



ENERGY RISK MANAGEMENT

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ENERGY MARKET REPORT FOR DECEMBER 14, 2005

Iran's new Oil Minister Kazem Vaziri Hamaneh said OPEC would likely lower its production ceiling at its January meeting. He said OPEC would probably be forced to lower its production ceiling in the second quarter of 2006 to avert a drop in prices.

The DOE reported that US inventories of propane totaled 68.512 million barrels in the week ending December 9th, down 3.02 million barrels on the week. It reported that inventories in the East Coast fell by 495,000 barrels to 4.827 million barrels, while inventories in the Midwest fell by 1.32 million barrels to 22.262 million barrels and inventories in the Gulf Coast fell by 1.059 million barrels to 38.926 million barrels.

The API stated that a sharp fall in US gasoline prices in

November amid recovering refinery utilization and strong imports reversed year on year declines in deliveries seen in the months following Hurricanes Katrina and Rita. It reported that gasoline deliveries increased by 1.4% on the year. Total petroleum deliveries were 2.8% lower on the year. Meanwhile deliveries of distillate fell by 4.4% despite an increase for low sulfur diesel.

Refinery News

Several processing units at Marathon Petroleum Co's 70,000 bpd refinery near St. Paul, Minnesota are running at reduced rates following Tuesday's fire in a crude unit. Marathon continues to assess damage at the 30,000 bpd crude unit.

Market Watch

The MMS said US Gulf of Mexico oil and gas producers discovered nine deepwater fields in 2005.

Russia's Federal Tariffs Agency stated that Transneft could increase its shipping fees by an average of 9.7% in 2006. The agency also stated that from January 1, it would charge the same amount for oil produced within Russia and for foreign oil mostly Kazakh and Azeri crude exported through Russia. Under the existing system, transporting a ton of oil 100 km incurs a dispatching tariff of \$0.296 within Russia or \$0.3032 in Transneft's network beyond Russia's borders.

Separately, Russia is expected to cut tariffs on railway oil shipments to China as it wants the route to compete with pipeline oil supplies to Europe. The discounts would become effective from the beginning of 2006 and would depend on many factors including volumes of crude transportation by shippers. Crude shipments to China by rail are now subject to a \$39/ton tariff via the Naushki route and a \$56/ton tariff via the Zabaikalsk route.

The Suez Canal Authority will increase its transit fee by 3% from mid-March next year and reduce discounts for empty oil tankers from 40% to 20%. He said the reduction in discounts for empty oil tankers would apply to those on their way from the Caribbean Zone and the Gulf of Mexico to the Arabian Gulf.

China's Dalian Petrochemical has delayed the start up of a new unit due to safety worries, one month after a blast at another company refinery leaked toxic chemicals into a major river. It will start its 200,000 bpd crude distillation unit at the end of the first quarter of 2006. The start up had already been set back from November to this month.

Japan's Idemitsu Kosan Co said it reduced the operation of a crude distillation unit at its Aichi plant after a fire over the weekend. The 160,000 bpd crude distillation unit has been operating at 60% of its capacity since the fire started at a heat exchanger on Saturday night.

Production News

The January loading program for North Sea Ekofisk crude scheduled the loading of 17.1 million barrels, down from 17.7 million barrels in December.

The UK's North Sea Flotta crude system plans to load 63,000 bpd in January, down from 104,000 bpd in December.

Delays for oil tankers transiting the Turkish Straits increased to 19 days for a round trip on Monday. Local shipping agents stated that a total of 68 oil tankers were waiting to pass through the narrow waterways.

The Shetland Island Council reported that Sullom Voe crude oil liftings fell to 255,047 tons in the week ending December 13, down from 403,398 tons in the previous week.

Russia's Energy Ministry said the country's oil production is expected to increase only marginally in the first quarter of 2006 compared with the fourth quarter of 2005 to an average of 9.59 million bpd. Russia's output resumed modest growth from May 2005 after stagnating for 8 months and averaged 9.63 million bpd in November. The ministry also said domestic refining would increase to 54.3 million tons or 4.42 million bpd. Russia is expected to produce 8.1 million tons of gasoline in the first quarter, with exports of 1.6 million tons. Exports of crude through Transneft's trunk pipeline system will total about 46 million tons in the period.

Oil transportation via Belarus' pipeline system increased 3.2% on the year to 97.249 million tons in January-November.

