



## **ENERGY RISK MANAGEMENT**

Howard Rennell, Pat Shigueta,

& Karen Palladino

**(212) 624-1132 (888) 885-6100**

**[www.e-windham.com](http://www.e-windham.com)**

---

### **ENERGY MARKET REPORT FOR JUNE 17, 2009**

---

Qatar's Energy Minister Abdullah al-Attiyah said OPEC is unlikely to agree to raise crude production any time soon, despite the rally in prices. He said the oil market's rally was driven primarily by speculators as opposed to fundamentals.

Britain's Prime Minister Gordon Brown said the world should look at ways to keep oil supply and demand more in balance. He said everybody is concerned about the recent rise in oil prices.

The head of the IAEA, Mohammed ElBaradei believes Iran is mastering nuclear technology and wants the ability to build nuclear weapons to gain the reputation of a major power in the Middle East. He believes that for Iran securing a nuclear weapon is the road to get the recognition,

#### **Market Watch**

President Barack Obama announced US financial regulatory reform proposals on Wednesday. The proposal creates the Financial Services Oversight Council, which would coordinate activities among regulators, ensure that any financial firm big enough to pose a risk to the financial system would be heavily regulated by the Federal Reserve and give the Federal Reserve oversight over parent companies and all subsidiaries. It would require hedge funds, private equity funds and venture capital funds to register with the SEC, allowing the agency to collect data from the firms and subject hedge funds to new requirements in areas such as record keeping, disclosure and reporting. It will bring the markets for over-the-counter derivatives and asset-backed securities into a regulatory framework among all the requirements. It harmonizes the powers and authority of the SEC and CFTC to avoid conflicting rules relating to the same products. The growth of the derivatives markets highlights the need for addressing gaps and inconsistencies in the regulation of these products by the CFTC and SEC. In response, the CFTC said the SEC and CFTC have a good relationship and will be able to work together on enacting new regulations for over-the-counter derivatives and harmonizing regulations between futures and securities.

A US Senate committee on Wednesday approved a comprehensive energy package that will require utilities to generate 15% of electricity from renewable energy sources such as solar and wind power. The legislation will also require the Energy Department to create an emergency reserve of 30 million barrels of petroleum product supplies, including gasoline and diesel fuel. The bill also calls for an inventory of Outer Continental Shelf energy resources and will allow drilling within 45 miles of Florida's Gulf Coast. In response, the API said the committee took a positive step forward in passing the bill which recognizes the importance of additional offshore oil and natural gas development and Canadian oil to the US' energy and economic security.

The Labor Department said the consumer price index increased by 0.1% in May from April, below expectations of a 0.3% increase. The core CPI, which excludes food and energy prices, also increased 0.1%. Consumer prices fell 1.3% on the year, the largest 12 month decline since April 1950. According to the CPI report, energy prices increased 0.2% in May from April and were down 27.3% over the last 12 months. It reported that gasoline prices increased by 3.1% in May. In a separate report, the Labor Department said the average weekly earnings of US workers, adjusted for inflation, fell 0.3% in May, an indication that paychecks are not keeping pace with prices.

The Commerce Department said the US current account deficit fell to \$101.5 billion during January through March. It is the smallest deficit since the fourth quarter of 2001. In the fourth quarter, the deficit stood at \$154.9 billion, up from an originally reported \$132.8 billion.

Venezuelan legislators on Tuesday approved a law to increase the state President Hugo Chavez's government holds in the petrochemical industry. The law approved by the National Assembly calls for joint ventures with a minimum 50% state control in primary and secondary petrochemical projects.

