The Windham Group
Energy Futures Brokerage

*ENERGY RISK MANAGEMENT*

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# ENERGY MARKET REPORT FOR DECEMBER 10, 2004

OPEC agreed on Friday to adhere to its existing quotas of 27 million bpd and eliminate 1.04 million bpd of excess supply starting January 1. OPEC oil ministers are scheduled to meet again on January 30 in Vienna to discuss whether further cuts were necessary. OPEC already has a scheduled meeting on March 16 in Iran but delegates said that meeting may be postponed to April if the group agrees on an extraordinary meeting before then. Saudi Arabia's Oil Minister Ali al-Naimi said OPEC's decision to cut its surplus production will help to stabilize world oil prices. He said he wanted excess oil removed from the market as he fears a large out of season increase in oil stocks during the winter. Saudi Arabia will cut its output by 500,000 bpd as part of its share of the 3.5% cut. The UAE's Oil Minister Mohammed bin Dhaen al-Hamili said OPEC remains concerned about the possibility of a large build in oil stocks in the second quarter. He said OPEC estimates its overproduction of 1.6 million bpd in the first quarter of 2005, increasing to 2.8 million bpd in the second quarter. He said the country would cut its production by 120,000 bpd. Algeria's Oil Minister said it will most likely be back at its 862,000 bpd OPEC quota by the end of January. Meanwhile, Libya's Energy Minister Fathi Omar Bin Shatwan said Libya will cut its oil

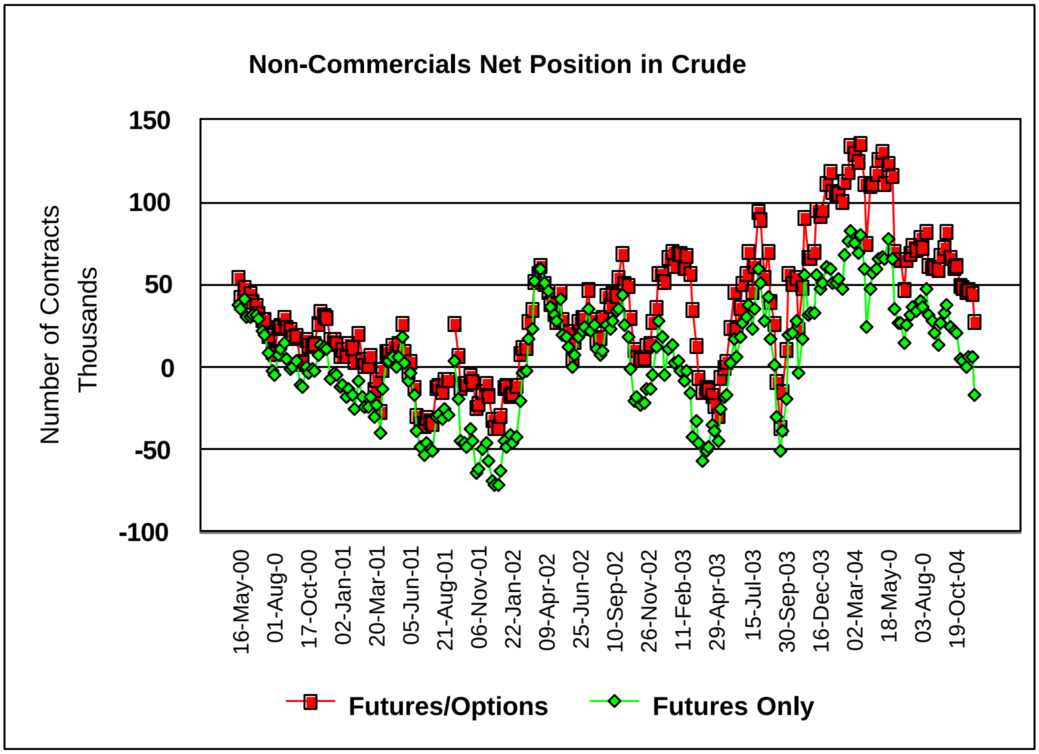
**Market Watch**

A community leader said protesters, who shut in 120,000 bpd of Nigeria's oil production, will not lift their blockade until President Olusegun Obasanjo steps in to resolve the dispute. Preliminary talks between Kula community and officials of the southeast Rivers state government on Thursday failed to end the dispute over jobs and development. He said another meeting is scheduled for next week and added that militants would stay around the platforms to ensure production was not restarted.

