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## ***ENERGY RISK MANAGEMENT***

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### **ENERGY MARKET REPORT FOR MARCH 27, 2009**

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Venezuela's Oil Minister Rafael Ramirez said OPEC could agree to cut its production further at its next meeting if it is warranted by market circumstances.

Brazil's FUP oil workers union said the oil workers ended a five-day strike on Friday after reaching a deal with Petrobras over working conditions and benefits. It said four days of talks with the company ended on Friday afternoon with concessions by the company on all of their key demands. The workers are expected to return to their posts Friday.

#### **Refinery News**

Motiva is preparing to restart units at its 285,000 bpd Port Arthur, Texas

#### **Market Watch**

Goldman Sachs said the oil market's recent rally does not yet have fundamental support, leaving the market vulnerable to a near term correction. It also said it is maintaining its end of year target of \$65/barrel.

Floating storage of the North Sea Forties crude is expected to increase in the second quarter due to lower refinery demand and widening contango in crude futures. The number of VLCCs used as floating storage for Forties crude is likely to increase to four to five in mid-April from the current two to three VLCCs. Each VLCC holds about 2 million barrels of crude.

According to a report by Cambridge Energy Research Associates, the decline in investment in oil and gas production could cut nearly 8 million bpd of future oil supply growth, setting the stage for another crude oil price spike in years to come. It said companies' decision to cut capital spending and postpone projects could have big implications for supply when the world recession ends and demand for energy recovers. It previously said world oil production capacity will increase to 109 million bpd by 2014 from the current 94.5 million bpd. It believes 7.6 million bpd is at risk due to project deferrals or cancellations, which could cause substantial price increases, possibly as early as this year. It expects new projects in Angola, Nigeria, the Gulf of Mexico, deepwater off Brazil, Canada's oil sands and Venezuela's heavy oil to be postponed or canceled.

The US Commerce Department reported that consumer spending increased for the second consecutive month in February by 0.2% after rising by a revised 1% in January. However after adjusting for inflation, consumer spending in February fell 0.2%. It also reported that incomes fell by 0.2% following January's revised 0.2% increase. The income and spending data showed that disposable personal income fell 0.1% in February following a 1.6% increase in January. Savings fell to an annual rate of \$450.7 billion. The savings rate was at 4.2% in February.

President Barack Obama's administration imposed higher fuel efficiency standards for cars and trucks sold in the US. It announced a US fuel economy requirement of 27.3 miles/gallon for 2011 cars and light trucks, an increase of 2 mpg. The standard for cars will average 30.2 mpg, up from 27.5 mpg and 24.1 mpg for light trucks, up from 23.1 mpg for 2009 models. The new rule is the first step in implementing a December 2007 law that called for vehicles to meet a 35 mpg standard by 2020 models. It is not as aggressive as the 27.8 mpg target that former President George W. Bush proposed in April 2008.

**March Calendar Averages**

**CL – \$47.96**  
**HO – \$1.2873**  
**RB – \$1.3885**

refinery shut by a power outage following a lightning storm that set off a fire. The fire was quickly extinguished but a hydrocracker was shut and delayed coker unit was put on circulation.

Tesoro Corp will begin the process of restarting a 40,000 bpd coker and 16,000 bpd reformer unit at its 100,000 bpd Wilmington, California refinery starting March 28-29. The units, which were shut on March 13, are expected to resume normal operations sometime next week.

Frontier Oil's fluid catalytic cracking unit at its Cheyenne, Wyoming refinery resumed operations following the completion of planned work. Frontier said a hydrotreater unit is in restart mode at its El Dorado, Kansas refinery following maintenance work. Both refineries are at reduced rates due to weak economics.

