



## ***ENERGY RISK MANAGEMENT***

Howard Rennell, Pat Shigueta,  
& Karen Palladino

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

**www.e-windham.com**

---

### **ENERGY MARKET REPORT FOR SEPTEMBER 29, 2009**

---

Iran's MPs told world powers not to repeat past mistakes in this week's talks, suggesting that they may force the government to downgrade their cooperation with the UN nuclear agency. Iran said it would set a date soon for international inspection of a newly declared nuclear installation.

**Market Watch**

The Baltic Exchange's main sea freight index fell 0.32% or 7 points to 2,185 points on Tuesday due to lower enquiry for cargoes weighing on activity. Brokers said an eight day national holiday in China starting on Thursday and weaker overall demand was likely to lead to softer conditions on the freight market. The Baltic's Capesize index increased 0.7% or 19 points on Monday.

Venezuelan union activists said elections to determine the leaders of Venezuela's new umbrella oil workers union are on track to take place on Thursday. The election for more than a dozen posts to head up the United Federation of Venezuelan Oil Workers is being closely watched since the winners will negotiate a new three year labor contract with PDVSA. PDVSA President Rafael Ramirez, who is also the country's Oil Minister, made the elections political in July by indicating workers should vote only for FUTPV leaders who stand firmly behind President Hugo Chavez.

Iran's nuclear chief Ali Akbar Salehi said Iran will not freeze uranium enrichment work as it is its sovereign right. He said Iran will not discuss any issues related to its nuclear rights at Thursday's meeting with the six world powers. He made clear that this included the newly disclosed uranium enrichment plant. He said Iran is building the second enrichment plant because of the military threat hanging over its existing nuclear facilities. The US asserted that it will bring up concerns on Iran's uranium enrichment activities at a meeting in Geneva, even if Iran refuses to discuss the issue. US President Barack Obama has demanded that Iran come clean on its disputed nuclear program and a White House spokesman urged "immediate unfettered access" to the new site. The US has suggested possible new sanctions on banking and equipment for the oil and gas industry if Iran fails to cooperate. US officials believe sanctions could now have more effect, due to the leadership divisions evident since the disputed presidential election. Meanwhile, EU foreign policy chief Javier Solana said world powers will seek guarantees from Iran this week that its nuclear program is a peaceful one. However he said that while Iran's recent action meant Thursday's talks would be held in a different atmosphere, now is not the time to discuss sanctions. Russia's Deputy Foreign Minister Sergei Ryabkov said Iran's recent missile tests should not be used as grounds for tougher sanctions against Iran.

#### **API Stocks**

**Crude** – up 2.757 million barrels  
**Distillate** – up 2.29 million barrels  
**Gasoline** – down 1.718 million barrels  
**Refinery runs** – down 0.1%, at 83.6%

According to the EIA, US oil demand in July fell by 4% on the year to 18.771 million bpd. It revised the demand estimate down by 0.7% from earlier estimates. Gasoline demand averaged 9.3 million bpd, up 1.6% on the year. Its demand estimate is up 1.2% from its previous estimate. Distillate demand in July averaged 3.464 million bpd, down 6% on the year. It is up 2.9% from its previous estimate. In regards to prices, the EIA reported that the retail price of gasoline in July fell by 38% on the year to \$2.527/gallon, the lowest July price since 2005. Retail diesel prices averaged \$2.54/gallon in July, down 46% on the year and the lowest July price since 2005. The EIA also reported that US imports of crude oil from Canada increased by 5.4% in July to 2.11 million bpd, the highest level in at least 36 years. Saudi Arabia shipped 1.14 million bpd in July, up from 902,000 bpd in June. The US imported fewer cargoes from Mexico and Venezuela in July, with imports from Mexico at 985,000 bpd and imports from Venezuela at 865,000 bpd. Nigerian imports to the US increased by 12% in July to 858,000 bpd, the highest level since March.