China's National Bureau of Statistics said China's oil demand growth appeared to slow in November as near record refinery output curtailed fuel imports. Refinery throughput in China increased to 24.21 million tons or 5.9 million bpd last month. Official data showed that China's net import of core oil products fell 11.6% in November from the previous month as the impact of government moves to rein in exports faded even though total imports recovered. Net imports fell to 1.67 million tons, down 43% on the year and well below the 1.89 million tons reported in October. Meanwhile, China's General Administration of Customs reported that the country imported 10.33 million tons of crude oil in November.

China's National Development and Reform Commission said China would continue to suspend most processing of crude oil for export through 2006. China is expected to keep a strict control over export processing of oil products and levels of diesel, gasoline and kerosene exports will have to be approved by the NDRC and the Commerce Ministry.

India's domestic sales of oil products increased by 0.4% in November after falling for two consecutive months due to higher consumption of transport fuels. Total sales amounted to 8.18 million tons.

According to Korea Energy Economics Institute, South Korean oil demand is expected to remain flat next year as high prices limit consumption. Total energy demand for 2006 is projected to increase by 3.5% to 237.1 million tons of oil equivalent. Demand for this year was estimated to have increased by 4% to 228.9 million toe.

Ecuador's Energy Ministry stated that the country's average oil production increased by 12% to 529,000 bpd in the first 10 months of the year from 473,000 bpd in the same period last year.

OPEC's news agency reported that OPEC's basket of crudes increased to \$54.44/barrel on Tuesday, up from \$53.50/barrel on Monday.

Market Commentary

The crude market settled in negative territory after the market failed to maintain its early gains and was further pressured by the sharp losses seen in the natural gas market amid the moderating weather forecasts. The oil market held some resistance at 61.45 early in the session before it sold off to a low of 60.90 following the release of the weekly petroleum stock reports. However the market quickly bounced off that level and posted its intraday high of 61.75 within the first hour of trading. The market, which failed to test its previous high, erased its gains and traded to 61.00 where it held support for most of the afternoon. However further selling pushed the market to its low of 60.80 ahead of the close. It settled down 52 cents at 60.85. Volume in the crude was good with over 193,000 lots booked on the day. Open interest in the crude market built by a total of 13,954 contracts as new longs continued to come into the market. Open interest in the January contract fell by 17,389 contracts while open interest in the February contract built by 22,809 contracts. Meanwhile, the heating oil market was able to maintain some of its gains as it settled up 85 points at 184.50. The heating oil market posted a low of 184.50 early in the session and quickly rallied to its high of 186.00 following the release of the DOE and API reports showing the draws in distillate stocks. The market however retraced little more than 62% of its move and settled in a sideways trading range as it held support at 183.50. However the gasoline market, which continued to trade within Friday's trading range, posted a mostly neutral trading session as it settled near its opening price. It settled down 52 points at 164.07. The market sold off to a low of 163.00 amid the reports showing builds in gasoline stocks. The market quickly bounced off its support and posted a high of 166.30 before it once again retraced its gains ahead of the close. Volumes in the product markets were good with 55,000 lots booked in the heating oil market and 44,000 lots booked in the gasoline market.

The oil market is seen remaining pressured after it settled near its low. Its stochastics also look ready to cross back to the downside. The natural gas market will likely weigh down the complex

Technical Analysis		
	Levels	Explanation
CL 60.85, down 52 cents	Resistance 62.50, 62.70 61.40, 61.75, 61.90	Previous highs Wednesday's high, Tuesday's high
	Support 60.80 59.70, 59.65, 59.03, 58.95	Wednesday's low Monday's low, 38% (56.00 and 61.90), Previous low, 50%
HO 184.50, up 85 points	Resistance 188.25, 188.50, 189.75 186.00	Previous highs Wednesday's high
	Support 184.00, 183.50 182.00, 179.70 to 177.80	Wednesday's low, Gap (December 13th)
HU 164.07, down 52 points	Resistance 167.10, 168.00, 170.00 165.00, 166.30	Previous highs Wednesday's high
	Support 163.00, 162.90 161.15, 159.70, 157.10	Wednesday's low, Tuesday's low Previous lows

amid the moderating weather forecasts after it helped support the oil markets earlier in the week. The oil market is seen finding resistance at 61.40 followed by its highs of 61.75 and 61.90. More distant resistance is seen at 62.50 followed by 62.70. Meanwhile support is seen at its lows of 60.80 and 59.70. More distant support is seen at 59.65, 59.03 and 58.95.