The Windham Group

Energy Futures Brokerage

ENERGY RISK MANAGEMENT

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ENERGY MARKET REPORT FOR MARCH 23, 2005

Shipping agents reported that a dispute at Iraq's Basra Oil Terminal has left the oil port without tanker pilots, tugs or a radio officer. However they stated that loading were unaffected. Loading operations are continuing but berthing and sailing have been cancelled for the meantime after a dispute caused some staff to abandon their posts. The workers left their posts to protest violent treatment by US forces. Gulf Agency Co said it expected the crew to return to the terminal sometime on Wednesday.

An analyst at the EIA, Doug MacIntyre said traders need to review petroleum inventories in terms of the number of days of demand they cover and not their absolute level. He stated that crude and gasoline inventories are not as abundant as their absolute levels suggest. Despite the sharp fall in gasoline inventories, commercial gasoline stocks stand at 217.3 million barrels compared with 204 million barrels four years ago and a

Market Watch

The Labor Department said the consumer price index increased more than expected by 0.4% in February, sparking interest rate concerns. A 2% gain in energy prices accounted for most of the acceleration. The index increased by 0.1% in January. The core CPI, which strips out food and energy costs, increased by 0.3%. The report added to financial market inflation jitters and increased speculation the Federal Reserve might step up the pace of its rate rise to keep inflation under wraps.

The head of Valero Energy Corp said the construction of a new refinery in the US is not going to happen. However he did not say whether he would upgrade existing oil refineries or build new ones overseas.

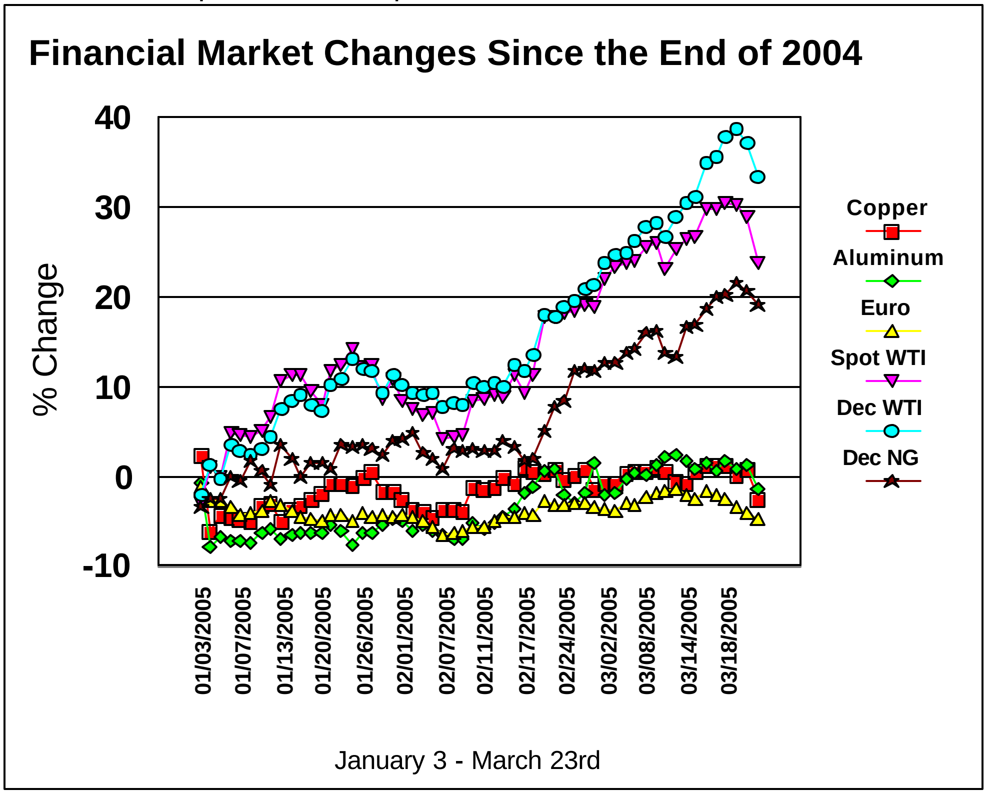
The New Zealand government is expected to hold tenders for additional oil storage to enable the country to meet its IEA obligations to hold 90 days of oil reserves. According to government forecasts, New Zealand's supplies would fall about 28 days short of the 90 day obligation in 2005 and 2006,with the deficit increasing to 34 days by 2009. The government will also explore whether New Zealand should hold some of its stocks in other IEA countries.

