



## ***ENERGY RISK MANAGEMENT***

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### **ENERGY MARKET REPORT FOR JANUARY 23, 2009**

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According to Petrologistics, OPEC's oil production is expected to fall by 1.55 million bpd in January as members implement their latest deal to cut

#### Market Watch

The Senate Finance Panel unveiled a \$455 billion economic stimulus package, including \$275 billion in tax benefits for individuals and businesses. The size of the tax cut portion of the bill is consistent with a House version approved by the Ways and Means Committee on Thursday and in line with instructions from President Barack Obama's administration. The panel will consider the bill on January 27.

production. OPEC's 11 members bound by the output targets, except Iraq, are expected to produce 26.1 million bpd in January, down from 27.65 million bpd in December. It indicated that Saudi Arabia is expected to cut its production to 8.05 million bpd, down 550,000 bpd from December. It also said there was evidence of a large reduction in supply from Venezuela, a country which some OPEC delegates have identified as a source of concern about compliance. Venezuela is expected to cut its production to 1.97 million bpd, down 230,000 bpd and below its implied OPEC target of 1.99 million bpd. Iraq is expected to produce 2.45 million bpd in January, up 20,000 bpd from its December level.

Nigerian military and security sources said gunmen in speedboats attacked an oil supply vessel contracted to ExxonMobil in the Nger Delta. Ten armed men attacked the MV Ngoni about 12 miles off the Bonny oil export terminal early Friday morning. It was the ninth attack on shipping in waters off the delta this year. Later a second vessel came under attack by gunmen in three speedboats, northwest of the Amenam oil field.

#### Refinery News

BP Plc shut the smallest crude unit, with a capacity of 75,000 bpd, at its 405,000 bpd Whiting, Indiana refinery for unplanned work earlier this week. Meanwhile, a hydrotreater was fully restarted earlier this week.

Cenex Harvest States returned an ultra-low sulfur diesel hydrotreater at its 55,000 bpd refinery in Laurel, Montana to service following the completion of repairs to the fire damaged unit. The unit was hit by a fire December 25 due to pipe failure.

Tesoro Petroleum Corp's new desulfurization unit at its 58,000 bpd Salt Lake City, Utah refinery is now at full rates. It started operations in the middle of December.

