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## ***ENERGY RISK MANAGEMENT***

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### **ENERGY MARKET REPORT FOR OCTOBER 19, 2005**

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OPEC's Secretary General Adnan Shihab-Eldin said OPEC's spare crude production capacity may increase by 4 million bpd to 5 million bpd in 4-5 years' time. He said it is estimated that OPEC would invest about \$30 billion each year over the next five years to raise crude production capacity by 5 million bpd to 38 million bpd in 2010. He also stated that light sweet crude prices may test \$70/barrel again next year. He said if oil product prices, especially middle distillates, fall under pressure, light sweet crudes will come under pressure and cause an increase in prices.

#### Market Watch

IMF managing director Rodrigo Rato said higher oil prices next year will not immediately curb demand or slow economic growth. However he stated that consumers had not yet felt the full impact of recent price rises and that any further increase could take its toll on the world economy. He said that to sustain strong global recovery over the medium term would require restoration of stability in the oil market in a manner that serves the interests of producers and consumers alike. Meanwhile, Saudi Arabia's Finance Minister Ibrahim al-Assaf said Saudi Arabia's King Abdullah asked the head of the IMF to advise wealthy countries to reduce taxes on crude oil products to ease the burden on consumers.

In a joint statement, energy ministers from Asia-Pacific Economic Cooperation called for the establishment of strategic oil stocks and a cut in subsidies for petroleum products.

The CFTC said it was monitoring recent actions by Refco Inc to gauge the effect on the part of the company that is regulated by the agency.

Iraqi oil officials stated that Iraq has repaired its northern pipeline and resumed exports to Turkey's Ceyhan port at a rate of 700,000 bpd after sabotage forced more than a month long halt in flows. However a shipping broker said crude had yet to reach Ceyhan. Officials stated that Iraq will fulfill obligations it has with Tupras before issuing any new Iraqi oil sale tender from Ceyhan. Tupras still has to lift its term contract volume of 2 million barrels. It however has issued a tender to sell 100,000 tons of high sulfur fuel oil from its southern Khor al-Zubair terminal on the Gulf. Separately, an explosion struck an oil pipeline in central Iraq early Wednesday. The attack damaged part of the pipeline carrying oil from the Baiji refinery to the Doura refinery. An Iraqi police officer did not have any further details about the cause of the explosion or the time needed for repairs.

According to the API, the rally in fuel prices following Hurricanes Katrina and Rita caused consumers to change their fuel use in September. It said consumers found ways to more efficiently manage their fuel use as evidenced by the largest year on year decline of gasoline deliveries in more than a decade. September gasoline deliveries fell nearly 4% on the year while distillate fuel and jet fuel deliveries also

fell. The API also stated that refinery inputs for September fell more than 7% short of year earlier levels and refinery capacity utilization averaged 82.7%, the lowest level for September in 20 years. It said crude production in September fell by 22% from last September to 3.95 million bpd. The API reported that gasoline stocks in September remained below 200 million barrels for a second consecutive month, ending September at 198 million barrels. It is down 3.5% on the year and 2.5% below the five year average for September. Meanwhile distillate inventories fell by 4 million barrels in September to 128 million barrels. However stocks were 3 million barrels above the September five year average.

The EIA reported that oil demand increased slightly last week from the previous week. An EIA analyst said that it may be an indication that demand is starting to recover with gasoline prices heading lower. He however cautioned against reading too much into the weekly EIA data showing a fall in demand.

The DOE reported that propane inventories built by 91,000 barrels to 67.54 million in the week ending October 14. It reported that inventories in the East Coast increased by 193,000 barrels to 4.345 million barrels while inventories in the Midwest fell by 208,000 barrels to 23.829 million barrels while inventories in the Gulf Coast increased by 92,000 barrels to 37.271 million barrels on the week.

**Refinery News**

Motiva is expected to restart its 275,000 bpd Port Arthur, Texas refinery this week. It said it is completing the final site assessments and repair work required to initiate the start up this week. The restart period is expected to extend into next week as equipment, systems and processes become fully operable and production increases towards normal operating rates.

Lyondell-Citgo's 270,000 bpd Houston, Texas refinery continues to operate at reduced rates due to a fire at a catalytic cracking unit over the weekend during restart operations. The refinery is expected to operate at 30% to 50% of its capacity until mid to late November.

