



## ***ENERGY RISK MANAGEMENT***

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### **ENERGY MARKET REPORT FOR APRIL 28, 2005**

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Algeria's Oil Minister, Chakib Khelil, said the oil market is well supplied and there is no need for OPEC to increase its production. He said increasing production would not do anything to lower prices citing strong demand, little global refining capacity, turmoil in the Middle East, lack of spare production capacity and speculation by hedge funds as reasons why prices have risen to record levels in recent months.

The executive director of the IEA, Claude Mandil, urged oil consumer nations to increase investment in new refining capacity. He said there is a risk of long term bottlenecks.

Separately, he stated that oil

#### **Market Watch**

The Economist magazine reported that oil majors may be seeing an increase in profits as energy prices reach record highs but the surge may be coming to an end. It stated that the arrival of \$50/barrel caused big problems for oil companies and producing countries. It said oil majors were in the worst shape in decades and face major problems, namely replacing their reserve base. It said the market may be in the midst of a speculative oil bubble that could burst quite suddenly.

Exxon Mobil Corp reported that its first quarter net income increased by 44% to \$7.86 billion due to strong oil prices and the sale of a stake in a Chinese petroleum company. Its first quarter revenue surged 21% to \$82.05 billion from \$67.6 billion a year ago. Exxon Mobil's first quarter oil production fell by 3.5% as higher production from new fields in West Africa and Norway were more than offset by declines in mature areas. Meanwhile, an Exxon Mobil executive said that there is no evidence that high gasoline prices has dampened retail sales. Its first quarter gasoline sales volume was down less than 1% on the year.

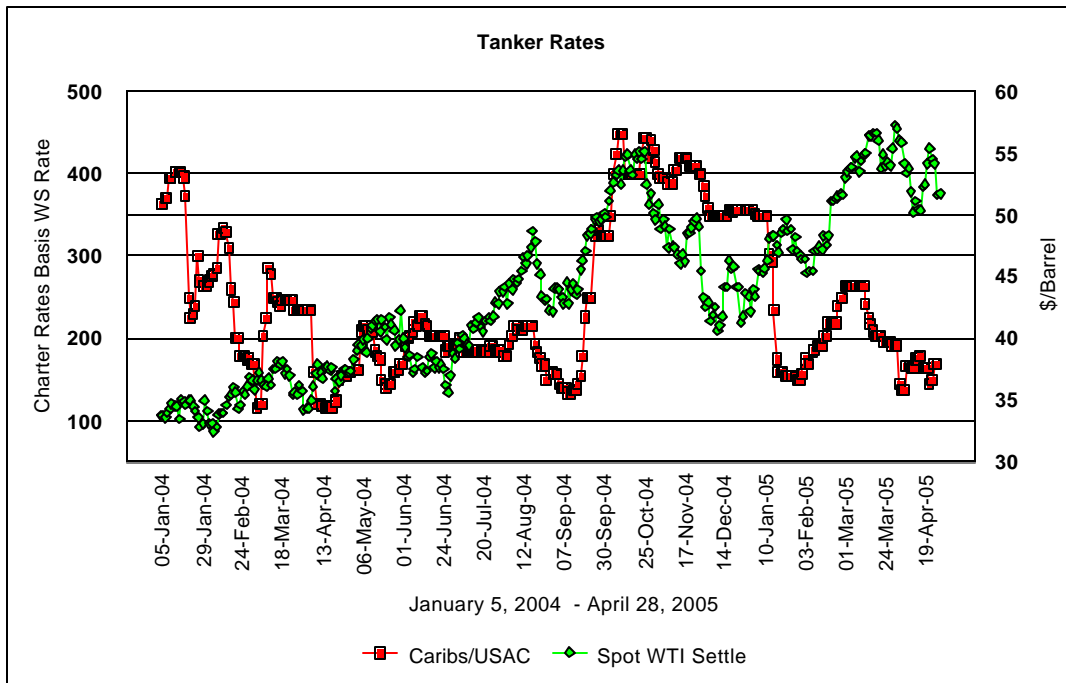
Suncor Energy saw earnings and cash flow fall significantly during the first quarter as a result of lower production following a fire in January at its oil sands facility. It said it averaged 175,600 barrels of oil equivalent/day in the first quarter, down from 255,700 boe/d a year earlier. It stated that as a result of a fire, its oil sands production capacity is expected to average 110,000 bpd in 2005. It expects to return to production capacity of about 225,000 bpd in September and increase production capacity to 260,000 bpd by year end.

