



## ***ENERGY RISK MANAGEMENT***

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### **ENERGY MARKET REPORT FOR JULY 10, 2009**

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The IEA said world oil demand will increase by 1.7% or 1.4 million bpd next year, led by rising consumption in emerging economies as the developed world recovers from the recession. It forecast world oil demand next year will reach 85.2 million bpd, up from 83.8 million bpd this year. Its demand estimate for this year was relatively unchanged, down 2.9% or 2.5 million bpd on the year. China's demand for oil in 2009 may increase by 1.1% or 90,000 bpd to 7.98 million bpd while gasoline consumption will increase by 5.3% on year. It also said that demand for OPEC crude is expected to remain limited following a 330,000 bpd

#### **Market Watch**

US Treasury Secretary Timothy Geithner said the administration did not yet want to define standardized over-the-counter derivative contracts but would likely issue broad principles to outline allowable contracts under new regulations. He reiterated that his priority is moving the standardized OTC contracts to central clearinghouses, and establishing comprehensive enforcement authority, comprehensive transparency, comprehensive reporting and to sufficiently insert margin capital requirements across the entire market.

Separately, the Commodity Futures Trading Commission will proceed quickly to rein in excessive speculation in the energy and metals markets by focusing on expanding their existing authority and could have new regulations in place as early as late October. Earlier this week, the CFTC said it will implement position limits on all commodity futures contracts, focusing on energy and metals.

According to the Reuters/University of Michigan Surveys of Consumers, US consumer sentiment fell in early July to the weakest level since March. Its preliminary index of confidence for July fell to 64.6 from 70.8 in June. The July level was well below economists' average forecast of 70.5. The index of current economic conditions fell to 70.4 from June's final reading of 73.2.

According to DEBKAfile, twenty five Egyptians and one Palestinian suspects detained in Egypt have confessed to planning attacks on the Suez Canal shipping and oil pipelines on behalf of al Qaeda on Tuesday, July 7<sup>th</sup>. It sources said that large group of 15-20 al Qaeda terrorists, trained in Pakistan and Algeria to hijack and blow up airliners, deployed secretly in Britain, Germany, France, Italy, Turkey and Egypt for attacks in the week of the G8 summit.

Japan's Tokyo Electric Power co said its consumption of several thermal power fuels fell in June amid the lower demand for electricity. Fuel oil consumption fell by 21% to 394,000 kiloliters while liquefied natural gas demand fell by 1.4% to 1.432 million kl. Its crude oil demand increased by 1.8% to 224,000 kl while coal demand fell by 45.2% to 239,000 kl.

A total of 479 lots or 47,900 metric tons of gasoil was physically delivered against the expiry of the July gasoil futures. It is down 80% below the 438,400 tons delivered in June.

The CME announced that starting on Sunday, July 19<sup>th</sup> the exchange will list on the trading floor and through CME ClearPort, financially settled Heating Oil crack spread average price option, RBOB crack spread average price options and Gasoil crack spread average price option.

upward revision to non-OPEC supply, mostly due to higher than expected Russian output. It estimates demand for OPEC crude in 2009 at 27.7 million bpd and expects it to increase to 27.9 million bpd in 2010. The IEA said world oil inventories in May increased to 62.5 days of forward supply, up 7.2 days on the year and up from 62 days at the end of April. OECD commercial oil stocks increased by 12.2 million barrels, led by US product stocks. Short term floating storage of crude fell to about 60 million barrels at the end of June from 85 million barrels at the end of May. It reported that global refinery runs will be lower in the third quarter than previously expected. Global third quarter crude runs were revised down by 500,000 bpd to 72.3 million bpd, due to weak margins. Europe's refinery throughputs were revised down by 300,000 bpd from its June report to an average 12.9 million bpd. Meanwhile, China's crude runs are likely to remain high after unexpectedly reaching a record 7.3 million bpd in May, with a crude processing capacity increase of about 500,000 bpd this year.

