



## ***ENERGY RISK MANAGEMENT***

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### **ENERGY MARKET REPORT FOR SEPTEMBER 29, 2004**

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Niger Delta People's Volunteer Force leader Mujahid Dokubo-Asari said he had agreed to a tentative deal to ceasefire with the Nigerian government. However talks were still ongoing on his demand for autonomy in the country's Niger Delta. Separately, the Nigeria Labor Congress said it is planning to call a nationwide general strike on October 11 following the government's decision to increase fuel prices last week. The National Union of Petroleum and Natural Gas Workers said it will participate in any strike while Nupeng said the oil workers would abide by the National Labor Congress decision.

OPEC President Purnomo Yusgiantoro said high oil prices are not caused by any fundamental imbalance but are being driven up by supply uncertainties and increased speculative trade. He said uncertainties over supplies from Nigeria, Russia and Iraq and weather related delays to imports and production in

#### **Market Watch**

The EIA plans to revise upwards its price projections for crude oil for the remainder of the year, following a slower than expected recovery from Hurricane Ivan. It stated that specific figures will not be released until October 6, when it releases its Short Term Energy Outlook. It also stated that the price of heating oil will need to increase another 10 cents to 15 cents from current levels to attract the imports that will be needed to meet demand during the winter heating season.

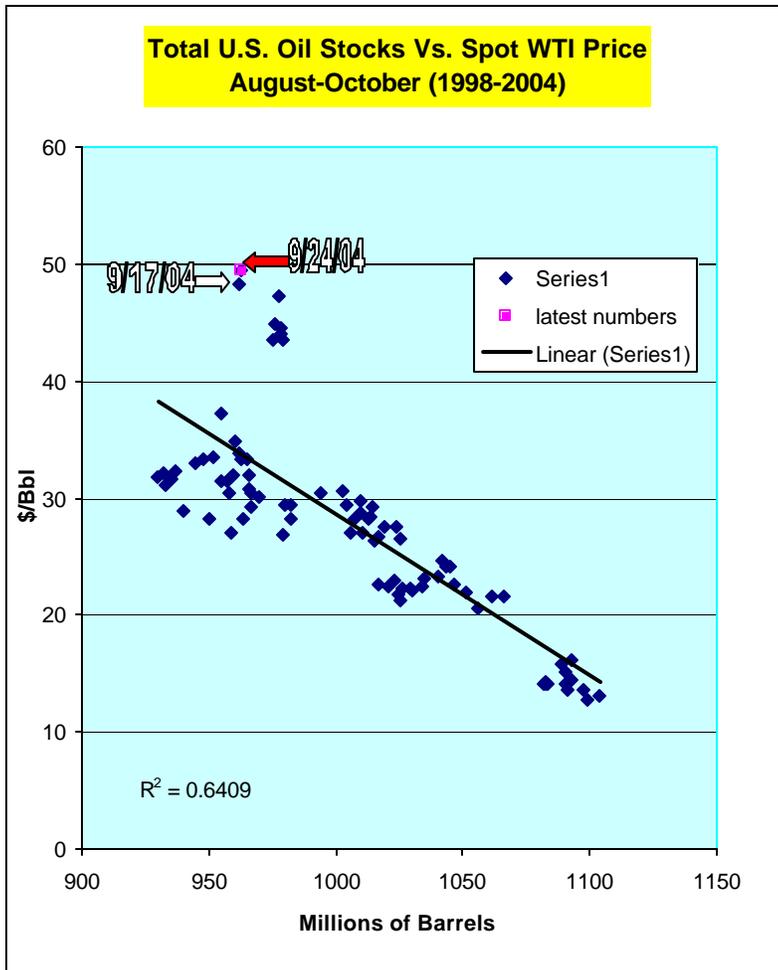
The Energy Department also stated that it will loan 1.5 million barrels of crude oil to ConocoPhillips to compensate for supply disruptions caused by Hurricane Ivan. Crude supplies will be delivered to ConocoPhillips' Sweeney refinery in three 500,000 barrel batches over the next three weeks. Oil flows to ConocoPhillips will begin this week. It also stated that US refineries should be able to run at higher rates this week due to increased crude imports and government loans of oil from the SPR.

A senior Canadian finance official said fundamentals do not justify oil prices remaining at more than \$50/barrel. Meanwhile, German Chancellor Gerhard Schroeder supports G7 efforts to increase transparency on the oil markets to help prevent speculation from pushing up crude prices. A government spokesman did not give any details on how the G7 planned to increase oil market transparency.