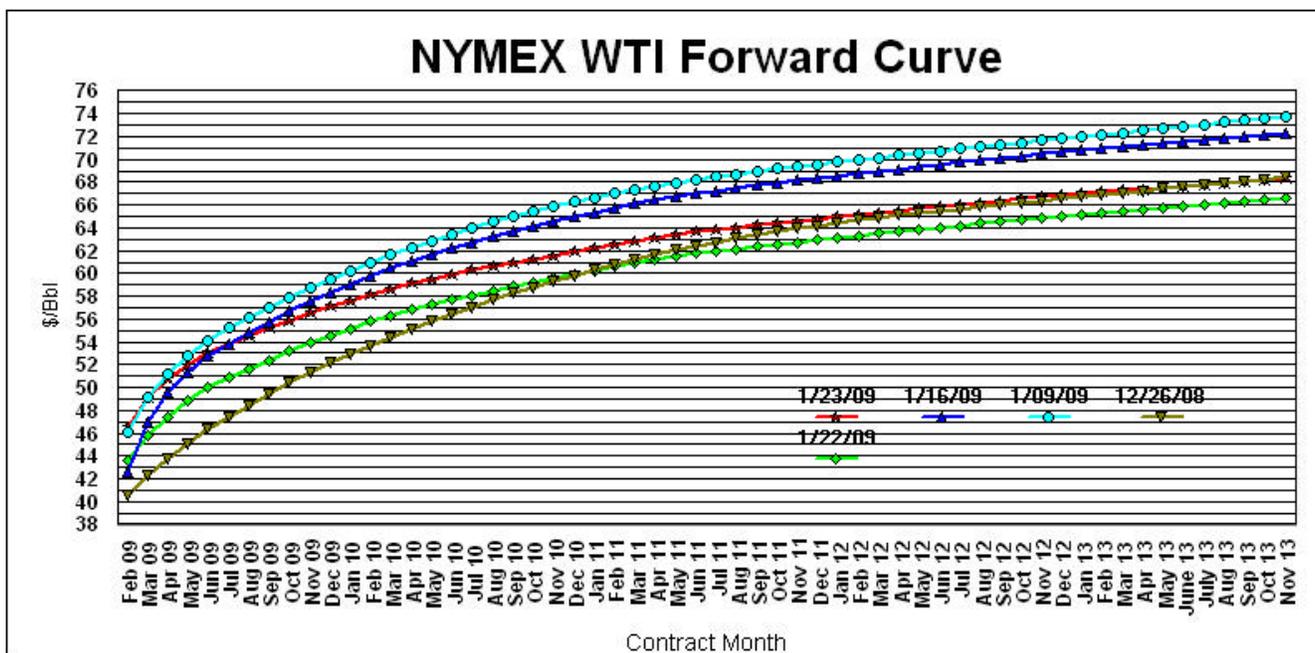
#### **January Calendar Averages**

**CL – \$41.73**

**HO –\$1.4803**

**RB – \$1.1376**

Motiva has slowed the pace of the expansion of its Port Arthur, Texas refinery due to the decline in demand. Motiva previously



said it would expand its 285,000 bpd refinery by 325,000 bpd, with completion scheduled for 2010.

ConocoPhillips plans to shutdown units at its 221,000 bpd Humber refinery in the UK for maintenance at the beginning of the second quarter of 2009. The length of the turnaround is undetermined.

A platformer at Total SA's 153,000 bpd Vlissingen refinery resumed full operations. The unit was shut following a small fire on Tuesday.

Indian refiners processed 3.18 million bpd of crude oil in December, up 3% on the year, according to government data. Crude oil output in December fell 0.3% to 679,560 bpd. India missed its target by 6.3% due to a delay in production startup at some oilfields. India produced 2.8 billion cubic meters of natural gas in December, down 1.6% on the year.

### **Production News**

Nexen Inc produced the first synthetic crude from its Long Lake, Alberta oil sands project. Nexen said it will take 12-18 months before the upgrading plant at the site pumps at the capacity rate of 60,000 bpd.

OPEC's news agency reported that OPEC's basket of crudes increased to \$40.31/barrel on Thursday, up from Wednesday's \$39.54/barrel.

### **Market Commentary**

One can find several reasons behind today's run-up in energy prices. Among these reasons are, the roll out of a stimulus package by the U.S. Senate, OPEC output cuts finally taking affect, a weak dollar, falling equities and funds looking for a safe haven for their investments. Gold showed signs of investor interest, posting early gains, which later spilled over into crude oil. Despite yesterday's greater than expected inventory builds, demand destruction amidst an ever expanding global recession, this market can move higher still. It may be safe to say at this point, that all the bearish fundamentals that have been plaguing this market are already factored into the price of a barrel of crude oil. Technicals came into play as well, as the March contract traded above resistance at \$45.90. As mentioned previously, technically this market appears to have reached a near term bottom and barring any new fundamentals in the market, should continue higher next week. Based upon a weekly chart, the March

contract experienced a lower low, higher high and higher settlement on the week. This is a bullish signal. Currently, there is resistance set up at \$49.56 and that would be the objective for next week. Gasoline has also edged higher today. Basis a daily bar chart for the March contract, an inverse head and shoulders pattern has formed. This type of formation is an indication that a bottom has formed. Volume typically picks up as the market works towards the neckline on this formation. The neckline is currently set at \$1.3001. A penetration of this neckline sets prices up for a test of \$1.7294.

Open interest MAR.09 375,199 -2,938 APR.09 108,991 -1,058 MAY.09 60,322 -304 Totals: 1,231,160 -11,888 Heating oil FEB.09 24,494 -3,354 MAR.09 60,215 +4,044 APR.09 29,117 -162 Totals: 250,225 +1,066 NEW YORK HARBOR RBOB GASOLINE FEB.09 24,537 -3,838 MAR.09 68,939 +190 APR.09 27,799 +450 Totals: 194,537 -2,365

The Commitment of Traders report showed that non-commercials in the crude market cut their net long position by 7,160 contracts to 46,134 contracts in the week ending January 20<sup>th</sup>. The combined futures and options report however reported that non-commercials continued to add to their net long position, with an increase of 5,367 contracts to 122,811 contracts in the latest week. The funds increased their total long position by 5,151 contracts to 241,916 contracts. The non-commercials have continued to add to their net long position given the market's up move in recent days. Meanwhile non-commercials in the product markets cut their net long positions, with funds in the heating oil market cutting their net long position by 4,162 contracts to 6,021 contracts and funds in the RBOB market cutting their net long position by 2,481 contracts to 49,889 contracts on the week.

