ENERGY RISK MANAGEMENT

Howard Rennell & Pat Shigueta
(212) 624-1132 (888) 885-6100

www.e-windham.com

ENERGY MARKET REPORT FOR NOVEMBER 30, 2004

An official at the Port of Philadelphia said a few ships have been able to pass following the oil spill but added that the oil spill cleanup was the first priority. Commercial shipping traffic remains slower than usual along the Delaware River. There is a backlog of ships waiting to get in and out of the Delaware River. Traffic started to flow Monday afternoon.

Saudi Arabia appears to support keeping OPEC's quotas unchanged when OPEC meets on December 10. Saudi Arabia's Oil Minister Ali al-Naimi stated on Monday that the markets are in balance. Meanwhile, Iran's OPEC governor, Hossein Kazempour Ardebili said OPEC should enforce its output ceiling of 27 million bpd. A consensus appears to be emerging ahead of the meeting that a cut in production is not necessary.

Market Watch

The head of the Iraqi National Guardsmen in Kirkuk said Iraq lacks an organized national force to deal with attacks against the country's oil infrastructure. An Oil Ministry spokesman said between August and October 2004, Iraq lost $7 billion in potential revenue due to sabotage against the country's oil infrastructure. An estimated 20 oil wells and pipelines were bombed or set ablaze this month in northern Iraq alone.

The OECD said high and volatile oil prices may be a feature of the world economy for some time to come. It also said it expects a 30% increase in real oil prices to 2030. However it said the long term increase in oil prices could be even higher if economic growth is stronger than it has assumed. The OECD forecasts that expressed in 2000 dollars, the oil price will increase to $35/barrel by 2030 from $27/barrel in 2003. It however stated that the world economic recovery should regain some momentum next year, despite high oil prices and weak consumer confidence. It said its 30 members will record combined economic growth rate of 2.9% in 2005, a slower expansion than the 3.4% rate of growth forecast by the OECD in May and the 3.6% rate of growth it forecast for this year. It expects the growth rate to rebound to 3.1% in 2006.

Merrill Lynch said it was increasing its 2005 forecast for Brent crude to $34/barrel from $31/barrel and increasing its world refining margin forecast by 25%.

NYMEX President Jim Newsome said the NYMEX and the government of Dubai plan to finalize by the end of the year or early next year an agreement to start an open outcry exchange to trade energy and commodities futures.

The NY Board of Trade said there were no talks to merge with the NYMEX.

China Aviation Oil Corp. Ltd. said it was seeking court protection from its creditors after suffering $550 million in losses from speculative oil derivative trading.

OPEC's President Purnomo Yusgiantoro said OPEC members are producing 1.5 million bpd of crude above the 27 million bpd quota. He said if Iraq's production level is included, the overproduction is 2.5 million bpd.

Qatar's Oil Minister Abdullah bin Hamed al-Attiyah said OPEC should not be complacent about predictions that the oil price will remain high. He said OPEC would look closely at IEA estimates that the demand for oil will fall in the second quarter of 2005. He said that $30/barrel was a fair price for oil.

Iran's Deputy Oil Minister Hadi Nejad-Hosseinian reiterated that oil prices in the $50-$70/barrel range would not be excessively high given the weakness of the dollar.

Loadings from the Basra Oil Terminal increased to 1.848 million bpd after falling to 750,000 bpd in the week ending November 28.

OPEC's news agency reported that OPEC's basket of crudes increased by 57 cents/barrel to $39.46/barrel on Monday, up from $38.89/barrel on Friday.

The head of the EIA said low US distillate inventories may push heating oil and diesel prices higher as cold weather sets in. He said supply shortages are not likely, however with inventories below the five year average range, no cushion is left for industrial accidents or extremely cold weather. He said as long as refinery runs remain high and imports come in from Europe, the US will be able to meet demand for heating oil.

The National Petroleum Council has lowered its estimate of how much crude oil refiners need to keep on hand to ensure they have the flexibility to deal with supply disruptions. The council will recommend a range of 260 million-270 million barrels for the lower operational inventory minimum necessary stocks compared with the current lower operational inventory of 270 million barrels. In its report, the council would also say US refining capacity is adequate to meet future demand for heating oil and gasoline.

The head of the API, Red Cavaney, said refineries ramping up production ahead of the winter should be able to keep the US Northeast adequately supplied with heating oil. However he noted that a majority of heating oil currently being produced is going directly to consumers, bypassing commercial storage.

The IEA said the governments holding emergency stockpiles of oil should explore ways to use the reserves, given that lower inventories held by companies have contributed to the high prices seen in recent years.

Refinery News

Louis Dreyfus has delayed the restart of its 225,000 bpd refinery in Germany by five days. The refinery had been due to start in early December after a full shutdown that started on November 12. Even after the restart, some units are expected to remain closed for a few weeks longer while maintenance is completed.

Statoil delayed the restart of several units at its 110,000 bpd Kalundborg refinery in Denmark until December 13. The units had been due back on line this week.

Japan's Nippon Oil Corp will increase its refining rate to 93.4% of its total 1.217 million bpd capacity in December to process 5.6 million kl or 1.136 million bpd. Separately, Japan's Idemitsu Kosan Co has delayed the restart of its 120,000 bpd Tokuyama refinery by about two weeks from the middle of November for additional maintenance work.

Production News

Statoil and industry sources stated that repair progress on Statoil's North Sea Snorre field may allow it to restart production within one to two weeks if there were no further problems. Late Sunday, a gas leak forced the evacuation of about 180 rig workers and the shut in of about 205,000 bpd. Statoil said it planned to start injecting cement into the well hole Tuesday. A Safety Authority spokesman said once the well was safely plugged, Statoil could submit plans to restart production, with a quick approval possible within a few days. Meanwhile, the Brae North Sea oil and gas complex remain closed on Tuesday as repair work continued. The closure has reduced Britain's North Sea oil production by about 76,000 bpd. Platts however reported that Marathon planned to restart later on Tuesday about 37,000 bpd of its shut in production at its Brae platform.

