



## ***ENERGY RISK MANAGEMENT***

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## **ENERGY MARKET REPORT FOR AUGUST 29, 2008**

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The National Hurricane Center said Gustav gained hurricane strength on Friday afternoon.

### Market Watch

The EIA and the API announced that their weekly petroleum stock reports will be delayed one day to Thursday, September 4 at 11 am EDT due to the Labor Day holiday.

Hurricane forecasters were looking at the central Louisiana shore as the likely striking point for Gustav, possibly on Tuesday, but noted that it was still too early to say reliably where the storm will hit. Gustav is expected to reach the Cayman Islands Friday, cross western Cuba Saturday and enter the Gulf of Mexico on Sunday. Private forecaster, Planalytics said Gustav remained on a path for energy production in the US Gulf of Mexico, with a high probability of the storm developing into a category 3 or 4 hurricane. Accuweather also continued to forecast that the storm will strengthen further and move into the Gulf of Mexico as a category 3 hurricane and could become a category 4 or 5 hurricane later Sunday before making landfall as a category 2 hurricane early next week. Meanwhile, Tropical Storm Hanna, which formed on Thursday, is not seen as a direct threat to land in the near future. However there are models forecasting a possible threat to the eastern Gulf of Mexico next week.

The DOE said it is capable of releasing 4.4 million bpd of oil from its SPR, in the event that oil supply is disrupted by developing storm Gustav. The SPR, at 90% of capacity, has a stock of 707 million barrels.

According to Earth Science Associates, about 9% of US Gulf of Mexico oil output and 10% of the region's natural gas output falls within 30 miles of the forecast storm track of Tropical Storm Gustav. It sated that about 120,000 bpd of oil production lies within 30 miles of the storm track, with 410,000 bpd within 30-60 miles of the track and a further 750,000 bpd more than 60 miles from the projected storm track.

According to the US Minerals Management Service, a total of 86,013 bpd or 6.6% of total oil production in the Gulf of Mexico and 136 mmcf/d or 1.8% of total natural gas production has been shut in ahead of Tropical Storm Gustav. The amount of shut in production is expected to increase significantly in the next 48 hours, as nearly all producers have announced that they will completely halt operation in the Gulf.

Royal Dutch Shell plans to evacuate most of its staff from the Gulf of Mexico on Friday and expects to continue the orderly shut in of all Shell operated Gulf production by Saturday. Shell also stated that it is in the process of evacuating its 242,000 bpd Norco, Louisiana refinery and chemical plant. It said its

**August Calendar Averages**

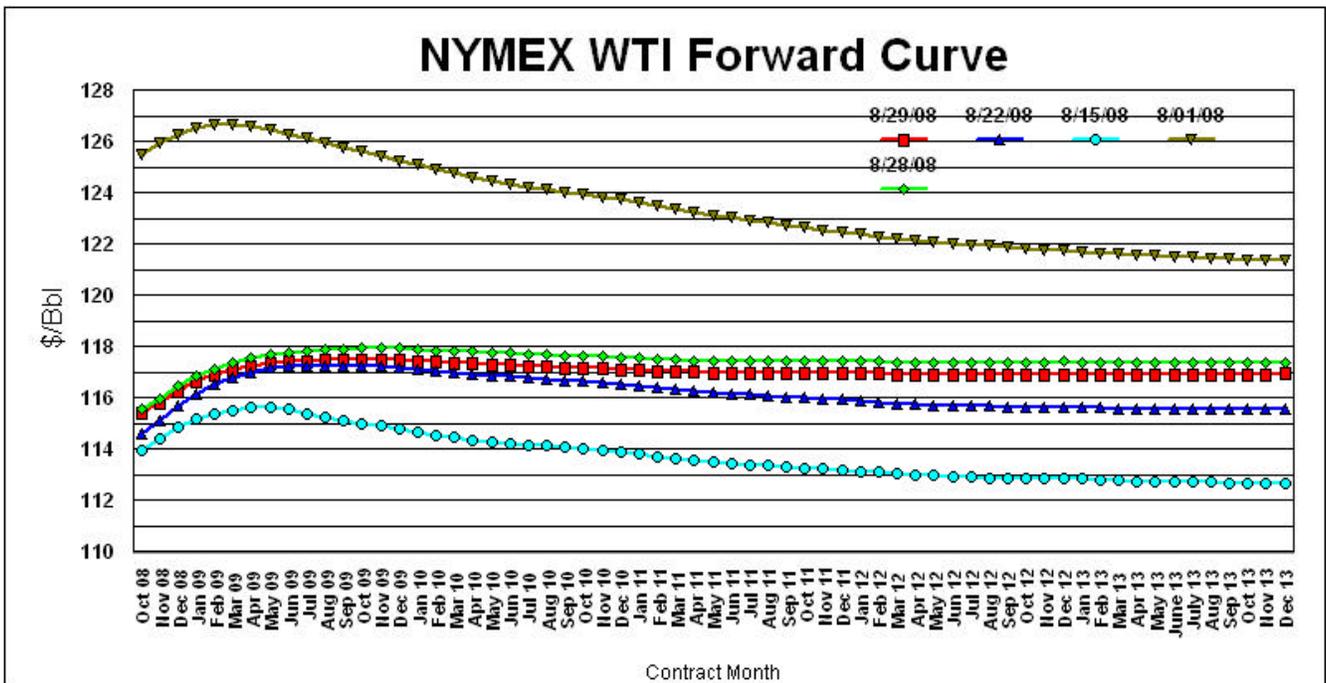
**CL** – 116.69  
**HO** – 319.08  
**RB** – 294.04