Marathon Oil Corp will become the sole owner of Marathon Ashland Petroleum LLC after agreeing to acquire Ashland Inc's 38% interest in the oil refining venture of \$3.7 billion to \$3.9 billion. Separately, Marathon Oil Corp's first quarter earnings increased by 26% to \$324 million as the company increased its production to take advantage of high oil and natural gas prices. Its crude throughput was 17% higher on the year. It first quarter crude runs averaged 922,200 bpd.

Unocal Corp said its quarterly profit increased by 69% to \$454 million due to higher oil prices.

The Commerce Department reported that GDP increased at a lower than expected 3.1% annual rate in the first quarter. It was down from the fourth quarter's level of 3.8%. As consumers lowered purchases and imports increased faster than exports, businesses cut back their spending while at the same time accumulating more inventories.

Corning Inc said the total market for products that keep diesel engines running clean could grow to \$1 billion by 2008. It said demand is being driven by tighter emissions standards. In the US, those standards will become effective in 2007.



consuming countries could restrain oil demand by over 1 million bpd in the event of an emergency by restricting driving. The estimate is part of a study released by the IEA which lists measures that can be implemented on a short notice. Under the recommendation s, countries could enforce driving bans or promote

car pooling to help reduce demand. It also envisages other measures, such as relying on teleconferencing instead of traveling or working lower but fewer days every week to curb commuting.

An oil analyst said the closure of the Sabine Channel due to a collision of a petroleum tanker with a crew ship may result in lower crude oil import levels reported by the federal EIA next Wednesday. The analyst stated that if tankers are blocked from delivering their cargoes to oil and petrochemical facilities, there may be a drop in crude oil imports next week. It was not immediately clear how many vessels were affected or how long it would take for normal tanker flow to resume. Meanwhile, Coast Guard officials said the larger Houston Ship Channel was operating normally.

Germany's Economics Minister Wolfgang Clement said oil prices are expected to and need to fall drastically over the coming months as the high oil price will have a negative impact on growth. He said the current market price of oil is based to a large extent on speculation.

US oil prices have averaged \$50.85/barrel in the year to date, up from an average in 2004 of \$41.47/barrel. According to a Reuters survey of analysts, oil prices are estimated to average \$47.05/barrel in 2005 and \$42.71/barrel in 2006.

J.P. Morgan increased its forecast on oil prices, saying it viewed the recent fall in oil prices from highs reached earlier this month as a temporary phenomenon. The bank forecast average WTI at \$51.26/barrel this year and \$48/barrel next year.

Iraq's interim National Assembly approved a partial Cabinet, including 27 ministers and five acting ministers. Prime Minister Ibrahim al-Jaafari submitted a broad based Cabinet, including members of Iraq's main Shiite, Sunni and Kurdish factions. He appointed Deputy Minister Ahmad Chalabi as Iraq's acting Oil Minister. Iraq's new acting Oil Minister Ahmad Chalabi said he would work to ensure smooth exports and honor sales contracts struck by the previous government. His comments came as SOMO prepared to negotiate crude oil sales volumes of some 1.5 million bpd for the second half of 2005.

Iran's Foreign Minister Kamal Kharrazi said Iran will resume its uranium enrichment program if talks with the European Union fail this week. France, the UK and Germany have been negotiating with Iran, seeking guarantees it would not use its nuclear program to make weapons.

According to Oil Movements, OPEC's crude oil shipments in the four weeks ending May 14 increased by 170,000 bpd to 24.36 million bpd, up from 24.19 million bpd in the four weeks ending April 16. It increased last week's increase by 60,000 bpd to 380,000 bpd for a total of 24.52 million bpd in the four weeks ending May 7.