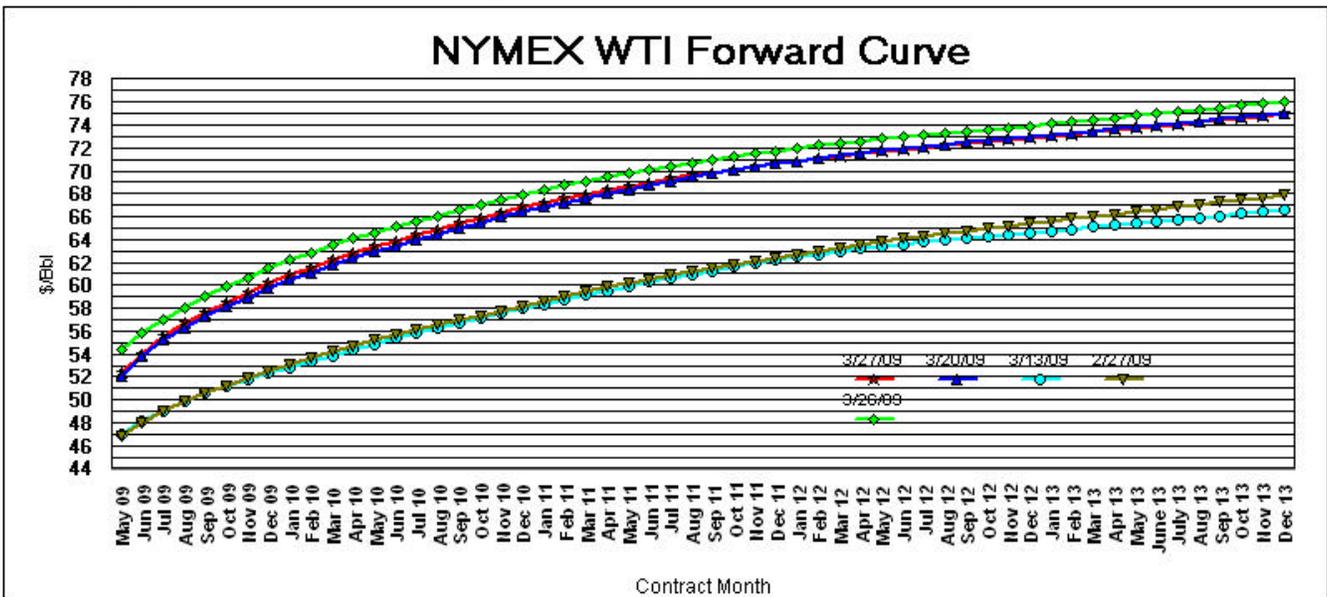
ConocoPhillips may be forced to shut a fluid catalytic cracking unit at its 146,000 bpd Borger, Texas refinery during planned work on unit 29 air blower to repair steam controls to the steam turbine.

Ineos Group Holdings Plc said it is maintaining full production at the Lavera oil refinery in southern France even as it cuts costs. Its management will meet with workers and unions next week to find a way to keep the 218,000 bpd plant open as demand falls.

India's refinery runs in February increased by 4.1% on the year to 3.36 million bpd. However it reported that Reliance Industries cut its runs by 10.1% amid weak global demand. Its crude processing fell despite the firm commissioning its new 580,000 bpd refinery in December. The data showed that February crude oil production fell by 2.8% on the year to 669,900 bpd.

China's Sinopec Corp's 240,000 bpd Fujian refinery is set to receive 4 million barrels of Saudi crude in April-May, ahead of the start up of its new crude refining unit. Sinopec may start its new 160,000 bpd crude unit as early as next month.