refining and chemical operations remain normal despite the move to evacuate most of its workers ahead of the approaching Tropical Storm Gustav. BP Plc started reducing its production at its Gulf of Mexico operations and plans to completely shut in output by Saturday. Apache Corp has shut in production from five of its platforms in the Gulf of Mexico because third party pipelines have suspended operations. The five platforms have gross production of 850 bpd of oil and 28 mmcf/d of natural gas. Chevron Corp said it has evacuated essential personnel from its operations and added that some of its production is impacted by third-party pipeline shut-ins. Eni US Operating Co Inc has evacuated all nonessential workers from its Gulf of Mexico platforms and rigs. Devon Energy Corp said it is evacuating non-essential workers from its production platforms along the Texas and Louisiana coasts to prepare for Tropical Storm Gustav. Meanwhile, the Louisiana Offshore Oil Port said it planned to stop offloading crude oil tankers on Saturday afternoon, with no more tankers scheduled due to rough seas expected in the Gulf of Mexico.

The US Coast Guard is monitoring Tropical Storm Gustav's path and is making preparations ahead of its expected landfall on the coastline of Louisiana early Tuesday.

Iran's Deputy Foreign Minister Alireza Sheikh Attar said Iran is operating about 4,000 uranium enrichment centrifuges and it is installing 3,000 more in the Natanz facility. In July, Iran's President Mahmoud Ahmadinejad said Iran had up to 6,000 centrifuges for uranium enrichment.

Russia's Energy Minister and Russia's oil company, Lukoil, denied they were preparing to cut oil flows to Europe in response to threatened sanctions. The Energy Minister said Russia was doing everything it could to ensure stable oil supplies on its Druzha pipeline. Russia's Lukoil denied the government has told it to prepare for a cut in oil deliveries to Western Europe in response to threatened sanctions. Meanwhile a spokesman for Germany's Chancellor Angela Merkel said Germany believes that Russia will continue to comply with its contracts to deliver oil to Europe despite a threat of sanctions. Separately, the French presidency of the EU said heads of state gathering in Brussels to discuss the conflict between Georgia and Russia will not adopt sanctions against Russia. He said the objective of Monday's meeting is to bring together the 27 EU countries behind the application of the ceasefire plan.





**Refinery News**

Valero Energy Corp said that brief maintenance work on a heavy oil cracking unit at its 340,000 bpd Corpus Christi, Texas refinery had no impact on production.

Enbridge Inc and BP Plc plan to spend about \$2 billion expanding their pipeline systems to ship increasing volumes of Canadian crude to the US Gulf Coast. They aim to develop a system to

ship 250,000 bpd to Texas City, Texas from Flanagan, Illinois by 2012.

