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## ***ENERGY RISK MANAGEMENT***

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### **ENERGY MARKET REPORT FOR OCTOBER 19, 2004**

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According to a port official, crude oil is flowing at normal levels through Iraq's northern pipeline, linking the Baiji refinery with Turkey, despite a sabotage attack on the pipeline. Saboteurs late Monday attacked and set alight an oil pipeline. Shipping operations from the Turkish export terminal also continue as normal. Total SA lifted 1 million barrels of Kirkuk on Friday while ExxonMobil lifted 600,000 barrels on Monday. Cepsa and Repsol are each scheduled to lift 1 million barrels next week. Meanwhile, the head of SOMO said Iraq hopes to export 200,000 bpd in October through the northern pipeline and hopes to increase it to 300,000 bpd next month if security holds up.

Russia's Energy Minister Viktor Khristenko said the planned sale of Yukos' Yuganskneftegaz to pay off its back taxes will not affect production. The

#### **Market Watch**

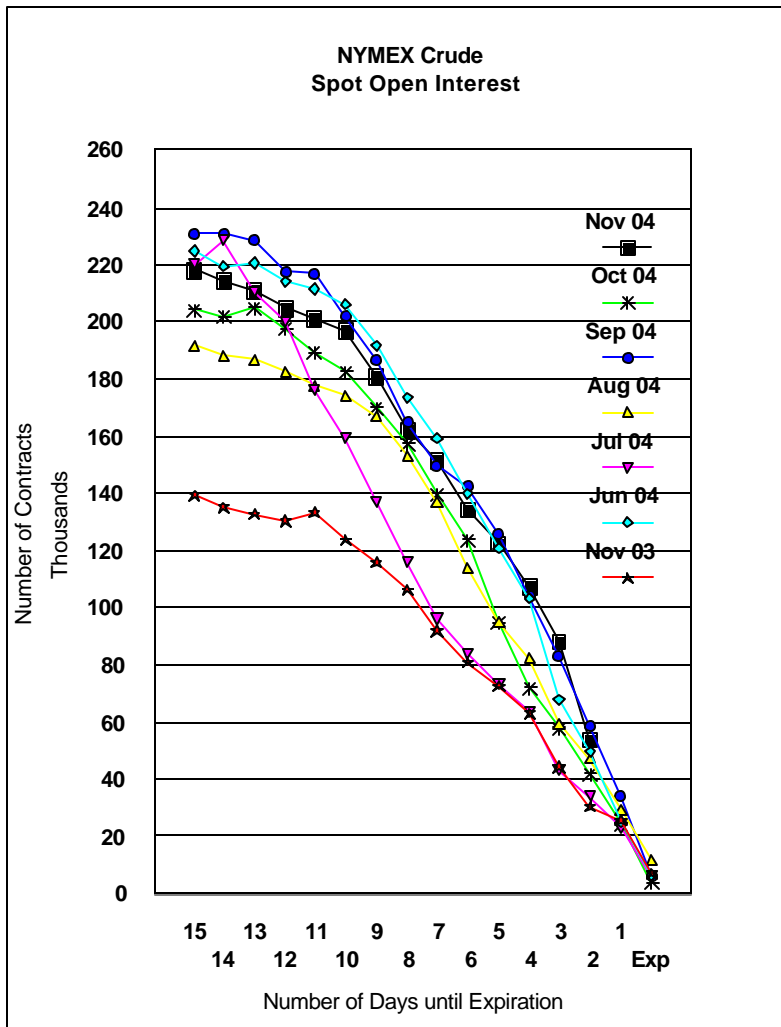
According to traders and shipping sources, the flow of gasoline exports from Europe to the US in October is expected to have fallen from September as European refinery maintenance peaks. They estimated the total flow of gasoline from both northwest Europe and the Mediterranean to the US will total about 900,000 to 1 million tons in October, down from estimates of 1.2-1.3 million tons in September. Product that may otherwise have been exported has been diverted to meet demand within Europe while several of the largest refineries have been down for maintenance. Estimates compiled by Reuters suggest that between 1.1 and 1.5 million barrels or 7.5-10.25% of crude distillation capacity, is undergoing work this month.

Analysts stated that record high prices and a murky short term market outlook threaten to run some US fuel distributors out of business. They stated that companies, similar to Star Gas Partners LP which announced on Monday that it faces bankruptcy, may face similar problems. The pressure is expected to spill over to consumers this winter, when many may be forced to pay for heating oil up front and defaults from distributors could leave some without scheduled deliveries.

