The Windham Group

Energy Futures Brokerage

ENERGY RISK MANAGEMENT

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ENERGY MARKET REPORT FOR NOVEMBER 1, 2004

Over the weekend the Nigerian Labour Congress and a coalition of civil society bodies called on workers to launch an indefinite work stoppage starting November 16th in protest over the governments refusal to roll back rising fuel prices. Shell Oil which manages some 50% of Nigerian oil production, went to court Monday seeking an injunction to prevent workers from going on strike in response to an unrelated issue, its restructuring plan. But the courts failed to grant the injunction at this time, and the company's action has had the effect of further energizing the strike effort in the country. By the end of the day the Nigerian Labour Congress had branded the company as "an enemy of the Nigerian people" and called for action against the company. Meanwhile the Nigerian government said it would keep negotiating with labor unions to dissuade them from the planned work stoppage, but if negotiations fail, the government would not step in and prevent the strike from going forward.

Market Watch

The NYMEX began its open outcry trading of its new Brent contract in Dublin today. During the first 20 minutes the Dublin traded contract traded over 1,000 contracts and after the first four hours of trading, when IPE Brent trades only via its electronic system the NYMEX Brent contract traded 3883 lots versus over 15,000 lots on the IPE system. Final volume for the day was 5,725 lots. The NYMEX is offering financial incentives for local traders to trade in the market. Some 100 traders and clerks from London and New York have been registered to trade the contract and some 40 were present today. Meanwhile the NYMEX was in talks with UK regulators about starting open outcry oil trading in London but will let market demand decide whether it will move from Dublin. The exchange said it was moving forward with registration with the FSA. The exchange also said it continues to move forward with talks with Dubai about finalizing an agreement by the end of this year to trade a crude contract there.

The head of the Mexican oil company, PEMEX, unexpectedly resigned today, following recent scandal swirling in the company over his recent approval of a $667 million payout for healthcare and housing loans for unionized staff workers without seeking backing from the board.

The head of Al Qaeda's Saudi Arabian group claimed on their website today that despite the government's widespread security clampdown the group remains strong in Saudi Arabia.

Russia's Finance Minister said today that Russia's oil stabilization fund, which was established to collect windfall oil revenues, should grow in line with the economy to provide long-term insurance against any oil price slump. He was going to propose replacing a static floor for the fund at $17.4 billion, with a minimum pegged to GDP. The fund can only be spent to cover budget deficits.

Candidates backed by Venezuelan President Chavez swept all but two of the 23 governorships in Sunday's regional elections. Shortly after the results were announced, Chavez vowed to push forward with his left-leaning "revolution".

Iraqi oil officials reported that a "big" explosion had occurred on the country's northern oil export line, some 65 kilometers southwest of Kirkuk. While no damage assessments were initially provided, a port agent did confirm later in the day that all export loadings at Ceyhan had been stopped as a result of the attack. Iraqi oil officials earlier in the day had reported that oil exports had been running normally at 1.8 million barrels, with nearly 300,000 b/d flowing through the northern pipeline and 1.5 million from the south.

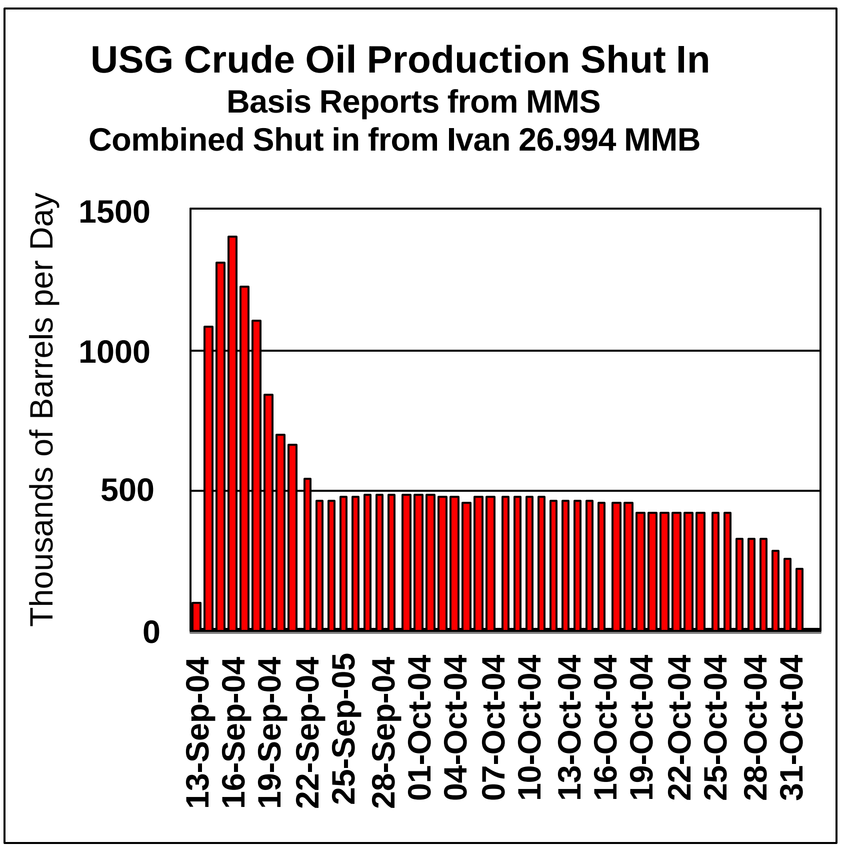
The Indian government today said that it can not afford to cut duties on petroleum products any further, despite calls by leftist parties in its ruling coalition to limit the impact on consumers from rising retail prices.

