



ENERGY RISK MANAGEMENT

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ENERGY MARKET REPORT FOR MARCH 17, 2005

In its monthly oil market report, OPEC raised its forecast on the call of its crude by 170,000 bpd from its previous estimate to 28.99 million bpd in 2005. Its forecast for demand for its crude in the second quarter increased by 40,000 bpd to 27.74 million bpd. It also raised third and fourth quarter call on OPEC crude by 110,000 bpd to 28.52 million bpd and by 140,000 bpd to 30.26 million bpd, respectively. Its fourth quarter call is among the highest levels ever, with world oil demand estimated to increase to 85.77 million bpd by the end of the year. It also confirmed OPEC's Secretary General Adnan Shihab-Eldin's statement that it has increased its forecast for world oil demand growth in 2005 to 1.86 million bpd. OPEC stated that strong US, China and Japanese economies will push demand for OPEC oil higher in the second half of the year. However it stated that there are risks that high oil prices could start to take a toll.

Market Watch

US President George W. Bush called on Congress to open Alaska's Arctic National Wildlife Reserve to drilling. A plan to open the reserve to drilling passed the Senate 51-49 later in the day, a move that may reduce dependence on imported oil.

Analysts stated that oil demand has continued to be more income elastic than expected. Economists say that one of the reasons is that non-dollar economies are insulated from some of the increase in US dollar denominated oil prices by the weakening of the US currency.

The head of the IMF, Rodrigo Rato, said he saw risks to world growth from a surge in crude oil prices, rising inflation and current account imbalances. He said despite the risks, world growth was seen above 4% in 2005 and added that he expected interest rates worldwide to move up in a measured pace.

Aaron Trading Vice President and Senior Market Analyst Phil Flynn believes \$80/barrel is possible but feels prices will plateau soon. He said the oil rally was driven by demand, not speculation.

South Korea's government has increased its outlook for oil prices for the second time this year, to an average of \$37-\$40/barrel, as world demand for oil continued to outpace supply. It said OPEC's decision to increase production by 500,000 bpd would not be enough to stabilize prices due to limited production and refining capabilities.

Venezuela's Vice President Jose Vicente Rangel said Venezuela is not seeking a confrontation with the US but will stand up to provocations from the US.

The head of Lyondell Chemical Corp expressed skepticism regarding Venezuelan President Hugo Chavez's rationale for wanting to divest Citgo Petroleum Corp. He said PDVS is currently making large profits by selling crude at above market rates to the Lyondell-Citgo refinery in Texas. In recent weeks, Venezuela's President has described Citgo as a money sink, alleging that the country is locked into below market contracts that benefit US companies. Meanwhile, PDVSA's president Rafael Ramirez said large refining margins that will not last forever make it a good time for Venezuela to sell some of its downstream assets that do not process the country's crude. He said Venezuela will not sell all of Citgo's assets, only those that do not process Venezuelan crude.

A man who claims to be al-Qaeda's leader in Saudi Arabia has promised to dispatch fighters and martyrs to join the Iraqi insurgents led by Abu Musab al-Zarqawi.

Meanwhile, OPEC President Sheikh Ahmad Fahad al-Ahmad al-Sabah said OPEC may begin talks on increasing its production by another 500,000 bpd as early as next week and implement the increase if do not fall in the next 10 days. He said OPEC would have no problems coming up with the extra oil, which could start flowing by April. He added that Saudi Arabia could add 200,000-300,000 bpd alone while Kuwait could add another 120,000 bpd and tap its 60,000 bpd of surge capacity if needed. The UAE's Oil Minister Mohammed bin Dhaen al-Hamili said OPEC will produce more crude to lower oil prices. Meanwhile, Iran's Oil Minister Bijan Namdar Zanganeh said factors other than fundamentals of supply and demand are having an impact on the market. He said OPEC did everything it could as far as supply is concerned. Separately, Libya's Oil Minister Fathi bin Shatwan said OPEC's basket price could fall as much as \$7-\$8/barrel ahead of the weeks ahead, as winter ends and inventories build. OPEC's basket price on Wednesday increased by 57 cents/barrel to \$50.78/barrel. He also stated that most members will agree to a further increase if prices increase. However Venezuela's Oil Minister Rafael Ramirez said there is a lack of spare production. He said OPEC cannot do much more.

