



ENERGY RISK MANAGEMENT

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ENERGY MARKET REPORT FOR OCTOBER 12, 2005

In its latest Short-Term Energy Outlook, the EIA cut its 2005 world oil demand estimate by 500,000 bpd to 83.7 million bpd. The average annual worldwide oil demand growth is estimated at 1.2 million bpd in 2005, down from the 1.7 million bpd growth projected for 2005 in its previous report. Its demand estimate for the fourth quarter was cut by 1.1 million bpd to 85.3 million bpd from its previous report. It also cut its world oil demand forecast for 2006 by 400,000 bpd to 85.6 million bpd. The demand estimate for the first quarter of 2006 was also cut by 300,000 bpd to 85.4 million bpd. In regards to China's demand,

the EIA cut its demand estimate by 100,000 bpd to 7.2 million bpd for the fourth quarter while its first quarter estimate was increased by 100,000 bpd to 7.5 million bpd. Meanwhile total petroleum demand in the US is projected to average 20.5 million bpd, down 0.9% on the year. The demand level is 290,000 bpd less than its previous estimate. It however stated that demand in 2006 is expected to average 21 million bpd or 2.2% over 2005. In regards to distillate inventories, the EIA stated that although distillate inventories are expected to remain within the previous 5 year range this winter, a 10% colder winter could push inventories to the low end of the range or lower during the first quarter of 2006. The EIA said there are also few signs that high US distillate prices have attracted European imports, raising concerns for this winter. It said with little imports coming from Europe, US distillate stocks are expected to fall to the lower end of the average range amid hurricane reduced refinery output. It said retail distillate prices in October are expected to reach \$3.00/gallon while fourth quarter diesel fuel prices are projected to average \$2.85/gallon. Prices could be significantly higher if the winter is colder than expected. Distillate prices are seen averaging \$2.45/gallon in 2005 and \$2.58/gallon in 2006. Distillate prices this winter season are expected to average \$2.54/gallon, up from last year's average of \$1.92/gallon. The EIA stated that gasoline stocks at the end of 2005 are projected to be 6.5% below the year end 2004 level. It said that gasoline stocks, which are currently

Market Watch

The National Oceanic and Atmospheric Administration stated that it expects this winter to be warmer than normal, though the outlook for the East Coast and Midwest is less certain.

Indonesia's Oil Minister Purnomo Yusgiantoro said OPEC expects oil prices to remain above \$50/barrel for the next few years before easing.

Standard & Poor's stated that the high energy price is unlikely to affect US companies other than airlines and automakers. It sees little chance of either a significant credit impact or a recession as long as oil does not increase and remain well above the recent high of \$70/barrel.

Germany's Federal Statistics Office stated that the country's inflation increased to 2.5% in the year to September, the fastest annual increase for more than four years due to high oil prices.

The IPE reported that physical delivery against the expired October IPE gas oil contract increased to 177,400 tons compared with 96,400 tons in September.

tight, are expected to improve as the heating season progresses. However an abnormally cold winter could discourage gasoline production and tighten supplies for next spring. Gasoline prices are expected to average \$2.34/gallon in 2005 and \$2.45/gallon in 2006. The price of crude oil is estimated to average close to \$58/barrel in 2005 and \$64-\$65/barrel in 2006.

Refinery News

The EIA stated that about a third of US crude oil and natural gas production in the Gulf of Mexico will remain shut in during December due to disruptions caused by Hurricanes Katrina and Rita. Seven oil refineries that process 1.9 million bpd of crude remained offline after the storms.

Motiva plans to restart a fluid catalytic cracking unit, an alkylation unit and a coking unit at its Port Arthur, Texas refinery. Restart of the processing unit will start on Thursday and last until October 15.

According to the Texas Natural Resource Conservation Commission, Flint Hills' Corpus Christi, Texas refinery is scheduled to undergo maintenance on Wednesday through Friday. It will shutdown a sulfur recovery unit to perform the necessary maintenance in the tail gas piping.

The Texas Natural Resource Conservation Commission reported that Total's Port Arthur, Texas refinery will restart unit 827 after it was shutdown for Hurricane Rita.

An executive at Bechtel Corp stated that refiners have pushed back preliminary work on some US refining expansions due to the impact Hurricanes Katrina and Rita had on production. He said Bechtel has had talks with several oil majors about large expansions to US refineries but added that the time frame on early stage work has lapsed as refiners have been preoccupied restoring production shut in by the hurricanes.

