



## ***ENERGY RISK MANAGEMENT***

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### **ENERGY MARKET REPORT FOR OCTOBER 17, 2005**

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In its monthly report, OPEC cut its forecast for oil demand growth this year but added that it saw little evidence that the demand destruction led by high prices would persist. OPEC cut its world demand growth estimate this year by 17% to 1.18 million bpd to 83.26 million bpd. It cut its call on OPEC crude in the fourth quarter by 260,000 bpd to over 30 million bpd. It also cut its call on OPEC crude for next year by 460,000 bpd while it cut demand growth by 2.5% to 1.47 million bpd or 84.7 million bpd. It however stated that it was skeptical at the likelihood that demand would remain substantially weaker despite its downward revisions. OPEC cut its forecast for average non-OPEC supply in 2005 to 50.3 million bpd, down 110,000 bpd from its previous estimate. For 2006, OPEC raised

#### Market Watch

According to EarthSat, this winter is expected to be colder than last year. It said the temperatures will run closer to the 30 year average from December through February. It will be significantly colder than the five and 10 year averages. Most of the cold will occur in the eastern US, with frequent changes in temperature expected.

Refco Inc said it is in advanced talks with a group led by investment fund J.C. Flowers & Co to buy Refco's futures unit. Refco indicated a deal could take time, as a memorandum of understanding with the group has yet to be signed and said there is no assurance that an agreement will be reached. Also involved in the sale talks were Man Group Plc Societe Generale, Citigroup Inc and JP Morgan Chase. Refco Capital Markets was placed on a 15 day moratorium and Refco Securities LLC shutdown and is currently unwinding its positions. The fate of the units remain unclear with bankruptcy a possibility.

The Group of 20 said high prices are among the biggest threats to the world economy and more needs to be done to increase oil production, refining capacity and investment. It said high oil prices may increase inflationary pressures and slow growth. They stressed the importance of promoting energy conservation and efficiency, including developing alternative and renewable energy sources, and reducing subsidies on oil products.

Thousands of Iranians chanted "Death to Britain" at the funerals of six people killed in weekend bombings which Iran has blamed on London. Iran's President Mahmoud Ahmadinejad said Iran was very suspicious about the role of British forces in the bombings. No one has claimed responsibility for the bombings and local government officials denied reports that one suspect had been arrested and confessed to receiving training from Britain. Britain has condemned and denied any involvement in the bombings which were the latest in a spate of bombings and unrest in the oil producing Khuzestan province.

The NYMEX said it plans to begin trading its half sized crude and natural gas contracts on its online trading platform, ClearPort on November 21. It has encountered problems moving the contracts to ClearPort from the CME's Globex online trading platform.

its estimate of non-OPEC supply by 90,000 bpd to 51.57 million bpd. Meanwhile, OPEC crude production averaged 30.34 million bpd in September, up 136,000 bpd on the month.

OPEC's Secretary General Adnan Shihab-Eldin said oil prices between \$40 and \$60/barrel should prompt new production without endangering economic growth, satisfying both oil producers and consumers. He however stated that current prices were not good for the world economy and were not reflective of fundamentals. Meanwhile OPEC's President Sheikh Ahmad Fahad al-Ahmad al-Sabah said world oil demand is expected to rebound early next year when the oil industry recovers from the effects of the hurricanes and refining facilities return to normal in the US. He also reiterated that OPEC has 2 million bpd of spare capacity to meet any increase in world demand.

Venezuela's President Hugo Chavez said that the world faces an energy crisis but there is little chance that Venezuela and other countries would increase their production because they are pumping near their capacity.

US Energy Secretary Samuel Bodman said Americans are cutting gasoline and other energy consumption in response to higher prices. He said the Bush administration was trying to promote energy conservation and energy efficiency to help consumers facing sharply higher winter heating bills. Separately, a Department of Energy official stated that the US must concentrate on energy conservation and efficiency as it recovers from the effects of Hurricanes Katrina and Rita.

The EIA reported that the US average retail price of diesel fell 0.2 cents/gallon to \$3.148/gallon in the week ending October 17<sup>th</sup>. It also reported that the average retail price of gasoline fell by 12.3 cents/gallon to \$2.725/gallon on the week.

An analyst at the International Energy Forum Secretariat said a new world database that aims to increase transparency in the oil market should be available to the public in November. The Joint Oil Data Initiative aims to bring together data on demand, supply and inventories from 93 countries representing about 95% of world oil production. The database will be available to the public through the oil Data Transparency website, [www.oil-data-transparency.org/FileZ/ODTmain.htm](http://www.oil-data-transparency.org/FileZ/ODTmain.htm).