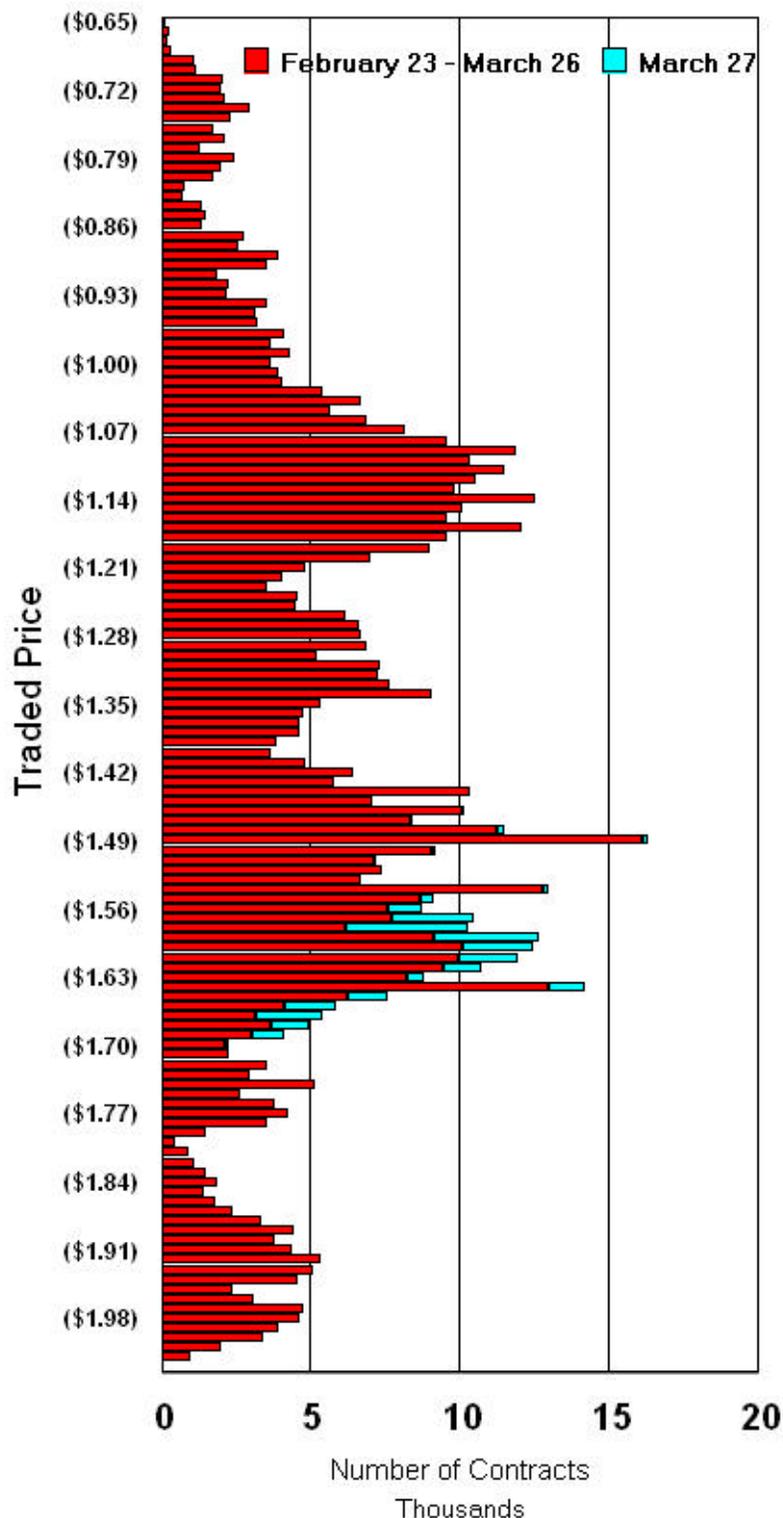
China's refiners will be allowed to export 680,000 tons of diesel tax-free in the second quarter following higher first quarter sales. In a reversal of its previous policy meant to discourage the expansion of export oriented energy and carbon intensive industries, China began setting refined fuel export quotas from this year under crude processing deals, a form of trade that allows refiners to import crude and



## NYMEX WTI: May June Spread

Price Vs Volume for February 23 - March 27, 2009

Trade Weighted Avg 3/25 -1.47, 3/26 -1.49, 3/27 -1.57



export fuels both free from a 17% value added tax.

Japan's Nippon Oil Corp expects to refine 3.65 million kiloliters or 765,000 bpd in April, down 23% on the year as domestic demand continues to fall amid the economic crisis. Last month, Nippon Oil said it planned to refine 3.99 million kl in March, down 22% on the year.

India's Managlore Refinery and Petrochemicals Ltd will increase its term crude imports from Iran by 7.6% to 142,000 bpd for its fiscal year beginning April. In the current fiscal year, MRPL signed a term contract to import 132,000 bpd from Iran but it actually received more than 150,000 bpd. MRPL expects supplies to also exceed the contracted amount for 2009/10.

### Production News

According to Petrologistics, OPEC's oil production in March is expected to average 25.9 million bpd, about 1 million bpd above the group's target. Its production is down about 30,000 bpd on the month. The estimate implies the group delivered on about 75% of its 4.2 million bpd cut agreed since last year. Saudi Arabia is expected to produce 8.05 million bpd in March, in line with its OPEC target and down from an upwardly revised 8.13 million bpd in February. It said Iran is expected to produce 3.75 million bpd, up 414,000 bpd from its 3.336 million bpd quota while Angola is expected to produce 1.77 million bpd, up 253,000 bpd from its 1.517 million bpd quota. Nigeria is seen producing 1.78 million bpd, 107,000 bpd above its 1.673 million bpd quota while Venezuela is seen producing 2.28 million bpd, 294,000 bpd above its 1.986 million bpd quota. Iraq's oil production is expected to average 2.24 million bpd compared with 2.28 million bpd in February, bringing the total supply from all 12 OPEC members to 28.14 million bpd.

Ecuador's Mining and Oil Minister Derlis Palacios said the country will cut its oil production by mid-April to meet its OPEC quota. He said Ecuador will cut its production by 8% to 460,000 bpd. He said the cuts will be the same for state oil company, Petroecuador and private foreign companies. According to the latest official data, Ecuador's oil production in February averaged 498,546 bpd, of which Petroecuador oil output averaged 281,399 bpd and output from private companies was 217,147 bpd.