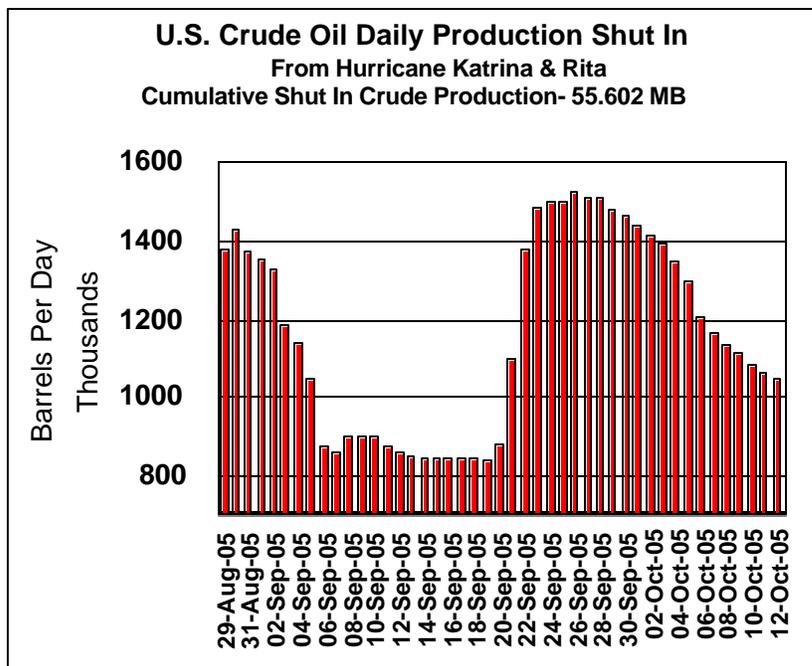
Workers at Total's 328,000 bpd Gonfreville refinery voted on Wednesday to continue their strike until Friday. Union delegates will meet Thursday to consider a possible extension of the strike to Total's five other refineries in France.

Royal Dutch Shell said that it declared a force majeure on ethylene supply coming from the Fos-Lavera facility in the south of France following a strike at the port of Marseille.

Production News

The MMS continued to show an improvement in the amount of crude production shut in. It reported that a total of 1.046 million bpd of crude remained shut in and the cumulative shut in production stood at 55.602 million barrels.

Shell Oil said its net oil and gas production from the Gulf of Mexico totaled 200,000 bpd of oil equivalent, up from 160,000 boe/d following shut ins due to Hurricanes Katrina and Rita. Separately, Shell Pipeline Co has increased the amount of



crude oil flowing through the Mars pipeline to onshore terminals by injecting lower sulfur Heavy Louisiana Sweet crude from fields in the eastern Gulf of Mexico.

Transocean Inc said one of its rigs damaged by recent hurricanes would return to service in the first quarter, while a second rig would resume drilling while waiting for damaged parts to be replaced. The impact of Hurricanes Katrina and Rita on US refineries has dampened demand for oil, creating an oversupply of high sulfur heavy crude that could lead major producers to cut production even as oil prices remain well above year ago levels. Saudi Arabia and Mexico have already offered their oil on the spot market to refiners that do not normally lift their barrels. Saudi Arabia has agreed to increase its crude oil supplies to European refiners if they request it. At least one European refiner has requested an extra cargo in November. It is also offering more crude in November to US refining companies that request it. Saudi Arabia has recently been offering US refiners about 25% below full contract levels. Meanwhile, Mexico has been forced to cut production by as much as 10% after failing to find buyers for its displaced crude.

The November loading program for North Sea Gullfaks crude scheduled the loading of 11.97 million barrels, down from 14.535 million barrels in October.

The Shetland Island Council reported that Brent crude liftings from Sullom Voe fell to 79,724 tons in the week ending October 11, down from 304,674 tons during the previous week.

According to Germany's MWV, total net sales of oil products in Germany fell by 7.1% on the year in September to 7.07 million tons. It reported that heating oil sales fell by 9.6% on the year to 2.28 million tons while gasoline sales fell by 10.3% to 1.85 million tons.

Nigeria's trade unions and opposition groups backed away from a confrontation with the government over fuel prices but stated that they would seek better wages and services in a new campaign. The Nigeria Labour Congress and opposition groups reviewed the government's pledge to freeze pump prices until the end of 2006 and agreed to present a new list of demands to the government. The government raised the pump price of petrol by 30% to 65 naira or 50 cents/liter in August after the state oil company said it could no longer afford subsidies because of rising prices.