**July Calendar Averages**  
**CL – \$63.35**  
**HO – \$1.6143**  
**RB – \$1.7244**

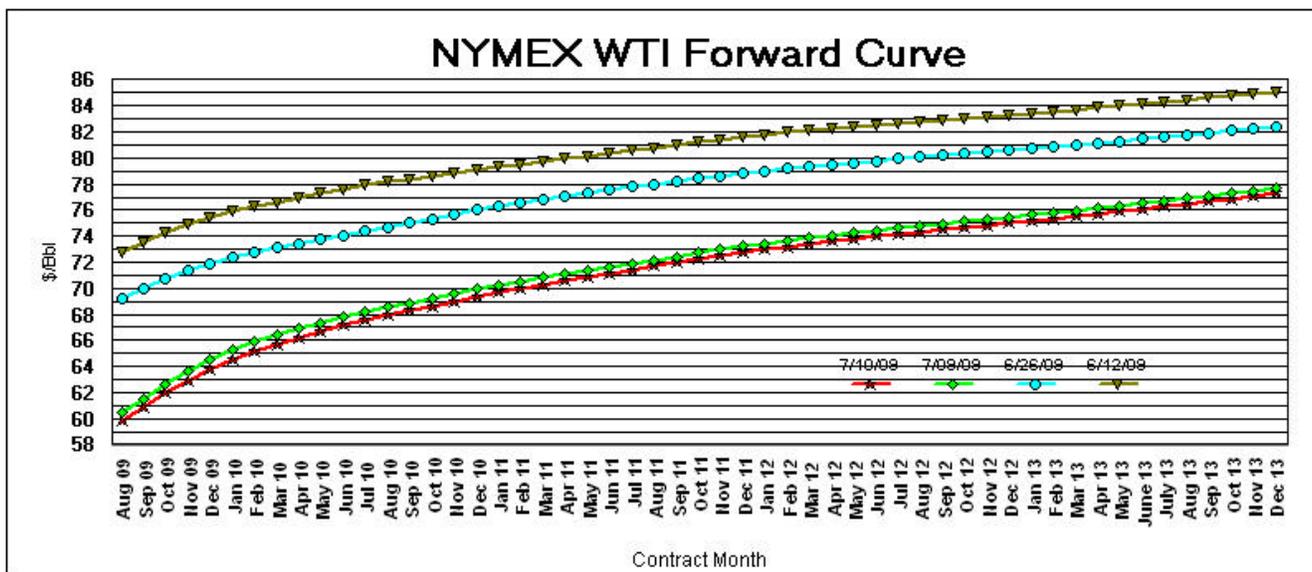
Meanwhile, the IEA called for caution in government attempts to regulate the price of oil following discussions at the Group of Eight summit. At the G8 meeting, world leaders appealed to producers and consumers to demonstrate more transparency and engage in talks to help curb volatility.

Venezuela's President Hugo Chavez said he is not concerned by the recent decline in oil prices. He said oil prices are moving between a \$50 and \$70/barrel price band and that the recent decline is within the range. He said the decline probably responded to oversupply in the market but his government did not have any plans to call for an emergency OPEC meeting.

US President Barack Obama said G8 leaders will not wait indefinitely while Iran develops a nuclear weapon.

