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## ***ENERGY RISK MANAGEMENT***

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### **ENERGY MARKET REPORT FOR OCTOBER 27, 2005**

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The head of the IEA, Claude Mandil warned that there may not be sufficient petroleum supplies to meet rising demand. He was referring to concerns that there would not be enough products to meet a possible rebound in demand over the next few weeks. He said if necessary, the IEA would call on its members to release additional oil and petroleum supplies to the market.

According to Oil Movements, OPEC's oil exports are expected to increase by 670,000 bpd to 25.13 million bpd in the four weeks ending November 12 compared with 24.46 million bpd in the previous estimate.

#### **Refinery News**

President George W. Bush said US oil companies need to build new refineries to increase gasoline supplies. He said he would work with Congress to pass a bill that makes it easier for

#### **Market Watch**

US Energy Secretary Sam Bodman said he would oppose any proposal to impose a tax or fee on the oil industry to help fund a government program that helps poor families pay their winter heating bills. He however said the administration was looking into ways to pay for the Low Income Home Energy Assistance Program and would offer a proposal soon. US Energy Secretary also stated that the Bush administration is considering creating an emergency inventory of gasoline and other refined products to guard against supply disruptions.

Murphy Oil Corp this week opened five adjustment offices in the Gulf Coast to meet with claimants who assert that oil from the Meraux refinery contaminated their homes. The Murphy settlement effort follows a 1.1 million gallon crude spill discovered after Hurricane Katrina. The plaintiffs case centers on the contention that Murphy did not adequately prepare the refinery for the storm and that the spill resulted from negligence.

The Commerce Department reported that US durable goods orders fell 2.1% in September after a revised 3.8% increase in August. It said excluding transportation equipment, orders fell 1% in September after increasing 5.1%.

Exxon Mobil Corp reported quarterly profit surged to \$9.9 billion in the third quarter from \$5.68 billion a year ago in light of record crude oil and natural gas prices. Marathon Also reported that its net income increased to \$770 million in the third quarter compared with \$222 million in the year earlier quarter. The company's average daily product for sale was 321,000 bpd of oil equivalent. Separately, Marathon said it plans to pursue an expansion of the 245,000 bpd Garyville refinery. The project is expected to increase the refinery's crude throughput capacity by 180,000 bpd to 425,000 bpd with completion possibly as early as the fourth quarter of 2009.

According to a report published by the US Independent Inquiry Committee led by former US Federal Reserve chairman Paul Volcker, about 2,200 companies in the UN oil-for-food program, paid a total of \$1.8 billion in kickbacks and illicit surcharges to Saddam Hussein's government. It said former Kremlin chief of staff Alexander Voloshin, leader of communists Gennady Zyuganov and ultra nationalist Vladimir Zhirinovskiy were all allocated large volumes of oil by the Iraqi regime under the UN oil for food program. It also said kickbacks were paid by state oil firm Zarubezhneft and Alfa-Eco. The report also stated that European companies like DaimlerChrysler AG, Siemens, Weir Group and Volvo were among those who paid kickbacks to the Iraqi regime. Iraq took its largest single kickback payment from Malaysia's Mastek. Iraq's SOMO took more than \$10 million in illegal surcharges from Mastek.

current refineries to expand and encourage the construction of new refineries.

ConocoPhillips' 238,000 bpd refinery in Linden, NJ resumed normal operations on Thursday following a power outage earlier in the week.

Lyondell-Citgo's 270,000 bpd Houston, Texas refinery is seen returning to full capacity following the completion of repairs to its fluid catalytic cracking unit at the end of November. A fire in the catalytic cracking unit occurred on October 16 as workers attempted to return the refinery to full capacity following its shutdown ahead of Hurricane Rita. The refinery is expected to remain at 30%-50% of capacity through the end of November.

Exxon Mobil said its Beaumont, Texas refinery has restarted and is in the process of returning to normal operations following damage from Hurricanes Katrina and Rita. Also, Exxon Mobil said it expects its refinery in Chalmette, Louisiana to return to full operations by the end of the year.

Workers at Shell's 418,000 bpd Pernis refinery in Rotterdam will go on strike on Monday afternoon if the management fails to meet their pension demands. Production at Pernis would not shutdown completely on Monday due to safety measures. A spokesman for the FNV union said it could take two weeks to shutdown completely. Shell wants to change the age when people retire from 60 to 65 and make people start paying for their premiums.