### **Refinery News**

Murphy Oil Corp will start a sulfur recovery unit at its 125,000 bpd Meraux, La refinery this weekend.

Premcor Inc plans to overhaul two units in the third quarter at its 180,000 bpd Delaware City, Delaware refinery. It is scheduled to perform maintenance on a crude unit and hydrocracking unit for 30-45 days in the third quarter. Separately, Premcor stated that it expects its Port Arthur, Texas refinery to operate at 240,000 bpd to 250,000 bpd, up from an average of 183,500 bpd, while its Lima refinery is seen at 140,000 bpd to 150,000 bpd, up from 133,900 bpd and its Delaware City refinery is seen at 175,000 bpd to 185,000 bpd during the second quarter, up from 172,000 bpd during the first quarter.

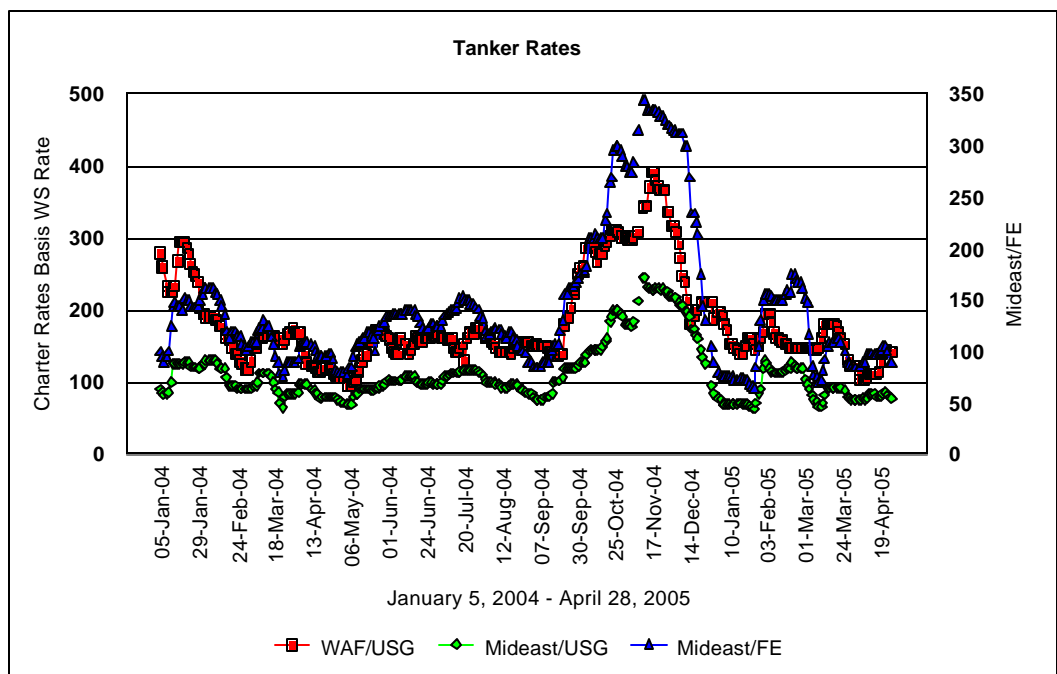
According to investigators, the massive explosion at BP's refinery in Texas City, Texas in late March may have consisted of as many as five separate but simultaneous blasts. However they still do not know what ignited the blast.