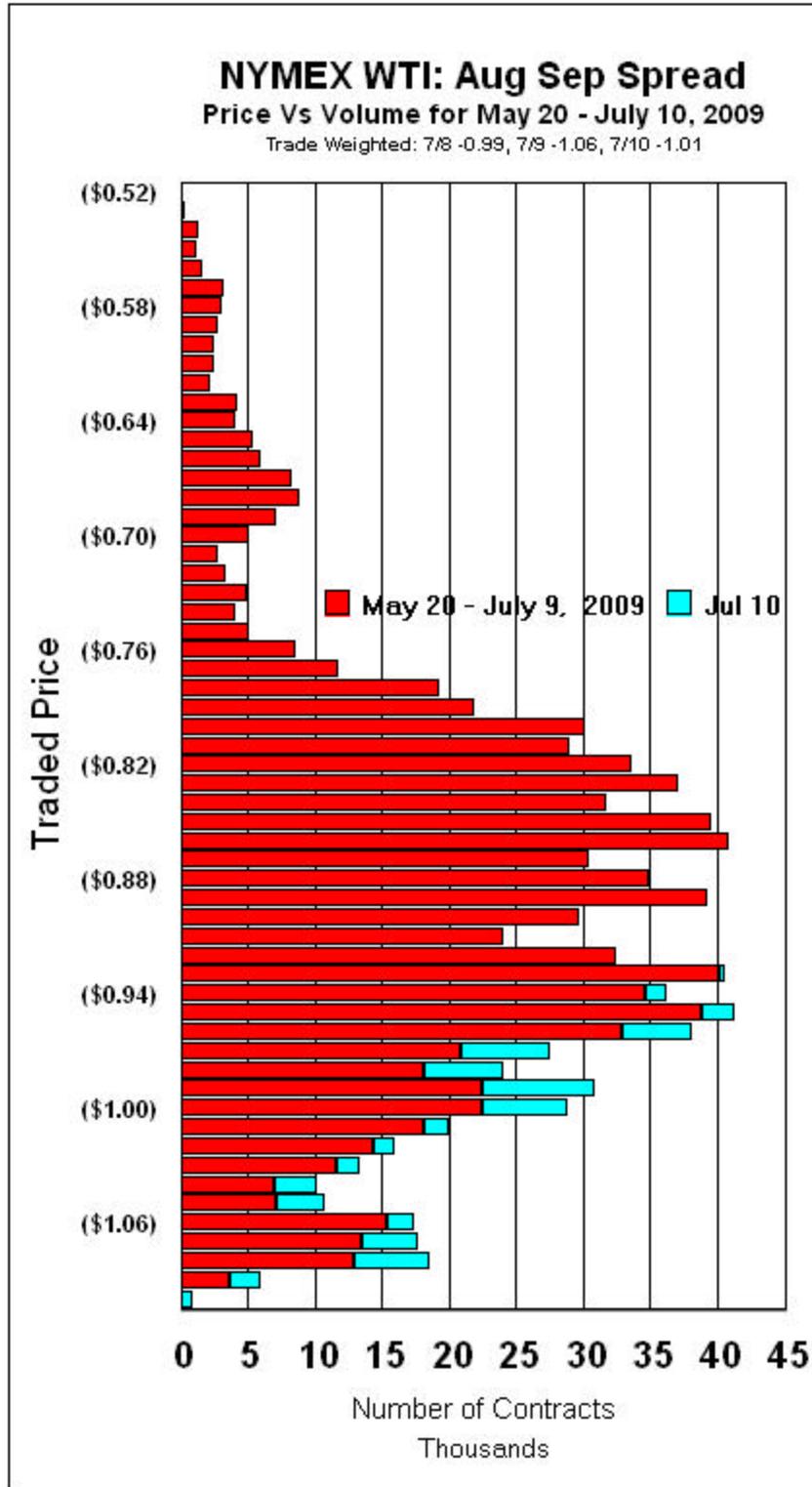
On the sidelines of the Group of Eight nations summit, UK Prime Minister Gordon Brown and Libya's leader Moammar Gadhafi agreed on the need for closer cooperation between oil producers and consumers.

Nigeria's President Umaru Yar'Adua wants militant leader, Henry Okah, to be freed in the next few days after the rebel leader welcomed the government's amnesty offer. Both sides still need to negotiate terms of the deal before the suspected leader of the Movement for the Emancipation of the Niger Delta can be released. If the militant leader is released, it would raise hopes that MEND would agree to lay down its weapons and halt its offensive against the oil sector.