### **DOE Stocks**

**Crude** – down 3.9 million barrels  
**Distillate** – up 300,000 barrels  
**Gasoline** – up 3.4 million barrels  
**Refinery runs** – unchanged, at 85.9%

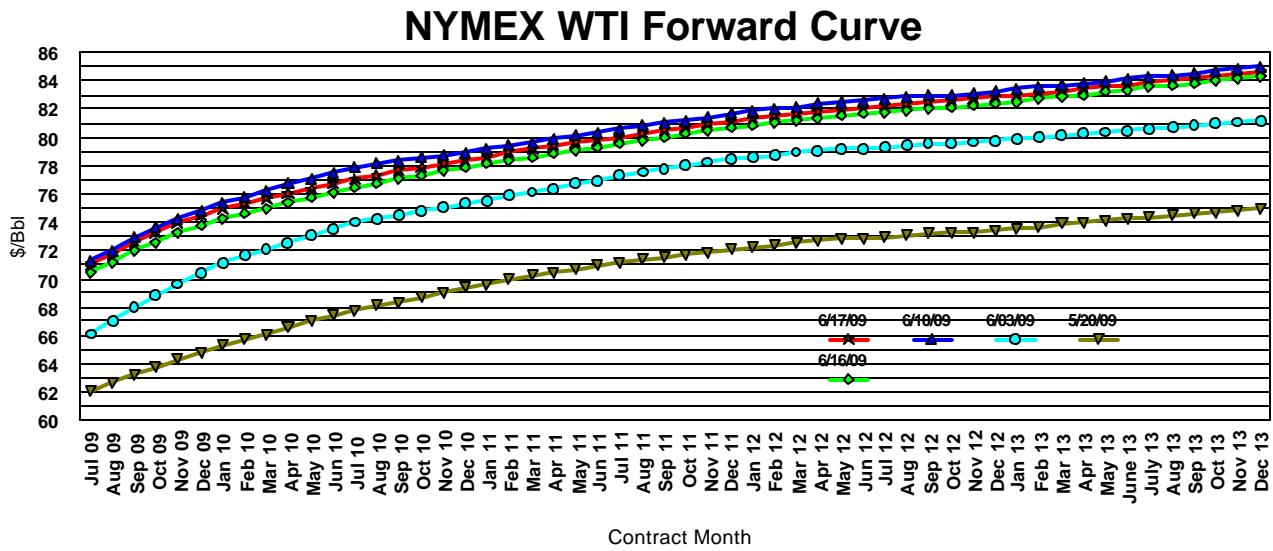
power and prestige. He said Iran sees nuclear ability as an insurance policy against perceived threats from neighboring countries or the US. In response, Iran denied that it is seeking a nuclear weapon as an insurance policy. Iranian ambassador Ali Asghar Soltanieh said Iran has no intention of having nuclear weapons. He said nuclear weapons are not in its defense doctrine.

The Iranian Foreign Ministry summoned the Swiss ambassador to protest over interventionist statements by US officials on Iran's election. The ministry also summoned the Canadian ambassador to convey Iran's official protest over Canadian officials' recent remarks on Iran's presidential vote. Meanwhile, defeated Iranian presidential candidate Mir Hossein Mousavi repeated his call for the results of the disputed election to be canceled. Separately, Germany's state secretary in the foreign ministry said the country has indications that there were irregularities in the Iranian presidential election.

**June Calendar Averages**  
**CL** – \$69.75  
**HO** – \$1.8053  
**RB** – \$1.9885

According to AISLive ship tracking data, about six crude oil tankers, 20 oil product tankers and four liquefied natural gas tankers are floating off Malta. About 20 million barrels of oil or about 25% of the world's daily demand are on the seas around Malta. The contango structure in the oil market has prompted the storage of 110 million barrels of oil at sea around the world, with most of them floating in Europe.