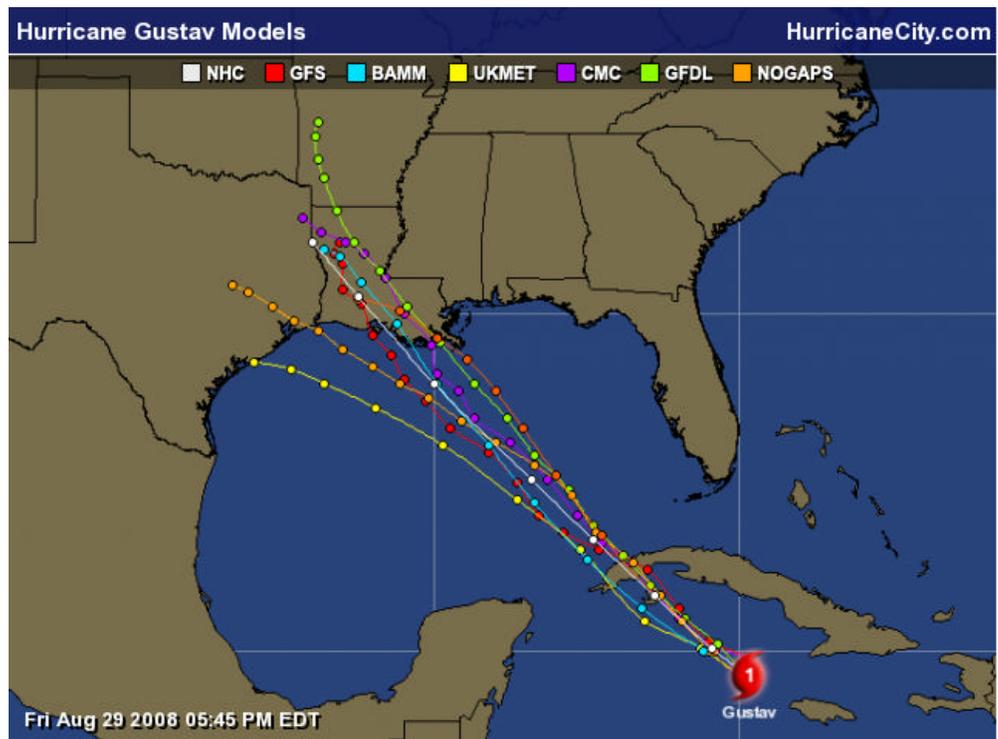
Indian Oil Corp's 120,000 bpd refinery at Baruni and related infrastructure have not been affected by massive floods in parts of eastern Bihar state.

Japan's Ministry of Economy, Trade and Industry reported that the country's oil imports in July fell by 0.3% on the year to 21.24 million kiloliters or 4.31 million bpd. It also reported that the country's domestic oil product demand fell by 3.5% on the year to 16.17 million kl or 3.28 million bpd. Gasoline sales fell 6.8% to 4.88 million kl or 990,000 bpd in July.

Indonesia's Pertamina has revised up its planned gasoline imports in September to between 5.5-6 million barrels from a target of 4.5 million barrels, previously.

**Production News**

StatoilHydro said the Norne production and storage ship resumed oil production five days ahead of schedule following a major maintenance shutdown.



Iran has increased its oil output to 4.235 million bpd, up 5,000 bpd from a previous production record of 4.32 million bpd reached in June.

Oil flow through the BP-led Baku-Tbilisi-Ceyhan pipeline is nearly back up to its normal daily average of 700,000 to 800,000 bpd after this month's two week closure due to an explosion in its Turkish section. Separately, BP said it is still looking to resume operations on the oil pipeline between Baku, Azerbaijan and Supsa on Georgia's Black Sea coast.

Azerbaijan's Socar expects to reroute 300,000-400,000 tons of crude this year through the Baku-Novorossiisk pipeline and not the Baku-Tbilisi-Ceyhan pipeline due to instability in Georgia.

The chairman of Libya's National Oil Corp, Shokri Ghanem said the 45,000 bpd al-Jurf oilfield will remain shut for another two months while repairs are carried out.