### **Refinery News**

Lyondell-Citgo said a fire started in a fluid catalytic cracking unit at its 270,000 bpd Houston refinery over the weekend. The unit caught fire on Sunday as it was being restarted following repairs in the wake of Hurricane Rita in late September. The refinery was operating at 50% of capacity in the wake of Hurricane Rita. The unit is expected to remain shut for four to six weeks of repairs.

A boiler in a fluid catalytic cracking unit at Exxon Mobil's Baytown, Texas refinery tripped twice on Friday. The boiler was shut and the company was working to restart the boiler as quickly as possible.

Valero Energy Corp said it expects its 250,000 bpd Port Arthur, Texas refinery to return to full production by the end of the week. The crude unit was operating at 200,000 bpd out of a rated capacity of 250,000 bpd while the coker unit was operating at 60,000 bpd out of 85,000 bpd and the fluid catalytic cracking unit was operating at 65,000 bpd out of a capacity of 80,000 bpd.

Total restarted a cogeneration unit to supply both electricity and steam to its 233,5000 bpd refinery in Port Arthur, Texas. It said the cogeneration unit is necessary due to the fact that Entergy has not supplied power as originally forecast.

The Sweeny refinery in Texas is undergoing maintenance on its fluid catalytic cracker on Monday.

ConocoPhillips began the startup process at its Westlake, Louisiana refinery. Production of finished products, such as gasoline and diesel, is expected this week. Meanwhile, ConocoPhillips' 255,000 bpd Alliance refinery in Belle Chase, Louisiana remains shut. It could restart in December and resume full operations in early January.

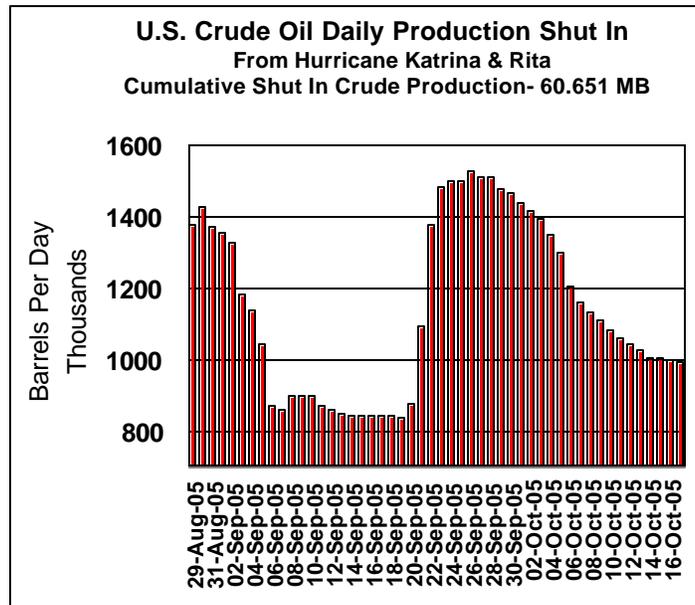
Workers at Total's Gonfreville refinery in northern France voted on Monday to extend a 25 day strike until Friday. A CGT union source however said the workers decided not to extend the strike to Total's five other French refineries.

**Production News**

The MMS reported on Monday that a total of 996,291 bpd of crude production remained shut in. It is down from 1.009 million bpd reported on Friday.

Mexico's main Gulf coast ports were all open on Monday while authorities began alerting shippers to the presence of Tropical Storm Wilma in the Caribbean Sea.

According to a port agent, Iraqi oil exports from the South returned to normal on Monday after power problems were resolved. Major power cuts across Iraq had slowed the country's crude oil loading over the past few days. The agent said two vessels were loading crude from the Basra oil terminal with a flow rate of 70,000 barrels an hour, the equivalent of 1.68 million bpd. Exports through the country's northern pipeline to Turkey's port of Ceyhan have been suspended since early September due to sabotage against the pipeline.



Iran's offshore Soroush and Nourouz oilfields have resumed production after shutting down on October 13. The fields had been forced to shut down due to some technical problems.

Statoil ASA plans to restart its Asgard oil and gas platform in the North Sea this week following a fire that shut output on Saturday.

