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## ***ENERGY RISK MANAGEMENT***

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### **ENERGY MARKET REPORT FOR APRIL 12, 2005**

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According to industry sources, Saudi Arabia intends to increase its oil output towards 10 million bpd next month to help build stocks. They said Saudi Aramco is due to supply oil majors and top Asian refiners with about 500,000 bpd of extra crude in May. On Monday, OPEC's President Sheikh Ahmad al-Fahd al-Sabah said OPEC is expected to increase its output by 500,000 bpd. Algeria and Nigeria are opposed to enforcing a second output increase now, arguing that world markets are adequately supplied. Algeria's Energy Minister Chakib Khelil said there is no need for OPEC to pump more oil as supplies are above demand and prices have eased. Nigeria's Presidential adviser on petroleum and energy, Edmund Daukoru said he

#### **Market Watch**

Lehman Bros increased its 2005-2006 oil price forecasts by 11% and 12.5% from \$45/barrel to \$50/barrel and \$40/barrel to \$45/barrel, respectively.

According to minutes from the March 22 meeting of the Federal Open Market Committee released on Tuesday, policymakers at the US Federal Reserve worried inflation pressures were rising. It stated that while policymakers believed inflation would likely remain contained, they believed rates would have to increase for a longer period to ensure that inflation is contained.

European finance ministers voiced their concern over the impact of high oil prices to the economy as well as the budget deficits ahead of the Group of Seven meeting this week. An official stated that surging cost of oil was starting to affect Europe's ability to grow.

China's CNOOC Ltd said it had invest \$122 million in a Canadian oil sands company, MEG Energy Corp. MEG Energy owns a 100% stake in oil sands leases estimated to hold over 4 billion barrels of bitumen, with total recoverable reserves of about 2 billion barrels. CNOOC said it plans to begin production in 2008. Meanwhile, PetroChina is planning to buy overseas assets from its parent company while Sinopec Corp is also looking abroad for oil and gas assets.

On Monday, London's IPE succeeded in holding onto normal range volumes and liquidity on its second full day of electronic only trading. However the NYMEX posted sharp gains in volume. At the close on Monday, the IPE's Brent contract posted volume of 105,927 lots while the NYMEX volume increased to 18,375 lots. The NYMEX's two day gas oil futures contract in Dublin made smaller strides as it posted volumes of 552 lots. The IPE's gas oil contract however posted greater volume of 52,992 lots.

Separately, physical delivery against the April IPE gas oil futures contract increased to 802 lots or 80,200 tons from 75,000 tons in March.

Bloomberg reported that the El Nino weather pattern may be returning. An associate professor of climatology at the University of Southern Queensland in Australia said the chances of an El Nino pattern developing by midyear are about 50%, compared with 20% normally. He stated that US weather forecasters, who see the risk of El Nino fading this year, may be forced to change their forecast when warmer sea surface temperatures arrive.

would not support an increase but said the option is always there. However, Saudi Arabia's higher crude oil allocations for May are a sign that it is not waiting for OPEC's full support to increase its production. In May, Asian buyers will receive full contract volumes and some oil majors will also receive full supplies. US and European refiners will receive steady supplies versus April at 20-30% below contracts. Industry sources stated that with Saudi Aramco exporting about 3 million bpd of crude oil to refiners, a 10% increase in supplies should add at least 300,000 bpd of crude. It is also expected to add a further 200,000 bpd as it increases its volumes to some oil majors by 10%. Meanwhile, Kuwait has notified its Asian buyers that it will keep oil supplies for May at full contract volumes. The UAE was however forced to cut its May crude oil sales by 5% due to maintenance at some of its fields.

The IEA said oil demand is more likely to fall than increase. It said rising interest rates and energy costs coupled with increasing oil supplies and inventories could start to pressure the overheated oil markets. It also predicted a growing cushion of spare production capacity to absorb any supply or demand shocks. The IEA revised down its estimate for world oil demand growth this year by 50,000 bpd from its previous estimate to 1.77 million bpd. Total demand this year is seen slightly lower at 84.27 million bpd. The IEA stated that governments in Asia were bearing increased cost from fuel price subsidies which are ultimately failing to insulate consumers from higher oil prices. The artificially low retail prices encouraged demand growth which in turn contributed to the increase in international prices. However it stated that Asian government policies to ease fuel subsidies are lowering oil demand in the region. Demand growth in India fell to 30,000 bpd in February against 100,000 bpd in January while demand growth in China held steady in February at 340,000 bpd. China's oil demand growth this year is still forecast at 500,000 bpd. It is down from 860,000 bpd reported in 2004. Also, contrary to most expectations of a high surge in winter demand for OPEC crude, the IEA estimated the call on OPEC crude would fall in the fourth quarter by 100,000 bpd from its previous estimate to 29.3 million bpd. The IEA also reported that world oil supply in March increased by 365,000 bpd to 84.2 million bpd. Commercial stocks in the industrialized nations fell by 39 million barrels or 1.39 million bpd in February to 2.57 billion barrels, but were still 96 million barrels higher than a year ago. Days of forward demand cover increased in February to 52 days from 51 days in January. It said European gasoline stocks stood at 130 million barrels, up 4% on the month and 7% on the year, and said it believed gasoline levels in Europe would meet US summer demand. In regards to OPEC's production, it stated that OPEC's production increased by 290,000 bpd on the month to 29.1 million bpd. The ten OPEC members produced 27.3 million bpd in March, up 275,000 bpd on the month, with Saudi Arabia increasing its supplies by 150,000 bpd. Iraq's production was mostly unchanged on the month at 1.81 million bpd. Non-OPEC crude production increased by 60,000 bpd to 50.4 million bpd.