Marketers of petroleum products in Nigeria increased the price of gasoline by about 40% on Tuesday, less than a week after the Nigeria Labor Congress suspended the general strike protesting a previous price increase. The NLC warned last week that it would resume the strike if the government did not rescind the previous increase within two weeks.

The NYMEX announced plans to open a trading floor in London after the NYMEX board approved the plan in a meeting Monday night. The Dublin exchange will offer open outcry trading in Brent crude oil futures contracts. It is expected to open as near as possible to November 1 to coincide with the move by the IPE to close its Brent crude trade pits during morning hours in favor of electronic trading. Trading hours will be 10am to 7:30 pm Dublin time, with after hours electronic trading on the NYMEX electronic Access system. Final settlement will be based on the Platts Brent Index.

OPEC's news agency reported that Saudi Arabia's oil income will reach \$92 billion this year. Oil revenue has increased by \$11 billion from last year due to record high prices and increased production. The average annual oil output has increased to 9.5 million bpd at an average price of \$40.87/barrel. According to a report by the Saudi Chamber of Commerce, GDP would increase by 2.9% this year.



government plans to sell off all or part of Yukos' main production unit against the parent company's billions of dollars of tax debt. Meanwhile, Deputy Economy Minister Andrei Sharonov said Yukos may still face the threat of bankruptcy even after the sale of its main production unit. The Federal Tax Ministry has indicated its plans fresh audits of Yukos' tax discipline in 2002 and 2003, creating the risk of further liabilities. The Russian Federal Property Fund may announce the terms of sale of Yuganskneftegaz by the end of the week. A government official stated that Russia's gas monopoly Gazprom could bid at the state auction for Yukos' Yugansk.

OPEC's news agency reported that OPEC's basket of crudes fell to \$45.47/barrel on Monday, down from Friday's \$46.14/barrel.

US Secretary of State Colin Powell said the US is doing all it can to put in place conditions that will allow Iraqis to conduct elections due by January 30. He also dismissed a suggestion by Democratic presidential candidate John Kerry that an international summit would draw more foreign troops to the US led multinational force in Iraq. He could not predict when US troops in Iraq would be withdrawn but suggested it would be a gradual process.

#### Refinery News

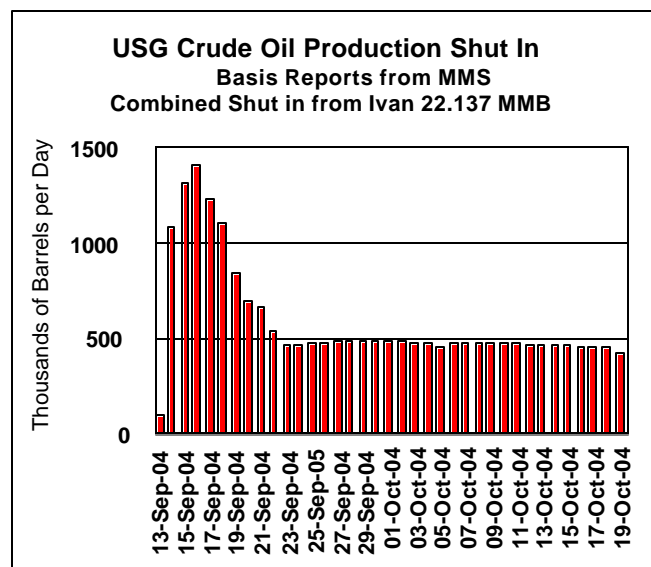
ExxonMobil Corp said a boiler associated with its fluid catalytic cracking unit at its Baytown, Texas refinery tripped offline on Monday. The cause of the incident was unknown.

Italy's API said its 80,000 bpd Falconara refinery is back up and running after a full shutdown since the start of the month.

East European refiners will add to the European Union's growing surplus of gasoline but could slightly reduce its shortage of diesel according to refiners. Of the 10 countries that joined the EU in May, Lithuania and Slovakia are expected to be regional exporters, while Romanian refiners are also upgrading plants to meet demand in the EU export markets. Europe is fundamentally short of middle distillate fuels such as diesel and jet fuel as its refiners have over-invested in gasoline production in recent decades while motorists are increasingly switching from petrol to diesel.

#### Production News

The MMS reported some further improvement in the amount of production still shut in the Gulf of Mexico. It stated that there was still 429,158 bpd of crude oil



production shut in on Tuesday, down from 457,550 bpd on Monday. It also reported that there was still 1.544 bcf of natural gas shut in.

Murphy Oil Corp said it resumed production at the Medusa field following disruptions by Hurricane Ivan. Production stood at 30,000 bpd of oil and 30 mmcf of natural gas, with production ramping up to pre-storm levels of 34,000 bpd and 34 mmcf of gas.