An energy analyst with Oppenheimer & Co said oil prices are not justified at \$50/barrel. He said there is plenty of supply around the world and inventory is increasing.

The Commerce Department reported that a slowdown in US economic growth during the second quarter of the year was no as sharp as previously thought. The US GDP grew at a revised 3.3% annual rate in the April-June second quarter, up from a 2.8% rate the government estimated a month ago.

Kansas City Federal Reserve Bank Resident Thomas Hoenig said high oil prices will probably brake US growth but will not derail the economy provided they do not increase sharply from current levels. Meanwhile Federal Reserve Governor Susan Bies said that oil would have to trade at \$80/barrel in real terms to have the same effect it did in the 1970s crisis.



the US had contributed to an increase in oil prices. He said OPEC members are in close consultation with the aim of bringing calm to the market. He added that OPEC could add 1.5-2 million bpd of additional supply to the market if required. Separately, OPEC's President stated that he will meet with the head of the IEA, Claude Mandil and discuss the oil market. He said other OPEC oil officials will also attend the meeting.

According to a report issued by the Iraqi Oil Ministry, Iraq exported an average of 1.74 million bpd of oil during the first three weeks of September, with the country's total production averaging 2.55 million bpd during that period. It said that average export from the north via the Turkish port of Ceyhan during the period stood at 220,000 bpd while the average for southern exports was 1.52 million bpd. It reported that crude oil stocks at Iraq's storage facilities in Ceyhan had reached 8.1 million barrels on September 21.

OPEC's news agency reported that OPEC's basket of crudes increased by 64 cents/barrel to reach a record high of \$43.54/barrel on Tuesday from \$42.90/barrel on Monday.

**Refinery News**

La Gloria Oil & Gas Co restarted a sulfur recovery unit at its Tyler, Texas refinery on Tuesday following a valve malfunction earlier in the day.

The Texas Natural Resource Conservation Commission reported that a coker fractionator at Valero's Corpus Christi, Texas refinery was scheduled to be shut Wednesday morning for scheduled maintenance on a heater.

ChevronTexaco was forced to reshut its 75,000 bpd coker unit at its Pascagoula, Mississippi refinery after it was restarted following full plant shutdown on September 15. The unit is expected to restart at the end of the next week at the 295,000 bpd refinery. Separately, its 150,000 bpd crude unit started planned turnaround work earlier in the week and will be shut for about 3 more weeks. The rest of the refinery is running at reduced capacity amid the ongoing maintenance work.

Hellenic Petroleum has shut its 140,000 bpd refinery in Aspropyrgos for six weeks of maintenance work that will end in early November. It was shut on September 24-25 and it will reopen around November 5-6.

Japan's Nippon Oil Corp may be forced to keep a crude distillation unit at its Mizushima refinery offline until early October for unplanned inspections. The 140,000 bpd unit was shut on Monday due to mechanical problems, shortly after it restarted the unit from a month of routine maintenance.

China's Jinxi Petrochemical Corp plans to increase crude throughput sharply in October after it completed maintenance on a crude unit this month. It is expected to process 500,000 tons in October, up 25% from September.