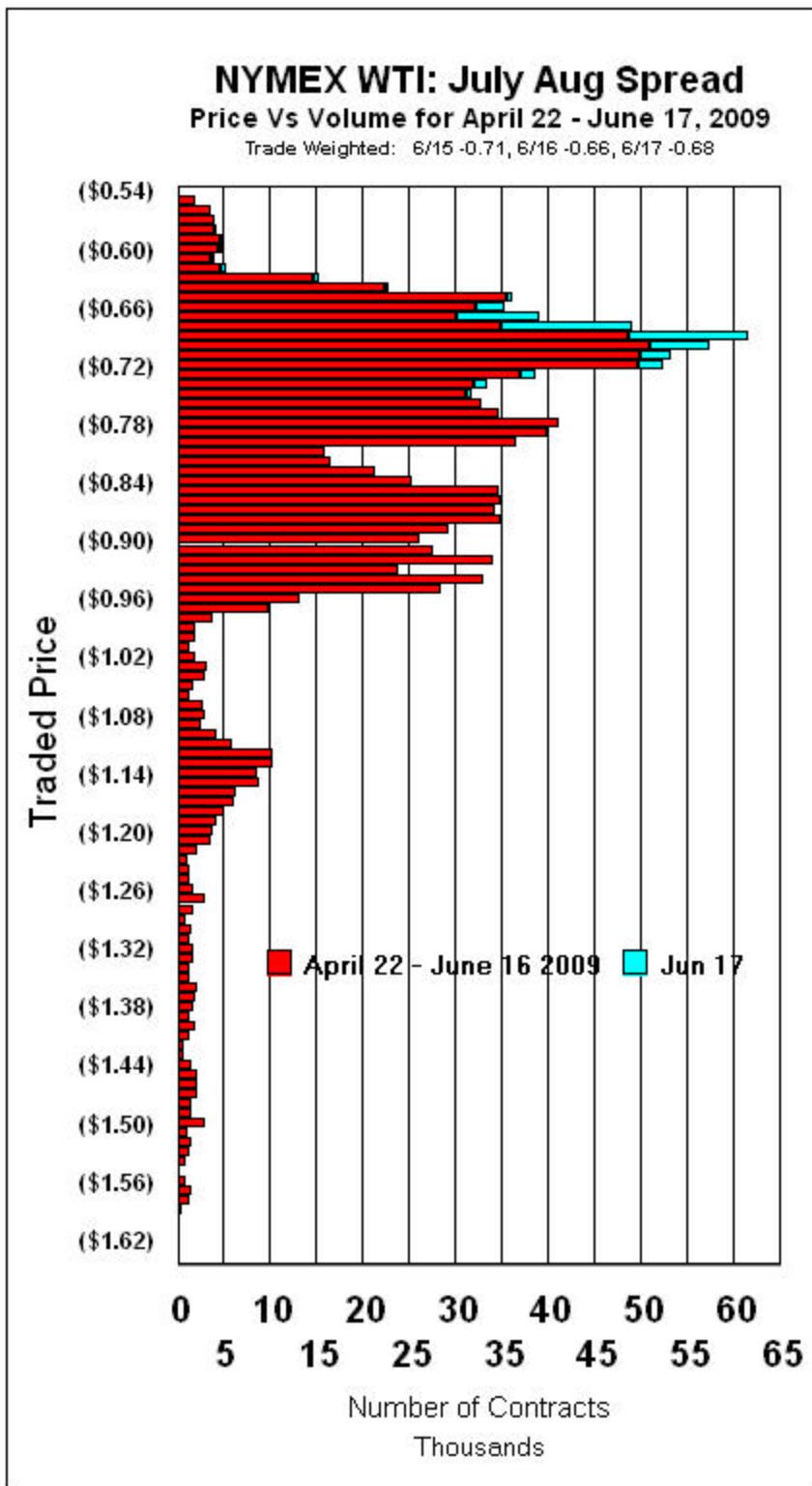
The API reported that US oil and petroleum product demand fell by 4.3% on the year to 18.89 million bpd. It is down 839,000 bpd on the year and the lowest demand level for the month since 1999. Gasoline demand in May increased by 257,000 bpd or 0.6% to 9.273 million bpd while distillate demand fell by 7% to 3.662 million bpd. On the supply side, US crude oil production increased by



3.7% to 5.32 million bpd. Crude oil and petroleum product imports fell by 10.4% on the year to 11.489 million bpd, the lowest level in 9 years. Total imports in May accounted for 60.8% of US oil demand, down from 65% a year earlier.