Nigeria National Petroleum Corp said Nigeria's imports of gasoline and diesel will fall to 20-25 cargoes in the first quarter of 2006 from about 35 this quarter due to improved throughput in its refineries. Nigeria's four refineries, with a combined capacity of 445,000 bpd, are now operating at 70% of capacity and the country has 40 days of fuel stocks for the first time in its history.

Russia's Rosneft said it was exporting about 70% of its crude production due to limited refining capacity and direct access to export ports. It produced 54.8 million tons in January-September and refined only 15.8 million tons. It exported the remaining 39 million tons.

Kazakhstan produced 45.88 million tons or 1.28 million bpd of crude and gas condensate in January-September, up 5.8% on the year. Kazakhstan's State Statistics Agency reported that its crude oil production totaled 37.826 million tons or 1.05 million bpd in the first nine months of the year while condensate production stood at 8.053 million tons. Separately, the Kazakhstan government imposed an immediate ban on diesel and gasoline exports until the end of the year. It said the move was taken to ensure the availability of supplies to the domestic market.

The presidents of Georgia, Azerbaijan and Turkey opened the Georgian section of the Baku-Ceyhan pipeline. The pipeline will eventually pump more than 1 million bpd from Azerbaijan to the port of

Ceyhan in Turkey. It is expected to take another two months before oil can be loaded into tankers in Ceyhan because BP is seeking to fill the pipeline with 10 million barrels of oil.

OPEC's news agency reported that OPEC's basket of crudes increased further to \$54.47/barrel on Tuesday, up from \$53.97/barrel on Monday.

Indonesia's Energy and Mines Ministry reported that the country's crude oil imports fell from 399,000 bpd to 200,000 bpd in September due to refinery maintenance.

Market Commentary

The oil market continued to trend higher after it posted an island reversal during Tuesday's session. It opened slightly lower at 63.45 and quickly posted a low of 63.40. However the market bounced off that level and retraced more than 50% of its move from a high of 68.10 to 60.35 as it rallied to a high of 64.70. The market continued to be driven higher following Tuesday's release of the IEA report estimating that demand would rebound in 2006. It was further supported by the EIA report this morning stating that US oil demand would be 2.2% higher on the year in 2006. It showed that demand declines in the wake of the high prices would not last. The market however retraced some of its gains ahead of the close and traded back towards the 64.00 level. It settled up 59 cents at 64.12. Volume in the crude was excellent with over 271,000 lots booked on the day. Meanwhile, the spot product contracts settled in negative territory, with the November gasoline contract settling down 56 points at 182.76 and the heating oil contract settling down 22 points at 201.57. The gasoline market opened 1.07 cents lower at 182.25 and sold off to a low of 180.50. It however retraced its losses and rallied to a high of 184.50 amid good fund buying. It erased its gains and traded back towards its low but as it failed to test that level, the market traded back towards its high and remained range bound ahead of the close. The heating oil market rallied to a high of 203.00 before it sold off to a low of 199.50 by mid-day. The market however bounced off its low and settled in a sideways trading pattern ahead of the close. The market held its support in light of the EIA report stating that distillate stocks may fall to the lower end of its average range amid lower imports from Europe and the fall in refinery output. Volumes in the product markets were good with 53,000 lots booked in the gasoline and 43,000 lots booked in the

heating oil market. The oil market will seek further direction from the DOE and API reports which are expected to show a

Technical Analysis		
	Levels	Explanation
CL 64.12, up 59 cents	Resistance 64.80 to 64.99, 65.14 64.70	Remaining gap, 62%(68.10 and 60.35) Wednesday's high
	Support 64.00, 63.40 62.45 to 62.00, 61.00	Wednesday's low Remaining gap
HO 201.57, down 22 points	Resistance 204.48, 207.77, 209.00 203.00	50%, 62% retracement (218.45 and 190.50), Previous high Wednesday's high
	Support 199.50 198.25 to 197.50, 195.00	Wednesday's low Remaining gap
HU 182.76, down 56 points	Resistance 186.00 to 190.00 184.50, 185.50	Remaining gap Wednesday's high, Previous high
	Support 182.00 180.50, 180.00, 177.00	Wednesday's low, Previous lows

build in crude stocks of 2 million barrels and draws of 1.5 million barrels in each gasoline and distillate stocks. The market will continue its upward trend if stocks continue to fall following last week's large draws in product stocks. Technically, the market is seen trading higher with support seen at 64.00 followed by its low of 63.40. More distant support is seen at 62.45 to 62.00 followed by 61.00. Meanwhile resistance is seen at 64.70 followed by 64.80 to 64.99 and 65.14.