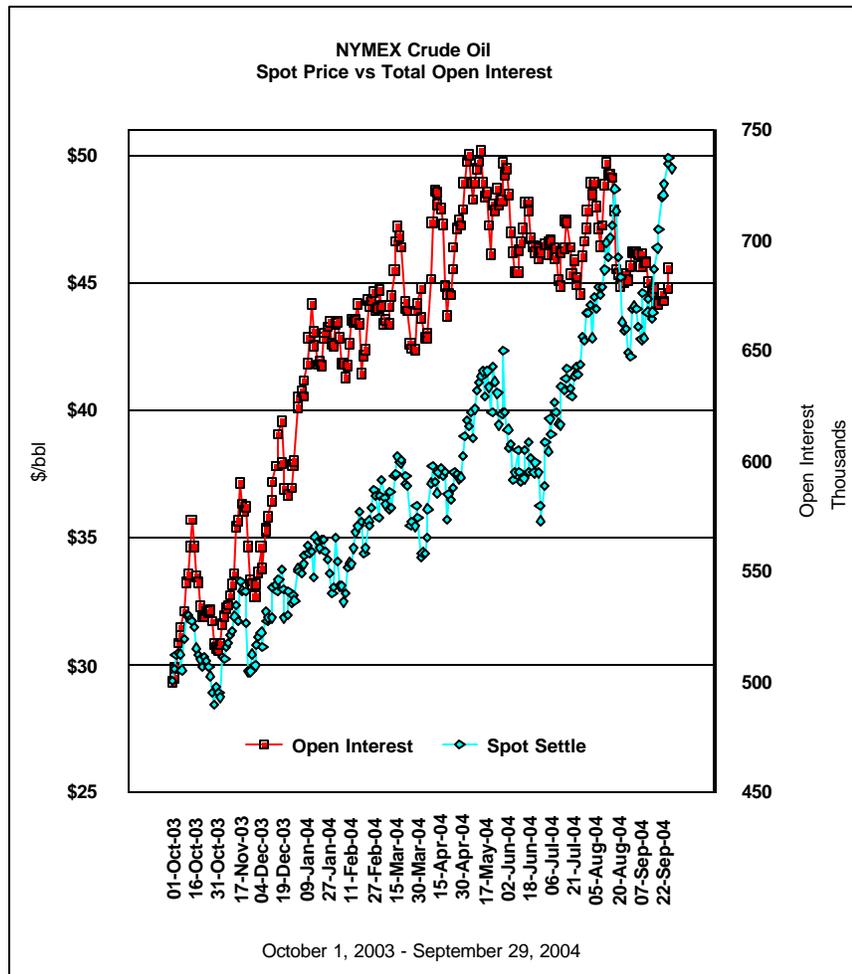
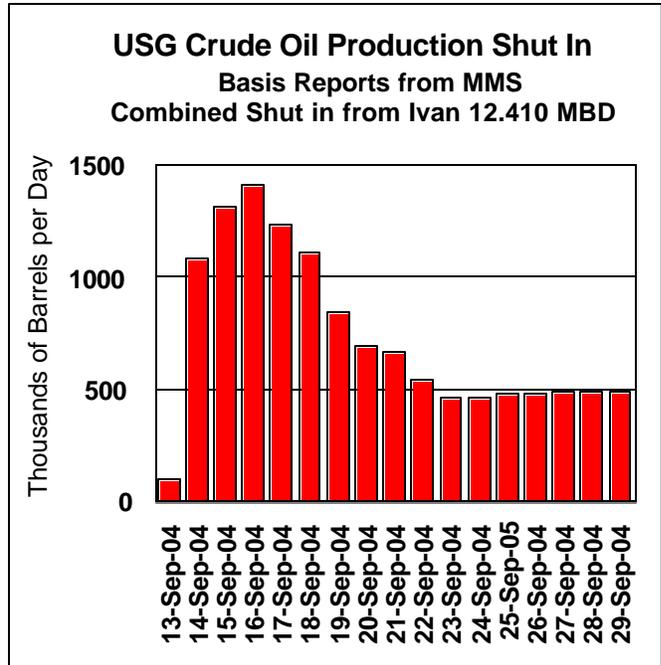
**Production News**

According to the US Minerals Management Service, there has been little improvement in the past 24 hours in lessening the amount of oil and gas production shut in the Gulf of Mexico. The cumulative loss since September 13 is 12.41 million barrels of oil and 55.539 bcf of natural gas. It reported that 485,128 bpd of oil was still shut in while 2.322 bcf of natural gas was still shut in.

Explorer Pipeline said that plans were on track to resume normal operations by Thursday afternoon. The pipeline was shut on Tuesday after a leak was discovered. At the time of the leak, the line was operating at a reduced rate and was not being prorated.

Shell Oil Co said it still has three platforms fully shut due to Hurricane Ivan. There are no estimates as to when the platforms will return.

Russia's final October seaborne crude export program allocates Yukos 400,000 tons in cargoes from the Baltic port of Primorsk, 420,000 tons from Novorossiisk and 200,000 tons from Lithuania's Butinge outlet. Primorsk is allotted total shipments for the month of 4.2 million tons, while loading through Novorossiisk will increase to 3.923 million tons.



Russia may decide to differentiate export duties for oil products from November by introducing a lower than expected tariff for fuel oil to protect steady exports. A newspaper quoted a government official as saying the fuel oil export duty would be set at \$45.50/ton.

ConocoPhillips Inc and Lukoil Holdings said they will form a strategic alliance. ConocoPhillips bought the Russian government's final 7.59% stake in the Lukoil.