Russia's Yukos has received a claim for a further 12.5 billion rubles or $446.1 million in back taxes, this time against its Samaraneftegaz subsidiary. The new claim relates to 2001 and 2003.

The IPE reported that a total of 105,200 metric tons of gasoil will be physically delivered following the expiry of the December gasoil futures contract. At the November expiry, 172,000 tons of gasoil were physically delivered.

Shipping brokers stated that prices for shipping crude on VLCCs from the Gulf to the US and Asian markets fell at least 10 points as OPEC agreed to cut its overproduction. VLCCs to the US fell 10 points to W197.50 while VLCCs to Singapore fell 11 points to W297. West African VLCC voyages to the US fell 11 points to W231.50.




production by 80,000 bpd while Kuwait's Oil Minister Sheikh Ahmad al-Fahad al-Sabah said Kuwait will cut its output by 120,000 bpd starting January 1. Qatar's Oil Minister Abdullah bin Hamad al-Attiyah said it would cut its production by 40,000 bpd. Venezuela, Iran and Indonesia were exempt from the cuts.

Separately, OPEC's President Purnomo Yusgiantoro said that OPEC was concerned by the fall in the value of the dollar. He said the cut in excess production is intended to restore order and stability to the market. He also stated that OPEC may have a decision on the price band at its January meeting.

According to Oil Movements, OPEC oil in transit reached a record in the four weeks ending December 25 at 493.01 million barrels. The oil in transit is 18.16 million barrels higher than this time last year. Forward oil company chartering showed exports from all 11 OPEC members increased by 80,000 bpd to 24.54 million bpd, up from 24.46 million bpd in the four weeks ending November 27.

The IEA in its monthly oil market report stated that world oil demand growth next year will slow because a squeeze on diesel supplies for power generation in China should ease. It cut its estimate for 2005 demand growth by 70,000 bpd to 1.38 million bpd. It would put growth in 2005 at 1.7%, down from 3.3% or 2.63 million bpd this year. It stated that China's demand growth in 2005 is forecast to fall to 360,000 bpd down from this year's 810,000 bpd. It also stated that world oil supply fell by 40,000 bpd in November to 84.4 million bpd. Disruption to southern exports from Iraq accounted for 430,000 bpd of the fall, falling to 1.8 million bpd in November. It stated that the ten OPEC members cut their production by 75,000 bpd to 27.6 million bpd while total OPEC production stood at 29.4 million bpd. The IEA estimated its call on OPEC crude for the fourth quarter at 29 million bpd and 28.1 million bpd for the first quarter of 2005. In regards to stocks, OECD crude stocks increased by 35 million barrels in October while distillate stocks fell by 14 million barrels.

Separately, the IEA's director Claude Mandil said OPEC's decision to cut overproduction is somewhat disturbing since oil prices remain high and inventories are low. He warned OPEC not to overdo the supply cuts.

