



ENERGY RISK MANAGEMENT

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ENERGY MARKET REPORT FOR OCTOBER 25, 2004

According to the IEA, the oil markets are so tight that extremely cold weather could be classified as a supply disruption. The head of the IEA, Claude Mandil said there could be a supply disruption if the winter happens to be extremely cold. He however stated that the US does not need to suspend crude oil shipments to its SPR to put more winter heating fuel on the market, because refineries have enough oil supplies. He said there is no need for governments to tap emergency fuel stocks even though oil prices show no signs of easing from current high levels. The IEA said record crude prices have peaked this year and should fall sharply within two years. The average crude import price has been around \$38/barrel but could fall more than 40% to \$22/barrel in 2006. It also stated that a long term upward shift in oil prices would cut fuel demand growth over the next 25 years and hurt OPEC by driving consumers away

Market Watch

The DOE said despite near record oil prices, the US has no pending requests from refiners for crude loans from SPR. The DOE has so far loaned a total of 5.4 million barrels of crude oil to five refiners in the US Gulf to offset shut in oil in the Gulf of Mexico.

An OPEC official stated that another year of record high oil prices may put a dent in the world's economic growth in 2005, with China being particularly vulnerable. He said the possible economic slide in China is a concern to OPEC. He also played down speculation that OPEC may call an extraordinary meeting ahead of its scheduled meeting on December 10.

BP chief executive, Lord Browne, said oil consumption is expected to grow almost as fast as the economy as a whole by about 3.4% compared with 4% GDP growth. He said that demand is likely to keep the price of oil above \$30/barrel over the medium term.

Venezuela's five pro-government oil unions are currently fighting themselves for control of work contract negotiations, forcing the Labor Ministry to intervene. The Labor Ministry asked PDVSA for updated lists of oil union members to determine which of the country's five oil unions is the largest going into contract negotiations. The ministry has to decide which union has representation.

The NYMEX is on track to start open outcry trading in Brent crude oil futures in Dublin next week. The timing of NYMEX's Dublin based contract follows plans by London's IPE to shorten its open outcry trading day for its Brent crude futures contract from November 1 and extend its electronic trading.

The NYMEX said it will offer over the counter options trading on the weekly crude oil inventory number released by the EIA. The options will help market participants manage exposure to the impact of reported crude oil inventories released by the EIA. The strike units of the options will be the number of millions of barrels of crude that could potentially be the difference in inventory from the previous week's report. The options will be traded through an electronic auction, with participants setting the price through their bids. The auctions will start at 8:30 to accommodate market interest from both Europe and North America. The first auction will be held on October 27. The change in the inventory will determine which options are in the money and which are out of the money.

from OPEC's supply. Separately, surging oil demand by the US, China and India will make stretched world crude supply chains dangerously vulnerable to piracy and terrorism. It said short term risks to energy security are expected to increase in coming decades as a greater share of oil and gas supplies will come from politically sensitive areas. It forecast world oil demand to increase to 90 million bpd in 2010 and to 121 million bpd by 2030 from the current 2004 estimate of 82.4 million bpd. It said OPEC will supply over half of the world's oil needs by 2030. It also placed doubts on Russia's ability to continue its efforts to increase its share of the world oil export market. It said the share of Russian exports in world trade will fall after 2010, as Russian production stabilizes, domestic demand expands and output increases in the Middle East. It raised its forecast for Russian oil output by over 20% to 10.4 million bpd by 2010. The overall pace of growth is slower than it was in the past five years and is expected to fall further from 2020-2030, requiring investment in developing new fields to replace reserves.

Separately, the IEA warned of a looming crisis in its widely watched energy data, conceding its ability to measure oil market fundamentals actually have worsened recently as less transparent developing countries are consuming more of the world's petroleum. It said the situation has become so bad that a new legal framework may be needed to get data accuracy back on track.

A new Norwegian oil strike that may be called this Saturday by the Federation of Oil Workers Unions, or OFS would not affect production from the Norwegian Continental Shelf. The OFS said it may call the strike Saturday against US oil services company, BJ Services Co over pensions and job schedules. An effort to mediate the conflict is scheduled for Friday. The OFS said earlier Tuesday that it would end another four month long dispute with the Norwegian Shipowners Association on Wednesday following government intervention. Norway's government intervened on Monday to end the strike, averting an escalation that had threatened to shut all of Norway's oil and gas production.