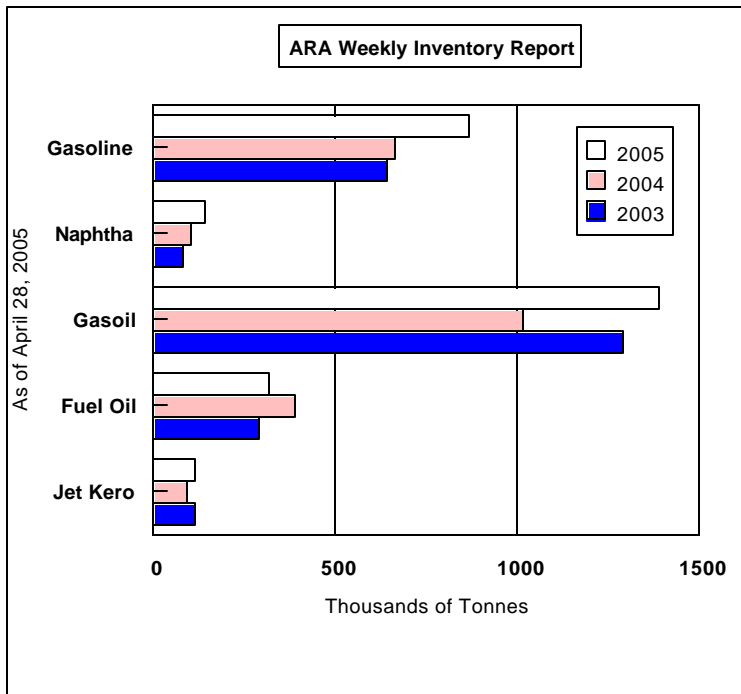
Total will shut a crude distillation and gasoline making units next month at its 328,000 bpd Gonfreville refinery. A crude distillation unit and a 58,000 bpd naphtha-to-gasoline reformer would be shut on May 9 for planned maintenance work that will last one month. Also, its 326,000 bpd Antwerp plant is scheduled to start a five week turnaround in May. Its 105,000 bpd Milford Haven refinery is due to restart in mid-May after a full six week turnaround.

### **Production News**

Workers at Brazil's Petrobras will wait until at least Tuesday to decide whether to schedule a five day warning strike in the event Petrobras fails to come up with a better profit-sharing plan. The union had previously stated that it would wait until Friday before deciding on a strike.

According to an analyst, gasoline and distillate stocks in the Amsterdam-Rotterdam-Antwerp storage tanks increased this week as European demand remained





weak. Gasoline stocks increased by 25,000 tons to 875,000 tons in the week ending April 28<sup>th</sup> while gas oil stocks increased by 100,000 tons to 1.4 million tons. Meanwhile naphtha stocks and fuel oil stock remained unchanged at 150,000 tons and 325,000 tons, respectively. Jet fuel stocks fell by 25,000 tons to 125,000 tons on the week.

EnCana Corp agreed to sell its interest in the Gulf of Mexico to Statoil for \$2 billion. The deal will take Statoil a big step towards its goal of producing 300,000 barrels of oil equivalent/day outside Norway in 2007, up from 115,000 boe/d in 2004 while production from the Norwegian shelf is seen stabilizing.

Libya has cut its May crude official selling prices by 10-40 cents/barrel compared with

its April prices. Its Essider was cut by 40 cents to Dated Brent minus \$3.20/barrel.

Russia's crude oil exports from the Black Sea port of Novorossissk will return to normal levels in May after maintenance and delays cut April volumes. Exports are expected to total 3.95 million tons or 934,000 bpd in May after loading 3.55 million tons or 867,000 bpd in April. Traders however noted that the May schedule contained three cargoes delayed from April, including a 144,000 ton Sibneft cargo, a 75,000 ton Rosneft cargo and a 140,000 ton Lukoil cargo.

Russia's OAO Surgutneftegaz plans to increase its oil production by 4 million tons to 67.7 million tons next year or 1.36 million bpd. Its production is expected average 1.28 million bpd this year.

Japan's Ministry of Economy, Trade and Industry reported that Japan increased its oil product imports by 6.7% on the year in March to meet strong domestic demand, while crude oil imports increased 2.7%. Total oil product imports stood at 3.04 million kl or 617,000 bpd last month. Its crude imports increased to 22.41 million kl or 4.55 million bpd from 21.82 million kl a year earlier. The Finance Ministry reported that crude imports increased by 1.2% in March from a year earlier to 21.83 million kl. Japan's commercial crude stocks totaled 17.95 million kl at the end of March, up 4.3% on the year. Meanwhile, crude oil throughput fell by 0.5% on the year to 21.36 million kl or 4.33 million bpd.