**Refinery News**

BP Plc saw no impact to operations of its 250,000 bpd crude unit at its Texas City, Texas refinery from excess gas flows on Thursday.



ExxonMobil Corp Corp is shutting down the boiler of fluid catalytic cracking unit No. 3 at its 572,000 bpd Baytown, Texas refinery. According to a report filed with the Texas Commission on Environmental Quality, the boiler will remain shut until Sunday.

Chevron Corp said there was no malfunction of a hydrocracking unit at its 245,271 bpd Richmond, California refinery on Friday following reports to the contrary. However Chevron Corp was in the process of shutting a reformer and a diesel hydrotreater at the refinery for planned maintenance work. The work is expected to last two weeks. Separately, Chevron Corp warned that second quarter earnings would be hit by a sharp decline in US refining margins and that any benefits from higher oil prices were largely offset by a weaker dollar. Chevron said US oil equivalent production in April and May was 682,000 bpd, up from 671,000 bpd in the first quarter, while international output was 1.979 million bpd, down by 13,000 bpd from the previous quarter. Chevron is targeting overall average output of 2.63 million bpd for 2009.

Total Petrochemicals USA shut Unit 804 at its 232,000 bpd Port Arthur, Texas refinery on Thursday for repairs.

Lukoil's 142,000 bpd Neftochim Burgas refinery in Bulgaria has resumed full crude processing and

fuels production after a power outage shut the refinery.

According to the General Administration of Customs, China's crude oil imports increased by 14% in June to 16.61 million tons or 4.04 million bpd, its second highest rate on record. In the first six months of the year, crude oil imports increased just 0.3% to 90.77 million tons. Refined oil product imports in June increased to 3.58 million tons from 3.34 million tons in May while imports in the first six months fell by 7.7% to 19.58 million tons.

German residential heating oil stocks increased to 64% of capacity on July 1 from 63% on June 1. On average between 2003 and 2008, German residential heating oil tanks were 51% full in July.

Indonesia's Pertamina bought a 600,000 barrel Sudanese Nile Blend cargo via its spot tender, bringing the total for September arrival to 5.35 million barrels. It is nearly double the 2.85 million barrels bought for August arrival.

### **Production News**

Baker Hughes reported that the number of rigs searching for oil and natural gas in the US fell by 12 to 916 this week. The number of rigs searching for oil increased by 5 to 234 rigs while the number of rigs searching for natural gas fell by 16 to 672 rigs.

The North Sea BFOE crude oil stream, comprised of Brent, Forties, Oseberg and Ekofisk crude, will total about 1.033 million bpd in August, down from 1.387 million bpd in July. The North Sea Brent crude stream is scheduled to load about 135,000 bpd or 4.2 million barrels in August, down from 155,000 bpd or 4.8 million barrels in July. The North Sea Oseberg crude stream is scheduled to load 193,839 bpd, down 9.6% on the month.

Norway's Gullfaks crude oil stream is scheduled to load about 248,000 bpd or 7.695 million barrels in August, down from 276,000 bpd or 8.55 million barrels in July.

China's National Development and Reform Commission said the country's fuel prices are equivalent to about \$60/barrel of crude oil.

Russia's Finance Ministry said the country is likely to increase its oil export duty to \$220-\$224/ton from August 1, an increase of between 3%-5% from July. The tariff is set at \$212.60/ton for the current month. The export duties on light refined products, such as gasoline and gas oil, will increase to \$161-\$163/ton, up from the current level of \$155.50/ton while the export duty on heavy refined products, such as fuel oil, will increase to \$87-\$88/ton from \$83.80/ton.

OPEC's news agency reported that OPEC's basket of crudes fell further to \$60.58/barrel on Thursday, down from \$61.11/barrel on Wednesday.

