Kirkuk issue until a new constitution is drawn up and put to referendum in October.

Analysts stated that even though a link between oil prices and the dollar is not always true, it has been



over the past six weeks. The fall in the dollar's value has been a driver of oil's rally. The inverse relationship is due to the fact that oil is priced in dollars. Traders stated that as the dollar is sold off, commodities are being bought against it. They stated

that even though the US economy is less dependent on oil than it used to be, the US still consumes about 25% of all the world's oil. Higher oil prices still levy a price on the economy in the form of consumer tax that quickly curbs spending.

**Refinery News**

A crude unit at Crown Petroleum's oil refinery in Tyler, Texas experienced a brief upset during its restart on March 8. The crude unit was shut amid the turnaround maintenance on the facility's sulfur recovery unit and amine unit.

Premcor Inc plans to restart a fluid catalytic cracking unit at its Port Arthur, Texas refinery between March 19 and March 25 following turnaround maintenance.

Shell said operations were normal at its 470,000 bpd refinery in Singapore following reports that the refinery had shut a gasoline unit due to technical problems.

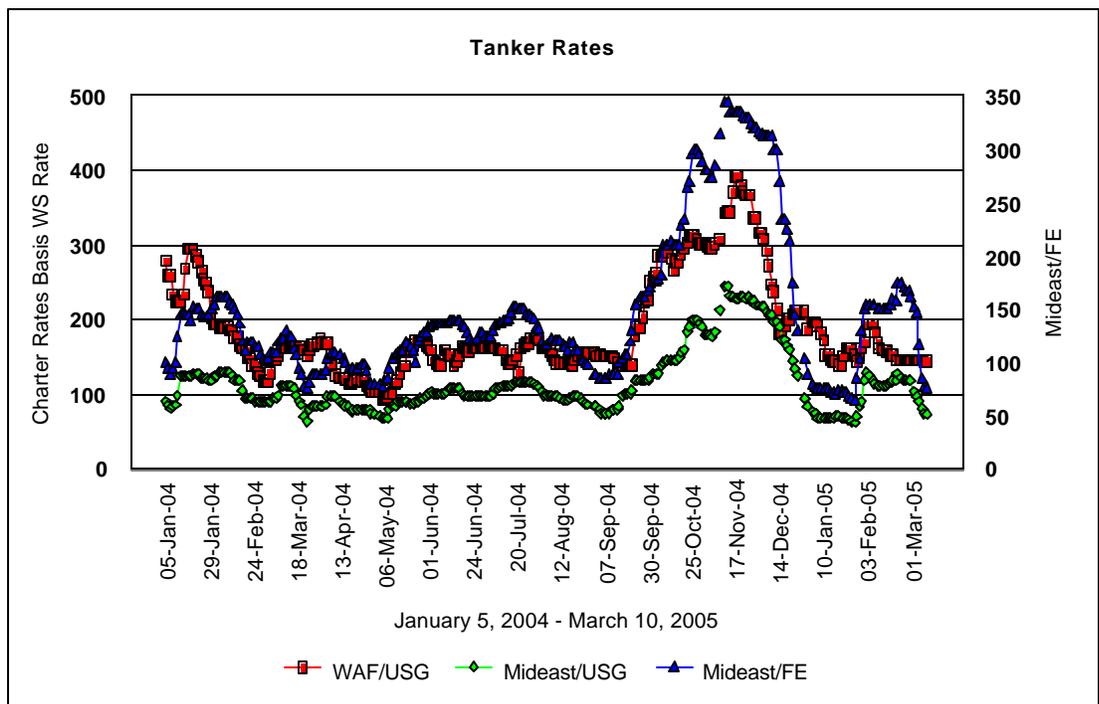
**Production News**

Saudi Arabia notified its Asian customers that it would keep oil supplies unchanged in April from its level in March. Refiners in Japan and South Korea said Saudi Arabia informed them that supplies would be 10% below full contracted volumes, unchanged from March. On Wednesday, it notified its customers in the US and Europe that their supplies would remain steady on the month.

European Union energy commissioner, Andris Piebalgs, said the European Commission has no plans to increase the minimum level of oil stocks held by European Union members. Former energy commissioner, Loyola de Palacio had to withdraw the EC's original proposal on stocks last year due to opposition from the European Parliament and the Council of member state governments.

The Norwegian Petroleum Directorate said Norway's oil production increased to 2.7 million bpd in February from 2.6 million bpd in January. Norway's oil production was lifted in February by a partial restart of the Snorre oilfield.

Norway's Petroleum Safety Authority criticized Statoil ASA Thursday for the natural gas leak at its Snorre offshore field in November and ordered comprehensive improvements. It said it uncovered 28 non-conformities with the regulations and several matters with potential for



improvement.

According to the Shetland Island Council, Brent blend crude oil liftings from Sullom Voe fell to 104,777 tons in the week ending March 8 from 469,584 tons the previous week. The total is bound to the US.

The North Sea Brent crude oil system is scheduled to load an average of 276,000 bpd in April, up from 190,000 bpd in March. Meanwhile, Britain's North Sea Flotta crude oil system plans to load 3.25 million barrels or 108,000 bpd in April, up from 80,600 bpd in March. Norwegian Ekofisk crude system scheduled the loading of 16.55 million barrels to load in April, down 1.85 million barrels on the month. The North Sea Oseberg crude system scheduled the loading of 9.53 million barrels in April, up from March's 9.15 million barrels.

Denmark's North Sea DUC oil system plans to load 8.4 million barrels of crude oil or 280,000 bpd in April, up from 232,000 bpd in March.