Russia's government may increase its projected average price of oil in 2005 to $39/barrel from $36/barrel due to high world oil prices.

The Chicago Board of Trade launched its ethanol futures contract on Wednesday at 10 am. The front month contract June opened at $1.19/gallon. Traders in the ethanol pit said trading was slow in the first hour, which was expected since the contract is brand new to the US ethanol and gasoline refining industry. CBOT President said the exchange's corn based ethanol contract would gain traction with users although one at the NYBOT for sugar based ethanol had not. About 30% of US gasoline now contain 10% ethanol. E85 fuel, made from 85% ethyl alcohol and 15% gasoline is available on a limited scale. A General Motors official stated that if all E85 capable vehicles produced in the US ran exclusively on the high ethanol fuel, the US would save about 45 million gallons of gasoline a year.

Investors who trade options on the Energy Select Sector SPDR fund, an exchange traded fund, have increased their bearish bets after a drop in oil prices on Wednesday. A total of about 59,154 options, dominated by 55,237 puts traded on the ETF by midday Wednesday.

five year average of 204.2 million barrels. However the stocks are enough to cover just 23.6 days of demand. By contracts, the 2000 inventories were enough to cover 24.3 days of demand. Similarly, current crude inventories are enough to cover about 19 days of demand compared with about 22 days two years ago. Meanwhile, the head of the EIA, Guy Caruso, said the contango at the front end of the NYMEX futures contracts should prompt US oil companies to increase commercial crude oil stocks. He said the likelihood that oil prices are not expected to fall sharply from current levels is another reason for companies to stockpile crude now.



OPEC's news agency reported that OPEC's basket of crudes fell to \$51.03/barrel on Tuesday from \$51.76/barrel on Monday.

Industry analysts stated that surging energy demand in China will continue to wield influence on world oil prices. Even though demand in China is expected to slow slightly from last year's levels, China's demand for resources has broad economic and geopolitical implications. The head of the EIA, Guy Caruso said China is the number one issue when it comes to the uncertainty where the oil market is headed.

Refinery News

BP confirmed there was an explosion and fire at its 470,000 bpd Texas City, Texas refinery on Wednesday afternoon. A spokesman said the explosion occurred at the West end of the plant. Industry sources stated that incident occurred at one of the plant's aromatics units, which produce benzene, toluene and xylenes. There was no word on the cause of the explosion. The Houston Ship Channel, which was closed following the explosion, was later reopened. BP earlier this week reported an upset in one of the fluid catalytic cracking unit at its Texas City, Texas refinery which caused them to remove the feed to the unit in order to stabilize it.

Japan's Taiyo Oil Co said it plans to shut an 88,000 bpd crude distillation unit from April 5 for about one week of maintenance. It is expected to restart the unit around April 12.

Production News

Flooding in southwestern Iran has temporarily halted production from the 4,000 bpd Kaboud oil field. Flooding of the Kashkan river damaged a pipeline used for transferring oil from the field.

Russia's crude oil loadings from the Black Sea in April are expected to fall due to maintenance and delayed cargoes. A preliminary export schedule by Transneft showed Black Sea Novorossiisk is scheduled to load 3.6 million tons or 880,000 bpd in April compared with 3.843 million tons or 908,000 bpd in March. However there are also at least 400,000 tons of delayed March volumes taken into April. Exports from Tuapse will also fall to 360,000 tons or 88,000 bpd in April from 450,000 tons or 106,000 bpd in March. Russia's Baltic Sea outlet of Primorsk will by contrast load a record 4.8 million tons or 1.17 million bpd compared with 4.634 million tons or 1.1 million bpd in March.

India's government reported that the country's refineries processed 10.19 million tons of crude oil in February compared with 11.07 million tons in January and 10.57 million tons in February last year. Crude output fell to 2.59 million tons from 2.73 million tons last February and 2.91 million tons in January.

An official stated that China's ports will continue importing oil in greater volume despite major port congestion for dry cargo and government efforts to slow economic growth. Delays for oil tankers in Chinese ports average about one to two days while other cargoes can wait at least two weeks to discharge the cargo in China. The Chinese government's attempts to slow down economic growth envision reducing it to 8% from the 9.5% year on year growth seen in 2004. A slowdown would likely affect iron ore markets more than oil and oil-shipping markets as fuel is seen as a crucial commodity.

