



ENERGY RISK MANAGEMENT

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ENERGY MARKET REPORT FOR MARCH 11, 2005

The IEA said in its monthly Oil Market Report, world oil demand will grow even faster than expected this year in light of the cold weather in late February and early March and robust growth in the US and China increase consumption. Demand growth for 2005 has been revised up by 290,000 bpd to 1.81 million bpd, increasing annual world consumption to 84.3 million bpd. The IEA stated that strong demand helped cut commercial OECD oil stocks by 3 million barrels in January to 2.57 billion, keeping forward demand cover steady at 51 days. The IEA revised its Chinese oil demand growth up by 100,000 bpd to 500,000 bpd, an annual increase of 7.9%, compared with 15.6% last year. It said efforts by China's government to halt construction of non-approved power plants would mean continued electricity shortages and sustain oil-burning demand for power generation. It also increased its demand for OPEC oil by 400,000 bpd to 27.4 million bpd for the second quarter of

Market Watch

The NYMEX announced that margins on its Light Sweet crude oil futures, Light Sweet crude calendar swap, Brent crude oil futures, Brent calendar swap and Light Sweet crude e-miNY futures contracts will increase from \$3,375 to \$4,725 for the April-September contracts as of the close of business on Friday, March 11th.

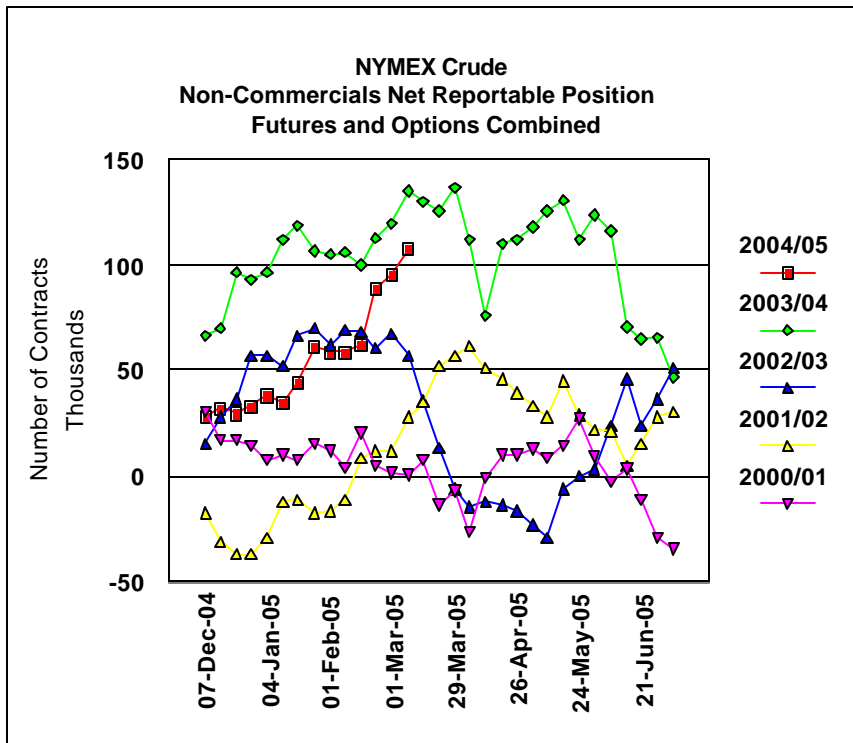
An oversupply of crude oil in the US has cut transatlantic arbitrage spreads to their weakest in nearly a year and a half. The premium for US crude futures over their North Sea Brent counterpart fell to about \$0.96/barrel on Wednesday and fell to \$0.50/barrel on Thursday as good physical demand kept North Sea prices much firmer than the US market.

Premcor's President and chief operating officer said over the next two to four years a shortage of available refined products may cause price spikes. He said eventually, the spikes will create incentive to increase supply capacity.