**September  
Calendar Averages**  
**CL – \$69.55**  
**HO – \$1.6909**  
**RB – \$1.7672**

The EIA also reported that US daily ethanol production increased about 4.9% in July to 728,000 bpd, up from about 694,000 bpd in June. Fuel blenders and refiners mixed more than 673,000 bpd of ethanol into gasoline in July, up from 669,000 bpd in June.

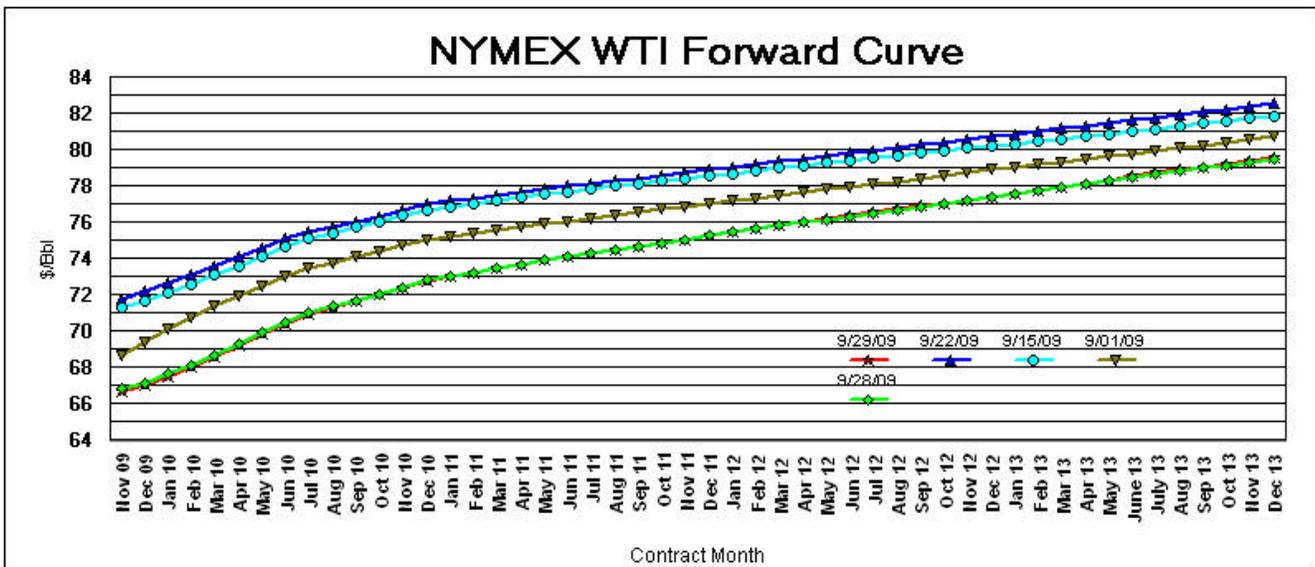
MasterCard Advisors LLC said US gasoline demand in the week ending September 25<sup>th</sup> increased by 0.9% to 9.172 million bpd, up 82,000 bpd on the week. Demand was down 0.1% on the year in the latest four weeks, at 9.05 million bpd. Year to date demand is down 0.2% from a year ago. On a nationwide average, the retail price of regular gasoline fell by 2 cents on the week to \$2.51/gallon.

**Refinery News**

The US Coast Guard said a small section of the Houston Ship Channel that has been closed due to an oil spill has reopened to some traffic. The one-mile section has been opened to towing vessel traffic around the clock and to ship traffic during daylight hours only. The Coast Guard said the closure is not in the vicinity of any petroleum or petrochemical refineries and will not affect oil transport.

Alon USA Energy Inc said there was no impact to production from a brief process interruption Sunday at its 70,000 bpd Big Spring, Texas refinery.

Total SA will restart unit 822 at its 232,000 bpd Port Arthur, Texas refinery on Tuesday.



Neste Oil said it is planning a major turnaround at the diesel line at Porvoo refinery to address continuing operational and safety problems. It said it will implement a development program and carry out a significant maintenance program in April 2010 to address low utilization and the additional maintenance costs of the line, known as PL4.