Iran has increased its official selling price for April delivery crude by up to \$1.75/barrel from the previous month. The National Iranian Oil Co increased free-on-board prices to Kharg Island in the Gulf for both Iranian Light and Iranian Heavy by \$1.75/barrel to the IPE Brent weighted average (BWAVE) minus \$5.40 and BWAVE minus \$7.40, respectively. Iran's Forozan prices for Sidi Kerir increased by \$1.45 to BWAVE minus \$5.75 from minus \$7.20 in March. For Northwest European, prices increased for Iranian Light, Heavy and Forozan by 50 cents each.

Russia's Lukoil said it would launch two new berths at Vysotskk this April, doubling the Baltic port's capacity to more than 10 million tons of oil and refined products a year. Work to deepen a channel to the port had also been finished allowing tankers of up to 60,000 tons to load at the port, three times the current limit.

BP's Russian joint venture, TNK-BP, expects to have achieved full replacement of its reserves in 2004. It reported a 13% increase in production last year to 72 million tons of oil equivalent, outstripping the Russian industry average, while holding lifting costs in line with plans.

Singapore's International Enterprise stated that the country's onshore stocks of light distillate stocks fell by 1.167 million tons to 8.522 million barrels in the week ending March 9. Meanwhile, Singapore's middle distillate stocks fell by 236,000 barrels to 6.572 million barrels while residual fuel stocks increased by 191,000 barrels to 11.74 million barrels.

Indonesia's crude oil production fell to 942,000 bpd in February due to technical problems on several wells. A source stated that there are some technical problems in several oil wells that caused its oil production to fall in February. Production this year is expected to fall 6% from 2004's 968,000 bpd.

China's customs officials stated that China imported 18.17 million tons or 2.25 million bpd of crude oil in the first two months of the year, down 12.7% from a year ago. The figure implied that imports in February alone rebounded to 10.37 million tons or 2.7 million bpd, up from January's 7.8 million tons or 1.84 million bpd.

India's Mangalore Refinery and Petrochemicals Ltd will expand its capacity to 15 million tons a year or about 300,000 bpd next year.

Japanese oil companies and trading houses are expected to invest more than 2 trillion yen for oil and gas field development around the world from 2005-2007. The total daily production from their oil and gas fields is expected to increase by 50% to 1.8 million barrels in fiscal 2008.

## **Market Commentary**

The NYMEX oil market settled in negative territory for the first time following six consecutive days of gains. The market opened down 61 cents at 54.16 and settled in a range after the market failed to breach its high during Wednesday's trading session. The crude market seemed to have been pressured amid the news that China's oil imports fell in the January-February period by 13% on the year. The market posted a high of 54.55 but quickly sold off to its previous low of 53.70. The April crude contract later settled in a sideways trading pattern for most of the session. However the market found further selling as it breached its low and traded to a low of 52.90. It erased some of its losses ahead of the close and settled down \$1.23 at 53.54. Volume in the crude was excellent with over 313,000 lots booked on the day, of which 193,000 lots traded via spreads. The product markets also settled sharply lower, with the heating oil market settling down 2.34 cents at 150.91 and the gasoline market settling down 4.98 cents at 148.31. The heating oil market opened down 1.45 cents at 151.80 in follow through selling seen in overnight trading after the market came off its highs late Wednesday afternoon. The market traded to a high of 152.50 amid the rally in the natural gas market following the EIA natural gas storage report which showed a draw of 139 bcf. The market however came off its high and traded to a low of 150.25, where it held good support. The April heating oil contract bounced off its low and traded to a high of 152.60 before it once again retraced its gains and sold off to an intraday low of 148.40 as sell stops were triggered. It however recovered some of its losses as it traded back above the 150.00 level ahead of the close. The gasoline market gapped lower this morning from 151.80 to 151.60 but quickly backfilled its gap as it traded to a high of 152.30. However the market came off its high and traded to a low of 150.00 and held some support at that level before further

selling late in the session pushed it to a low of 147.00. Volumes in the product markets were good with 49,000 lots booked in the heating oil and 57,000 lots booked in the gasoline market.

| <b>Technical Analysis</b>         |  |  |
|-----------------------------------|--|--|
|                                   | <b>Levels</b>                                      | <b>Explanation</b>   |
| <b>CL</b> 53.54, down \$1.23      | <b>Resistance</b><br>54.20, 54.55                  | Wednesday's high & Previous high<br>Thursday's high  |
|                                   | <b>Support</b><br>52.92 to 52.86<br>52.70, 52.00   | Lows<br>50% and 62% retracement (49.75 and 55.65)  |
| <b>HO</b> 150.91, down 2.34 cents | <b>Resistance</b><br>152.60, 155.60                | Previous high (continuation chart)<br>Thursday's high, Wednesday's high                    |
|                                   | <b>Support</b><br>148.40, 148.30<br>146.05, 145.80 | Thursday's low, 38% retracement (136.50 and 155.60)<br>50% retracement level, Previous low |
| <b>HU</b> 148.31, down 4.98 cents | <b>Resistance</b><br>156.00<br>150.40, 152.30      | Previous high<br>Thursday's high   |
|                                   | <b>Support</b><br>147.00<br>145.05, 142.47         | Thursday's low<br>50% and 62% retracement (134.10 and 156.00)                              |

The crude market on Friday may continue to retrace its recent highs after the market failed to test its highs and settled in negative territory. The market seems to have finally realized that the market should not be at these levels, given fundamentals. Technically, the market seems to have found its near term top as its stochastics have crossed to downside and are still trending lower. If the market does attempt to trade higher ahead of the weekend, resistance is seen at 54.00 followed by its high of 54.55. More distant resistance is seen at its previous high of 55.65. Meanwhile support is seen at its lows from 52.90 to 52.86 followed by 52.70 and 52.00, its 50% and 62% retracement levels, respectively.