US embassy in Saudi Arabia warned of heightened threat in part of Jeddah called Sierra Village, where westerners live. Al-Qaeda reportedly attacked the US consulate three months ago.

Trading sources stated that volumes for Brent and gasoil futures contracts on the IPE may see a temporary decline when the exchange goes fully electronic starting April 8. Currently open outcry trading makes up the majority of the volume with some sources stating it could be as much as 99% of the total. A source stated that the volume is expected to initially decline but increase once the new system becomes established.

The Los Angeles Times reported that a surge in apparel and textile shipments from China is fueling a backlash in the US and Europe. According to the China National Textile and Apparel Council, China's sales to the US increased by 65% to \$1.4 billion compared with the same month last year while shipments to the European Union increased by 46% to \$1.5 billion. Chinese officials anticipated the backlash and in an effort to ease the tensions, the government late last year imposed export duties on garments. The president of China Textile Association said this week that he expected overseas shipments to slow down. Among the hardest hit may be producers in Mexico and Central America. It reported that Mexico's labor costs were at least 4 times greater. Meanwhile the US Commerce Department reported that US imports of textiles and apparel from China increased about 41% on the month in January. The value of textile and apparel imports from China reached \$1.89 billion in January.



the year. The full year call on OPEC was increased by 200,000 bpd to 28.6 million bpd. The call on OPEC for the first quarter increased by 500,000 bpd to 29.6 million bpd. World oil supply increased to 885,000 bpd to 84.3 million bpd in February. It also reported that OPEC production also increased by 390,000 bpd to 29 million bpd in February. The ten OPEC members, excluding Iraq, increased their production by 330,000 bpd to 27.2 million bpd. The IEA also stated that OPEC is likely to roll over its 27 million bpd production ceiling at its March 16 meeting. Meanwhile, US oil production increased by 100,000 bpd as output in the Gulf of Mexico continued to recover from damage inflicted by Hurricane

Ivan last September. Meanwhile, Russia's output increased by 40,000 bpd in February to 9.34 million bpd, ending a run of four consecutive months of output decline. The IEA also stated that reduced spring and fall refinery maintenance programs in Europe could help refineries meet increasing diesel demand. However concerns persist over the ability of European refiners to meet summer diesel demand.

Venezuela's Oil Minister Rafael Ramirez said OPEC has no need to increase its oil production or assign new quotas. He said Venezuela believes things should remain unchanged in light of high crude prices. Separately, he stated that Venezuela and Iran signed several deals to jointly develop offshore projects in Venezuela.

Nigeria's President adviser on petroleum and energy, Edmund Daukoru said oil prices may be rallying on factors outside OPEC's control. He said it was futile to predict oil prices because prices could be reacting to changing weather in the US or refining problems in Europe.

Analysts stated that while most OPEC ministers have stated that they will not increase their production quotas, they are ignoring the early warning signs that rallying oil prices could slow the world economy. They stated that there are signs that longer than expected rise in oil prices could slow and eventually stall world economic growth which in turn could reduce crude oil demand and cut into the oil dependent economies within OPEC. Recently, the dollar has been hit by increasing oil prices. Higher oil prices also exert inflationary pressures by increasing transportation and production costs.

OPEC's news agency reported that OPEC's basket of crudes fell by \$0.47/barrel to \$49.40/barrel on Thursday, from \$49.87/barrel on Wednesday.

US Treasury Undersecretary for International Affairs John Taylor said concerns that Asia's central banks are seeking to reduce their dollar denominated reserves are misplaced. He said there was no evidence that central banks are changing their portfolio proportions.

Separately, the US dollar traded to a two month low against the euro on Friday as the market reacted to news that the US current account deficit for January was wider than expected at \$58.27 billion. The euro reached a high of \$1.3481 against the dollar.