Sinopec announced it has bought a second spot cargo of gasoil for November, bringing its monthly purchases for November for distillate to 60,000 tonnes. Both purchases were done above the prevailing domestic Chinese retail price, resulting losses for Sinopec. The Chinese government continues to resist importers demands that it should raise oil product prices in the domestic market. The government last raised gasoil and gasoline retail prices back on August 26th.

Refinery News

Kuwait reported that exports of oil products have resumed following a temporary halt on Sunday, when a nationwide power outage forced the nation's three refineries and export loading facilities off line. The refineries Monday were reportedly running at more than half of their operable capacity, at some 500,000 b/d. Crude oil exports though reportedly were not affected.

Indian Oil Corporation said it may take up to a month, if not more, to restart its FCC unit at its 274,000 b/d Koyali refinery. An earlier blast at the unit has cut crude throughout at the refinery by 15-20%. The company last week had said the outage would last only one week.



Alon USA plans to shut down a fuel gas treater unit at its 61,000 b/d refinery at Big Spring, TX. The company noted that the unit was being taken down due to possible leaks in the hydrogen stripper tower. No estimate for the duration of the work or a restart date have been given by the company.

Reuters reported that according to its market sources it estimates that Chinese refinery rates should continued to be maintained at high levels of 90% of capacity.

Valero anounced today that it was buying Kaneb Services and Kaneb Pipeline Partners for some $2.8 billion.

S-Oil Corp., South Korea's third largest oil refinery resumed bunker fuel sales Monday following a 10-day halt, but still warned that supplies remain tight. They did not expect their supplies to return to normal until mid-November.

Production News

Shell Oil reported today that it has decided to delay maintenance work on the flexjoints at its Mars oil and gas platform in the Gulf of Mexico originally scheduled for early November, back until the latter part of the first quarter of 2005. The work is expected to take some two weeks and shut in some 100,000 b/d of crude production and 170 Mmcf/d of gas output.. Shell originally shut production at the platform back in May when problems were discovered with the joints. Temporary repairs took until June 28th when production was resumed.

The U.S. Minerals Management Service reported today that U.S. oil production in the Gulf of Mexico that has been shut in following Hurricane Ivan had been reduced by some 103,339 b/d this morning, and stood at 224,033 b/d. The agency reported that some 295 Mmcf/d of shut in natural gas production returned over the weekend, and now just 904 Mmcf/d of production remained shut in. A total of 26.99 million barrels of crude oil and 110.2 bcf of natural gas production has been shut in since mid-September.

Saudi Aramco reported that it had raised its November contract price for propane by some $65 to $463 per tonne.

Yukos confirmed today that its main oil producing unit, Yugansknet , was delivered a tax audit bill by Russian officials demanding 67.5 billion roubles for 2001 and increased its demand for 2002 to 29.6 billion roubles. These new tax bills will increase Yuko's debt to the government to over $17 billion. While there were some reports circulating in the markets that Yukos had paid off its $3.4 billion tax arrear bills for 2000, the company's CFO said Monday that the company still ad not completed this payment.