Ukraine is expected in October to start seaborne imports of Azeri Light crude from the Black Sea port of Odessa for pipeline delivery to the Kremenchug refinery. In order to supply Azeri Light crude to Kremenchug by pipeline, Ukrtransnafta will have to run the Kremenchug-Odessa pipeline reverse mode. This will force exporters of Urals crude to increase supplies via the less profitable Brody-Odessa pipeline.

China's General Administration of Customs reported that China's gasoline exports in July increased by 58.29% on the year to 297,616 tons while its kerosene exports increased by 2.62% on the year to 509,252 tons.

Saudi Aramco offered a second prompt fuel oil parcel from its Ras Tanura refinery in less than a week, following an outage at its 44,000 bpd hydrocracker unit.

India's Reliance Industries sold 210,000 tons of gasoline for October 2009-March 2010 to Vitol last week. It also sold 105,000 tons of 95-octane gasoline for October-December lifting to Glencore. Separately, Reliance's crude oil imports in August increased by nearly 150,000 bpd on the month to 1.224 million bpd. Saudi Arabia was its top source with imports doubling to 244,600 bpd, up 51% on the year.

Indian Oil Corp has deferred a planned shutdown of half of its 240,000 bpd Panipat refinery in north India by a month to the end of October. He said IOC will shut a 120,000 bpd crude unit and a 2.4 million ton/year delayed coker unit for about 21 days while a 1.7 million tpy hydrocracker and a 3.5 million tpy diesel hydrotreater would be offline for about a month. This is part of its shutdown to raise the refinery capacity to 15 million tons or 300,000 bpd next year.

### **Production News**

Angola's Foreign Minister Assuncao dos Anjos said the country expects to increase petroleum exports to the US. Crude oil exports from Angola are set to increase from a current share accounting for as much as 11% of oil consumed in the US. Angola expects to increase its oil output to 2 million bpd next year from 1.93 million bpd.

Nigeria's main militant group, the Movement for the Emancipation of the Niger Delta named a team of mediators to negotiate with the government over disarmament. It however said the amnesty process lacked integrity. Separately, the Movement for the Emancipation of the Niger Delta warned Chinese oil firms not to invest in the Niger Delta until peace is achieved in the region. The Financial Times reported that China's CNOOC is in talks with Nigeria to buy large stakes in some of Nigeria's oil blocks. It said CNOOC is bidding for 6 billion barrels of oil. A CNOOC spokesman however said he has never heard of the development reported in the paper.

A PDVSA official said PDVSA and Petrovietnam expect to begin extracting heavy crude from the Orinoco region in 18 months. The project has a heavy crude production potential of 200,000 bpd, with half expected to be destined to a refinery Petrovietnam is building in Vietnam. Venezuela's government said that in addition to the Vietnam joint venture, it aims for 450,000 bpd of production from Junin 6, which it plans to develop with a Russian consortium. It also hopes to produce 400,000 bpd from Junin 4 with China National Petroleum Corp, 1.2 million bpd from the seven blocks being auctioned in the upcoming Carabobo bidding round and 200,000 bpd in each of the blocks Junin 10,

Junin 5, Junin 1 and Junin 11. It said Venezuela could increase its overall production capacity by about 3 million bpd to reach more than 6 million bpd in the coming years.

Indonesia's BPMIGAS will release 1 million barrels of crude oil from its stocks to make up for oil production falling short of its target. An official said Indonesia has 12 million barrels of oil in stocks and that the released stocks may be sold to Pertamina. Indonesia's oil production fell to 817,600 bpd in August from 826,600 bpd in July. BPMIGAS said Indonesia's crude oil output averaged 949,270 bpd between January 1<sup>st</sup> and September 24<sup>th</sup> below its target of 960,000 bpd.

Nigeria's Minister of State for Petroleum Odein Ajumogobia said the country is not offering oil licenses currently operated by Chevron, ExxonMobil and Royal Dutch Shell to China while renewal negotiations are ongoing.

