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## ***ENERGY RISK MANAGEMENT***

Howard Rennell, Pat Shigueta,  
Zachariah Yurch & Karen Palladino  
**(212) 624-1132 (888) 885-6100**

**www.e-windham.com**

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### **ENERGY MARKET REPORT FOR APRIL 15, 2008**

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OPEC stated in its latest Monthly Oil Market Report that OPEC was pumping enough oil and added that the US economic slowdown may weaken consumption in the second quarter. It said current OPEC production at more than 32 million bpd would be sufficient to both meet demand growth and contribute to further stockbuilds. OPEC expects world oil demand to fall by 1.4 million bpd to 85.7 million bpd in the second quarter. It left its estimate for growth in world oil demand this year unchanged at 1.2 million bpd. OPEC cut its estimate for supply from non-OPEC countries in 2008, leading to a small increase in the amount of oil its 13 members need to produce to balance the market. It expects non-OPEC supply to average 50.28 million bpd this

#### Market Watch

US presidential candidate Sen. John McCain has proposed a gasoline tax cut for the summer. He called for Congress to institute a gas tax holiday by suspending the 18.4 cent federal gas tax and 24.4 cent diesel tax from Memorial Day to Labor Day. He also renewed his call for the US to stop adding to the SPR. He said his Democratic rivals Sens. Barack Obama and Hillary Rodham Clinton would impose the single largest tax increase since World War II by allowing tax cuts pushed to passage by President George W. Bush to expire.

The Labor Department said US producer prices increased by a more than expected 1.1% in March due to an increase in energy costs. Core producer prices increased 0.2% as forecast. Finished energy goods were up 2.9% and food products increased 1.2%. On a year on year basis, producer prices increased by 6.9% while core 12 month PPI increased by 2.7%. Energy prices increased 20.4%, with gasoline prices increasing by 36.4% and heating oil prices increasing by 52%.

US Treasury committees recommended that hedge fund managers should improve disclosures of hard to value assets and produce audited public company style performance reports for investors. They said hedge fund managers should set up independent committees for valuing assets and should seek independent reviews of valuations of illiquid assets that are based on models.

Venezuela's Oil Minister Rafael Ramirez said the new oil tax would likely generate \$760 million/month or about \$9 billion/year. The new tax would be levied on excess revenue oil companies acquire at times when oil prices increase above \$70/barrel. The government would take in about 92 cents for every extra dollar when world prices are above \$70/barrel and then 97 cents when they are above \$100/barrel. The tax proposal is expected to become law within days.

An appeals court in the southern oil city of Port Harcourt annulled the election of Bayelsa Governor Timipre Sylva of the ruling People's Democratic Party. The judge said Bayelsa's Governor and other defendants could not prove an election for governor actually took place because they failed to produce an authentic results sheet. Troops were deployed in armored personnel carriers after the court ruling. Hundreds of results from Nigeria's April 2007 elections have been contested at tribunals, which have cancelled dozens of state and federal legislative results. Nine other governorship results have also been annulled.

**April Calendar Averages**

CL – 108.19

HO – 309.48

RB – 277.31

year, about 90,000 bpd less than previously forecast in part due to lower output estimates from the US and Mexico. Demand for OPEC oil is seen averaging 31.75 million bpd in 2008.

According to DEBKAfile, Israel requested the hook-up to the Ballistic Missile Early Warning System to defend itself against Iranian missile attack. This is the third time Israel has been connected to the BMEWS. The first was in 1991 before the first Gulf War and the second in 2003 before the US invasion in Iraq. US military sources interpret the request as signifying Israel's sense of the need to prepare for an Iranian missile attack in the not too distant future. Meanwhile, Iran's Mohammed Reza Ashtiani threatened to eliminate Israel if it launched a military attack against Iran.

Saudi Arabia's Oil Minister Ali al-Naimi met IEA executive director Nobuo Tanaka and discussed the situation in the international petroleum market and its stability. The official Saudi Press Agency reported that they agreed that price rises were due to reasons not linked to oil market fundamentals and that oil stockpiles have reached adequate levels. It said they stressed the importance of continuous cooperation and the exchange of information between the IEA and OPEC.

British Prime Minister Gordon Brown said oil producing countries had to act to counter higher prices. He said the markets need to be adequately supplied and added that oil producing countries have a responsibility to respond to higher oil prices.

Lloyd's Marine Intelligence Unit reported that OPEC's seaborne oil exports, excluding Angola and Ecuador, fell by 870,000 bpd on the month to 22.09 million bpd in March.