Indonesia's crude oil production in March is expected to fall by 1.4% on the month due to emergency maintenance at several fields. Crude oil production is expected to fall to 832,200 bpd in March compared with 844,300 bpd in February. Condensate production is likely to increase to 123,000 bpd in March compared with 122,000 bpd in February.

Baker Hughes reported that the number of oil and gas rigs fell to 1,039 in the week ending March 27<sup>th</sup>, down 46 on the week. The number of rigs searching for oil increased by 2 to 217 while the number of rigs searching for natural gas fell by 47 rigs to 810.

India's Oil Secretary R.S. Pandey said India will offer a further 75 oil and gas blocks in April when it launches the next round of auctions under the country's New Exploration Licensing Policy. Last year it awarded 44 oil and gas blocks in the seventh round of auctions.

OPEC's news agency reported that OPEC's basket of crudes increased to \$50.77/barrel on Thursday from \$50.14/barrel on Wednesday.

### **Market Commentary**

The oil market erased most of this week's gains on Friday as the market continued to take its queue from the equities market. The crude market, which rallied to a high not seen since late November 2008 on Thursday amid the strength in the stock market, sold off sharply as the weakness in the equities spilled over to the commodities markets. The oil market was also pressured by strength seen in the dollar. The crude market posted a high of \$54.28 in overnight trading and was holding support just above the \$52.80 level early in the session before further selling pressure pushed the market to a low of \$51.64 late in the morning. The market later bounced off its low but settled in a sideways trading pattern during the remainder of the session. Despite the sell off, the market settled above the \$50 level for the seventh consecutive session at \$52.38, down \$1.96 on the day. While the oil market may remain influenced by the moves in the US equities, one should note that the crude market's fundamentals still remain bearish, leaving it vulnerable to a near term correction. The market is seen finding support at its double bottom of \$51.64-\$51.62, \$51.00 and \$50.49, its 38% retracement off a low of \$43.74 and a high of \$54.66. Further support is seen at \$49.55, \$49.20, its 50% retracement level and \$47.91, its 62% retracement level. Resistance is seen at \$52.80, \$53.45, \$54.28 and \$54.66. The product markets ended the session sharply lower, with the heating oil market leading the way as it settled down 4.85 cents at \$1.4328. The market retraced more than 62% of this week's move from a low of \$1.3825 to Thursday's high of \$1.505 as it sold off to a low of \$1.478 in afternoon trading. Meanwhile, the RBOB market also retraced most of this week's gains as it sold off to a low of \$1.463 amid the losses in the oil market. The market settled down 4.32 cents at \$1.4879. The market which remains in its upward trend channel, is seen finding resistance next week at \$1.5605, basis its trendline. Support is seen at \$1.463, \$1.4617, \$1.4533, \$1.4238 and \$1.4095. The May RBOB-HO spread settled, which settled at 5.84 is still seen widening to 6.81.

(CL) MAY.09 293,565 -6,537 JUN.09 196,379 -2,043 JUL.09 88,502 +306 AUG.09 33,109 +723  
Totals: 1,157,420 -29,144 Heating oil APR.09 17,211 -3,381 MAY.09 58,812 -685 JUN.09 38,569 -940  
Totals: 262,172 -3,360 NEW YORK HARBOR RBOB APR.09 14,209 -4,529 MAY.09 79,590 +1,376  
JUN.09 33,764 -32 Totals: 208,648 -2,766.

The latest Commitment of Traders report showed that non-commercials in the crude market increased their net long position by 4,130 contracts to 17,637 contracts in the week ending March 24<sup>th</sup>. The combined futures and options report showed that non-commercials in the crude market increased their net long position by 10,315 contracts to 100,023 contracts, with total short positions falling by 17,848 contracts to 100,450 contracts. Non-commercials in the product markets also increased their net long position, with funds in the heating oil market increasing their net long position by 8,104 contracts to 19,428 contracts and funds in the RBOB market increasing their net long position by 5,195 contracts to 57,200 contracts on the week.

<b>Crude Support</b>	<b>Crude Resistance</b>
51.64-51.62, 51.00, 49.55, 49.20, 47.91, 45.71, 44.72	52.80, 53.45, 54.28, 54.66, 54.75, 55.20, 55.98, 57.20, 58.31, 58.90, 61.47
<b>Heat Support</b>	<b>Heat resistance</b>
1.4256, 1.3825, 1.3400, 1.3057, 1.2795, 1.1900, 1.143	1.45, 1.478, 1.482, 1.505, 1.5285, 1.5520
<b>Gasoline support</b>	<b>Gasoline resistance</b>
1.463, 1.4617, 1.4533, 1.4238, 1.4095, 1.3888, 1.375, 1.3538	1.497, 1.5085, 1.52, 1.5372, 1.5800