China's National Development & Reform Commission said China will cut retail gasoline and diesel prices by 190 yuan or \$27.83/ton starting Wednesday from near record highs to track falling world crude prices. This represents cuts of about 2.5% and 2.8% respectively from current average gasoline and diesel retail ceiling benchmarks of CNY7,610/ton and CNY6,870/ton.

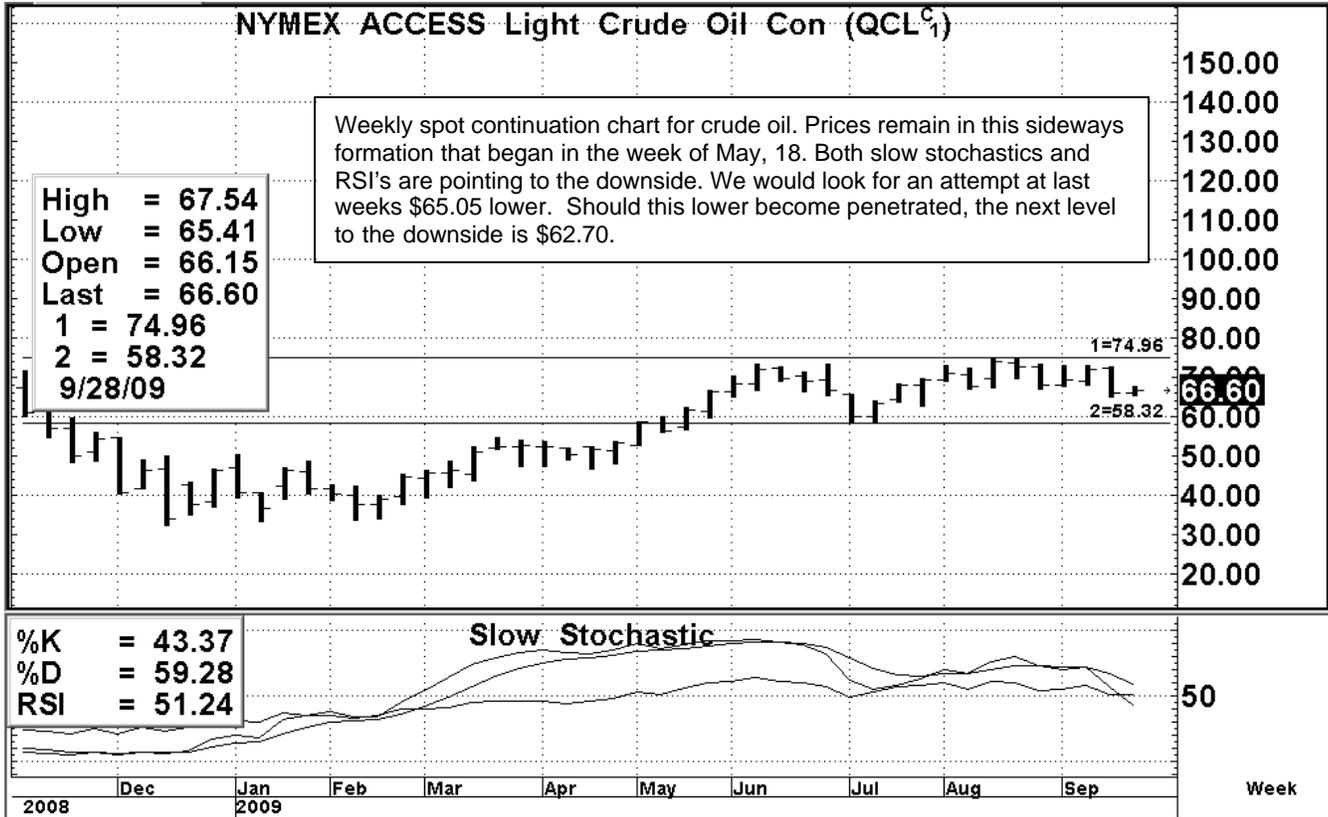
OPEC's news agency reported that OPEC's basket of crudes increased slightly to \$64.07/barrel on Monday from \$64.00 on Friday.