### **Refinery News**

The Coast Guard reported that a tractor-trailer accident caused a power outage at Valero Energy Corp's 210,000 bpd Texas City, Texas refinery and Marathon Oil Corp's 81,500 bpd Texas City, Texas refinery.



Citgo's fluid catalytic cracking unit#2 at the east plant of its Corpus Christi, Texas refinery suffered an upset and cut operations or shut all east plant units as a result. However Citgo reported in a filing with the Texas Commission on Environmental Quality that its operations were restarted.

ConocoPhillips will restart a sulfur recovery unit at its 247,000 bpd refinery in Sweeny, Texas. Restart operations will last until Sunday.

Some contract workers at Total SA's 200,000 bpd Lindsey refinery in the UK are continuing their protest over planned redundancies related to a hydro-desulfurization project. Up to 1,200 contractors walked off the site on Thursday.

PetroChina will start operating its new 200,000 bpd crude oil unit at its Dushanzi refinery from late June following several delays. It will be the third major facility to come on line this year in China, after Sinopec in May started test running a 160,000 bpd crude unit in Fujian province and CNOOC's launched its first key refinery in Huizhou in March. The Dushanzi refinery aims to operate at 75-80% of capacity by August. It will mothball its existing 120,000 bpd crude unit that mainly treats oil produced in Xinjiang and its new crude unit will process Kazakhstan crude.

China's Brightoil Petroleum Ltd plans to build a 2.2 million cubic meter or 14 million barrel storage base for refined fuel in eastern

China. It is also in talks with the northern port city of Dalian to build a storage base with designed capacity of 6-8 million cubic meters. The firm owns a 400,000 cubic meter oil depot in the southern city of Shenzhen and plans to expand that facility to 1 million cubic meters.

NEW YORK MERCANTILE EXCHANGE(r) NYMEX OPTIONS CONTRACT LISTING FOR 06/17/2009						
		TODAY'S	PREVIOUS	ESTIMATED	DAILY	DAILY
-----CONTRACT-----		SETTLE	SETTLE	VOLUME	HIGH	LOW
AO	4 11P	55	4.16	4.48	300	0 0
AO	5 11P	55	4.33	4.65	300	0 0
AO	6 11P	55	4.23	4.56	300	0 0
LC	9 9 P	50	0.31	0.34	1500	0 0
LC	9 9 P	45	0.13	0.14	1500	0 0
LC	9 9 P	65	2.42		500	0 0
LC	9 9 P	55	0.66	0.72	500	0 0
LC	7 9 P	70	0	0.79	500	0 0
LC	7 9 C	70	1.03	1.26	480	0 0
LC	9 9 C	73	5.15	4.84	300	0 0
LC	9 9 C	72	5.65	5.31	300	0 0
LO	12 10C	100	5.2	5.42	9925	0 0
LO	9 9 P	60	1.32	1.43	9053	1.6 1.4
LO	9 9 P	50	0.31	0.34	8854	0.4 0.31
LO	12 10C	125	2.41	2.59	7100	0 0
LO	8 9 P	55	0.24	0.24	5365	0.31 0.25
LO	8 9 P	50	0.09	0.08	4263	0.12 0.09
LO	7 9 C	70	1.03	1.26	3757	1.19 0.26
LO	2 10C	100	2.1	2.16	2900	0 0
LO	7 9 P	70	0	0.79	2680	1.15 0.02
LO	12 9 P	60	2.76	3.03	2632	3.15 2.85
LO	8 9 P	60	0.62	0.67	2503	0.8 0.61
LO	9 9 C	110	0.08	0.07	2050	0.07 0.07
LO	9 9 C	90	0.81	0.75	1736	0.69 0.59
LO	9 9 C	95	0.46	0.42	1552	0.38 0.38
LO	7 9 C	71	0.03	0.76	1546	0.8 0.05
LO	12 12C	110	8.49	8.69	1450	0 0
OB	8 9 P	1.9	0.0694	0.0594	360	0.08 0.0775
OB	8 9 P	1.5	0.0033	0.0026	255	0.004 0.004
OB	8 9 C	2.1	0.0812	0.0956	255	0 0
OB	8 9 P	1.7	0.0196	0.0161	250	0 0
OH	7 9 P	1.5	0.0001	0.0002	450	0 0
OH	7 9 C	2.2	0.0004	0.0003	450	0 0
WA	9 9 P	-0.75	0.4	0.37	750	0 0
WA	7 9 C	-0.5	0.07	0.11	250	0 0
WA	7 9 C	-0.7	0.15	0.19	150	0 0
WA	7 9 P	-0.7	0.12	0.18	150	0 0

increasing by 10.3% on the week and by 5.3% on the year to 930,000 bpd.