The Washington Times reported that Iraq's top Shi'ite alliance is expected to sign an agreement with Kurdish leaders this weekend, clearing the way for the opening of the country's National Assembly next week. Iraqi officials stated that the inauguration of the new government could happen as early as April or even earlier. The agreement will formalize the nomination of Jalal Talabani as the country's new president and Ibrahim al-Jaafari of the Shi'ite Dawa party as the new prime minister. The agreement also stated that the Kurdish demands on oil, Kirkuk and distribution of the national budget will be resolved by the assembly. However further talks are expected over the posts of the two vice presidents and the ministries of oil, defense, finance, interior and foreign affairs.

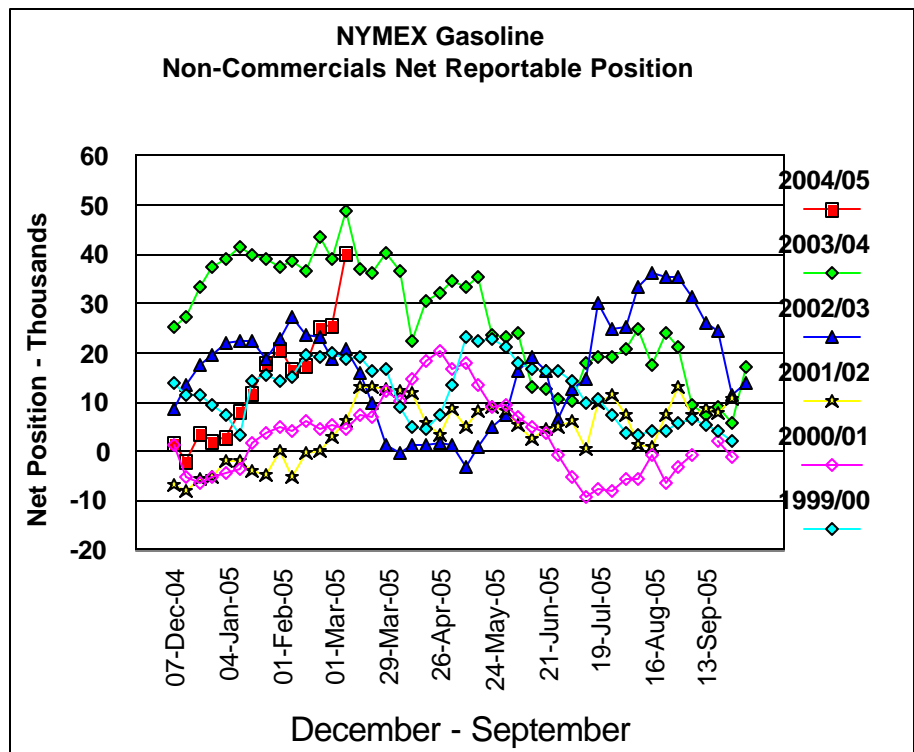
The European Union will support US calls to bring Iran before the UN Security Council unless it agrees to scrap the technology that can be used to make nuclear weapons. A document obtained by the Associated Press said that while negotiations were moving in the right direction on some side issues, there were still differences on the main issue, which is Iran's enrichment program. Referral to the Security Council could result in economic and diplomatic sanctions against Iran. US Secretary of State Condoleezza Rice said the Bush administration would support European efforts to end any Iranian nuclear weapons ambitions by offering economic incentives.

Meanwhile, Venezuela's President Hugo Chavez told his Iranian counterpart, Mohammad Khatami promised to stand by Iran against US threats. He said Iran has the right to develop atomic energy and continue its research in that area.

Refinery News

Valero has moved forward its maintenance on a 46,000 bpd heating oil/diesel hydrotreater and 32,000 bpd reformer at its 160,000 bpd Paulsboro, NJ refinery to early next week. The work has been advanced due to a problem with the reformer unit. The work is seen completed in about 10-14 days.

Valero announced it will use higher sulfur crude and less low sulfur crude at its Ardmore, Okla and Three Rivers, Texas refineries before the end of the second quarter. The transition will follow a maintenance turnaround starting at the 85,000 bpd Ardmore plant in March and at the 98,000 bpd Three Rivers plant in April.