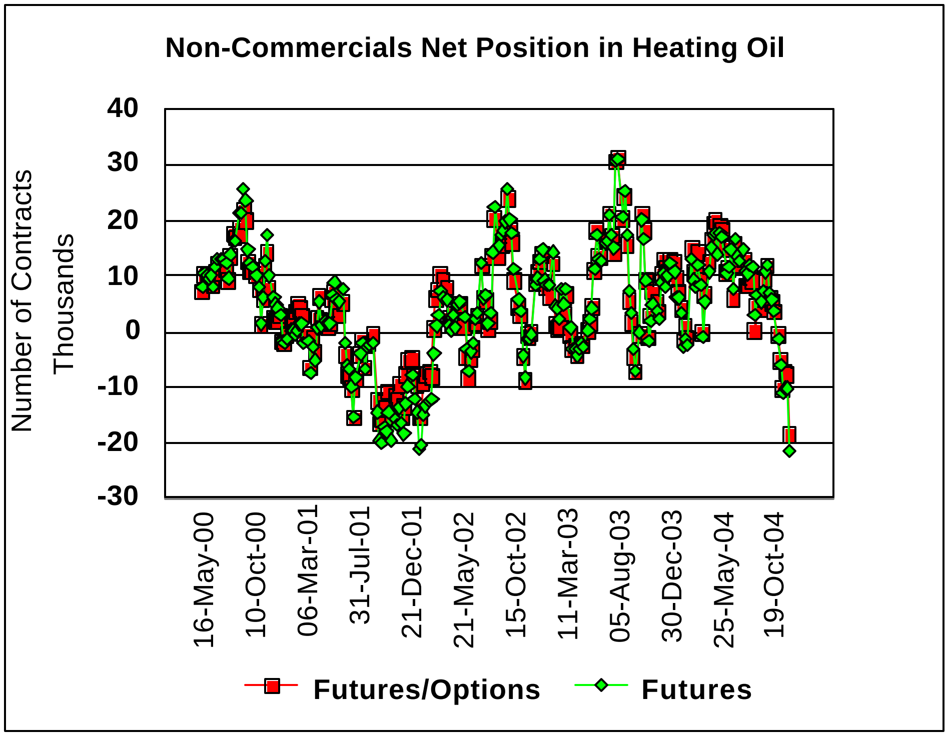
Iraqi shipping sources stated that Iraq has resumed pumping Kirkuk crude to the Turkish port of Ceyhan at 450,000 bpd following a 12 day halt in shipments.

**Refinery News**

Alon USA shut a 25,000 catcracker at its 58,500 Big Springs, Texas refinery for unplanned maintenance due to a leak in the flue gas system. The unit is expected to return to operation on Sunday.

Valero Energy Corp's 140,000 bpd Wilmington, California refinery is operating at planned rates.

ExxonMobil's Torrance, California refinery continues to operate at reduced rates due to a failed compressor.




Shell Oil Co has pledged to negotiate with investment firm Kelso & Co on the sale of its 66,000 bpd Bakersfield, California refinery. The company planned to close the refinery in October however a campaign by California Attorney General Bill Lockyer succeeded in getting it to delay the closure by several months and seek buyers for the plant.

Nigeria's NNPC expects to restart a fluid catalytic cracker at its 150,000 bpd Port Harcourt refinery in the first quarter of next year. The restart would cut Nigeria's fuel import bill of about $2 billion however it would cut exports of low sulphur fuel oil, which would instead be fed back into the refinery. The refinery would instead export cracked fuel oil.

**Production News**

A section of the Houston Ship Channel was reopened after it was closed earlier on Friday due to a collision involving a tug boat and barge.

The Norwegian Petroleum Safety Authority said the restart of Statoil's North Sea Snorre field may be possible by early next week or mid-week. It said the restart may be possible if all work continues as planned.

January crude flows from the North Sea Forties stream are planned at 626,000 bpd, up from 565,000 bpd in December. Meanwhile, January crude flows on the North Sea Brent system are scheduled to fall to 258,000 bpd from 321,000 bpd in December. The January loading program for North Sea Oseberg crude scheduled 9.6 million barrels, down from 11.2 million barrels in December.

Britain's North Sea Flotta crude system plans to load 103,000 bpd in January, unchanged from December.

Norway's Statoil has made an oil discovery in the North Sea between the Gullfaks and Visund fields. Statoil is considering applying to the authorities for approval of pilot production from Gullfaks to secure information about the size and commercial value of the discovery.

Azerbaijan's SOCAR has awarded Russia's Lukoil a tender to lift 140,000 tons or 1.03 million barrels of Urals crude in January. The cargo will be loaded at Russia's Black Sea port of Novorossiisk on January 15-16.