According to a study by the Center for Strategic and International Studies, Saudi Arabia's sustained oil production capacity is between 10.6 million and 10.8 million bpd. It said it can reach a maximum capacity of 11.2 million bpd. Meanwhile, Saudi oil officials said capacity is currently 11 million bpd.

Nigeria's Department of Petroleum Resources said Nigeria is losing 1.06 million barrels a week or about 150,000 bpd of crude oil due to the closure of 14 flow stations in the Niger Delta. It said the facilities were closed as a result of community related protests and vandalism. Nigeria's government has also estimated the amount of oil lost to theft at about 70,000 bpd.

According to data released by Russia's Economic Development and Trade Ministry, oil production in Russia increased by 9.4% year on year in the January-October period to 381 million tons. Oil exports from Russia increased 13.4%. The ministry forecast Russia's oil output at 459.4 million tons in 2004, up 9% on the year.

Industry sources stated that Germany's government has been asking energy companies about their possible role in bidding for stakes in Russia's Yukos. Russia is scheduled to auction Yukos' Yuganskneftegaz on December 19. Meanwhile, Russia's Gazprom decided to bid for the company at the December 19 auction. The purchase of the unit in addition to its upcoming takeover of two other state oil firms would give Gazprom control over 18% of Russian oil production.

India's Petroleum Ministry reported that India imported 57.68 million tons or 1.98 million bpd of crude oil in April-October, up from 52.7 million tons in the same period last year. It also reported that it imported 669,000 metric tons of petroleum products in October, down 5.7% from the 707,000 tons imported a year earlier. During April-October, India's oil product imports stood at 4.17 million tons, up 27.5% on the year.

Japan's Ministry of Economy, Trade and Industry reported that the country's kerosene sales fell by 11.4% on the year in October to 1.88 million kiloliters. Its gasoline sales however increased by 0.2% on year to 5.11 million kl in October, due in part to the continuing recovery in Japan's economy. Meanwhile, its kerosene production totaled 2.17 million kl, up 10.7% on year and 11.5% on the month. It said its kerosene stocks increased by 6.5% on month to 4.24 million kl. Japan's crude oil imports in October increased by 14.3% on year to 21.01 million kl or 4.26 million bpd. Crude oil throughput in October totaled 18.64 million kl.

Market Commentary

The NYMEX energy complex settled in negative territory amid the sell off in the product markets ahead the December contracts' expiration at the close. The crude market gapped higher from 49.95 to 50.05, in follow through buying seen in overnight trading on Access. The oil market remained supported by the continued shut in of Norwegian oil production following the gas leak over the weekend. The December crude contract immediately posted a high at 50.40, its 50% retracement level. However as the market failed to breach that level, the market backfilled its gap and sold off to a low of 48.90 amid the losses seen in the product markets. The market settled in a 50 cent range before it breached its earlier low and posted an intraday low of 48.68. It however bounced off its low ahead of the close and settled down 63 cents at 49.13. Volume in the crude market was better with 189,000 lots booked on the day. Meanwhile, the product markets settled sharply lower with the December heating oil contract settling down 5.1 cents at 139.27 and the December gasoline contract settling down 3.89 cents at 126.40. On the opening, the December heating oil contract immediately posted its intraday high of 145.10. However the market quickly sold off after it failed to test its resistance at Monday's high of 146.50. The market extended its losses to over 6 cents as it posted a low of 138.20 amid the liquidation ahead of expiration. The January heating oil contact also traded to its high of 146.95 before it sold off to a low of 140.50. Similarly, the December gasoline contract traded to a high of 131.50 but quickly sold off as traders liquidated their positions ahead of its expiration. The market traded to a low of 125.00 ahead of its expiration. The January gasoline contract also traded off its high of 132.90 to a low of 127.30 before settling down 3.05 cents at 128.46. Volumes in the product markets were good with 68,000 lots booked in the heating oil and 48,000 lots booked in the gasoline market.

The crude market is seen trading in a range as traders await the release of the weekly petroleum inventory reports on Wednesday. The market is looking for builds across the board, with a build of less than 500,000 barrels in crude stocks and builds of about 1.5 million barrels in each distillate and gasoline stocks. If the reports do show continued builds in product stocks, the markets are seen continuing today's downtrend. Technically, the crude market failed on the upside after failing to breach its resistance at 50.40, its 50% retracement level, amid the continuing news of the production shut ins in the North Sea. The market is seen finding resistance at 49.50 followed by its high of 50.40. More distant resistance is seen at 50.85. Meanwhile support is seen at its low of 48.68 followed by 47.80 and 46.75.

Technical Analysis

		Levels	Explanation
		50.85, 51.00	Previous highs
	Resistance	49.50, 50.40	Tuesday's high & 50% retracement (55.30 and 45.50)
CL	49.13, down 63 cents		
	Support	48.68	Tuesday's low
		47.80, 46.75	Previous lows
		146.95, 148.50	Tuesday's high, Previous high
	Resistance	145.10	
HO	141.83, down 4.01 cents	January	
	Support	140.50	Tuesday's low
		139.30, 138.68	Previous low, 62% retracement (149.90 and 131.75)
		132.90, 135.50	Tuesday's high, Previous high
	Resistance	130.50	
HU	128.46, down 3.05 cents	January	
	Support	127.30	Tuesday's low
		125.80, 123.30	Previous lows