



## ***ENERGY RISK MANAGEMENT***

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### **ENERGY MARKET REPORT FOR NOVEMBER 4, 2004**

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Iraqi oil officials today reported that they expect crude oil exports from the Kirkuk oil fields to resume Friday. Officials said that the main trunk pipeline to the Ceyhan oil terminal was undamaged by this week's attacks. Iraqi officials though were quoted as saying that Iraq plans to step up security on its Ceyhan bound pipeline. They noted that their temporary security measures are not substantial, but that they would seek to establish a complete security shelter over the line as well as using aircraft protection.

Market traders today noted that the news that was sweeping across financial market that Palestinian leader Yasser Arafat had died appeared to help depress oil prices.

Colonial Pipeline today announced it was extending its policy of allocating line space on its distillate mainline, Line 2, north of Collins, MS to Greensboro, NC, to the 32<sup>nd</sup> cycle. The decision was made because nominations continued to exceed the company's ability to meet its 10-day lifting cycle. Colonial also announced it has delayed plans to reset its 36-cycle year to a 72-

#### Market Watch

Russian Finance Minister Kudrin has won key backing from top governmental and banking officials for his plan for Russia's windfall oil gains to be used exclusively to pay down foreign debt from 2006, but the oil price in which money would start flowing into the fund would be raised by \$1 to \$21.00 per barrel, thus freeing up some \$2 billion a year for investment in Russia's infrastructure. The fund was set up this year.

China's foreign exchange officials said today that they hope to have a flexible exchange rate, but the government will look to control volatility and possible financial risks, but gave no time frame for implementing the policy.

The drought gripping the southern section of China has resulted in some 1,100 reservoirs drying up over the past several months, that has dramatically cut hydro generation in the region. The Guangi government said the power supply in that area has "developed to a whole-day shortage from a peak time shortage".

The Indian government reportedly is likely to approve tomorrow a raise in retail prices of gasoline and diesel by INR1.50 a liter and INR1 a liter respectively. Retail prices have not been raised since late July.

A Russian Court this morning ordered Yukos to surrender its 14.5% stake in OAO Sibneft to the original owners of its failed merger partner. In return Sibneft's former owners are to return 8.8% of Yukos to shareholders.

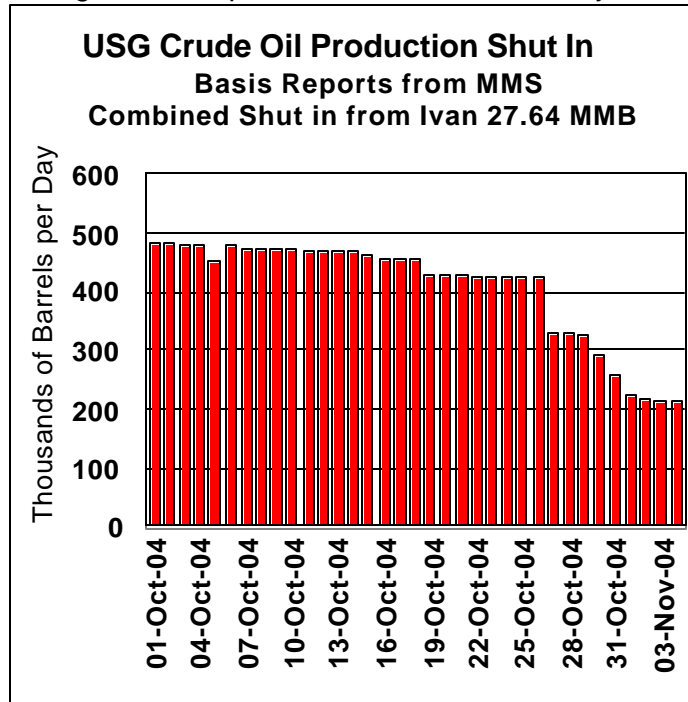
The Association of Railroads said that convergence of an improving economy, increased international trade, bumper crops and higher fuel prices has led to a record setting year for U.S. railroads this year. Through the end of October the rail industry has moved 1.3 trillion ton miles or more than 4% better than the same period a year ago.

