



ENERGY RISK MANAGEMENT

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ENERGY MARKET REPORT FOR DECEMBER 27, 2005

The IEA formally ended a program to release government held oil stocks in the wake of the hurricanes on December 22. The IEA authorized the release of 60 million barrels of oil on September 2 to keep markets well supplied with crude and fuels after Hurricane Katrina hit the US Gulf. In line with the IEA decision, Japan will end its temporary cut in the minimum requirement for oil stocks private firms must hold on January 4.

OPEC's President Sheikh Ahmad Fahad al-Ahmad al-Sabah said oil prices should remain between \$45 and \$55/barrel through 2007. He said OPEC will meet on January 31 to consider lowering production in the spring.

Separately, OPEC and Russia have agreed to meet once a year at a ministerial level to discuss the world oil market. The two sides agreed to jointly conduct technical exchanges, seminars, joint studies and research. They also agreed to cooperate in such areas as energy policies, upstream and downstream investment, data flow and multilateral issues.

A shipping agent stated that Iraq's southern oil exports are expected to resume on Tuesday. Rough seas had forced the suspension of exports on Saturday, leaving four tankers stranded at the Basra and Khor al-Amaya oil terminals and a backlog of other vessels waiting to lift oil. The flow rate at the terminals is expected to resume at an average of 1.68 million bpd.

Market Watch

The US National Weather Service reported that US demand for heating oil is expected to be 25.3% below normal during the week ending December 31. Total US heating demand for all fuels was forecast to be 27.7% below normal.

Iraqi oil officials said that Iraqi Prime Minister Ibrahim al-Jaafari has named Deputy Prime Minister Ahmad al-Chalabi as the country's acting Oil Minister. He is replacing Ibrahim Bahr al-Uloum who has taken a month's leave. It is not clear why Bahr al-Uloum has taken a leave but last week he threatened to resign if the government did not overturn its decision to increase domestic fuel prices between five and nine times. Chalabi is expected to hold the post until a permanent Iraqi cabinet is formed next year.

The head of the Oslo bourse urged the creation of a euro based oil and gas trading market in Norway. He said that oil should be traded in euros in Norway, breaking with the international standard of the dollar.

Refinery News

Japan Energy Corp said it would increase its crude refining volume for the January-March period by 2% from the same period a year earlier. It will process 7.52 million kiloliters of crude oil for the first quarter of 2006.

Production News

Louisiana's Department of Natural Resources said restored crude oil production in Louisiana was 60.4% of normal capacity on Tuesday. It said output remained at 122,629 bpd.

Shell Petroleum Development Co of Nigeria said that production shut in from its facilities had been reduced to 15,000 bpd. On Monday, a company spokesman said that production shut in had been reduced to 35,000 bpd, down from 180,000 bpd. However he said the force majeure declared on Bonny export terminal was continuing. Separately, a government official said a fire that has affected two pipelines near Warri, Nigeria was caused by vandalism. The pipelines belong to the Petroleum Products Marketing Co, which is responsible for marketing of refined products in Nigeria. The official said the extent of damage by the fire was still unclear but another source said one of the pipelines transports refined products from the Warri refinery to the northern part of Nigeria.

Russia's Economic Development and Trade Ministry reported that crude oil refining increased by 6.4% on the year to 189 million tons in January-November. Russia's oil and gas condensate production increased by 2.2% on the year to 429 million tons. Gasoline production increased by 5.6% on the year in January-November while diesel production increased by 8.8% on the year and heating oil production increased by 5.9% on the year. Oil exports fell by 2.1% on the year to 229.8 million tons in the period.

Abu Dhabi National Oil Co pledged to supply crude over contractual volumes to some of its Asian term customers in February. The decision, yet to be formally announced by the producer, has been anticipated after several term lifters in northeast Asia asked for the incremental volumes.

China plans to set up a combined government and commercial oil stockpile system. The official Xinhua agency did not give any further details or say whether the reserve system was for oil products or crude. China has so far built about 2 million tons of storage space and have assigned Sinopec, PetroChina and Sinochem to supervise the construction. China is seeking to build a total of 150 million barrels of SPR capacity, equal to 25 days of current consumption by 2010.

China's Sinopec Corp will increase its January gasoline exports by just over 50% compared with December

volumes amid rising domestic stocks. It is forecast to ship about 200,000 tons of gasoline in January. Meanwhile, PetroChina is expected to resume gasoline exports in

Technical Analysis			
	Levels	Explanation	
CL 58.16, down 27 cents	Resistance	59.30, 60.80 to 61.00 58.20, 58.50, 59.00	Previous high, Remaining gap Tuesday's high, Previous highs
	Support	57.90, 57.30 56.95, 56.90	Tuesday's low Previous lows
	Resistance	167.60 to 170.00 165.25, 166.00	Remaining gap (December 27th)
HO 163.70, down 6.83 cents	Support	163.00 159.70	Tuesday's low Basis trendline
	Resistance	155.50, 155.90, 156.50 153.00, 153.50	Previous highs Tuesday's high
HU 151.34, down 3.71 cents	Support	151.00 150.50, 150.00, 144.80	Tuesday's low Double bottom, Previous lows

January after a four month halt as it moves to draw down high domestic stocks.

Market Commentary

The oil complex opened in negative territory amid the warmer than usual weather across the US and a recovery in Nigeria's crude production following last week's fire and explosion of a pipeline. The markets were pressured by the sharp losses seen in the natural gas market in overnight trading. The crude market opened down 73 cents at 57.70 and quickly posted a high of 57.90, where it held resistance for most of the day. The market extended its losses to \$1.13 as it sold off to a low of 57.30 early in the session. The oil market later bounced off that level and settled in a sideways trading pattern before some short covering ahead of the close pushed the market to a high of 58.20. It settled down 27 cents at 58.16. Volume in the crude market was light with only 74,000 lots booked on the day. Meanwhile the heating oil market, which lead the oil markets lower, settled down 6.83 cents at 163.70. The heating oil market gapped lower from 170.00 to 166.60 in light of the weather forecasts. The market partially backfilled its gap as it traded to a high of 167.60. However it remained pressured and continued to trend lower. It extended its losses to over 7.5 cents as it posted a low of 163.00 on the close. The gasoline market also opened down 2.95 cents at 152.10 and quickly posted a high of 153.50. However the market erased its gains and continued to trade lower. The market traded to a low of 151.50 and held some support. However it later breached that level and posted a low of 151.00 ahead of the close. It settled down 3.71 cents at 151.34. Volumes in the product markets were light with 46,000 lots booked in the heating oil market and 29,000 lots booked in the gasoline market.

The crude market is seen trading sideways after it was able to hold its support and trade higher despite the losses seen in the product markets late in the session. However the oil market will remain pressured if the natural gas and heating oil markets are pressured even further by the weather forecasts calling for mild temperatures into the first week of January. The market is seen finding support at 57.90, 57.30 followed by 56.95 and 56.90. Meanwhile resistance is seen at 58.20, 58.50 and 59.00. More distant resistance is seen at 59.30 and its gap from 60.80 to 61.00.