India's Petroleum Minister Mani Shankar Aiyar said there will not be any immediate change in domestic gasoline and diesel prices, even though world oil prices remain above \$50/barrel. He said he was aware that state run companies are being hit by the increasing disparity between world oil prices and domestic oil product prices. The government has asked state run companies to keep diesel and gasoline prices unchanged due to fears that increases may trigger inflationary trends.

India's Ministry of Petroleum and Natural Gas said India's refineries processed 10.9 million metric tons of crude oil in March compared with 11.07 million tons in the same month a year earlier. It produced 2.92 million tons of crude oil in March, up 1.1% on the year.

Indonesia's government said it wanted Pertamina to purchase more crude from contractors operating in the country to cut the country's dollar buying and help support the rupiah currency.

A Chinese government spokesman said China wants to hold talks with Japan on their East China Sea territorial dispute, days after leaders of the two countries met to try to solve the dispute. China and Japan have been at odds for months over China's energy exploration in parts of the East China Sea.

### **Market Commentary**

The energy complex remained pressured early in the session, with the gasoline market seeing a sharp sell off once again. The gasoline market gapped lower this morning from 153.80 to 149.25 in follow through selling seen in overnight trading on Access. The market extended its losses to close to 8 cents as it traded to a low of 146.20 early in the session. It backfilled its previous gap from 151.50 to 151.00. It seemed funds were continuing to liquidate their positions. The market however bounced off that level and remained range bound before it started to backfill its opening gap. The gasoline market breached its earlier high of 150.00 and backfilled its gap as it posted an intraday high of 155.20 ahead of the close. It settled up 71 points at 154.90. The market backfilled its gap as it failed to breach its previous low and posted a double bottom at 146.20. Meanwhile, the crude market also gapped sharply lower on the opening from 51.55 to 50.60 and quickly sold off to a low of 49.80 amid the weakness in the gasoline market. The market however failed to completely backfill its previous gap from 50.15-49.55 and bounced off its low. It remained range bound for most of the session, before it breached its early high and started to backfill its opening gap. The June crude contract was able to backfill its gap as it traded to a high of 51.85 on the close. It settled up 16 cents at 51.77. Similarly, the heating oil market gapped lower on the opening from 150.30 to 145.00 and quickly posted an intraday low of 142.60. However the market erased its losses and backfilled its gap as it rallied to a high of 149.00 ahead of the close. It settled up 1.47 cents at 148.87. Volumes were excellent with over 276,000 lots booked in the crude, 61,000 lots in each the gasoline and heating oil markets.

The oil markets on Friday will remain volatile ahead of the May product expiration at the close. The market may retrace some of its sharp gains seen late in the session. Technically, the crude market is seen trading lower as its stochastics are still trending lower. The market is seen finding support at 51.00 and 50.80. More distant support is still seen at its remaining gap from 49.80 to 49.55.

Meanwhile resistance is seen at 51.85, followed by 52.12 and 52.84. More distant resistance is seen at 53.56 and 54.10.

<b>Technical Analysis</b>		
	<b>Levels</b>	<b>Explanation</b>
<b>CL</b> 51.77, up 16 cents	<b>Resistance</b> 53.56, 54.10 51.85, 52.12, 52.84	62% retracement level, Wednesday's high Thursday's high, 38% and 50% (55.88 and 49.80)
	<b>Support</b> 51.00, 50.80 49.80 to 49.55	Remaining gap
<b>HO</b> 148.87, up 1.47 cents	<b>Resistance</b> 150.70 149.00, 149.20	Wednesday's high Thursday's high, 50% retracement (142.60 and 155.80)
	<b>Support</b> 146.00, 145.20 142.60	Thursday's low
<b>HU</b> 154.90, up 71 points	<b>Resistance</b> 157.60, 160.29, 161.25 155.20	50% and 62% (146.20 and 169.00), Previous high Thursday's high
	<b>Support</b> 150.00 146.20	Thursday's low