Union representing Brazil's 40,000 oil workers refused a wage offer from Petrobras. The representatives said they are hopeful of obtaining a better offer from Petrobras over the next two days. However if a better offer is not forthcoming by Friday, the unions will stage a 24 hour strike on Monday. Union spokesman said an eventual 24 hour strike would no affect production or refining levels.

The Petroleum Association of Japan stated that Japan's oil refiners processed 3.87 million bpd of crude oil in the week ending September 25, up from 3.81 million bpd a week earlier. Refinery operating rates averaged 81.1% of capacity. It reported that commercial kerosene stocks in Japan increased by 7.6% on the week to 3.66 million kl.

China's Sinopec is building a 300,000 ton oil terminal and 21.4 million barrels of crude storage in east China to handle the increase in imports. The facilities, due to start up within two years, are part of Sinopec's plan to build a commercial receiving and transfer hub. China is set to import close to 120 million tons or 2.5 million bpd of crude this year, with Sinopec taking up more than 80% of the total.

India's Oil and Natural Gas Corp expects to pump an additional 1 million tons of crude oil and gas in four to five years from fields, which were not viable when oil prices were low.

### **Market Commentary**

The oil market ended the session in negative territory on Wednesday for the first time since September 15. The market opened down 10 cents at 49.80 and immediately posted an intraday high of 50.20 as the market awaited the release of the weekly petroleum stock reports. The November crude contract, which failed to test its previous high of 50.25, sold off sharply to an early low of 48.90 following the release of the bearish reports showing builds in crude stocks as imports recovered in the aftermath of Hurricane Ivan while product stocks also saw smaller than expected draws. The market settled in a range as it held resistance at 49.50 before it once again found further selling pressure which pushed it to a low of 48.40. The market was pressured amid the reports that militants in Nigeria's Niger Delta had agreed to a ceasefire. However the market later bounced off its low and erased its losses as traders realized that it was a tentative deal while talks continue on the remaining demands made by the militants. The market traded back above the 49.50 level and settled down 39 cents at 49.51. Volume in the crude market was excellent with over 218,000 lots booked on the day, of which 103,000 lots traded via spreads. Open interest in the crude market built by a total of 9,514 lots to 688,084 lots, with open interest increasing by 4,840 lots in the first three months as traders added new longs. The product markets, which expire at the close on Thursday, also settled in negative territory with the gasoline market settling down 2.19 cents at 133.60 and the heating oil market settling down 40 points at 137.38. The gasoline market opened 21 points higher at 136.00 and posted its intraday high of 136.50. However the market quickly sold off to a low of 133.00 amid the losses seen in the crude market. The market was also pressured amid the smaller than expected draws reported in product stocks. Similar to the crude market, the gasoline market settled in a range before further selling pushed it to a low of 130.90. However it too bounced off its low and traded towards the 134.00 level ahead of the close. The heating oil market also posted its intraday high of 138.50 before it sold off to a low of 134.40 in follow through weakness seen in the crude market. It later bounced off its low and traded to 137.50 ahead of the close. Volumes in the product markets were good with 58,000 lots traded in each the gasoline and heating oil market.

Even though the market traded lower amid the build in crude stocks and the daily stochastics look ready to cross to the downside, the market's losses are seen limited as the situation in Nigeria has not been completely resolved. Any news of continued unrest in the country, will push

<b>Technical Analysis</b>		
	<b>Levels</b>	<b>Explanation</b>
<b>CL</b> 49.51, down 39 cents	<b>Resistance</b> 50.47, 51.83 50.20, 50.25	Overnight high, Upper bollinger band Double top
	<b>Support</b> 49.10 48.40, 47.90	Wednesday's low, Previous low
<b>HO</b> 137.38, down 40 points	<b>Resistance</b> 140.00 138.50	Wednesday's high
	<b>Support</b> 135.60 134.40, 133.10	Wednesday's low, Previous low
<b>HU</b> 133.60, down 2.19 cents	<b>Resistance</b> 138.00 136.50, 136.60	Double top
	<b>Support</b> 132.60 130.90	Wednesday's low

the market back to its high. The market will also be driven by the expiration of the October product contracts. The crude market is seen finding support at 49.10 followed by its low of 48.40. Meanwhile resistance is seen at its double top of 50.20-50.25 followed by 50.47.