South Africa's Engen plans to restart its 150,000 bpd refinery early next week after a month of maintenance work. The refinery was shut at the beginning of October for planned maintenance and to upgrade units to produce cleaner fuels.

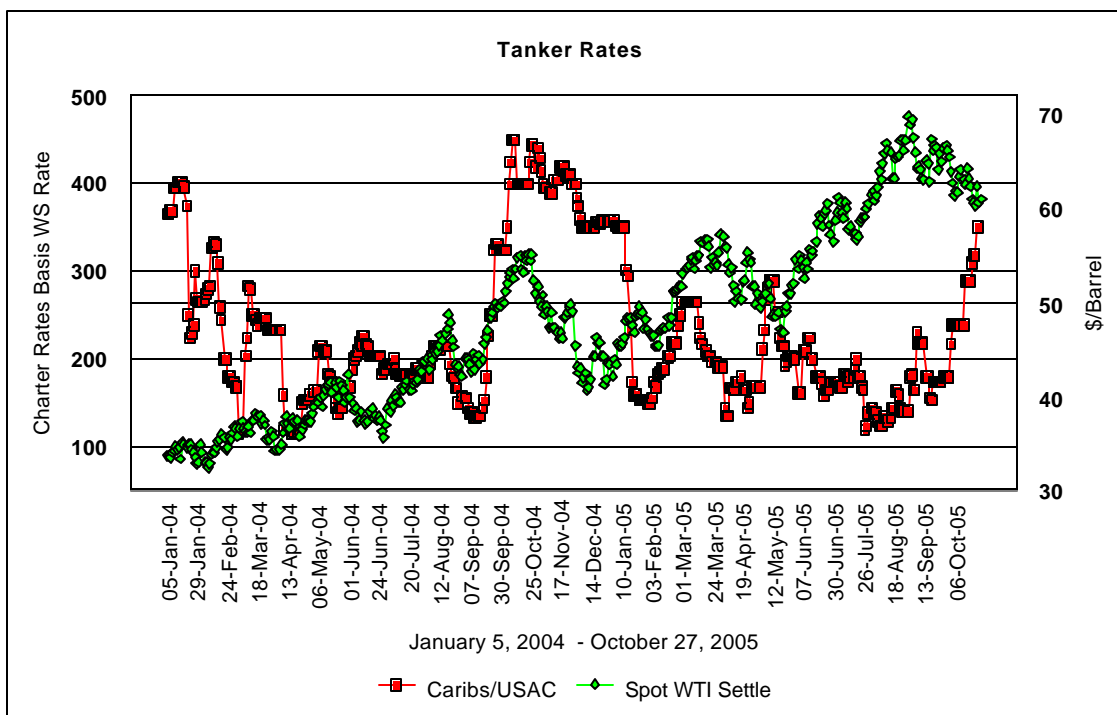
Japan's Nippon Oil Corp said it would refine the same volume of crude in November as in October, when it reduced crude runs amid light fuel demand and rising inventories. It said it would refine 4.8 million kiloliters or 1 million bpd of crude in November, down 7% on the year.

China may double the number of its major refineries to 20 by 2010 in a bid to meet rising gasoline and diesel demand