Norsk Hydro on Monday shutdown production at its 33,000 bpd Njord oil platform in the North Sea following a small gas leak. An investigation into the leak is underway.

Consumer stocks of heating oil in Germany increased to 58% of capacity in September from 52% in August. It however was still below the 60% seen a year ago.

Russia's main Black Sea port of Novorossisk was shut on Monday due to strong winds.

Kazakhstan's crude oil and gas condensate production totaled 45.88 million tons or 1.3 million bpd in January to September, up 5.8% on the year. Its crude oil production in September totaled 4.428 million tons, up 2% on the year while its condensate production increased by 15.4% to 561,000 tons.

China is expected to waive the 6% tariff for fourth quarter diesel imports to help state refiners cut losses and avoid a domestic shortage during the winter months.

Thailand's PTT said the country's crude oil imports in the first eight months of the year increased by 0.2% on the year to 854,300 bpd. Refined products imports during the period fell by 5.5% to 42,500 bpd. Domestic crude production increased by 27% to 106,000 bpd.

Taiwan's Bureau of Energy said the country's demand for oil products in August increased by 4.3% over a year ago to 4.2 million kiloliters of oil equivalent. Total oil product demand during the January-August period came to 31.3 million kl of oil equivalent, up 0.4% on the year.

Pemex reported that it produced 3.37 million bpd of crude oil in September, down from 3.43 million bpd last year. It said it exported 1.68 million bpd of crude in September compared with 1.89 million bpd last year.

OPEC's news agency reported that OPEC's basket of crudes fell by \$0.89/barrel to \$54.34/barrel on Friday. It also reported that OPEC's basket of crudes fell by \$2/barrel to \$54.55/barrel in the week ending October 13<sup>th</sup>.

**Market Commentary**

The oil complex ended sharply higher, with the crude market settling up \$1.73 at 63.46. The oil market gapped higher from 62.70 to 63.65 in follow through strength seen in overnight trading amid reports of another tropical storm possibly heading towards the Gulf of Mexico. The market may have also been supported in light of OPEC stating that it saw little evidence that the demand destruction would persist. The market partially backfilled its gap as it posted a low of 63.25 and settled in a sideways trading pattern from 63.25 to 64.00 for much of the day. The crude market however breached its resistance and rallied to a high of 64.40 ahead of the close. Volume in the crude was good with over 224,000 lots booked on the day. The gasoline market also gapped higher from 175.50 to 179.00 amid reports of a fire at a catalytic cracking unit at Lyondell-Citgo's 270,000 bpd Houston refinery over the weekend. The unit is expected to remain shut for four to six weeks of repairs. The market backfilled its gap as it traded to a low of 175.50 early in the session. However it remained supported in light of the news and continued to trend higher ahead of the close. The market extended its gains to over 7 cents as it traded to a high of 182.00. It settled up 6.67 cents at 181.53. Similarly, the heating oil market settled

Technical Analysis		
	Levels	Explanation
CL 64.36, up \$1.73	<b>Resistance</b> 64.70, 64.80-64.99, 65.02 64.40	Previous high, Remaining gap, basis trendline Monday's high
	<b>Support</b> 63.40, 63.25 to 62.70 61.20, 60.35	Remaining gap Friday's low, Previous low
HO 198.33, up 3.33 cents	<b>Resistance</b> 201.00, 203.00, 204.35 200.75	Previous highs, 50% retracement (218.45 to 190.25) Monday's high
	<b>Support</b> 196.00, 194.25, 193.50 190.25, 187.00	Monday's low Friday's low, Previous low
HU 181.53, up 6.67 cents	<b>Resistance</b> 183.25, 184.50, 185.50 182.00	Previous highs Monday's high
	<b>Support</b> 180.00, 176.00 175.50	Monday's low

up 3.33 cents at 198.33. The market gapped higher from 196.00 to 200.00 and quickly rallied to a high of 200.75. The market however erased its gains and backfilled its gap as it

traded to a low of 196.00. The heating oil market settled in a sideways trading pattern ahead of the close as it remained supported. Volumes in the products were light with 32,000 lots booked in the gasoline and 31,000 lots booked in the heating oil market.

The crude market on Tuesday will likely remain supported following today's rally ahead of the close. The market will seek further developments of Tropical Storm Wilma. The market is seen finding resistance at today's high of 64.40 followed by 64.70, its gap from 64.80-64.99 and 65.02. Meanwhile resistance is seen at 63.40, 63.25 to 62.70 followed by 61.20 and 60.35.