Nigeria has issued a tender to import more than 40 cargoes of oil products, mainly gasoline, for the third quarter of this year. The imports, which are expected to come mainly from Europe, will total more than 1.35 million tons.

The Petroleum Association of Japan reported that the country's refinery run rate fell to its lowest level in more than six years last week. Japan's refiners ran their facilities at an average 63.2% of their combined capacity of 4.83 million bpd in the week ending June 13<sup>th</sup>, down 1.2% on the week. It reported that due to the lower refinery runs, Japan's crude stocks increased by 3.79 million barrels on the week but fell by 670,000 barrels on the year to 106.57 million barrels. The PAJ also reported that gasoline stocks fell by 80,000 barrels on the week and by 1.31 million barrels on the year to 14.29 million barrels while kerosene stocks built by 380,000 barrels on the week and by 2.8 million barrels on the year to 13.82 million barrels and naphtha stocks fell by 350,000 barrels on the week to 1.75 million barrels. The PAJ also reported that Japan's total oil product sales increased by 21.7% on the week but fell by 1.7% on the year to 2.79 million bpd, with gasoline sales

US ethanol producer Poet remains on schedule to start its cellulosic ethanol plant in 2011. Poet's Liberty project will add corncob-based cellulosic ethanol production to the company's non-cellulosic corn kernel-based facility. Upon completion, the plant will produce 25 million gallons/year of cellulosic ethanol, in addition to the 100 million gallons/year of kernel-based output. Its production will cover only a small portion of overall US federal cellulosic targets. The latest Renewable Fuel Standard mandates 100 million gallons/year of cellulosic biofuels starting in 2010 followed by 250 million gallons/year in 2011.

### **Production News**

Kuwait National Petroleum Co said Kuwait resumed its oil exports on Wednesday after exports were suspended for less than a day due to bad weather.

Royal Dutch Shell extended a force majeure on its Nigerian Forcados crude shipments for the rest of June and all of July. Shell imposed the force majeure in March following an attack on its trans-Escravos pipeline. It said an investigation into the damage is ongoing and it is taking steps to repair the line and resume production. Force majeure also remains in place for exports of Shell's Bonny Light and EA crude in June and also on supplies of gas to the NLNG project.

Russia's Lukoil said it is confident that after meeting Iraqi officials that the country's auction for service contracts in its prized oilfields will be held as planned at the end of June. The auction for contracts, which pay oil developers a fixed fee rather than a share of oil revenues, has been put into doubt by objections from parliament and Iraq's South Oil Co. Iraq's Oil Minister Hussain al-Shahristani and senior executives from the South Oil Co have been summoned by parliament to answer questions about the contracts. Separately, Lukoil's Vice President Leonid Fedun said Russia should join OPEC so that OPEC can control more than half of the world's oil output and dictate its price.

Angola is set to export at least 1.67 million bpd of crude oil in August, down from 1.86 million bpd scheduled for July. However it is still above its implied OPEC production target of 1.656 million bpd. Angola is expected to produce an average 1.79 million bpd in 2009, down from an initial estimate of 2 million bpd.

Colombia's crude oil production in May increased to an average of 651,000 bpd from 579,000 bpd reported last year and 649,000 bpd in April. Average crude oil production in the first five months of the year was 642,000 bpd. Foreign and domestic companies extracted an average 994 million cubic feet/day of natural gas in May, up from 900 mmcf/d last year.