Indonesia's government expects the country's crude oil production to increase to 1.3 million bpd by 2008. Indonesia produced 942,000 bpd of crude in February due to depleting reserves and lack of new exploration activities. An official stated that about 180,000 bpd is expected to come from the Cepu field and 7,500 bpd from the Jeruk field.

Korea National Oil Corp reported that South Korea's oil products exports fell in February for the first time in seven months, with shipments limited by cold weather and increasing demand for kerosene through March. Its exports fell to 17.9 million barrels or 640,000 bpd, down 1% on the year and down 2% on the month. It reported that South Korea consumed 5.2 million barrels of kerosene in February, up 8% on the year. Overall consumption of oil products increased to 2.24 million bpd, up 80,000 bpd from a year ago. Meanwhile crude imports fell to 70.3 million barrels or 2.5 million bpd, down from 78.8 million barrels or 2.7 million bpd a year ago.

ExxonMobil has pulled out of exploring the Zafar-Mashal field in the Caspian Sea, six weeks after giving up on the Nakhichevan field. Exxon's hopes of a bid oil strike on the Zafar block faded last year when it shut down the first ultradeep well there after failing to find commercial deposits.

Technical Analysis

		Levels	Explanation
		55.75, 56.30, 57.58	50% and 62% (58.10 and 53.40), Previous high
	Resistance	54.20, 55.30-55.69	Remaining gap (March 23rd)
CL	53.81, down $2.22		
	Support	53.40	Wednesday's low
		52.20	Previous low
		157.90, 158.50	Tuesday's high, Monday's high
	Resistance	154.80	Wednesday's high
HO	153.36, down 1.30 cents		
	Support	150.10	Wednesday's low
		149.80	Previous low
		160.30, 161.38	Tuesday's high, basis resistance line
	Resistance	158.50	Wednesday's high
HU	157.49, unch		
	Support	153.50	Wednesday's low
		149.20	Previous low

Market Commentary

The oil complex opened sharply lower this morning in follow through selling following Tuesday's late sell off. The crude market gapped lower from 55.69 to 55.00 before it partially backfilled the gap as it traded to 55.12 early in the session. The market settled in a range from 55.12 to 54.50 ahead of the DOE and API reports. The market later breached its support and traded to a low of 53.90 in light of the DOE and API reports showing builds of 4.1 million barrels and 88 million barrels, respectively. However the market bounced off that level and erased its losses as it posted an intraday high of 55.30. The market, which was unable to completely backfill its gap, retraced its gains once again and sold off to an intraday low of 53.40 as it breached its previous support levels from 53.65-53.45. The market later settled in a range before it traded above the 54.00 level ahead of the close amid the late day strength in the gasoline market. The May crude contract settled down $2.22 at 53.81. Volume in the crude market was excellent with over 325,000 lots booked on the day. Open interest in the crude market built by a total of 18,480 contracts, with the majority of the builds seen in the June through September contracts. Meanwhile, the gasoline market settled unchanged at 157.49 amid reports of an explosion at BP's Texas City, Texas refinery. The market gapped lower from 156.50 to 155.40 and quickly traded to a low of 153.50 following the release of the weekly petroleum stocks reports. However the market just as quickly bounced off that level and backfilled its gap as it rallied to 157.70 in light of the larger than expected draws reported in product stocks. The market later erased its gains and traded back towards its low before some late day buying pushed the market to a high of 158.50. Similarly, the heating oil market gapped lower this morning from 154.20 to 152.75 in follow through selling seen in overnight trading. The market traded to a low of 150.10 amid the weakness in the crude market but quickly retraced its losses and backfilled its gap amid the large draws in distillate stocks. It however found some resistance at its high and settled in a range. Volumes in the product markets were good with over 57,000 lots booked in the gasoline market and 51,000 lots booked in the heating oil market.

The oil complex which traded in positive territory at the start of Access will likely remain supported ahead of the long holiday weekend amid reports of the explosion at BP's Texas City refinery. Even though reports stated that the unit affected by the fire is an aromatics unit and the remainder of the refinery is still operating, the oil complex was well supported, showing how vulnerable the complex is to upward swings, especially the gasoline market. The market is seen finding resistance at its gap from 55.30-55.69 followed by 55.75 and 56.30. Meanwhile support is seen at its lows of 53.40 and 52.20.