The Norwegian Federation of Oil Workers Unions averted a new strike this weekend when it reached agreement with the oil services company BJ Services. The union had been threatening to go on strike since last week. If the strike had gone forward it would probably not have impacted 2004 production levels but would have impacted planned 2005 output as development projects would have been delayed.

While the Chinese government today set 2005 export quotas for several metals, it also announced export quotas of 1 million tones of crude oil, with oil product exports quotas set at 12 million tons and 14 million tons for coking coal.

Turkey's Bosphorus Straits remained open to tanker traffic Monday but the Dardanelles Straits remained closed due to continued heavy fog.

Market Commentary

The oil markets opened higher this morning for the second straight session as news of a new strike threat in Nigeria and the disruption of Kuwait refining operations Sunday coupled with a supportive weather forecast for the U.S. Northeast for the next couple of weeks, seemed to drive the bulls back into the market. But these early morning gains appeared to stall when prices were not able to retrace more than 38% of the previous three day sell off and the bears returned. Heating oil values seemed to lead the way down on some light fund selling that initially triggered stops. While the initial volume on the sell off was relatively light, given that it was not driven by overwhelming sell orders but rather another vacuum on the buy side, volume did pick up as Friday's lows were breached and the sell off became a rout. Some 30-40 minutes later the market had erased a dollar of value in the December heating oil crack and had seen heating oil prices drop nearly 10 cents with crude and gasoline off $3.00 per barrels and more than 6 cents per gallon in gasoline. It seemed that after this rapid sell off everyone in the market, including us, was too dazed and stunned to understand why or how this sell off had occurred. While backfilling a gap in the crude charts from October 5th coupled with news of the Iraqi pipeline attack seemed to provide a lifeline to a plunging market, it failed to drive the market significantly higher as it would have done just a few short days ago. The market as a result spent the remainder of the day trading in a sideways pattern. While an erroneous initial report from the MMS late in the trading session, which had showed an increase in production shut ins from Friday may have aided in the late modest recovery in prices, it was too little to late, as December crude and heating oil settled at their lowest levels since October 4th and December gasoline at its lowest level since September 23rd. Final volume was good with 223,000 traded in the crude futures market, with 49,000 booked in heating oil and 34,000 in gasoline.

Some market watchers attempted to explain today's sell off had been triggered by nervousness by market speculators that a Kerry victory in Tuesday's presidential contest would mean lower oil prices. We are just dumbfounded that news wire services are that shallow and gullible to print such stories.

We will be the first to admit that while we had been beating the drum that October pre-season buying mania could result in the highest prices for the heating season being recorded, we still look back on today's news events and feel they should have prompted at least some form of rebound that held for more than 30 minutes in oil prices. As a result we do not feel comfortable in navigating these markets until some of the emotion and technical mania is cleared out in flat price decision-making. We feel though that fundamentalists could find some safe haven in focusing on spread market relationships. We feel that the hard sell off in the December heating oil crack today continues to signal the return of refiners to the market and that their production levels will be increasing significantly in the coming several weeks as it appeared they have been flooding into this market to lock in these refining margins. We would look for any rebound in this spread to be simply selling opportunities since it is ultimately destined in our mind to breach the $8.00 level and head toward $7.00 by the time it expires. On flat price outlook we feel one has to look at today's outside trading day and settlement near the lows as providing further damage to the bull's case. In addition there appears to be a growing consensus among may traders that the 50-day moving average could provide the last major support to this bull market. Tonight these support levels in crude stood at 48.24, 135.76 in December heating oil and 128.11 basis December gasoline.

Technical Analysis

		Levels	Explanation
		51.73 & 52.47	38% & 50% retracement of the past week sell off
	Resistance	50.50	Monday's mid-morning high
CL	50.13, down $1.63		
	Support	49.30	Monday's low
		48.48 & 46.78	50% & 62% retracement level (Aug-Oct bull move)
		136.43 & 138.38	50% and 62% retracements
	Resistance	134.47 and 134.70	38% retracement of the last week sell off, Today's high
HO	140.76, down 5.65 cents		
	Support	139.00,137.25	Monday's low & 50 day Moving average
		137.00 & 131.34	50% & 62% retracement of the Aug-Oct bull move
		148.95 & 150.00	Today's high and 50% retracement
	Resistance	147.40	38% retracement of the last week sell off
HU	129.08, down 3.77 cents		
	Support	128.15	Monday's low and 50 day moving average
		128.50, 127.10	Previous low, 50% retracement (109.50 and 144.70)