



## ***ENERGY RISK MANAGEMENT***

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### **ENERGY MARKET REPORT FOR MARCH 23, 2006**

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Italy's Eni SpA declared a force majeure on its Nigerian Brass River crude exports following an attack on a Nigerian oil pipeline over the weekend. It however said it expects the 75,000 bpd pipeline to resume operations in the next week.

The Center for Global Energy Studies stated that political turmoil has cut about 2 million bpd of potential oil production capacity worldwide since 2000, limiting OPEC's influence on the price. It said the supply cushion would be twice as high if geopolitical factors had not cut potential capacity in Iraq, Iran, Nigeria, Venezuela and Russia. CGES chairman Sheikh Ahmed Zaki Yamani, a former Saudi Arabian Oil Minister, said the price of oil would eventually fall but only because energy costs were so high that economic growth may slow and consumers would switch to alternative fuels.

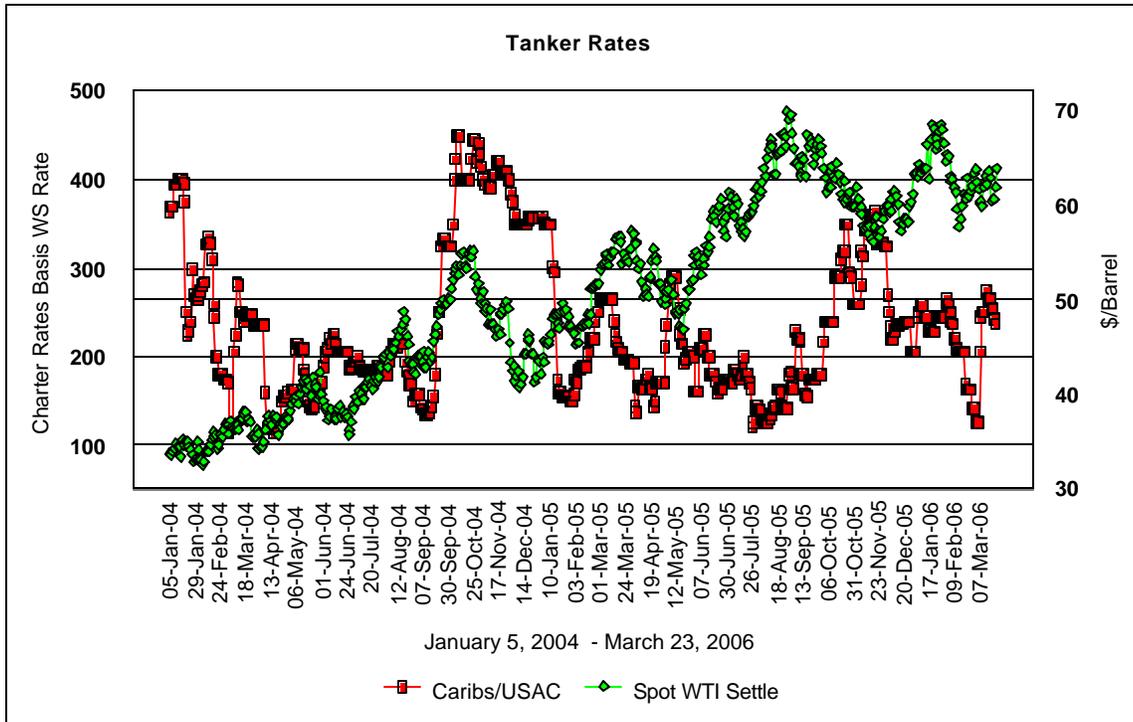
#### Market Watch

Industry experts said investors remained eager to invest in Nigeria's oil industry despite the security problems that threaten production. A senior global maritime analyst at the US Office of Naval Intelligence said Nigeria was no longer able to ensure security in the delta region. However investors and analysts have not been deterred. Royal Dutch Shell is the company most affected by the attacks on oil installations. It has cut its production by 455,000 bpd since mid-February while Chevron and Eni have also shut in production, increasing the total amount of crude production shut in by attacks to 630,000 bpd. Meanwhile, Nigeria is scheduled to hold a bidding round in April for 10 oil blocks that would require the winning block holders to also make investments in downstream projects.