Shell has temporarily shut a gasoline unit at its Port Dickson refinery in Malaysia for maintenance. It did not say when the unit would be restarted.

Production News

Baker Hughes reported that the number of rigs searching for oil and gas in the US fell by 8 to 1,282 in the week ending March 11. The number of rigs searching for oil fell by 9 to 189 while the number of rigs searching for gas increased by 1 to 1,091.

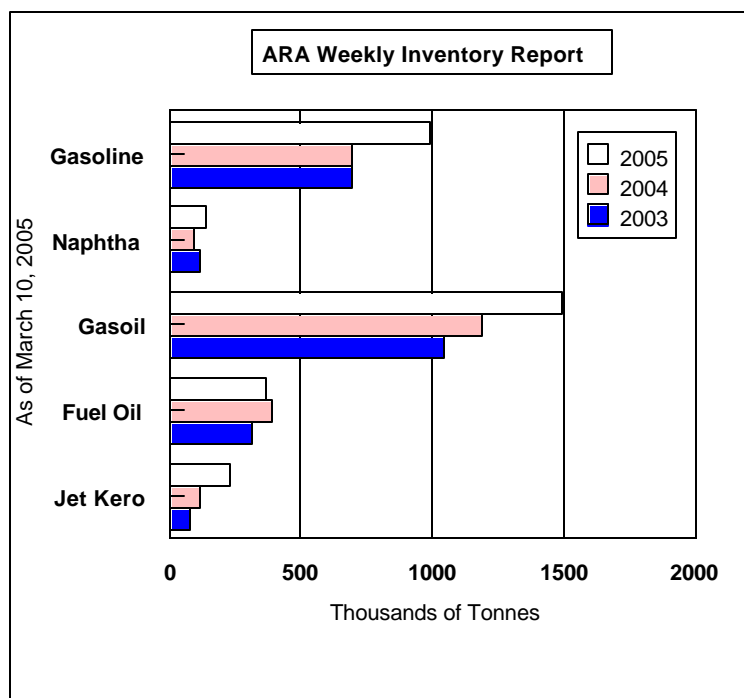
Royal Dutch/Shell said production at its 140,000 bpd Draugen field in the North Sea is expected to restart early next week. The platform was shut in last Friday following the discovery of a small gas condensate leak.

Crude oil loadings from the North Sea Forties system in April are expected to fall to 538,000 bpd from 627,000 bpd in March.

According to an analyst, gas oil stocks held in Amsterdam-Rotterdam-Antwerp storage fell by 125,000 tons in the week ending March 10 to 1.5 million tons as cold weather caused a stock draw to outweigh inflows from the US Gulf. Gas oil cargoes continued to flow from the US Gulf amid the strong demand in Europe. However the volumes from the US were not enough to prevent ARA stock levels from declining. Gas oil stocks are however 300,000 tons higher than a year ago. Meanwhile gasoline stocks increased by 75,000 tons to 1 million tons on the week while naphtha stocks remained unchanged at 150,000 tons. Fuel oil stocks fell by 25,000 tons to 375,000 tons while jet fuel stocks increased by 15,000 tons to 240,000 tons.

Norsk Hydro ASA is likely to have found oil at its Obelix exploration well in the Barents Sea. However it is too early to say if the find was commercial.

Russia's Lukoil will start operating a fuel oil storage terminal in the port of Rotterdam in May. The terminal will hold about 80,000 tons of fuel oil.



Shell Canada Ltd said it is on track to achieve the debottlenecking and expansion targets for the Athabasca oil sands project that it set last September. It is expected to add about 50,000 bpd of oil production capacity to the project over the next two to three years, bringing the total production of synthetic light crude oil to more than 200,000 bpd. It further expects to increase the project's output to 300,000 bpd by 2009 and to 500,000 bpd in 2012.