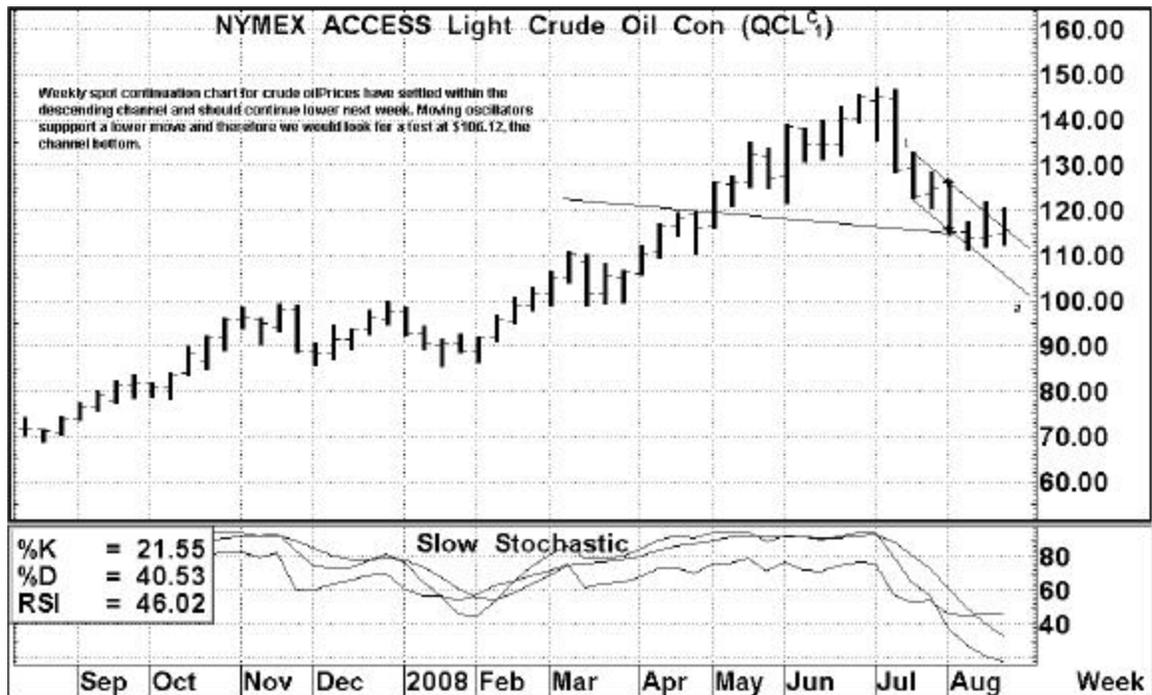
Indonesia's BPMIGAS said the country's oil production is expected to increase to 862,600 bpd in August from 857,900 bpd in July.

OPEC's news agency reported that OPEC's basket of crudes increased further to \$111.85/barrel on Thursday from \$111.79/barrel on Wednesday.