NYMEX's Dublin based Brent contract posted a traded volume of 4188 lots today up from Wednesday's total of 3937 contracts. The IPE posted a comparable volume of over 25,000 contracts. Meanwhile the IPE said today that it has no timetable for a full transition to electronic trading and thus will maintain screen and open outcry trading for now.

cycle year until 2006, abandoning plans to implement the changes in 2005.

The Nigerian labor strike continues to loom as a growing possibility, today as the Nigerian Labour Congress has withdrawn from a committee that had been attempting to work out a compromise between the two sides on the recent retail fuel price increases and seeking a way to cushion the effects on workers. Labor leaders withdrew after receiving a letter from the Nigerian president stating that the committee did not have a mandate on reversing the 23% September price increase.

The Algerian Energy minister today warned that cold winter weather, coupled with continued Middle East tensions are likely to push oil prices higher in the near future. He saw high prices continuing through the first quarter of 2005 and is unlikely to fall below \$30 a barrel next year.



Venezuela's vice minister for oil warned today that world oil prices could still continue their upward trend as demand stays high, since OPEC is losing its leverage to move oil markets. Meanwhile the Venezuelan oil minister said today that OPEC should eliminate its outdated price band system and it will be discussed next month at the cartel's meeting. He went on to warn that oil prices have not yet peaked and that the market should remain volatile, due in part to the U.S. policy in the Middle East.

#### **Refinery News**

The Petroleum Association of Japan reported today that for the week ending October 30<sup>th</sup> there was some 4.39 million kiloliters of kerosene stocks, down 150,000 kiloliters from the previous week and some 11.5% less than the same week a year ago.

The government of Singapore reported that this past week, onshore stocks of naphtha and gasoline rose by 625,000 barrels to 10.32 million barrels, the highest level since April. Residual fuel stocks were estimated to have fallen by 266,000 barrels for the same period, to 11.377 million barrels. Middle distillate stocks also declined, dropping by 210,000 barrels to 7.569 million barrels.

Shell Oil reported today that its 58,000 b/d reformer unit at the Deer Park refinery is in the process of restarting after some two weeks of planned turnaround maintenance. The unit is expected to be back to its normal operating rates by the end of the week.

Valero's 155,000 b/d Benicia, CA refinery reportedly was experiencing a delay in restarting some units following its planned 35-day turnaround. Sources said it would be mid-November before all units would be back on line.

Indian Oil said its LPG imports may rise in the near term to meet domestic demand, particularly in western India, due to its recent refinery problems. Some Indian officials warned today that it may take 100 days to bring back up the FCC unit at the Koyali refinery. The unit was damaged by a fire last week as operators were attempting to bring the unit back into operation after recent maintenance.

Gas oil inventories in independent storage in the ARA area were unchanged on the week at 1225 thousand tonnes. This was some 25,000 tonnes less than a year ago. Gasoline stocks increased by 150,000 tonnes and reached their highest level in six weeks, as it reached 675,000 tonnes. Year ago levels for gasoline were some 200,000 tonnes less than current levels.

ERG's 230,000 b/d Isab Sud refinery will restart on November 20<sup>th</sup> after its planned 36 day shutdown, a spokesman for the company said today.

**Production News**

The U.S. Minerals Management Service reported this afternoon that crude oil production in the USG improved slightly today from yesterday as some 2,646 b/d of shut in production returned to service overnight. Natural gas production still shut in was reduced by just 3 mmcf/d from yesterday's levels.

A Kuwaiti oil official today announced that Kuwait has delayed its 200,000 b/d production capacity increase until late December or early January. The producer had planned to restart its gathering center 15 in the north of the country by the third week of October to gain this production boost. The center had been damaged by fire back in 2002. While rebuilding of the unit has been completed, some fine tuning was still going on. Officials expected to start at a rate of 100,000 b/d and build gradually to full capacity.