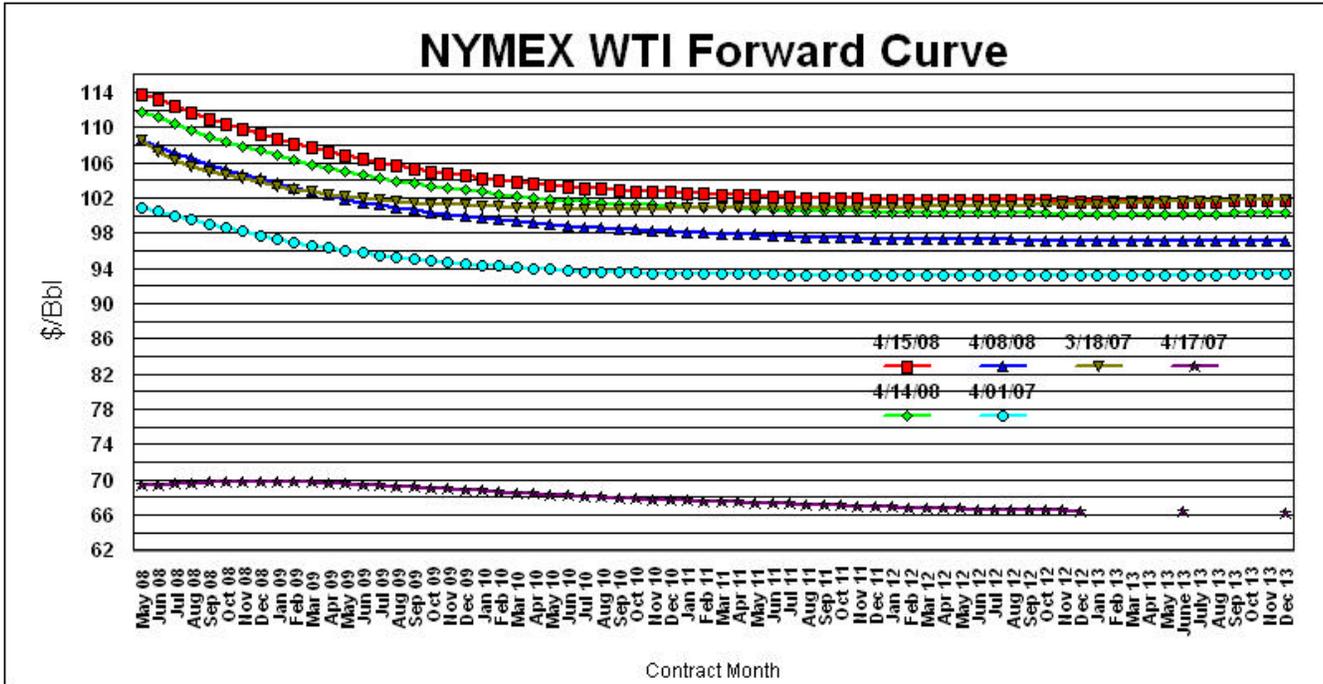
On Wednesday, the five permanent UN Security Council members and Germany are scheduled to hold talks on Wednesday to over Iran's nuclear program. The talks aim to follow up on a package of political, security and economic incentives offered to Iran in June 2006 in tandem with further sanctions to punish Iran's defiance. Meanwhile, the head of the UN's IAEA, Mohamed ElBaradei and Germany's Foreign Minister Frank-Walter Steinmeier are scheduled to hold talks on Thursday in Berlin over Iran's nuclear program.

The Deputy speaker of Iraq's parliament, Khaled al-Attiya said government and Kurdish officials would resume talks soon to try to iron out disputes holding up its draft oil law. He said parliament had not yet received a final draft. Officials have stated that drafts of the oil law have been submitted to parliament four times in the past year only to be rejected by the legislature's oil and gas committee. He blamed oil contracts signed by the Kurdish regional government with foreign firms for holding up the draft.

MasterCard Advisors said US gasoline demand averaged 9.126 million bpd in the week ending April 11, up 0.9% on the week. The four week moving average was down 1% from last year's levels. It also reported that the US average retail price of gasoline increased by 5 cents to \$3.35/gallon.

An EIA official said new US energy laws targeting high emission unconventional fuels are unlikely to block imports of Canada's oil sands. In December, the US passed the Energy Independence and Security Act, which has a provision preventing federal agencies from buying alternative or synthetic fuels with higher greenhouse gas emissions than conventional fuels.

Separately, the EIA reported that US crude oil imports in February fell by 486,000 bpd or 4.9% on the month to 9.514 million bpd. Canada was again the largest foreign oil supplier to the US, even though exports fell by 56,000 bpd to an average of 1.888 million bpd. Saudi Arabia remained in second place with exports of 1.614 million bpd, up 135,000 bpd on the month while Mexico's exports increased by



33,000 bpd to 1.231 million bpd and Nigeria's exports fell by 181,000 bpd to 982,000 bpd. US crude oil imports from Venezuela in February fell 18.3% or 208,000 bpd on the month and by 16.9% or 188,000 bpd on the year to 927,000 bpd. Iraq's oil exports to the US increased 237,000 bpd to 780,000 bpd in February. The EIA also reported that OPEC crude oil export revenue may increase by 45% to \$980 billion this year from \$676 billion a year ago. OPEC's production is expected to average 32.05 million bpd in 2008, up from 30.9 million bpd last year.