Nigeria started marketing 61 oil exploration blocks to international investors. It is hoping that high oil prices will tempt investors despite the tougher terms. The terms for 12 deep water blocks in the round have been toughened substantially. The size of the blocks has been halved to 1,250 square km, royalties have been increased and the ceiling on the investor's

share of first oil has been reduced to 80% from 100%.

South Korea's government said the country aimed to increase crude and gas production from its energy projects to 550,000 bpd by 2013. It aims to produce 290,000 bpd equivalent of crude oil and gas by 2008, up from 110,000 bpd last year.

Market Commentary

The oil market opened 64 cents lower at its low of 52.90 in follow through selling seen in overnight trading which pushed the market to an overnight low of 52.50. The market was pressured on Access, as traders seemed to have been liquidating some their positions ahead of the increase in crude oil margins at the close of business Friday. The market however was able to bounce off its low amid the supportive IEA report, which stated that demand growth was expected to increase more than previously expected. The market traded to an early high of 53.60 and held some resistance at that level. However it quickly breached that level and rallied to a high of 54.60 amid the strength in the product markets. The market retraced some of its gains only to see some late short covering push the market back to its highs ahead of the weekend. The April crude contract settled up 89 cents at 54.43. Volume in the crude market was excellent with over 277,000 lots booked on the day. Open interest in the crude market continued to climb, by 8,539 to 826,549 as of Thursday's session. Open interest in the April contract fell by 19,145 contracts while the May contract built by 14,286 contracts and the June contract built by 9,327 contracts as traders rolled some positions and continued to add to their long positions. Unlike Thursday's session, Friday's session saw the product markets settle in positive territory. The heating oil market settled up 3.36 cents at 154.27 after the market rallied to a high of 155.30 in afternoon trading. The market, which opened at its intraday low of 150.00, bounced off that level and never looked back as it rallied towards its previous high of 155.60. Meanwhile, the gasoline market posted an inside trading day as it bounced off its low of 147.20 and never looked back. It rallied to a high of 152.00 on a short covering rally ahead of the close. It settled up 3.44 cents at 151.75. Volumes in the product markets were good with over 52,000 lots booked in the heating oil and 50,000 lots booked in the gasoline market.

According to the latest Commitment of Traders Report, non-commercials in the crude market increased their net long positions by 16,490 contracts to 76,663 contracts in the week ending March 8th. The combined futures and options report also showed that non-commercials increased their net long positions by 11,967 contracts to 107,329 contracts on the week. This was amid the continued strength in the market. Non-commercials have likely continued to add to their net long positions in recent days

as open interest continues to climb. Meanwhile, non-commercials in the heating oil switch from a net short position of 2,857 contracts to a net long position of

Technical Analysis			
	Levels	Explanation	
CL 54.43, up 89 cents	Resistance	55.65 54.60	Wednesday's high & Previous high Friday's high
	Support	52.92 to 52.86 52.70, 52.00	Lows 50% and 62% retracement (49.75 and 55.65)
HO 154.27, up 3.36 cents	Resistance	159.00 155.30, 155.60	Previous high (continuation chart) Friday's high, Wednesday's high
	Support	152.90, 150.00 148.40, 148.30	Friday's low Thursday's low, 38% retracement (136.50 and 155.60)
HU 151.75, up 3.44 cents	Resistance	156.00 152.00, 152.30	Previous high Double top
	Support	149.70 147.20 to 147.00, 145.05	Double bottom, 50% retracement (134.10 and 156.00)

4,420 contracts. Non-commercials in the gasoline market also increased their net long positions from 25,582 contracts to 40,164 contracts on the week.

The market next week will likely trade higher following today's rally prices and its ability to remain well supported ahead of the close. The market will likely attempt to test its upside at its previous high of 55.65. The market however is seen finding good support at its recent lows of 52.92 to 52.86. More distant support is seen at 52.70 followed by 52.00.