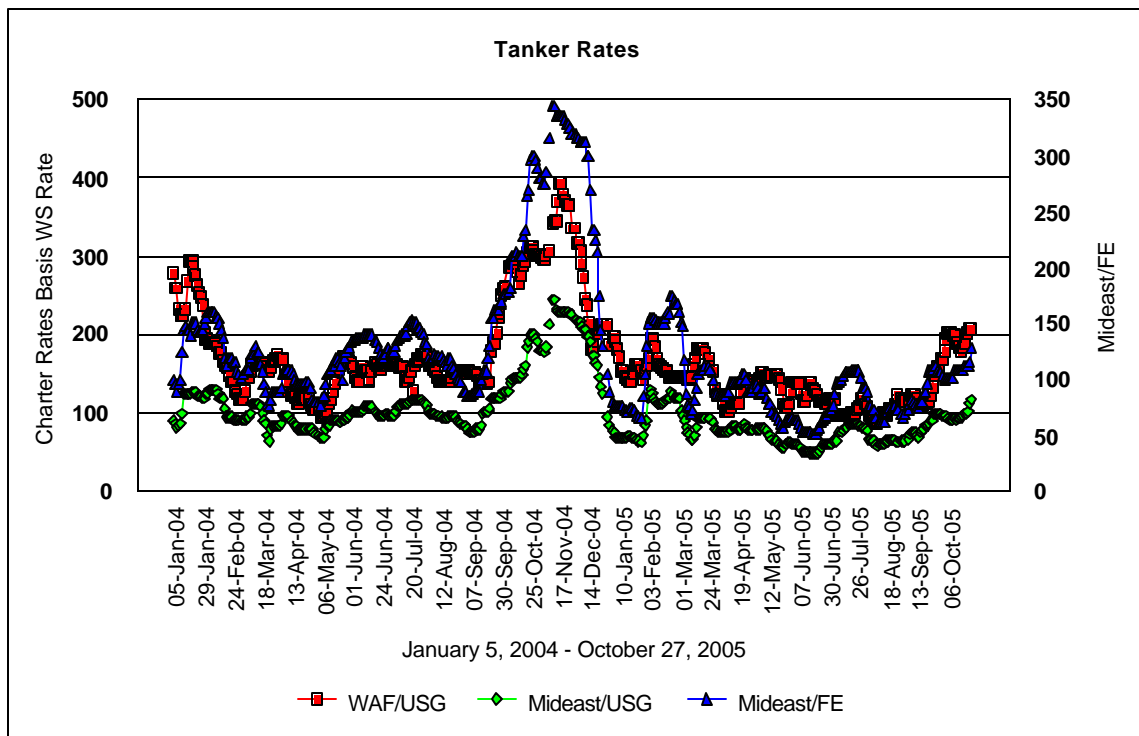
if it decides to proceed with its tentative blueprint under a five year plan.

**Production News**

US Interior Secretary Gale Norton said crude oil production impacted by the hurricanes in the Gulf of Mexico would not return to normal for



many months. US oil and natural gas production should likely return to pre-hurricane output by the end of March. She said recovery is dependent on repairs to onshore facilities, offshore and onshore pipelines, transportatio



n systems and offshore platforms. She said about 45% of oil and gas pipelines in the Gulf are operating while 30% need repair. The remaining 25% of pipelines are undamaged but cannot be used due to downstream problems.

According to the MMS, oil and natural gas production shut in following the recent hurricanes showed no improvement on Thursday. There was still 1.022 million bpd of crude shut in. The cumulative shut in oil production since August 26 reached 70.595 million barrels.

Royal Dutch Shell said it has restored under half of its lost oil and gas production in the Gulf of Mexico. Its share of lost output in the Gulf of Mexico was 450,000 bpd of oil equivalent. Separately, Shell said another 150,000 bpd of Gulf of Mexico production was expected to come back on line during the fourth quarter of this year. Shell said production from its Mars platform is seen resuming operations in the second half of 2006. It said

Newfield Exploration Co plans to restore 200 million feet equivalent/day in oil and gas production in the US Gulf of Mexico by the end of October. Newfield produced about 325 mmcf/d before Hurricane Katrina and Rita struck. It expects to have 250 mmcf/d of production restored by the end of November and 300 mmcf/d by the end of 2005.

The Transport and General Workers Union said more than 70 British oil tanker drivers employed by BP Plc have called off their plan to strike on Friday following overnight talks. The drivers voted to strike for five days from Friday last week after their jobs were transferred from their former employer Exel to BP. They claimed the move lessened the value of their pensions.

According to Petrologistics, OPEC maintained its output steady in October from September at about 30.3 million bpd. Preliminary data for the first half of October showed Saudi Arabia's output at about 9.6 million bpd, little changed from September. It said it revised down September's OPEC output to 30.3 million bpd from its preliminary estimate of 30.6 million bpd.

Oil product stocks in ARA storage tanks fell this week with jet fuel leading the drop as spot exports increased. Jet fuel inventories fell by 135,000 tons over the past week to 295,000 tons as arb cargoes were exported to the US. Gasoline stocks stood at 580,000 tons compared with 595,000 tons the previous week. Distillate stocks fell to 1.85 million tons on the week from 1.9 million tons the previous week. Meanwhile, fuel oil inventories fell to 400,000 tons from 420,000 tons last week while naphtha stocks also fell by 40,000 tons to 50,000 tons.

Russia's Energy Ministry said the country's benchmark Urals crude had good prospects for replacing Venezuelan crude as a supplier to the US SPR. He said Russian oil and oil products supplies to the US were running at 470,000 bpd in 2005, up from 205,000 bpd last year. The ministry said supplies could grow to as high as 1 million bpd in a few years if Russia builds new export pipelines and the US start actively buying more Urals crude for the SPR.