### Refinery News

Pemex shut its crude export terminal at the port of Salina Cruz on the Pacific Coast on Monday, the fourth terminal to close due to bad weather conditions. Later, Mexico's Transportation Ministry reported that Mexico opened three oil export terminals in the Gulf of Mexico that were shut since Sunday. The port of Pajaritos, Cayo Arcas and Dos Bocas were reopened on Tuesday.

The Cambridge Energy Research Associates reported that large scale construction of new oil refineries around the world would not lead to a world oversupply of oil products. It said even as new capacity comes onstream, oil product markets would remain interdependent in the long term.

Marathon Oil Corp's 222,000 bpd Catlettsburg, Kentucky refinery may be restarting a fluid catalytic cracking unit. The unit was shut last week following a fire at a substation.

ConocoPhillips said a mechanical malfunction that triggered flaring on Monday at its 76,000 bpd refinery in Rodeo, California had no effect on production.

Japan's Nippon Oil Corp said operations were not affected by a fire that broke out at its 180,000 bpd Muroran refinery in Hokkaido. The fire started at a heavy fuel oil storage tank on Tuesday afternoon, when it was conducting an inspection of the storage facility.

Petrobras said it was in talks to buy a 255,000 bpd refinery in Aruba from Valero Energy Corp. It said a decision is expected to be made in April.

According to preliminary customs data, China imported 490,000 tons of diesel in March, up from 327,753 tons in February. China's fuel oil imports in March increased to 2.01 million tons from 1.72 million tons in February while its gasoline exports fell to 100,000 tons from February's 131,716 tons .

Separately, China's Finance Ministry said it would extend its refund of the 17% value added tax on some of the fuel shipped in by Sinopec and PetroChina, a move to increase gasoline and diesel supplies ahead of the Olympics. Making its imports less costly at a time of record prices could strain global markets amid high demand for distillates such as diesel and ahead of the driving season in the US. Under the tax break, Sinopec Group and China National Petroleum Corp would get a refund on up to 500,000 tons of gasoline imports each and 1 million tons of diesel imports.

Indian Oil Corp said it planned to import 13.14 million tons of low sulfur crude oil in the year ending in March 2009 for its seven refineries. It is also expected to import 22.8 million tons of high sulfur crude.

**Production News**

Petrobras and Chevron Corp are expected to start production at Nigeria's Agbami light oil field as early as June. The field's output capacity is estimated at 250,000 bpd, with Petrobras' share estimated at 30,000 bpd.

OPEC's news agency reported that OPEC's basket of crude increased to \$104.02/barrel on Monday from \$103.67/barrel on Friday.