Russia's Black Sea port of Novorossiisk was open on Friday for the second day in a row and loadings were running just a day or two behind schedule. Overall exports through the port were about 1 million bpd in the past week.

Oil exports from Russia totaled 227 million metric tons in January to November, up from its forecast of 225 million tons for the entire year.

**Market Commentary**

The oil market opened up 48 cents at 43.01 and immediately posted an intraday high of 43.10 in follow through strength seen in overnight trading following the OPEC announcement. As expected, OPEC announced that it would cut its overproduction and comply with its 27 million bpd quota. The crude market however quickly erased its gains within the first 30 minutes of trading and sold off to a low of 42.10, where it held some support. The January crude contract which attempted to test the 43.00 level, failed to do so and extended its losses to $2.28 as it posted an intraday low of 40.25 late in the session. Despite the lack of any news following the OPEC announcement, the market took profits and traded to its low. It settled down $1.96 at 40.57. Volume in the crude was excellent with over 269,000 lots booked on the day. Meanwhile, the product markets also settled sharply lower with the heating oil market settling down 7.44 cents at 122.57 and the gasoline market settling down 3.14 cents at 107.99. The heating oil market opened about 1 cent higher at 131.10 and immediately posted an intraday high of 131.50. The market later erased its gains and traded to 128.00 before it bounced back towards its high. However as the market failed to breach its resistance level, it erased its gains once again and tumbled to a low of 122.30 ahead of the close, extending its losses to over 7.7 cents on the day. The gasoline market also opened more than 1 cent higher at 112.30 and traded to 113.20 before it traded to 110.70. The market later bounced off that level and posted an intraday high of 113.80. However it once again traded off its high and never looked back as it tumbled to its low of 106.50 ahead of the close. Volumes in the product markets were excellent with over 68,000 lots booked in the heating oil market and 63,000 lots booked in the gasoline market.

According to the latest Commitment of Traders report, non-commercials in the crude market reversed their position from a net long position of 5,815 contracts to a net short position of 17,440 contracts in the week ending December 7th. It is the first time since October 2003, that non-commercials have been net short. Meanwhile, the combined futures and options

**Technical Analysis**

| | | Levels | Explanation |
|---|---|---|---|
| | | 43.10-43.20 | Double top |
| | **Resistance** | 41.00, 41.38, 41.73, 42.00 | 38%, 50%, 62% retracement(43.20 and 40.25) |
| **CL** | 40.71, down $1.82 | | |
| | **Support** | 40.25 | Friday's low |
| | | 40.10 | Backfills gap |
| | | 132.20 | Backfills gap (Dec 2) |
| | **Resistance** | 126.20, 130.20, 131.50 | Friday's high |
| **HO** | 122.57, down 7.44 | | |
| | **Support** | 122.30 | Friday's low |
| | | 120.15 | Previous low |
| | | 113.80, 115.70 | Friday's high, Previous high |
| | **Resistance** | 109.29, 110.15, 111.00 | Retracement levels (113.80 and 106.50) |
| **HU** | 107.99, down 3.14 cents | | |
| | **Support** | 106.50 | Friday's low |
| | | 104.45 | Basis trendline |

report showed that non-commercials cut their net long position from 44,778 contracts to 28,028 contracts on the week. However given the market's continued sell off, non-commercials have likely continued to added to their net short position. Non-commercials in the heating oil increased their net short position from 10,427 contracts to a net short position of 21,423 contracts. Meanwhile, the gasoline market which did not reverse its net long position yet, cut its net long position from 10,639 contracts to 1,743 contracts on the week.

The crude market on Monday will likely retrace some of today's sharp losses. The oil markets may also be supported by the weather forecasts which are calling for a cold front to enter the Northeast early next week. The crude market is seen finding resistance at 41.00, 41.38, 41.73 followed by 42.00. More distant resistance is seen at its high of 43.10-43.20. Meanwhile support is seen at its low of 40.25 followed by 40.10. More distant support is seen 39.92, basis a trendline.