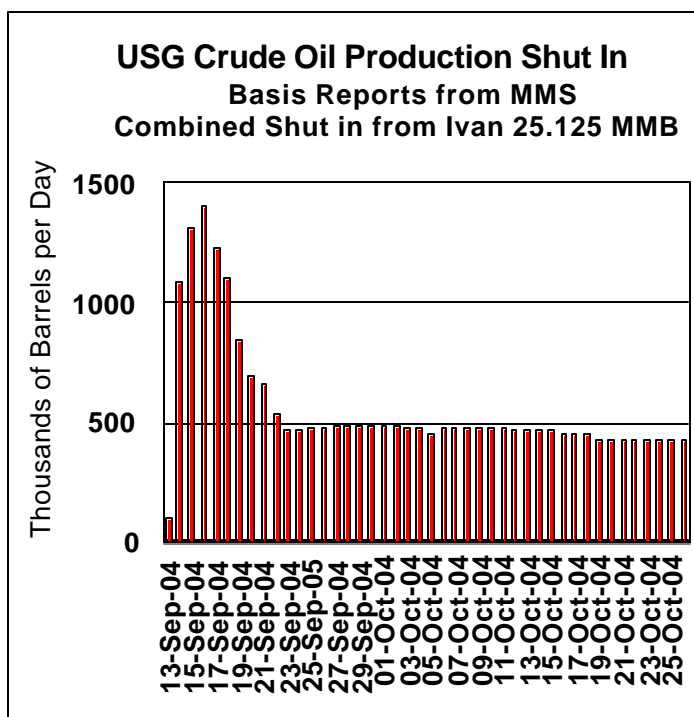
The Nigeria Labor Congress will meet on Tuesday to decide on whether to renew a general strike following the recent increase in fuel prices. A four day warning strike earlier in the month failed to force the government to reverse a recent 20% increase in pump prices and unions have said they will launch further strikes until they achieve their objective.

OPEC's President Purnomo Yusgiantoro said world crude output exceeded demand by as much as 2.5 million bpd. He added that he has asked members of OPEC to increase its production to give the market a signal that it is not short of supply. Meanwhile, Qatar's Oil Minister expressed concern over record high oil prices. However he said OPEC is producing near full capacity to keep world markets well supplied. He said there is no shortage of oil.

OPEC's chief economist said OPEC believes oil prices will fall before long and added that OPEC is prepared to cut its production if it sees oil inventories building too fast. He said OPEC has no intention to cut supply with prices so high. However he stated that OPEC would watch inventory levels to stop prices from falling too fast.

A former top Saudi oil executive said hopes that Saudi Arabia will double its oil production over the next 25 year to meet rising world fuel demand are not realistic. The US government's International Energy Outlook projects that Saudi Arabia will produce 22.5 million bpd of oil by 2025, as part of an expected doubling in production from OPEC to 61.5 million bpd.

Kurdish guerrillas have sabotaged an oil pipeline in southeast Turkey, causing some damage in the third attack of its kind in three days. Employees from



TPAO and the state pipeline company Botas repaired the damage and the spilled oil was transported back to a Botas installation.

Refinery News

BP plans to shut a hydrogen unit at its Texas City, Texas refinery in November for turnaround and process upgrades. It expects to shutdown the unit on Tuesday, with restart planned for the end of November or early December.

Flint Hills Resources has restarted a crude unit and is returning a sulfur recovery unit following a turnaround at its Corpus Christi, Texas refinery.

Japan's Idemitsu Kosan Co expects to restart a unit at its 140,000 bpd Hokkaido refinery in mid-November. A 30,000 bpd residue fluid catalytic cracking unit was shut on September 3 following a minor fire.

Production News

The MMS once again reported no change in the amount of crude oil shut in the Gulf of Mexico. It stated that there was still about 426,172 bpd of oil output shut in, unchanged from Monday. In regards to natural gas production, it stated that there was 1.514 bcf/d of natural gas production was shut compared with Monday's level of 1.518 bcf/d.