Kuwait's Oil Minister, Sheikh Ahmad Fahad al-Ahmad al-Sabah, who is also OPEC's President said Kuwait's oil production capacity will reach 2.8 million bpd by the end of the year, up from its current capacity of 2.6 million bpd. He also reiterated that the producer group's members would have enough spare capacity to meet increasing demand throughout this year.

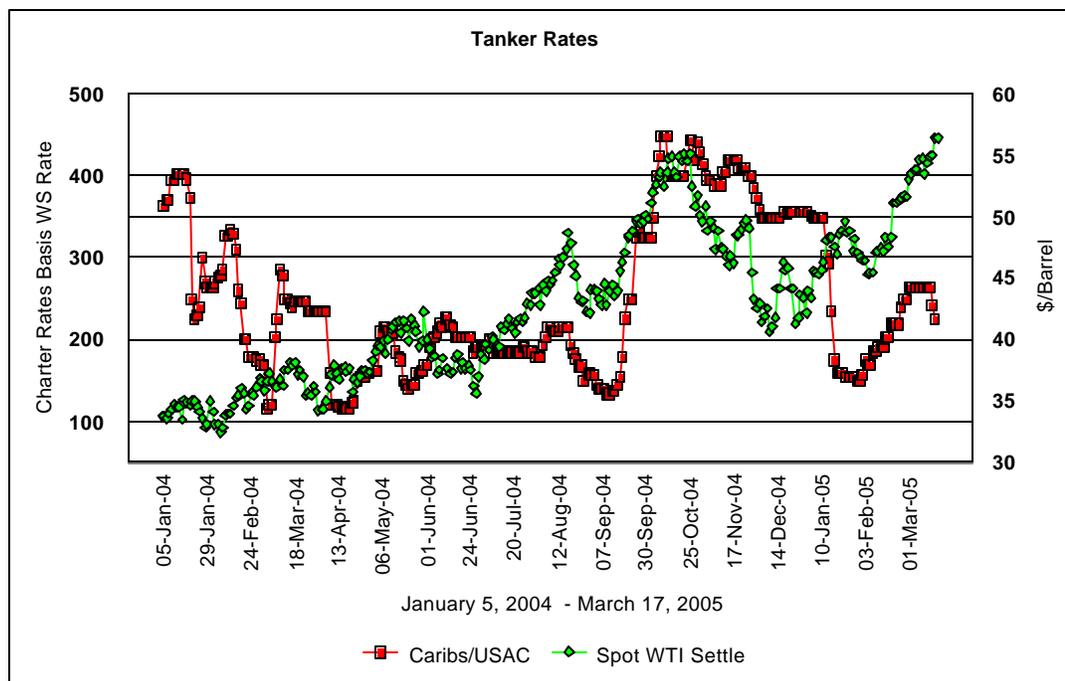
According to Oil Movements, OPEC crude oil shipments will fall 270,000 bpd in the four weeks ending April 2. The amount of oil still at sea fell nearly 35 million barrels through early April.

Production News

Norway's Prime Minister Kjell Magne Bondevik said its capacity to increase its production is limited following OPEC's call on non-OPEC producers to follow suit and increase production. He said the country had contacts with OPEC but would make its own decision on oil production.

Norway's Statoil is scheduled to begin negotiations with Venezuela's government for a second Sincor synthetic crude project in April. Sincor upgrades 200,000 bpd of extra heavy crude from Venezuela's Orinoco region into 180,000 bpd of light, synthetic crude. Sincor 2 would double that output. The

second Sincor project anticipates investment of \$5 billion over five years and could be completed within six years. A company official said Sincor 2 would likely ship its synthetic crude to the US.