Petrobras has approved the development project for its Siri field in the Campos Basin. The field will be the first in the world to produce extra heavy oil from an offshore site. The field has been in production tests since the end of March. Petrobras expects to contract production equipment in 2011.

OPEC's news agency reported that OPEC's basket of crudes increased to \$69.68/barrel on Tuesday, up from \$69.24/barrel on Wednesday.

### **Market Commentary**

Crude oil fell below unchanged in response to the release of the inventory numbers. Crude oil stocks fell 3.87 million barrels to 357.7 million, according to the report. A late session rally brought prices back above unchanged. Gasoline cracks fell for the first time in five days as gasoline inventories reflected an increase of 3.39 million barrels to 205 million. This increase was ten times more than expected in a Reuters survey and six times more than expected in a Bloomberg survey. Crack spreads remain relatively strong across the globe due to overall refining margins in light of the lack of demand for diesel. Gasoline demand is somewhat strong because of the onset of the U.S. summer driving season. Distillate stocks increased by 308,000 barrels, lower than the 800,000 that was

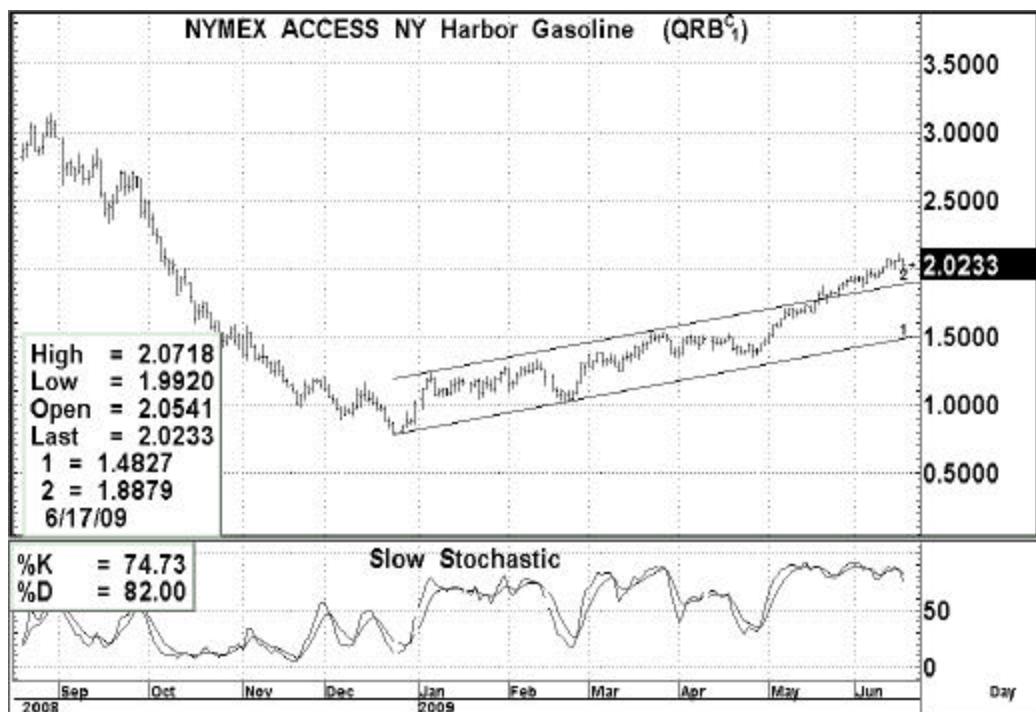
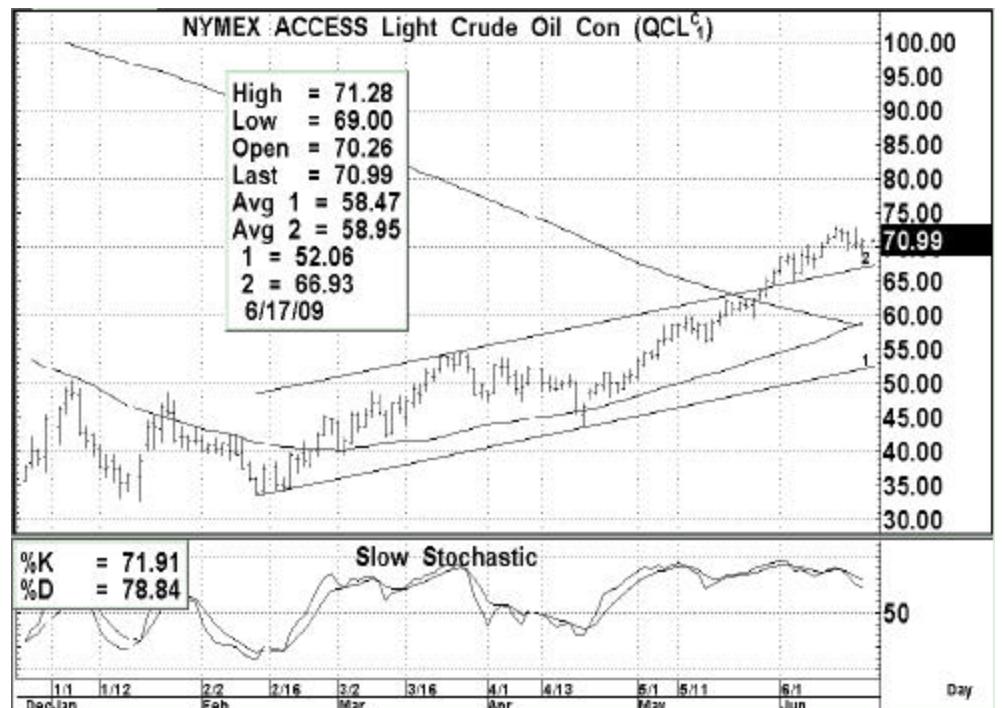
expected. This proved supportive for heating oil. Option expiration for the July crude oil pushed prices back up towards the \$70.00 level. Today's market activity in crude oil forced the crossing of the 50-day moving average over the 200-day moving average on the spot continuation chart. This is somewhat bullish for prices. Based on this we would look for a test at the projected target of \$78.90.