Technical Analysis		
	Levels	Explanation
<b>CL</b> Resistance 48.82, down \$2.06 Support	51.32, 52.15, 52.50 50.95-51.10 48.58, 48.65 & 48.55 48.28 & 46.53	38% & 50% retrace the past sell off, Monday high Past two day's highs 50 day Moving Avg, and past two day lows 50% & 62% retracement level (Aug-Oct bull move)
<b>HO</b> Resistance 137.21, down 5.17 cents Support	146.17, 149 & 151.83 143.20 137.00 & 136.83 131.34, 129.00-128.50	38%, 50% & 62% retracements Today's high Double Bottom, 50-day Moving Average 62% retracement of the Aug-Oct bull move, gap
<b>HU</b> Resistance 127.74, down 5.03 cents Support	13280-133.10, 133.89 130 & 131.60 127.50 & 127.20	past two day's high, 38% retracement Intraday congestion points Past two day's lows

Due to a barge crash on the Volga-Don canal leading to the Russian port of Kavkaz, Yukos reported that it was forced to reassign some of its planned crude and fuel oil shipments. It will re-route these shipments via

pipelines, rail, and other barge routes moving to the north rather than the south. Yukos typically ships some 100,000 b/d of crude down the canal to export from Kavkaz. TNK-BP, which also ships lesser volumes down the canal, said it has not altered loading schedules for its shipments of crude.

OPEC reported this morning that its OPEC reference price for its basket of crudes stood at \$41.44, down 54 cents per barrel from Tuesday's levels.

Mexico's three Gulf coast crude oil loading ports were closed Thursday due to continued poor weather conditions.

A survey by Reuters of OPEC producers shows that October output showed that total output from the cartel in October slipped to 30.11 million b/d, down 40,000 b/d from September, which had been the cartel's highest production level since 1979. The drop was the result of lower Nigerian production due to a pipeline fire and ethnic unrest in that country.

Venezuela's PDVSA announced today that it plans to boost production from its eastern operations by 100,000 b/d to 1.15 mbd..

### **Market Commentary**

One has to just marvel at this market. One day is black the other white, the ying and the yang. Today's trading pattern was basically the exact opposite of yesterday. Today we saw prices open basically higher and then remain under pressure throughout the day and settling down near the lows, as crude, gasoline and nearly heating oil posted inside trading sessions. While yesterday the market's "reason" for the rally had been the Bush victory euphoria, today traders searched for a reason and seized upon the rumors of Arafat's death. We continue to believe this is simply an extremely nervous market that is highly sensitive to any momentum swing in trading. We feel that the oil markets felt the impact of a bearish natural gas report that showed natural gas stocks reaching 11-year highs as we begin the winter heating season. This we feel helped to return focus to yesterday's oil inventory reports which were also showing an improving oil inventory situation as total oil stocks increased by 3.9 million barrels and would most likely exceed last year inventory levels by next week. One also might begin to think that with the euphoria of the bulls in the equity markets that they could be on the verge of a new bull run, that hedge funds also may begin to lighten positions in the commodity markets.

Volume today was excellent for crude oil with 263,000 futures traded in crude, with products more modest, with heating oil trading 52,000 times and gasoline 36,000 lots.

We would watch tomorrow's trading closely, if prices breach the 50 day moving average we feel that it most likely could unlock a wave of strong selling, driving prices another dollar lower. But we do not feel that this market will gain that shove downward in front of the weekend, as many traders will step back and await the weather forecasts for next week and beyond. Private weather forecasters continue to look for significant colder temperatures coming in early next week with a second significant outbreak by the latter part of the week. Given the significant sell off in natural gas over the past few days, and its ability to take a pause on a Friday, we feel that may spill over into the heating oil market tomorrow as well. As a result we look at this market to testing its boundaries but most likely hold.

We have to admit though we are a bit surprised by the open interest reports released at midday. Crude oil showed a significant drop of 7,077 contracts; in what had to be seen as short covering not new longs returning to the market as we thought last night. Much of this contraction was in the spot month, which fell 6504 lots, thus making the case of a more speculative change in positions rather than hedging. Heating oil saw a smaller contraction of 1808 lots, while gasoline saw a modest net gain of 155 lots.