**Market Commentary**

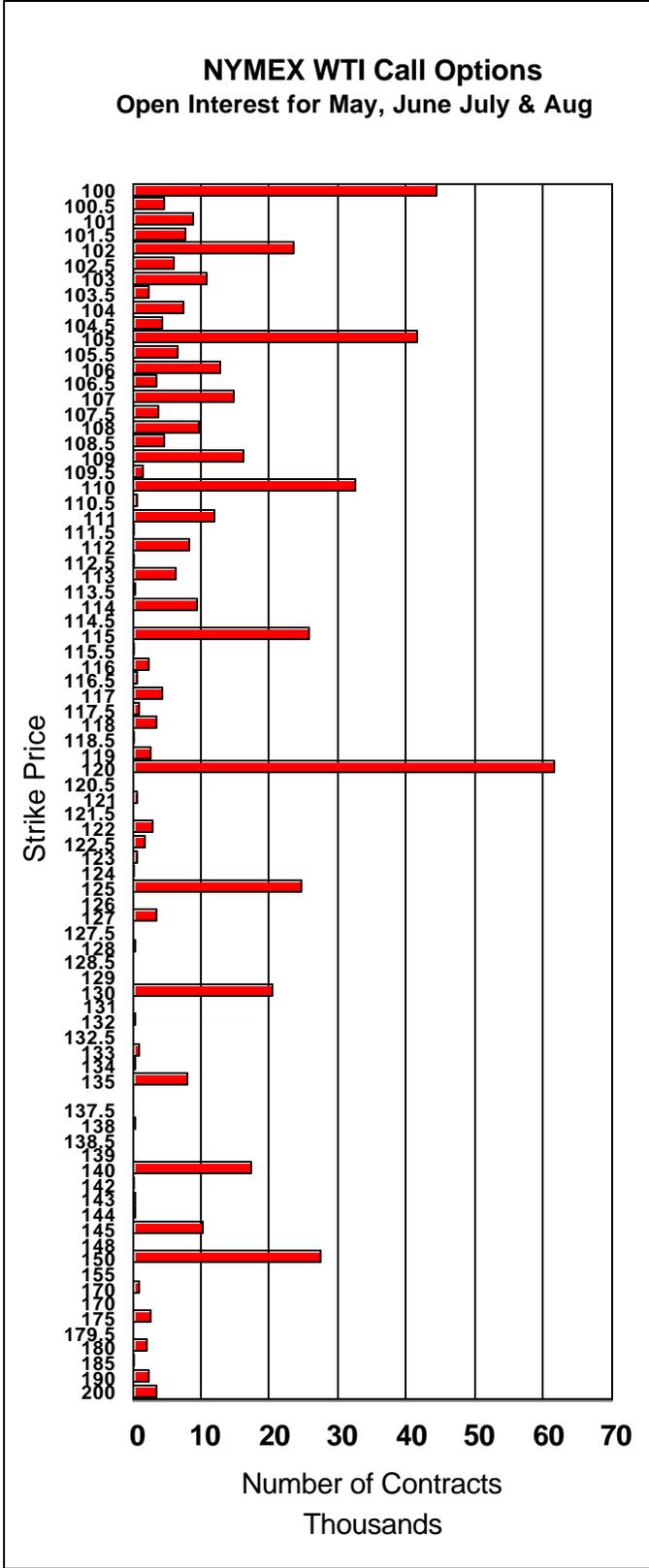
The market reacted to bullish news of a fourth Mexican terminal being shut due to weather conditions. Adding to the mix of bullish fundamentals were Nigerian disruptions, an increase in China's demand for diesel in March of 49% and the forever-weakening dollar. Investors flocked to the energy markets in an effort to reap better returns on their investments. This helped to propel the price of May crude oil to a record high of \$114.08. Gasoline also made a new record high, with the May contract reaching \$288.91. The most surprising market, however, is heating oil, which once again outpaced the other two. Demand for diesel overseas continues to be the driving force behind heating oil, as growth in developing nations remains strong. Brazil's announcement yesterday of its find of a possible 33 billion barrels of offshore crude oil did little to keep prices down. We would expect that close attention would be paid to the release of the DOE/API numbers due out tomorrow, with strict attention once again on the demand factor. Expectations are calling for a build in crude oil stocks of 1.5 million barrels, gasoline is expected to decrease by 2 million barrels and distillates are expected to draw by 1.5 million barrels. We would also focus attention on the import numbers, as this will have an impact on prices.

The front of the forward curve for crude oil continues to edge higher, pulling away from the balance. This formation is supportive for prices and is in contrast to last year's

		<b>Explanation</b>	
<b>CL</b>	<b>Resistance</b>	116.13, 118.02, 118.29	Basis trendline
	113.79, up \$2.03	114.08	Tuesday's high
<b>Support</b>		112.85, 111.80	Tuesday's low
		109.56, 108.92, 108.75, 107.95, 107.64, 105.86	Previous lows
<b>HO</b>	<b>Resistance</b>	332.04, 339.48	Previous high, Basis trendline
	327.39, up 7.10 cents	328.12	Tuesday's high
<b>Support</b>		326.20, 324.00, 320.90	Tuesday's low
		317.13, 315.57, 314.03, 311.00, 308.47, 302.90	Previous lows, 38% (284.89 and 332.04), 50%, 62%
<b>RB</b>	<b>Resistance</b>	290.59, 293.48	Basis trendlines
	288.10, up 5.92 cents	288.91	Tuesday's high
<b>Support</b>		286.25, 284.50, 281.75	Tuesday's low
		280.90, 277.59, 274.98, 273.60, 272.85, 270.62	Previous lows

curve at this time, when the front end was dipping and front spreads were in contango. Support in May

crude oil is set at \$112.85, \$110.82 and 108.92. Projected resistance is set at \$116.13. Support in May gasoline is set at \$280.90 and a break below this level should lead to a test of at \$272.85. As for heating oil, as long as strong demand for diesel continues abroad, this market will continue to enjoy unseasonable highs. Support in the May heating oil contract comes in at \$3.1555, with a break below this level making the \$3.1100 support area our initial objective. Total open interest for crude oil is 1,439,315 up 7,628, May08 167,698 down 9,187, June08 353,534 up 13,980 and Dec08 195,463 down 894.



This afternoon the NYMEX reported that open interest gains in the calls came principally in the June out of the money calls such as the 119, 125 and 130 strikes. Over the last week thought the \$140 strike in the first four months has seen the biggest growth in open interest growing by over 45,000 contracts.