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### **ENERGY MARKET REPORT FOR MARCH 18, 2005**

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Indonesia's Mines and Energy Minister Purnomo Yusgiantoro said OPEC may increase its output by 500,000 bpd at the end of April or in May if prices do not fall. This followed OPEC President Sheikh Ahmad al-Fahad al-Sabah's statement on Thursday that OPEC planned to start consultations on the second increase if prices remained high for another 7-10 days.

The head of the EIA, Guy Caruso stated that whether OPEC's move to increase to increase its production by a further 500,000 bpd results in real additional supply will not be known for several months until Saudi output volumes are studied. He said that since OPEC is already producing 700,000-800,000 bpd above their previous 27 million bpd quota, the initial increase of 500,000 bpd is mostly symbolic.

OPEC's news agency reported that OPEC's basket of crudes increased by \$0.98/barrel to \$51.76/barrel on Thursday from \$50.78/barrel on Wednesday.

#### **Market Watch**

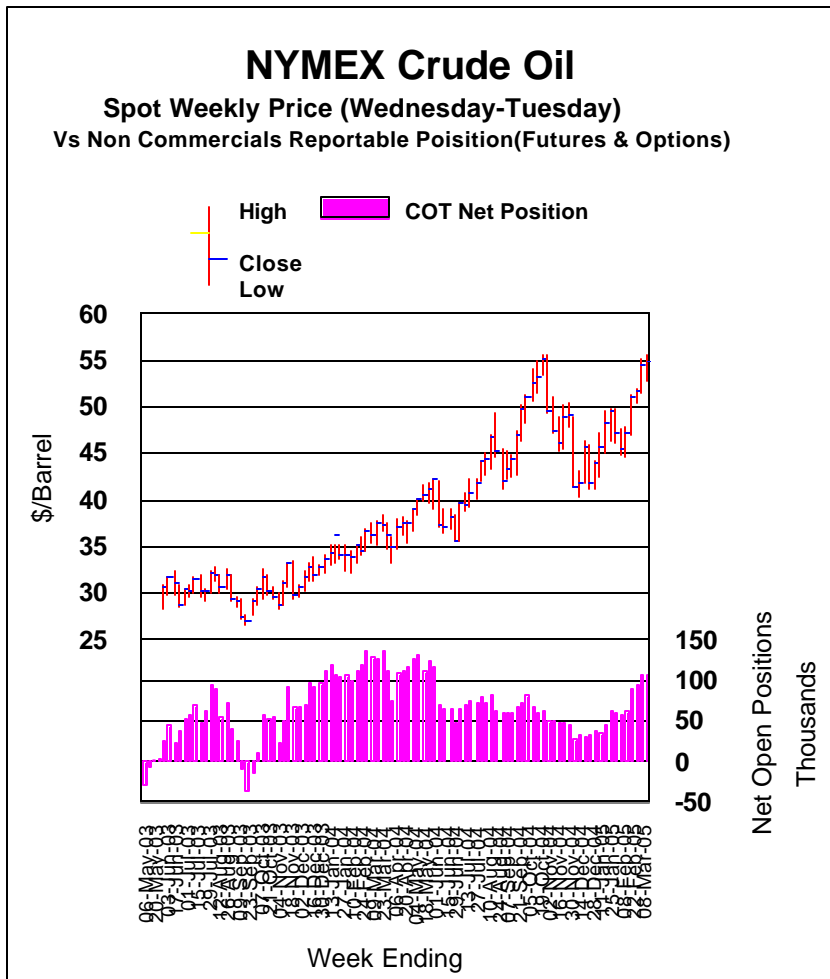
Vice President Dick Cheney acknowledged that current oil prices will have an effect on the economy but also noted that oil is less important to the economy now than it was 15-20 years ago. He also hailed a Senate move earlier this week opening the way for oil drilling in Alaska's Arctic National Wildlife Refuge as a success.

Iraqi officials stated that Shi'ite and Kurdish negotiators have reached a preliminary agreement that the National Assembly should reconvene on March 26 to elect a president. The latest deal came amid reports that not all Kurds were satisfied with assurances given by the Shi'ite dominated United Iraqi Alliance over Kirkuk and a Kurdish militia.

Germany's Economy Minister Wolfgang Clement said high oil prices and the euro-dollar exchange rate are creating problems for the country's economy. He said the possible impact of high oil prices and the strong euro on the economy are reasons for concern.

Japan's Economy, Trade and Industry Minister Shoichi Nakagawa stated that oil consuming nations such as Japan should discuss ways to deal with increases in crude prices at a ministerial meeting of the IEA scheduled for May. He stated that Japan was closely watching the rise in oil prices but added that the spike should not have a major impact on Japan due to the economy's energy efficiency.