### **Market Commentary**

As the dollar strengthened, commodities lost their appeal as a financial investment, forcing the price of crude oil lower. Consumer confidence in the U.S. unexpectedly fell in the month of September, once again bringing about concerns over demand. The Iranian situation still looms in the background, perhaps lending a cushion to this market. Prices should continue to trade in choppy fashion as they respond to various fundamentals. Our stance remains that prices will continue to react to the geopolitical situation and the global economic outlook. However, we remain overall bearish on this market given the underlying fundamentals. The remainder of the week should bring with it an attempt to take out last's week low of \$65.05. Should prices penetrate and settle through this low we would look for a test at \$62.70. Worth mentioning is that the Dec15 \$500.00 call traded at 75 points today with the Dec13 \$500.00 call attracting interest with paper on a 35 bid and offers being shown at 50.

The API reported a larger than expected build in crude stocks of 2.757 million barrels on the week. Total crude stocks are up 16.4% on the year. It reported a build in Padd 3 of 1.855 million barrels and a build of 1.711 million barrels in Padd 5. However crude stocks in Cushing, Oklahoma fell by 1.2 million barrels. The API reported a build in crude stocks as runs fell by 47,000 bpd to 14.596 million bpd and imports increased by 278,000 bpd or 3% to 9.519 million bpd on the week. The API also reported a larger than expected build in distillate stocks of over 2.29 million barrels on the week. Total distillate stocks are now up 35% on the year. It reported that distillate stocks in Padd 1 built by 1.988 million barrels on the week. Distillate stocks built as apparent demand fell by 14.8% on the week and by 9.3% on the year to 3.898 million bpd while apparent demand basis its three week moving average fell by 1.3% on the week and by 1.4% on the year to 4.055 million bpd. It however showed that distillate production fell by 22,000 bpd or 0.5% to 4.110 million bpd while distillate imports fell by 61,000 bpd or 34.7% to 115,000 bpd. Meanwhile, gasoline stocks fell by 1.718 million barrels on the week, with draws in Padd 2 and 3 of 1.328 million barrels and 1.322 million barrels, respectively. Total gasoline stocks are up 12.4% on the year. It reported the draw in gasoline stocks as apparent demand increased by 17% on the week and by 6% on the year to 9.629 million bpd while apparent demand basis its three week moving average increased by 1.6% on the week to 9.019 million bpd. It however showed that gasoline production increased by 247,000 bpd or 2.8% on the week to 9.126 million bpd and imports increased by 139,000 bpd to 258,000 bpd.

Crude NOV.09 305,009 +1,336 DEC.09 189,777 +2,537 JAN.10 68,863 +2,296 FEB.10 31,767 -8  
 MAR.10 29,759 -704 APR.10 16,730 +568 Totals: 1,170,687 +7,632 Heating OCT.09 14,518 -5,908  
 NOV.09 68,630 +1,714 DEC.09 59,327 +537 JAN.10 34,826 +881 FEB.10 17,698 +268 MAR.10  
 15,298 -254 Totals: 315,236 -2,893 GASOLINE OCT.09 12,086 -4,810 NOV.09 83,489 +2,332  
 DEC.09 33,059 -246 JAN.10 23,894 -169 FEB.10 7,182 +227 MAR.10 12,306 +85 Totals: 200,581 -  
 2,420



<b>Crude Support</b> 64.70, 63.38, 62.70, 61.61, 60.95	<b>Crude Resistance</b> 66.64, 67.00, 68.60, 73.24, 73.85, 75.00, 76.13
<b>Heat Support</b> 1.6585, 1.4870, 1.4220, 1.4130, 1.3720	<b>Heat resistance</b> 1.8430, 1.9440, 2.0420, 2.0465
<b>Gasoline support</b> 1.6010, 1.5887, 1.5370, 1.5260, 1.3520, 1.3400	<b>Gasoline resistance</b> 1.9551, 2.0210, 2.0400, 2.0567, 2.1100, 2.1600, 2.3350

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.