German consumer stocks of heating oil fell last month to 49% of capacity by the start of

March, down from 53% a month earlier as high prices deterred buyers. Heating oil stocks were also below last year's level of 53%. A freezing snap in early March and this week's oil futures rally are likely to drive down inventories further. The April gas oil futures rallied about 2% to a near record of \$503/ton on Thursday.

Russian refineries processed 17.28 million tons or 4.09 million bpd of crude in January 2005, up 10.6% on the year. Russia's Energy Ministry reported that gasoline production increased by 11.7% to 2.75 million tons, gas oil production increased by 13.1% to 5.13 million tons while fuel oil production increased by 8.3% to 4.96 million tons. It also reported that gasoline exports increased by 50.4% on the year to 590,000 tons while jet kerosene exports increased by 18% to 87,000 tons. Exports of gas oil and fuel oil increased by 5% to 2.9 million tons and by 7% to 2.4 million tons, respectively.

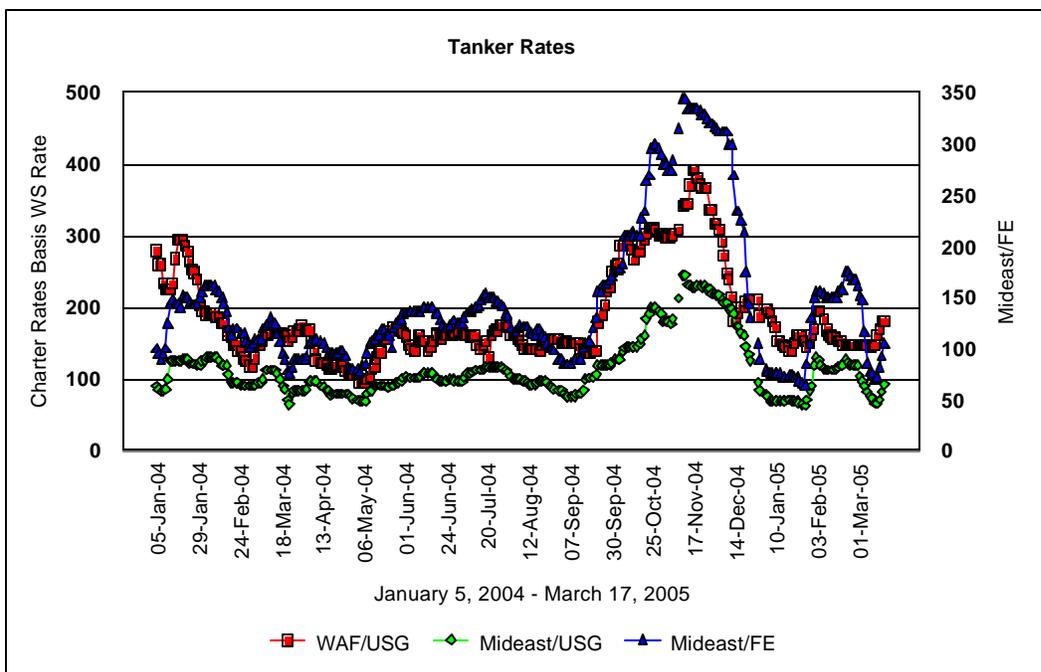
Turkey's Bosphorus straits were closed again to traffic on Thursday due to heavy fog. Maritime officials said 19 tankers were waiting at the entrance to the waterway. Meanwhile, the Dardanelles remained open. Delays for oil and gas tankers at the Turkish Straits has increased to at least eight days for a round trip journey to the Black Sea.

Pemex reported that its oil exports in January-February averaged 1.856 million bpd. In February, it exported 1.6 million barrels of crude the US and other parts of the Americas, up from 1.56 million bpd reported last year. Pemex said it produced 3.35 million bpd of crude oil in February, slightly lower from 3.36 million bpd reported last year.