BP expects to bring about 145,000 bpd of US Gulf oil production back on stream in a week or so. Separately, Royal Dutch/Shell Group said it should have most of its oil and natural gas production that was shut due to Hurricane Ivan back in production within a week. Shell currently has about 70,000-80,000 bpd of oil equivalent in the Gulf of Mexico and a small amount may remain shut until mid-January. Shell said it will see between 9 million and 10 million barrels of oil equivalent production deferred.

Norway's Oil and Energy Minister Thorhild Widvey said Norway's 3.3 million bpd oil production target next year will prove more difficult to achieve after a rig workers' strike disrupted work for four months. The strike delayed drilling of new development and exploration wells. She said she expects oil prices to ease slightly from about \$50/barrel. However prices are expected to remain high overall.

Russia's Yukos hopes it will be able to retain control of its subsidiary, Yuganskneftegaz, despite moves by the government to force the sale of the unit. The Russian government has started preparations for the possible sale of Yuganskneftegaz to cover Yukos' tax debts. However Yukos has not been formally notified of the timing of any sale. Separately, Yukos has paid for its river crude oil shipments until the end of the navigation season, which usually lasts until late November.

Russia's Deputy head of the Federal Energy Service, Oleg Gordeyev said Russian crude oil output will grow by between 6 and 8% in 2005. Russia increased its output by 11% in 2003 to 421 million tons and will increase production by about 7% this year to 450-460 million tons or 9-9.2 million bpd.

Russia's Industry and Energy Ministry has increased its forecast for oil and gas production. It said that oil production would reach 550 million-590 million tons a year by 2020 if oil prices were at \$25-\$35/barrel. In August 2003, the government said oil exports are expected to reach 150 million-310 million tons a year by 2020. Oil exports are expected to continue increasing until 2010 and then stabilize at 326 million-360 million tons a year. By 2010, the annual throughput capacity of oil pipelines in Russia are expected to reach 303 million tons.

Market Commentary

The crude market opened down 34 cents at 54.20 in follow through selling seen in overnight trading as traders continued to take some profits following Monday's reports that the widening strike was averted in Norway. The market breached the 54.00 level and posted an intraday low of 53.85 as profit taking dissipated. The market bounced off that level and traded to 54.90 in afternoon trading as it held good support at 54.50. The December crude contract later breached its high and posted a new high of 55.25 ahead of the close. It settled up 63 cents at 55.17 as traders positioned themselves ahead of the weekly petroleum inventory reports. Volume in the crude market remained light with 162,000 lots booked on the day. The gasoline market also settled up 1.3 cents at 141.25 after it gapped lower this morning from 155.70 to 155.10. The market immediately posted an intraday low

of 153.80 before it bounced off that level and backfilled its gap. The market traded to 156.70 before it settled in a range. It however breached its early highs and rallied to an intraday high of 141.55 ahead of the close. Meanwhile, the heating oil market gapped lower from 155.70 to 155.10 and posted an intraday low of 153.80. However the market bounced off that level and traded to 156.70 where it held some resistance. It later traded to a high of 157.20 ahead of the close amid the strength in the rest of the complex. It settled up 28 points at 156.81. Volumes in the product markets were good with 46,000 lots booked in the gasoline market and 63,000 lots booked in the heating oil market.

The crude market, which continues to find further buying on its lows, will be driven by the weekly petroleum stock reports. The reports are expected to show builds in crude stocks of 1.5 million barrels and draws of about 1 million barrels in each gasoline and distillate stocks. If the market does show continued draws in distillate stocks, the complex will be further supported as concerns over winter supplies increase. Technically, the crude market is seen finding support at 54.50 followed by its low of 53.85 and 52.70. Meanwhile resistance is seen at its highs of 55.25 and 55.45-55.50.

Technical Analysis		
	Levels	Explanation
CL 55.17, up 63 cents	Resistance 57.44, 58.72 55.25, 55.45, 55.50	Bollinger band, Basis trendline Tuesday's high, Previous highs
	Support 54.50 53.85, 52.70, 51.95	Tuesday's low, Previous lows
HO 156.81, up 28 points	Resistance 165.86 157.20, 160.30	Basis trendline Tuesday's high, Double top
	Support 153.80 150.70	Tuesday's low Previous lows
HU 141.25, up 1.5 cents	Resistance 146.55, 151.43 141.55, 144.30-144.50	Bollinger band, basis trendline Tuesday's high, Previous highs
	Support 138.25 135.70	Tuesday's low Previous low