The Louisiana Offshore Oil Port's most recent nominations signal that tanker unloadings will be heavier than usual. The increase in nominations is a result of a draw in US oil inventories at the end of the third quarter and curtailed oil production in the Gulf of Mexico in the aftermath of Hurricane Ivan.

Mexico's Pemex exported 1.84 million bpd of crude oil in the first nine months of the year, up from 1.83 million bpd last year. It said its export crude oil averaged \$30.22/barrel in the first nine months of the year, up from \$24.65/barrel in 2003.

Petroecuador reported that Ecuador exported 4.09 million barrels of crude oil in September, down from 4.23 million barrels reported last year. Its oil export revenues totaled \$134.86 in September, up 34% on the year.

Russia's Transneft said Russia's crude oil production growth will slow significantly in 2005 as companies fail to maintain the growth rates of recent years. Russia increased its production by 11% in 2003 to 421 million tons and will increase production by about 7% this year to 450 million tons. However the head of Transneft, Semyon Vainshtok said Russia will be able to export some 5.11 million bpd of crude on average next year, up 6.3% from 4.81 million bpd expected this year.

Japan Energy Corp said it may import as much as 8 million kiloliters or 50.32 million barrels of kerosene in December and January to meet peak winter demand. The country's latest kerosene stock levels were 19% below year earlier levels, increasing concerns about a winter shortage.

### **Market Commentary**

The crude market settled in negative territory for the second consecutive session as traders continued to take profits. In follow through selling seen in overnight trading, the market gapped lower and opened down more than a \$1 as it posted an intraday low of 52.60. The November crude contract, which expires on Wednesday, quickly posted the day's high of 53.55. The market settled in a range amid the lack of any news and as traders awaited the release of the weekly petroleum stocks reports on Wednesday. The market, which attempted to test its low of 52.60 failed to do and erased its losses as it traded back to its high ahead of the close. However the market was unable to find the momentum to finish the session in positive territory and settled down 38 cents at 53.29. Volume in the crude market was excellent with over 247,000 lots booked on the day, of which 137,000 lots traded via spreads. Open interest in the crude market fell by a total of 20,191 contracts. Open interest in the November

contract fell by 34,351 contracts as traders continued to liquidate their positions ahead of the contract's expiration on Wednesday. Meanwhile the product markets ended the session mixed with the heating oil market settling down 12 points at 150.85 and the

| <b>Technical Analysis</b>        |                   |                        |
|----------------------------------|-------------------|------------------------|
|                                  | <b>Levels</b>     | <b>Explanation</b>     |
| <b>CL</b> 53.29, down 38 cents   | <b>Resistance</b> | 54.88, 55.00, 55.33    |
|                                  |                   | 53.55                  |
|                                  | <b>Support</b>    | 52.60                  |
|                                  |                   | 52.00, 51.50           |
| <b>HO</b> 150.85, down 12 points | <b>Resistance</b> | 154.70, 155.00         |
|                                  |                   | 151.20                 |
|                                  | <b>Support</b>    | 148.70                 |
|                                  |                   | 146.30, 143.50         |
| <b>HU</b> 135.73, up 69 points   | <b>Resistance</b> | 140.20, 142.00, 142.50 |
|                                  |                   | 136.00                 |
|                                  | <b>Support</b>    | 133.00, 132.20         |
|                                  |                   | 130.00-129.90, 126.00  |

gasoline market settling up 69 points at 135.73. The heating oil contract gapped lower on the opening from 149.55 to 148.70 on the opening but quickly backfilled its gap as it traded to an early high of 150.80. The market later settled in a range and as it failed to test its low, the market breached its early high and posted an intraday high of 151.20 ahead of the close. Unlike the crude and heating oil markets, the gasoline market posted in inside trading day. It opened down 1.84 cents at 133.20 and quickly posted an early high of 135.80. The market later retraced its move and posted an intraday low of 133.00, where it held good support. The gasoline market bounced off that level and traded to its intraday high of 136.00 ahead of the close. Volumes were good with 41,000 lots booked in the heating oil market and 45,000 lots booked in the gasoline market.

The oil market on Wednesday will seek further direction from the weekly petroleum stock reports which are expected to show builds in crude stocks of 2 million barrels, draws of less than 1 million barrels in distillate stocks and a build of about 500,000 barrels in gasoline stocks. The market will also be driven by the expiration of the November crude contract. The crude market is seen finding support at its low of 52.60 followed by its previous lows of 52.00 and 51.50. Meanwhile resistance is seen at 53.55 followed by 54.88 and 55.00.