Ecuador's Central Bank reported that the country's oil product revenue in January totaled \$42.68 million, up 173% from \$15.61 million last year. It exported 1.49 million bpd in January, up 105% from 728,000 bpd reported last year.

Singapore's International Enterprise reported that the country's light distillate stocks fell to 7.952 million barrels in the week ending March 16, down 570,000 barrels on the week. It reported that middle distillate stocks fell by 106,000 barrels to 6.466 million barrels while residual fuel stocks increased by 1.07 million barrels on the week to 12.81 million barrels.

China's National Bureau of Statistics reported that crude throughput in February stood at 22.28 million tons or 5.81 million bpd, up 1.71% on the month. It is the highest rate ever. Overall January-February crude throughput increased 7.1% on the year to 47.22 million tons or 5.84 million bpd.



Market Commentary

The oil market ended just slightly lower at 56.40 after the market traded to a new high but saw it trade lower during a late wave of profit taking ahead of the close. The April crude contract gapped higher this morning from 56.60 to 57.15 as it was well supported by the continued buying seen in overnight trading when it traded to a new high of 57.50. The market continued to rally despite OPEC's decision to increase its output by 500,000 bpd as well as its most recent comments that it may begin talks as early as next week and increase its output by another 500,000 bpd if prices do not come off their highs. Its talk of a further increase in production did nothing to dampen prices. The market traded to a high of 57.40 early in the session but quickly sold off to a low of 56.15 as it failed to test its overnight high. The market bounced off its low and settled in a range before further buying pushed the market to a new high of 57.60. The market however traded off its high on some late profit taking, pushing the market back into negative territory ahead of the close. It settled down 6 cents at 56.40. Volume in the crude was excellent with over 309,000 lots booked on the day. Open interest in the crude market built by 10,626 lots to 852,610 contracts. Open interest in the April contract fell by 17,946 contracts while open interest in the May and June contracts built by 13,441 contracts and 8,478 contracts, respectively. Meanwhile the heating oil market settled unchanged at 159.14 after too saw some profit taking ahead of the close. Similar to the crude, the heating oil market gapped higher on the opening from 160.00 to 160.50. The market posted its intraday high of 161.25 before it backfilled its gap and traded off to a low of 157.10. The market later bounced off that low and tested its upside once again. However the market retraced its gains ahead of the close. The gasoline market also retraced its gains late in the session but still settled up 1.33 cents at 156.16 after the market rallied to a high of 158.50. Volumes in the product markets were good with over 47,000 lots booked in the heating oil and 55,000 lots booked in the gasoline market.

The crude market is initially seen trading lower as profit taking continues following the market's move lower ahead of the close. However the market may still be supported ahead of the weekend as it seems the market is seeking to test its upside at the 60.00 level. Meanwhile support is seen at its low

of 56.15 followed by 56.00, 55.50 and its previous low of 54.60.

| Technical Analysis | | |
|--------------------------|------------|---------------------|
| | Levels | Explanation |
| CL 56.40, down 6 cents | Resistance | 60.00 |
| | | 57.00, 57.60 |
| | Support | 56.15, 56.00, 55.50 |
| HO 159.14, unch | Resistance | 161.74, 164.85 |
| | | 160.00, 161.25 |
| | Support | 158.00, 157.10 |
| HU 156.16, up 1.33 cents | Resistance | 160.00, 162.83 |
| | | 158.50 |
| | Support | 155.00, 153.50 |

Thursday's high
 Thursday's low
 Wednesday's low
 Overnight high, basis trendline
 Thursday's high
 Thursday's low
 38%, Wednesday's low, 50% (145.80 and 161.25)
 Basis trendline
 Thursday's high
 Thursday's low
 38% and 50% retracement (141.50 and 158.50)