Venezuela is looking to increase its proven oil reserves in an effort to regain negotiating power with OPEC. Venezuela is currently producing below its OPEC quota and has not capacity to increase its production, diminishing the country's influence in the cartel. Venezuela's OPEC quota is at 3.17 million bpd, however most sources put its production at 2.6 million bpd to 2.7 million bpd.

OPEC's news agency reported that OPEC's basket of crudes fell by 80 cents/barrel to \$49.14/barrel on Monday from \$49.94/barrel on Friday.

Iran's parliament approved a bill to increase the country's crude oil production capacity by 1 million bpd over the next five years to 5 million bpd.

### **Refinery News**

A Venezuelan newspaper reported that PDVSA's Amuay refinery halted shipments of gasoline on April 8 to the US following the power outage on March 31. The refinery still has not fully resumed operations. Separately, Venezuela's Oil Minister Rafael Ramirez said it should return to normal within

five days. He denied reports that the refinery had completely halted gasoline shipments to the US. He said PDVSA has not declared force majeure with any customers because it has sufficient supplies of oil products in inventory. However he did state that it delayed two shipments of about 300,000 barrels of gasoline. PDVSA said it restored overall plant production to 430,000 bpd, up from 419,000 bpd as part of an effort to make up for the disruption.

Refineries in the Port Arthur, Texas area said the closure of the Sabine Channel to the Gulf of Mexico has not affected their operations. According to Sabine Pilots, 35 ships were waiting to exit or enter the channel. The channel was closed after a navigation buoy broke loose and is a possible a threat to ships. The Coast Guard hopes to reopen the channel by Tuesday evening.

Valero Energy Corp said a malfunction occurred in a compressor at its Corpus Christi, Texas refinery on Monday. The refinery started maintenance activities to restore normal operations.

Citgo Petroleum Inc reported that a sulfur unit tripped at its Corpus Christi, Texas refinery on Sunday.

Alon USA is scheduled to shut a hydrodesulfurization unit at its Big Spring, Texas refinery for maintenance starting April 20. It will also undergo maintenance at a crude unit which is seen down April 10-17.

Italy's ERG said its 160,000 bpd Isab Nord refinery in Priolo, Sicily will be fully operational on Thursday after it returned from a 50 day shutdown over the weekend. The restart will make more gasoline available for European markets and for arbitrage exports to the US while also adding to the supply of diesel.

Japan's Taiyo Oil Co restarted an 88,000 bpd crude distillation unit at its 120,000 bpd Shikoku refinery. The unit was shut on April 5 for maintenance.

### **Production News**

Norway's North Sea Gullfaks system will load 13 cargoes or 359,000 bpd in May, unchanged on the month.

The Norwegian Petroleum Directorate said Norway's production increased to 2.75 million bpd on average in March from 2.66 million bpd in February.

Denmark's North Sea DUC oil system is scheduled to load 11 cargoes or 213,000 bpd in May, down from 280,000 bpd in April.

Russia's Energy Ministry reported that the country exported 1.144 million tons of gasoline in the first two months of the year, up 42.5% on the year. Meanwhile data from the Customs Office showed gasoline exports of 1.08 million tons in January-February, up 85% on the year. The Energy Ministry reported that fuel oil exports increased by 1% on the year to 4.5 million tons while gas oil exports fell by 3.3% to 5.2 million tons. Meanwhile the Customs Office reported that fuel oil exports increased by 50% to 5.95 million tons while gas oil exports increased by about 30% to 4.95 million tons.

Ministers from Russia, Bulgaria and Greece approved a trans-Balkan oil pipeline that will allow Russian crude to sidestep congested Turkish waters. They signed a memorandum for the construction of the pipeline, linking Bulgaria's Black Sea port of Bourgas with the northern Greek town of Alexandroupolis on the Aegean. The pipeline is expected to have an initial capacity of 15 million tons or 300,000 bpd, rising to 35 million tons or 700,000 bpd over three years.