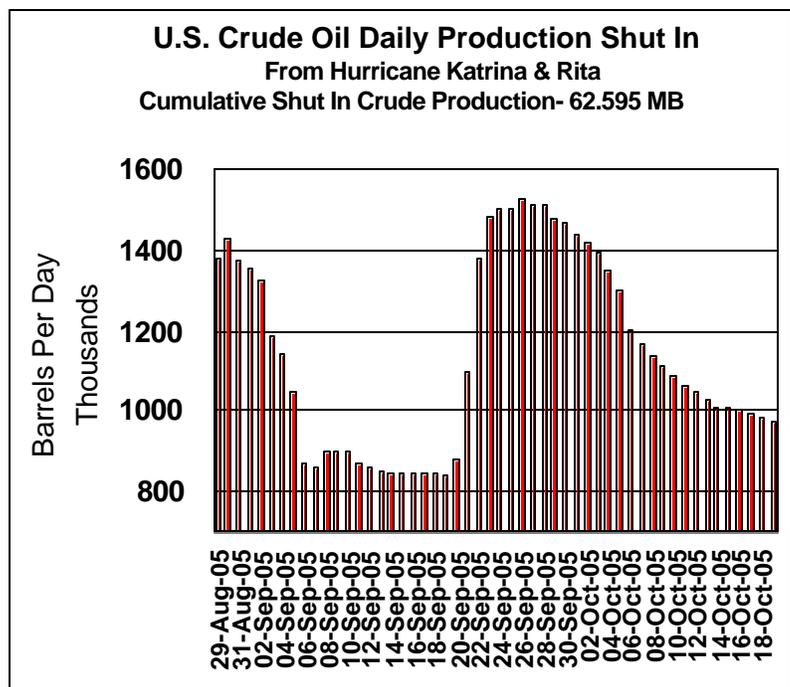
Saudi Arabia has short-listed three US oil majors as potential partners to build a 400,000 bpd export oriented refinery in Yanbu. ConocoPhillips, Chevron and Exxon Mobil have been short-listed.

**Production News**

The MMS reported a slight improvement in the amount of crude production shut in the Gulf of Mexico. It stated that a total of 973,084 bpd of crude production remained shut in, down from 982,011 bpd reported on Tuesday.

Louisiana's Department of Natural Resources said restored crude oil production in Louisiana was 28.1% of normal on Wednesday, up from 27.5% on Tuesday. It said output totaled 57,045 bpd, up from 55,756 bpd on Tuesday.

Pemex said it is keeping a close eye on Hurricane Wilma, although the company does not expect operations in the Gulf of Mexico to be affected by the storm.



Venezuela's Communications Ministry reported that Venezuela still plans to move forward with a second phase of the Sincor heavy oil venture with its foreign partners.

Russia's Rosneft plans to increase its oil production by 9.3% on the year to 82 million tons in 2006. Its expected oil output in 2005 is 75 million tons. Separately, Russia's Lukoil said its oil production increased 4.3% on the year to 66.86 million tons in January-September.

Russia's increasing exports of refined oil products have allowed the Baltic ports in European Union states of Lithuania, Latvia and Estonia to avoid running dry despite the fall in crude volumes from Russia. Port data showed that Tallinn remained the largest outlet for Russian products as it exported 19.9 million tons in January-September, up 1% year on year. Latvia's Ventspils port cut crude shipments to just 200,000 tons from 2.1 million tons in January-September last year. However its oil product exports increased by 13% to 12.9 million tons.

Russia's Transneft is expected to export 5 million tons or 1.22 million bpd via Primorsk in November, up from 4.76 million tons in October. Meanwhile, Ukraine's Black Sea port of Yuzhny is scheduled to load 540,000 tons or about two cargoes less than in October, when it is scheduled to load 635,000 tons. The Black Sea port of Novorossiisk is expected to load 3.9 million tons while Ukraine's Odessa terminal also maintains its volume flat in November at 400,000 tons.

Indonesia's Mines and Energy Minister Purnomo Yusgiantoro said the country plans to cut the volume of its subsidized products to about 700,000 bpd next year from 1.1-1.2 million bpd this year.

OPEC's news agency reported that OPEC's basket of crudes fell by \$0.83/barrel to \$54.41/barrel on Tuesday.

India's domestic sales of oil products fell by 3.2% in September as a high base, low demand from farmers and heavy stockpiling in anticipation of higher prices reversed the strong growth in sales in August. Diesel sales fell about 10% to 8.16 million tons down from 9.1 million tons in August. LPG sales fell by 2.8% while jet fuel sales increased by 18%.