Russian crude and refined product exports by river decreased by 18% year on year in April-September to 8.5 million tons. Crude oil shipments by river fell to 404,653 tons compared with 3.184 million tons in the same period last year.

Russia's Transneft confirmed a record 5 million ton or 1.22 million bpd November oil export schedule for its Baltic Sea port of Primorsk. It was scheduled to export 4.76 million tons in October and 4.9 million tons in September.

Ukrainian companies exported 91,796 tons of oil in January- September, down 71.8% on the year. In January-September, gasoline exports increased by 6.3% on the year to 373,371 tons while diesel fuel exports fell by 24.3% on the year to 845,744 tons in the period. Heating oil exports fell by 16.6% on the year to 4.39 million tons.

Singapore's International Enterprise stated that the country's middle distillate inventories increased by 1.14 million barrels to 8.94 million barrels in the week ending October 26. Its light distillate stocks increased by 600,000 barrels to 8.352 million barrels while residual fuel stocks increased by 947,000 barrels to 11.345 million barrels.

China has started building its second batch of strategic oil storage tanks in the eastern island of Aoshan. A total of 50 tanks, each of 100,000 cubic meters or 630,000 barrels are scheduled for completion by the end of 2008.

China is expected to keep its gasoline exports in November at about 200,000 tons as state refiners remain pressured to increase domestic supply despite rising inventories. It would be the third consecutive month China has kept exports of gasoline at a minimum. Meanwhile, an official at the National Development and Reform Commission said supplies of coal, electricity, oil products and transportation have been steadily increasing.

Thailand's Commerce Ministry reported that the country's crude oil imports in September increased nearly 20% on the year to 3.552 billion liters or 745,122 bpd.

OPEC's news agency reported that OPEC's basket of crudes increased by \$1.12/barrel to \$54.41/barrel on Wednesday.

### **Market Commentary**

The oil market opened 50 cents higher at 61.16 as the market retraced some of Wednesday's late losses. The market was supported amid comments made by the head of the IEA, Claude Mandil that he could not rule out a supply gap. He warned that there may not be enough supplies to meet

demand. The oil market however failed to maintain its gains and sold off to a low of 60.25 prompted by a sell off in the natural gas market in light of the EIA natural gas storage report showing a larger than expected build of 77 bcf. The crude market later retraced its losses and settled in a sideways trading pattern from 60.25 to 61.00 before short covering late in the session pushed the market to a high of 61.50. It settled up 43 cents at 61.09. Volume in the crude was light with 151,000 lots booked on the day. The product markets ended the session in mixed territory, with the gasoline market settling up 81 points at 159.26 and the heating oil market settling down 22 points at 185.39. The gasoline market, posted a mostly neutral trading session after trading in a 4.5 cent trading range. The market opened at 159.25 and posted a high of 160.00 before it sold off to a low of 156.00 in follow through selling seen in the crude market. The gasoline market however erased its losses and traded to a high of 160.50 late in the session amid the news that the Bush administration was considering creating an emergency stock reserve of gasoline and other oil products. The heating oil market posted its high of 187.50 before it quickly sold off to a low of 184.00 following the sell off in the natural gas market. The market retraced some of its losses and settled in a range. Volumes in the product markets were lighter today with 42,000 lots booked in the gasoline market and 40,000 lots booked in the heating oil market.

The oil market on Friday is seen continuing to trade in a range after posting a mostly neutral trading session. The market, which has failed to breach its downward channel, is seen finding support at 60.70 followed by 60.25, 59.30 and 59.15. Meanwhile resistance is seen at 61.50, 61.75 and 62.05.

More distant resistance is seen at 62.95 and 63.20.

Technical Analysis		
	Levels	Explanation
<b>CL</b> 61.09, up 43 cents	<b>Resistance</b> 62.95, 63.20 61.50, 61.75, 62.05	Wednesday's high, Previous high Thursday's high
	<b>Support</b> 60.70, 60.25 59.30, 59.15	Thursday's low Previous lows
<b>HO</b> 185.39, down 22 points	<b>Resistance</b> 194.50 187.50, 190.00	Double top Thursday's high
	<b>Support</b> 184.00 182.30, 179.00	Thursday's low Previous lows
<b>HU</b> 159.26, up 81 points	<b>Resistance</b> 162.00, 165.00, 168.00 160.50	Previous high Thursday's low
	<b>Support</b> 156.00 153.30	Thursday's low Previous low