Russia will almost double its crude shipments via Ukraine's Black Sea port of Yuzhny in the second quarter of 2005 compared with the previous quarter. Shipments are expected to increase to 1.8 million tons or 145,000 bpd in April-June from 80,000 bpd in the first quarter of 2005 and 64,000 bpd in the first quarter of 2004. Yukos is expected to be the largest shipper on the route with a total of five cargoes, followed by Lukoil with four cargoes.

Russia will open its river navigation season on the route from central Russia to the Baltic Sea on April 30, easing exports of oil and products to northwest Europe. Russian refineries will be able to increase exports of refined products and crude oil by loading volumes into river barges. They sail to the Baltic and Black Sea ports via the system of river canals, known as Volgo-Balt and Volgo-Don.

Brazil's Petrobras said the average domestic oil production in March increased due to new production at two offshore oil platforms. The company's average oil production from domestic fields increased by 3.1% on the month to 1.571 million bpd in March.

Royal Dutch/Shell Group may add up to 100,000 bpd of oil to its Brazilian production in 2009. In August, Shell will decide what kind of platform it may use and from how many wells it will possibly produce at the BC-10 exploration block in the Campos Basin. It estimated 400 million barrels of oil reserves. However the company will only make a final decision on investments in 2006.

### Market Commentary

The oil market, which seemed ready to post an inside trading day, settled in negative territory after it breached its support and sold off to a low of 51.70 ahead of the close. The market opened up 21 cents at 53.50 and quickly posted an intraday high of 53.65. However the market traded to an early low of 52.80 as the market seemed to have been pressured by reports that Saudi Arabia was increasing its output to about 10 million bpd, despite some OPEC members disagreeing on a further production increase. Also, the IEA reported in its monthly report that it revised its world demand growth estimate downwards. The market however held good support at 52.80 and rallied back towards the 53.50 as the gasoline market was well supported amid the reports that PDVSA's Amuay refinery had halted its gasoline shipments, which was later dismissed by Venezuela's Oil Minister. The crude market, which failed to test its resistance, traded to a low of 52.50 before it breached Monday's low of 51.70 and tumbled to a low of 51.70 on the close. It settled down \$1.85 at 51.86. Volume in the crude was excellent with over 295,000 lots booked on the day. Meanwhile, the product markets ended in negative territory, with the gasoline market settling down 1.6 cents at 153.38 and the heating oil market

settling down 2.18 cents at 146.53. The gasoline market which opened relatively unchanged at 155.00 and traded to a low of 153.50 before it rallied to a

Technical Analysis		
	Levels	Explanation
<b>CL</b> 51.86, down \$1.85	<b>Resistance</b> 53.65, 53.85, 53.90 52.50, 53.00	Tuesday's high, Previous highs
	<b>Support</b> 51.70 51.30, 50.90, 50.15-49.50	Tuesday's low Previous lows, Gap(February 22nd)
<b>HO</b> 146.53, down 2.18 cents	<b>Resistance</b> 148.85, 149.50, 151.90 147.00, 148.00	Tuesday's high, Previous highs
	<b>Support</b> 146.00 145.50, 145.00, 143.00	Tuesday's low Monday's low, Previous lows
<b>HU</b> 153.38, down 1.6 cents	<b>Resistance</b> 157.00, 159.78, 162.65 154.00	Tuesday's high, 38% and 50% (150.50 and 174.80)
	<b>Support</b> 152.80 150.50, 150.25	Tuesday's low Monday's low, Previous low

high of 157.00 amid the reports of Venezuela's Amuay refinery. However the market retraced its gains and settled in a range before some selling ahead of the close pushed the market to an intraday low of 152.80. The heating oil market posted an inside trading day as it failed to find the momentum to push it either way ahead of Wednesday's release of the DOE and API reports. It traded in a range from 148.85 to 146.90 posted within the first hour of trading for most of the session before it breached its support and traded to a low of 146.00 ahead of the close. Volumes in the product markets were good with 57,000 lots booked in the gasoline market and 59,000 lots booked in the heating oil market.

The crude market will seek further direction from the weekly petroleum stocks reports after the market was pressured ahead of the close amid expectations of builds in crude stocks of about 500,000 barrels, builds in distillate stocks of more than 500,000 barrels and gasoline stocks unchanged on the week. If the reports show larger than expected builds in stocks, the market will remain under pressure and will likely test its support at 50.90. Initial support is seen at its low of 51.70 followed by further support at 51.30 and 50.90. More distant support is seen at its gap from 50.15 to 49.50. Meanwhile, resistance is seen at 52.50 followed by 53.00, its high of 53.65 and its previous highs of 53.85 and 53.90.