### **Market Commentary**

The oil market remained pressured and settled in negative territory after trading below the \$60 level once again. While the EA forecast that oil demand will increase next year, it said it will depend on expected economic recovery. It also expects demand to remain negative this year, with limited demand for OPEC crude. The crude market continued to sell off and posted a low of \$58.72 early in the session before it retraced some of its overnight losses. The market later attempted to test its support and found some buying interest below the \$59 level which pushed the market back above the \$60 level in afternoon trading. It traded mostly sideways during the remainder of the session and settled down 52 cents at \$59.89. The crude market is seen finding support at \$59.43 after the market settled above its support line. Further support is seen at its low of \$58.72, \$58.66, its 505 retracement level off a low of \$43.42 and a high of \$73.90 and its double bottom at \$57.57-.52. The product markets also seen continuing their downward trend amid the lack of supportive fundamentals. The heating oil market settled down 9 points at \$1.5335 after it retraced close to 62% of its move from a

low of \$1.2351 and a high of \$1.9138 as it sold off to a low of \$1.4959 early in the session. The market later bounced off its lows and rallied back to the \$1.54 level ahead of the close. The market is seen finding support at \$1.4944, its 62% retracement level followed by \$1.48, \$1.4758 and \$1.459. Meanwhile, the RBOB market posted an inside trading day after failing to breach Thursday's trading range. It posted a high of \$1.6707 and sold off to a low of \$1.6282 early in the session. It is seen finding support at \$1.6282, followed by \$1.6241, \$1.6185, its 50% retracement level off a low of \$1.1525 and a high of \$2.0844, \$1.5773, \$1.5283 and \$1.5085, its 62% retracement level.

Crude Oil AUG.09 178,807 -29,472 SEP.09 213,397 +22,836 OCT.09 72,265 +434 NOV.09 32,644 +1,421 Totals: 1,164,653 -5,100 N.Y. Heating Oil (HO) AUG.09 51,996 -2,055 SEP.09 46,361 +2,319 OCT.09 32,172 +580 NOV.09 17,102 +532 Totals: 288,338 +2,917 NEW YORK HARBOR RBOB (RB) AUG.09 56,890 -5,959 SEP.09 57,917 +5,063 OCT.09 27,401 +125 NOV.09 12,112 +463 Totals: 196,099 +489.

The latest Commitment of Traders report shows that non-commercials in the crude market cut their net long position by 25,420 contracts to 15,357 contracts in the week ending July 7<sup>th</sup>. The funds cut their total long position by 16,382 contracts to 193,867 contracts on the week. The combined futures and options report showed that non-commercials in the crude market cut their net long position by 19,169 contracts to 81,852 contracts on the week. They cut their total long positions by 11,012 contracts to 191,160 contracts. Given the market's move lower during the last few trading sessions, non-commercials have continued to cut their net long positions. Meanwhile, non-commercials in the product markets also cut their net long positions, with funds in the heating oil market cutting their net long position by 3,364 contracts to a net long position of 28,580 contracts and funds in the RBOB market cutting their net long position by 8,135 contracts to 43,014 contracts.

<b>Crude Support</b>	<b>Crude Resistance</b>
59.43, 58.72, 57.57-57.52, 56.75, 55.45, 55.06, 54.49, 50.82	60.20, 60.89, 61.62, 62.68, 64.91, 65.65, 67.17, 68.50, 69.74, 70.10, 72.15, 73.90
<b>Heat Support</b>	<b>Heat resistance</b>
1.4959, 1.4944, 1.4801, 1.4758, 1.4590, 1.4062	1.54, 1.5460, 1.5689, 1.582, 1.591, 1.61, 1.6370, 1.6421, 1.6705, 1.6750, 1.7099, 1.77, 1.8291, 1.9090
<b>Gasoline support</b>	<b>Gasoline resistance</b>
1.6282, 1.6241, 1.6185, 1.5773, 1.5283, 1.5260, 1.5085, 1.4689, 1.3810	1.6707, 1.6791, 1.72, 1.74, 1.75, 1.7677, 1.80, 1.8696, 1.9506, 1.9807, 2.0650, 2.1600

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