Meanwhile, South Korea's Minister of Finance and Economy Han Duck-Soo said the strong won was helping to ease the negative impact from the surging oil prices. However he stated that the government has no plans to use the exchange rate as a tool to ease imported energy costs. He also stated that the government would not take strong action such as adjusting local oil supplies or force energy saving due to the recent increase in oil prices.



### Refinery News

According to a report by the Texas Commission on Environmental Quality, BP's 470,000 bpd Texas City, Texas refinery suffered a problem at one of its fluid catalytic cracking units on Thursday. Feed was removed from the unit following the upset and workers were in the process of stabilizing the unit. There are no indications on the duration of the catcracker's downtime.

Valero Energy Corp has scheduled maintenance work at its Texas City, Texas refinery starting on Friday. The work is expected to be completed within about 24 hours.

Algeria's 335,000 bpd Skikda refinery was shut on Friday due to a fire. It was shut as a precaution and is expected to gradually resume operations on Saturday.

Indian Oil Corp will restart a fluid catalytic cracking unit at its 274,000 bpd Koyali refinery next month. The units were damaged by an

explosion in October. The refinery is currently operating at 70% of its capacity and will increase its crude oil throughput after the unit is restarted.

Analysts stated that Russian refiners must invest in plant upgrades to tap into Europe's increasing shortage of diesel and to reduce its flows of increasingly unprofitable fuel oil. Diesel demand in Europe is expected to grow by 900,000 bpd over the next 10 years while gasoline and fuel oil demand falls. Russian demand for transport fuels such as diesel and gasoline is expected to increase by more than 400,000 bpd during the same period. Russian refiners have so far failed to take advantage of the opportunity.

### Production News

According to Baker Hughes, the number of rigs searching for oil and gas in the US increased by 38 to 1,320 in the week ending March 18. The number of rigs searching for oil fell by 9 to 180 while the number of rigs searching for natural gas increased by 48 to 1,139.

Russia's Vedomosti newspaper reported that Russia's pipeline monopoly has not allocated Yukos any export quotas to Lithuania's 180,000 bpd Mazeikiu refinery in April-June, forcing the plant to turn to other suppliers. Also, Volgotanker, said it would not ship Yukos crude from the firm's Samara group of refineries in the Volga region to the Black Sea port of Kavkaz and St. Petersburg. Volgotanker said it has decided to rely on other suppliers. Volgotanker's annual exports amount to 8 million tons and Yukos supplied about half that volume.

The National Iranian Oil Co has signed a deal awarding domestic firm Petrolran a contract to develop the Bangestan oilfield. The field is estimated to have reserves of 32 billion barrels of heavy crude.

Russia's main Black Sea port of Novorossiisk was shut on Friday due to high winds and swells. Shipping schedules showed that loadings were running several days behind schedule, with delays compounded by congestion at the Turkish Straits.

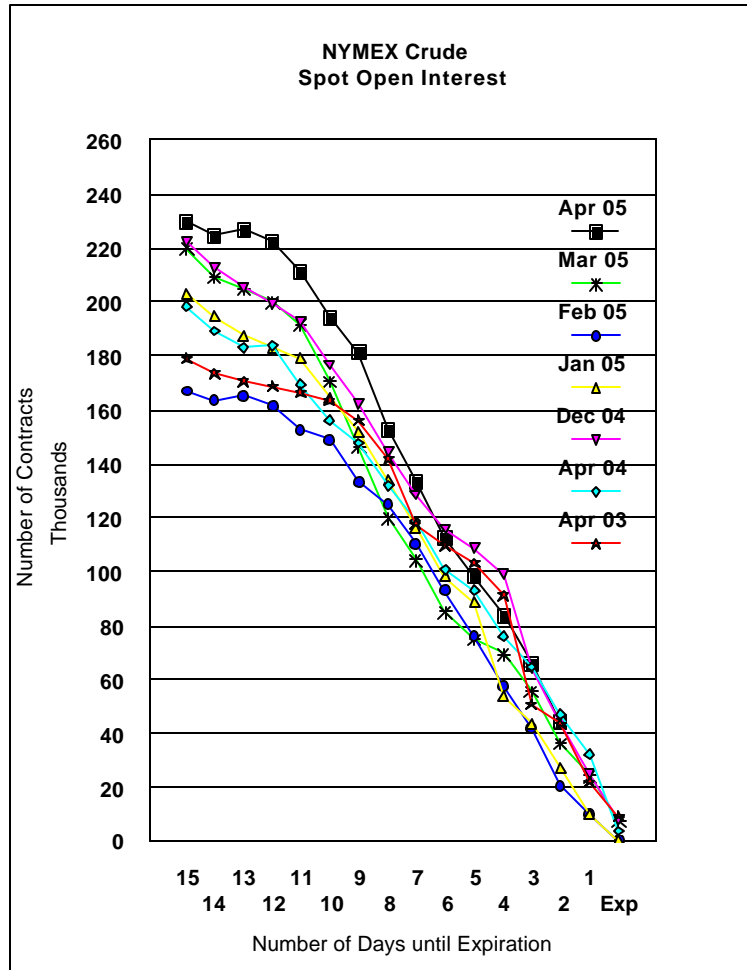
Azerbaijan's SOCAR tendered to sell two 80,000 ton or 586,000 bpd cargo of Urals crude for loading at Russia's Black Sea port of Novorossiisk.