The flow of West African crude oil to China in November is set to reach its highest level for seven months as refiners seek to stockpile transport fuel ahead of the New Year. Chinese buyers have purchased 23 cargoes of West African crude for November loading, amounting to about 728,000 bpd.

The Petroleum Association of Japan reported that kerosene stocks increased by about 3.9% on the week to 4.89 million kiloliters or 30.76 million barrels in the week ending October 15. It reported that total product stocks increased to 14.43 million kl, up 15.6% on the year. Meanwhile gasoline stocks increased by 1.9% on the week to 2.19 million kl. Crude stocks totaled 18.38 million kl, up from 16.34 million kl the previous week.

Korea National Oil Corp said South Korea's oil demand grew slightly in September after stagnating in August while crude oil imports increased 15.5% as refiners ramped up runs. Oil demand increased by 0.7% to 1.99 million bpd from a year before compared with an increase of 0.2% in August. Crude oil imports increased to 71.6 million barrels or 2.4 million bpd in September. South Korea's refinery crude runs increased to 70.1 million barrels or 2.3 million bpd in September, up from 65.7 million barrels or 2.2 million bpd a year ago and up from 66.5 million barrels or 2.1 million bpd in August.

Ecuador's central bank reported that its oil product export revenues between January and August increased by 68% to \$347.31 million from \$206.86 million reported last year. It exported 9.76 million barrels in January-August, up 9% from the 8.92 million barrels reported last year.

## Market Commentary

The energy complex sold off sharply following the release of the weekly petroleum stock reports showing larger than expected builds in crude stocks and unexpected builds in gasoline stocks. The crude market opened down 15 cents at 63.05 and quickly posted its intraday high of 63.25. However the market breached its support at 63.00 and extended its losses to over \$1.80 as it posted a low of 61.31 in afternoon trading. The market sold off following the release of the DOE and API reports, which showed builds of 5.6 million barrels and 11.3 million barrels, respectively. The market, which failed to test its previous support at 61.20 bounced off its low and retraced more than 62% of its earlier sell off. It traded back towards the 62.60 level ahead of the close and settled down 79 cents at 62.41. Volume in the crude was excellent with over 281,000 lots booked on the day. Open interest in the crude market fell by a total of 16,114 lots. Open interest in the November contract fell by 18,477 lots as traders continued to liquidate their positions ahead of its expiration on Thursday. The gasoline market settled down 5.89 cents at 167.63 after the market sold off in light of the reports showing unexpected builds in gasoline stocks. The market posted a high of 174.00 and posted a double bottom as it sold off to a low of 165.00 amid the signs of a recovery in production. The gasoline market later settled in a sideways trading pattern as it failed to breach its support. Meanwhile, the heating oil market settled down 2.08 cents at 191.34. The market traded to a high of 194.50 but quickly sold off to a low of 187.50 amid the weakness in the rest of the rest of the complex. It later bounced off its low and retraced most of its losses as it traded to 192.00 ahead of the close. Volumes in the product markets were good with over 37,000 lots booked in the gasoline market and 46,000 lots in the heating oil market.

The oil market on Thursday will be driven by the November crude contract's expiration. The market will likely remain pressured ahead of expiration following today's sell off. The market is seen finding support at 62.00, 61.50 followed by its low of 61.31. More distant support is seen at 61.20 followed by 60.35.

Meanwhile resistance is seen at its highs of 63.25, 64.15, 64.40, 64.70 and its gap from 64.80-64.99.

Technical Analysis		
	Levels	Explanation
<b>CL</b> 62.41, down 79 cents	<b>Resistance</b> 64.40, 64.70, 64.80-64.99 63.25, 64.15	Previous highs, Remaining gap Wednesday's high, Tuesday's high
	<b>Support</b> 62.00, 61.50 61.31, 61.20, 60.35	Wednesday's low, Previous lows
<b>HO</b> 191.34, down 2.08 cents	<b>Resistance</b> 200.75, 201.00, 203.00 194.50, 196.50	Previous highs Wednesday's high, Tuesday's high
	<b>Support</b> 190.00, 189.00 187.50, 186.60	Wednesday's low, Previous low
<b>HU</b> 167.63, down 5.89 cents	<b>Resistance</b> 174.00, 177.20 169.00, 170.00, 172.50	Wednesday's high, Previous high
	<b>Support</b> 165.00 164.00 to 162.00	Double bottom Gap (August 9th)