The US has informally asked Japan to suspend its plan to develop Iran's Azadegan oil field as part of efforts to prevent Iran from obtaining income that could support its nuclear activities. Japan has been planning to develop the oilfield despite objections from the US. The Azadegan oilfield is estimated to hold 26 billion barrels of oil. In response, Japanese officials said they currently saw no change in promoting the project. Chief Cabinet Secretary Shinzo Abe said the oil field development is important for Japan's efforts to secure stable energy supplies.

Qatar's Energy Minister Abdullah al-Attiyah said he did not believe the country's crude oil supplies should form the basis for futures contracts on the planned International Mercantile Exchange. He said Qatar would continue to offer crude oil to customers on a long contractual basis, rather than assigning some supplies for the physical delivery underwriting crude oil contract on IMEX.

Venezuela's Seniat tax agency has billed \$700,000 in back taxes to the Sincor heavy oil project run by France's Total and Norway's Statoil.



Oil Movements reported OPEC's exports of crude are expected to increase by 100,000 bpd in the four week period ending April 8 to 24.88 million bpd.

**Refinery News**

Planned maintenance at ExxonMobil's Baton

Rouge, Louisiana refinery started on Thursday. Its coking unit, crude processing unit a fluid catalytic cracking unit, a sulfur recovery unit and its number 10 pipe still are scheduled to undergo maintenance.

Citgo Petroleum Corp began the process of restarting a fluid catalytic cracking unit at its 165,000 bpd East Plant refinery in Corpus Christi, Texas after over 30 hours of maintenance. The restart is expected to be completed by Friday.

ExxonMobil shut its 240,000 bpd Port Jerome Gravenchon refinery in France for scheduled maintenance. The maintenance started over the past week and is scheduled to run into April.

Kuwait's Shuaiba refinery is scheduled to shutdown completely for 48 days of planned maintenance, starting March 31.

A Saudi Aramco official stated that Saudi Arabia, which is expected to build two export oriented refineries, may also expand two of its existing refineries in Yanbu and Ras Tanura by 100,000 bpd each. The new expansion projects would increase Saudi Arabia's refining capacity growth to 1 million bpd by the end of the decade, a rise of nearly 50% and would likely allow it to increase exports of refined fuels to Asia and the US. Aramco is in talks with Total over a new 400,000 bpd export plant in Jubail while ConocoPhillips has put in the best bid to build another new plant in Yanbu.

**Production News**

Shell Canada Ltd has completed its C\$400 million construction of two diesel hydrotreaters to produce ultra low sulfur diesel fuel at its Montreal East and Scotford, Alberta refineries. The units would allow it to reduce sulfur levels on diesel to fewer than 15 parts per million.

Abu Dhabi is expected to supply its customers with full term volumes in May but may limit incremental exports due to weak demand and lower Murban output. Abu Dhabi said it planned to cut exports of its

Murban crude by 100,000 bpd in May and possibly in June, an overall cut of about 3 million barrels. ADNOC is expected to pump 1.3 million bpd instead of the 1.4 million bpd initially forecast for May.

China's gasoline exports in April are expected to fall to about 200,000 tons as refiners hold back barrels in anticipation of domestic price increases. Exports for April lifting would be down for the third consecutive month. It would be down from March's volume of 230,000-240,000 tons.

According to the Petroleum Association of Japan, the country's commercial crude stocks stood at 15.71 million kiloliters or 98.94 million barrels in the week ending March 18, up from the previous week's level of 15.7 million kl. It reported that kerosene stocks fell by 7.72% to 2.31 million kl or 14.53 million barrels on the week. Meanwhile gasoline inventories increased by 0.34% to 2.26 million kl or 14.21 million barrels on the week. The average operating rate of Japanese oil refineries fell to 93.7% from 94.5% during the previous week.