China is forecast to increase April exports by 12% from March to about 560,000 tons. Its gasoline exports in March exceeded earlier forecasts by 39% at about 500,000 tons.

Mexico's total oil and gas reserves fell by 2.3% to 46.9 billion barrels of oil equivalent at the end of 2004 from 48 billion barrels of oil equivalent at the end of 2003. Proved reserves fell to 17.6 billion boe from 18.9 boe.

**Market Commentary**

The energy complex opened in positive territory following the late rally seen in overnight trading on Access. The market was supported amid reports that BP's Texas City, Texas refinery suffered an upset at one of its catcracker units on Thursday. The crude market opened at 56.60, up 20 cents but quickly breached Thursday's low of 56.15 as it posted an intraday low of 56.10. The market bounced off that level and traded to a high of 57.00, where it held good resistance. The market later retraced its gains and sold off once again. The market however held good support at its low of 56.10 as it failed to breach that level on several attempts and settled in a sideways trading pattern. The market attempted to test its high as it traded to 56.90 on the close. It settled up 32 cents at 56.72. Meanwhile the gasoline market was well supported by the refinery news as well as good buying in the spreads as traders rolled their positions. The April gasoline contract opened up 54 points at 156.70 and quickly traded to an early high of 157.70. However the market came off that level and traded to a low of 154.90 amid good buying in the April/May gasoline spread. It later bounced off its low and remained supported as it rallied to a high of 158.10 on the close. It settled up 1.39 cents at 157.55. However the heating oil market remained in negative territory for much of the day. The heating oil market posted its intraday high of 159.70 on the opening before it erased its gains and sold off to an intraday low of 156.50 within the first hour of trading. In a yo-yo pattern, the market however bounced off that level and erased some of its losses before selling ahead of the close pushed it back towards its low. It



settled down 1.96 cents at 157.18. Volumes were excellent with over 282,000 lots booked in the crude, 40,000 lots in the gasoline and 61,000 lots in the heating oil market.

Open interest in the crude market fell by a total of 2,214 contracts to 850,396 contracts as of Thursday's session. Open interest in the April contracts fell by 21,612 contracts as traders liquidated some of their position ahead of Monday's expiration.

According to the Commitment of Traders Report, non-commercials in the crude market cut their net long positions by 8,978 contracts to 67,685 contracts in the week ending March 15<sup>th</sup>. The combined futures and options report however showed a slight increase of just 376 contracts in their net long positions to a total of 107,705 contracts on the week. It is somewhat surprising to see the decline in the futures only report amid the large increase in open interest seen that week. However given the market's continued rally to new highs, it is more than likely that they have added to their net long positions. Meanwhile, non-commercials in the heating oil market increased their net long positions from 4,420 contracts to 5,538 contracts amid the continued strength in the market. The non-commercials in the gasoline market however cut their net long positions from 40,164 contracts to 37,741 contracts on the week.

The crude market will be driven by the expiration in the April contract at the close on Monday. It seems to have ended on a positive note as it traded higher ahead of the close. Technically, the market may still have some room to the upside, even though fundamentally, it should not be at these levels. The market is seen finding resistance at its highs of 57.00 and 57.60 followed by more distant

Technical Analysis		
	Levels	Explanation
<b>CL</b> 56.72, up 32 cents	<b>Resistance</b> 60.00 57.00, 57.60	Friday's high, Thursday's high
	<b>Support</b> 56.10, 55.50 54.60	Friday's low Wednesday's low
<b>HO</b> 157.18, down 1.96 cents	<b>Resistance</b> 161.74, 164.75 159.70, 160.00, 161.25	Overnight high Friday's high, Thursday's high
	<b>Support</b> 156.50 155.35, 154.25, 153.50	Friday's low 38%, Wednesday's low, 50% (145.80 and 161.25)
<b>HU</b> 157.55, up 1.39 cents	<b>Resistance</b> 160.00 158.10, 158.50	Friday's high, Thursday's high
	<b>Support</b> 154.90, 153.50 152.00, 150.00, 149.20	Friday's low, Thursday's low 38% and 50% retracement (141.50 and 158.50)

upside seen at the 60.00 level. Meanwhile support is seen at 56.10, 55.50 followed by 54.60.