Spot continuation chart. The 50 day moving average crossed above the 200 day, signaling an additional move to the upside. Prices remain above the ascending channel. The projected upside objective based upon the breakout is \$78.89.

Crude Oil (CL) JUL.09  
102,278 -22,829  
AUG.09 258,093  
+8,565 SEP.09  
126,011 -739 OCT.09

45,066 +770 Totals: 1,198,182 -9,280 N.Y. Heating Oil (HO) JUL.09 41,733 -1,943 AUG.09 45,956 +1,320 SEP.09 33,981 +105 OCT.09 22,037 +704 Totals: 286,992 + 691 NEW YORK HARBOR RBOB (RB) JUL.09 53,574 -5,278 AUG.09 68,923 +4,685 SEP.09 42,784 +1,850 OCT.09 21,441 +85 Totals: 227,322 +1,731

Spot continuation chart for gasoline. Slow stochastics continue to point to the downside, with %K below %D. We would look for a test back to the channel top. Failures to penetrate would present buying opportunities, with successful attempts sell signals.



<b>Crude Support</b>	<b>Crude Resistance</b>
<b>Spot 200 day MA 63.33</b> 60.50 , 59.85, 58.90, 56.75, 55.45, 54.49,	74.50, 76.10, 81.80
<b>Heat Support</b>	<b>Heat resistance</b>
1.6780, 1.6512, 1.6235, 1.5615	1.9090
<b>Gasoline support</b>	<b>Gasoline resistance</b>
1.5370, 1.5260, 1.3560, 1.3400, 131.80, 1.2700, 1.2625 1.1680, 1.0128, .9590	2.0650, 2.1600

The information contained in this letter is taken from sources, which we believe to be reliable, but is not guaranteed by us as to accuracy or completeness and is sent to you for information purposes only. The Windham Group bases its market recommendations solely on the judgment of its personnel. Reproduction in whole or part or other use without written permission is prohibited.