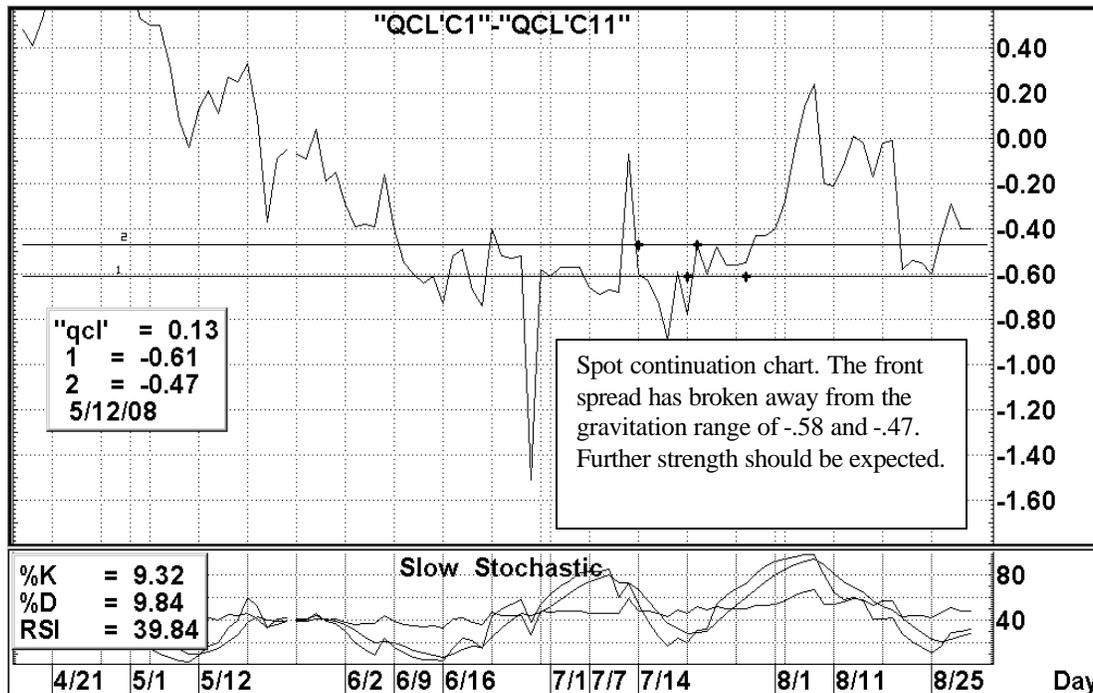
**Market Commentary**

Although the impact of Tropical Storm Gustav is not yet fully known, the oil industry is better prepared for disaster than they were when Hurricane Katrina struck. Varying opinions as to whether this storm will be at hurricane status and to what category it will be at, when Gustav makes landfall, circulated the marketplace. Prices initially reacted strongly, only to sell-off at the end for the floor traded session. Although the shape of the forward curve remains the same, the deferred contracts felt the most pressure. This may be due in part to the pending weather. Technically, we did expect to see follow-through selling, perhaps not as much due to the weather. A period of consolidation appears to be taking place.

This type of trading typically brings with it, a movement in the prior direction, which in this case is lower. Slow stochastics have been crossing back and forth and at this point %K has once again crossed %D to the



downside. Longer-term technicals are indicating lower prices and the October contract settled below the upper trendline on the descending channel basis the weekly spot continuation chart. Barring any major damage due to the weather, next week's objective would be \$106.12. The October/November spread, since breaking away from the -.58 to -.47 range, continues to strengthen. As refiners come out of turnaround, demand for crude should pick up thereby lending further strength to this spread. Gasoline appears to be running out of steam, settling just slightly higher on the day. With the



September contract off the board October is now the front month. Continued pressure should remain in this market as the U.S. summer driving season comes to an end. This market may experience minor rebounds, but due to the seasonality of this product, we would look to sell any failed

attempts to take out resistance. Heating oil is still trading in a sideways pattern between the range of \$3.3510 and \$3.1092. Technical indicators support further sideways activity. For now we would sell any failed attempts to penetrate \$3.3510 and buy any penetration of this level. We would also look to buy any failed attempts to trade below \$3.1092 and would sell successful attempts. Open interest for crude oil is 1,183,886 down 5,992, October 08 289,212 down 13,435, November 08 110,306, up 5,381 and December 08 184,484 up 3,011. Total open interest for heating oil is 215,022 down 1,654, September 08, 4,571 down 4,571 and October 08 57,474 up 1,319. Total open interest for gasoline is, 208,448 down 7,159, September 08, 6,355 down 8,150 and October 08 78,050 down 2,255.

The Commitment of Traders report showed that non-commercials in the crude market increased their net long position by 8,507 contracts to 20,166 contracts in the week ending August 26<sup>th</sup>. It reported that the funds cut their total short position by 7,383 contracts to 185,293 contracts on the week. The combined futures and options report also showed that non-commercials increased their net long position by 5,605 contracts to 80,222 contracts on the week. The non-commercials have likely continued to increase their net long positions as the market has held its support above the \$110 level. Meanwhile, the combined futures and options report showed that non-commercials in the product markets cut their net long positions. In the heating oil market, non-commercials cut their net long position by 2,593 contracts to 10,389 contracts while non-commercials in the RBOB market cut their net long position by 963 contracts to 44,994 contracts on the week.

<b>Crude Support</b>	<b>Crude Resistance</b>
109.55,108.00,105.18, <b>85.40</b>	128.60,132.05, 139.30, 144.00,147.90,
<b>Heat support</b>	<b>Heat resistance</b>
3.0540, 3.0229, 294.50	3.4574.3798,3.6135,3.8215, 4.0210,
<b>Gasoline support</b>	<b>Gasoline resistance</b>
2.7937,2.7014,2.6435, 2.5920	3.1050, 3.1460, 3.1840, 3.2620