Korea National Oil Corp said South Korea's domestic oil product demand fell by 1.9% to 2.2 million bpd in February due to lower heating fuel demand. Despite the lower domestic demand and high oil prices, South Korea's oil product imports in February increased marginally by 0.7% on the year. Oil product stocks held by refiners at the end of February increased to 45.1 million barrels compared with 44.8 million barrels a year earlier. It stated that lower operating rates and stronger imports helped lift crude stocks to 18.6 million barrels, up 21.1% on the year.

India's oil demand increased 1.1% last year, lagging being the country's GDP growth of 8%. An official at India's Oil Ministry said oil demand was expected to increase by about 4-5% annually over the next few years. Officials have pinned much of the weakness on fuel substitution rather than a reduction in overall energy use.

India's Bharat Petroleum Corp Ltd expects exports of oil products to remain steady at 1 million tons in the year ending March 2007. Separately, India's Reliance Industries expects its exports of refined products to remain at last year's level of about 10 million tons in the fiscal year to March.

Singapore's International Enterprise reported that the country's residual fuel stocks fell by 2.834 million barrels to 10.831 million barrels. It reported that light distillate stocks fell by 291,000 barrels to 7.577 million barrels while middle distillate stocks fell by 226,000 barrels to 7.538 million barrels.

OPEC's news agency reported that OPEC's basket of crudes increased by 56 cents/barrel to \$56.70/barrel on Wednesday.

### **Market Commentary**

The oil complex settled sharply higher after the markets retraced Wednesday's losses. The crude market opened 53 cents higher in follow through buying seen in overnight trading following Wednesday's late sell off, which was led by the gasoline market. The oil market posted a low of 62.20 early in the session and found some resistance at Wednesday's high of 62.80. However as the market breached that level, buy stops were triggered which quickly pushed the market above the 63.00 level. The market was also well supported amid reports that Eni declared force majeure on its Nigerian Brass River crude exports following an attack on a pipeline over the weekend. The market rallied over \$2.20 as it posted a high of 64.00 on the close. The market settled up \$2.14 at 63.91. Volume in the crude was good with 234,000 lots booked on the day. The gasoline market settled up 7.96 cents at 181.61 as it retraced Wednesday's sharp losses. The market posted an outside trading day as it posted a low of 172.60 early in the session before it bounced off that level and retraced all of its previous losses. The market traded to 178.50 and traded mostly sideways before further buying ahead of the close pushed the market to a high of 182.00. Similarly, the heating oil market posted an outside trading day.

The market opened relatively unchanged at 174.50 and posted a low of 173.60 early in the session. However the market bounced off that level and extended its gains to over 4.3 cents as it posted a high of 178.90 on the close. It settled up 4.13 cents at 178.64. Volumes in the product markets were good with 38,000 lots booked in the gasoline and 36,000 lots booked in the heating oil market.

The crude market is seen remaining supported ahead of the close in light of the news of the force majeure declared by Eni on its crude exports in Nigeria. Technically, the market may also remain supported ahead of the weekend as its stochastics look ready to cross back to the upside after it ended the session near its highs. The market is seen finding support at 63.15, 62.50 and its low of 62.20. More

distant support is seen at 61.61, 61.25 and 61.00. Meanwhile resistance is seen at its remaining gap from 64.00 to 64.10 followed by 65.30 and 65.55.

Technical Analysis		
	Levels	Explanation
<b>CL</b> 63.91, up \$2.14	<b>Resistance</b> 65.30, 65.55 64.00 to 64.10	Previous highs Remaining gap (March 20th)
	<b>Support</b> 63.15, 62.50 62.20, 61.61, 61.25, 61.00	Thursday's low, Previous lows
<b>HO</b> 178.64, up 4.13 cents	<b>Resistance</b> 181.60, 181.80, 183.10 178.90	Previous highs Thursday's high
	<b>Support</b> 176.25 173.60, 172.50	Thursday's low, Wednesday's low
<b>HU</b> 181.61, up 7.96 cents	<b>Resistance</b> 186.90, 187.50, 188.00 182.00	Previous highs Thursday's high
	<b>Support</b> 177.75, 175.00 172.60, 169.00	Thursday's low, Previous low