



## ENERGY RISK MANAGEMENT

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## ENERGY MARKET REPORT FOR OCTOBER 8, 2008

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The Minerals Management Service reported that 16,081 bpd of crude production returned to the market, leaving a total of 565,793 bpd of crude production still shut in the Gulf of Mexico as of Wednesday. In regards to natural gas production, there was no improvement in the amount of production coming back online with 2.86 bcf/d of natural gas production still shut in.

Nigeria said OPEC may need to intervene to balance the oil market if the price of crude continues to decline. He is the latest OPEC member to voice concern over the

### Market Watch

The Federal Reserve, European Central Bank and other major central banks on Wednesday announced coordinated cuts in target interest rates in the latest effort to help stem a growing world financial crisis. The Fed's open market committee voted unanimously to cut its target federal funds rate by 50 basis points to 1.5%.

The head of Total SA said crude oil prices could rebound after the current crisis in the world economies due to continuing supply constraints. Separately, Eni SpA's chief executive said oil prices could fall further amid signs of lower demand. He said the company's international growth would not be impacted by the current market turmoil.

According to Accuweather, the eastern US could see its coldest, snowiest winter since at least 2003-2004. Elsewhere in the country, the winter should be less severe this year than last, with the Midwest getting less snow and the West mostly warmer. It said the Northwest could see above average snowfall. Accuweather's Joe Bastardi said the winter will start early this year, with December bringing the most severe weather of the season. He added that January is expected to be warmer followed by another bout of severe weather in late January or early February.

Royal Dutch Shell Plc said that re-entering the western part of Nigeria was a key part of its strategy in Africa. However Shell added that security in the region remained a problem.

Separately, Rivers state governor Rotimi Amaechi said Nigeria is winning its fight against militants and criminals in the Niger Delta. However he added that social and economic conditions must also be improved to solve the problem.

### DOE Stocks

**Crude** – up 8.1 million barrels

**Distillate** – down 500,000 barrels

**Gasoline** – up 7.2 million barrels

**Refinery runs** – up 8.6%, at 80.9%

impact of the world financial crisis. Separately, Iraq's Oil Minister Hussain al-Shahristani said OPEC may need to consider cutting oil production if the price of crude remains below \$90/barrel. Fellow OPEC members Libya and Iran have similarly expressed concerns this week about the impact of the worsening world crisis on the oil market.

However, an OPEC source however stated that OPEC is unlikely to cut output at its December meeting unless the price for crude fell below \$80/barrel. He said even if the price fell below that level, OPEC was unlikely to take action before its next meeting.

**October Calendar Averages**  
**CL – \$92.20**  
**HO –\$2.6154**  
**RB – \$2.1658**

An Algerian state news agency report stated that OPEC members are expected to meet on November 18 to assess crude oil markets in light of the financial crisis. Libya’s Shokri Ghanem and others asked OPEC for an early meeting. Venezuela’s President Hugo Chavez also said OPEC is calling for an extraordinary meeting.

According to the EIA, the nationwide heating oil price was \$3.67/gallon this week, up 90 cents on the year.

**Refinery News**

The US Energy Department will deliver 100,000 barrels of crude from the SPR to Alon USA’s Krotz Springs refinery in Louisiana.

Valero Energy Corp said it will restart some units at its 130,000 bpd refinery in Houston, Texas following repairs from Hurricane Ike. It said some units will restart over the next two days.

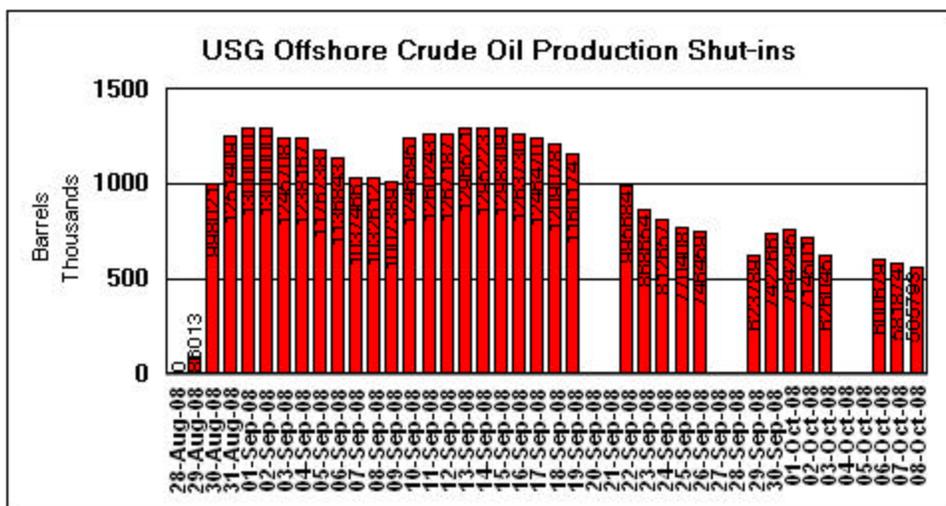
ExxonMobil Corp reported continued unplanned flaring on Tuesday at its 150,000 bpd refinery in Torrance, California.

Pasadena Refining’s refinery suffered a fire in a heater tube at its 100,000 bpd refinery in Pasadena, Texas as it attempted a restart of its fluid catalytic cracking unit. The fire was extinguished early Wednesday however repairs are expected to take an additional two weeks.

The Nigerian National Petroleum Corp said it was working to restore operations at its Warri and Port Harcourt oil refineries and that its 110,000 bpd Kaduna refinery would shutdown on November 5 for maintenance. It said efforts were being made to fix pipeline breaks that affected crude supply to the 125,000 bpd Warri site while the Port Harcourt facility had been hit by power supply problems.

Japan’s Seibu Oil Co Ltd restarted its crude distillation unit at its Yamaguchi refinery in Japan on Wednesday after increasing the capacity of some secondary units during planned maintenance. It shut the 120,000 bpd unit on September 1 for maintenance.

The Petroleum Association of Japan reported that the country’s crude oil inventory increased by 4.14 million barrels on the week and by 8.61 million barrels on the year to 108.23 in the week ending October 4. It also reported that gasoline stocks built by 310,000 barrels on the week and by 700,000 barrels on the year to 12.96 million barrels while kerosene stocks fell by 530,000 barrels on the



week and by 2.72 million barrels on the year to 24.02 million barrels. PAJ also reported that Japanese refineries were operating at an average of 69.4% of total capacity of 4.9 million bpd.

### Production News

Marathon Oil Corp said third quarter oil and natural gas sales increased by 4% and its refining margins increased by about 40% on the year. Output in the quarter was 384,000 bpd of oil equivalent, up from 371,000 boe/d last year. The amount of crude refined averaged about 950,000 bpd in the third quarter, down from 1.04 billion bpd last year.

Nigeria's crude oil exports are expected to average 1.95 million bpd in November, up from the October estimate of 1.89 million bpd.

Nigeria's Oil Minister Odein Ajumogobia said the country is optimistic that the falling world oil price will stabilize and it expects to double its production to 4 million bpd by 2010. He also stated that Nigeria's parliament will pass a bill that restructures the oil and gas sector and breaks up the Nigerian National Petroleum Corporation.

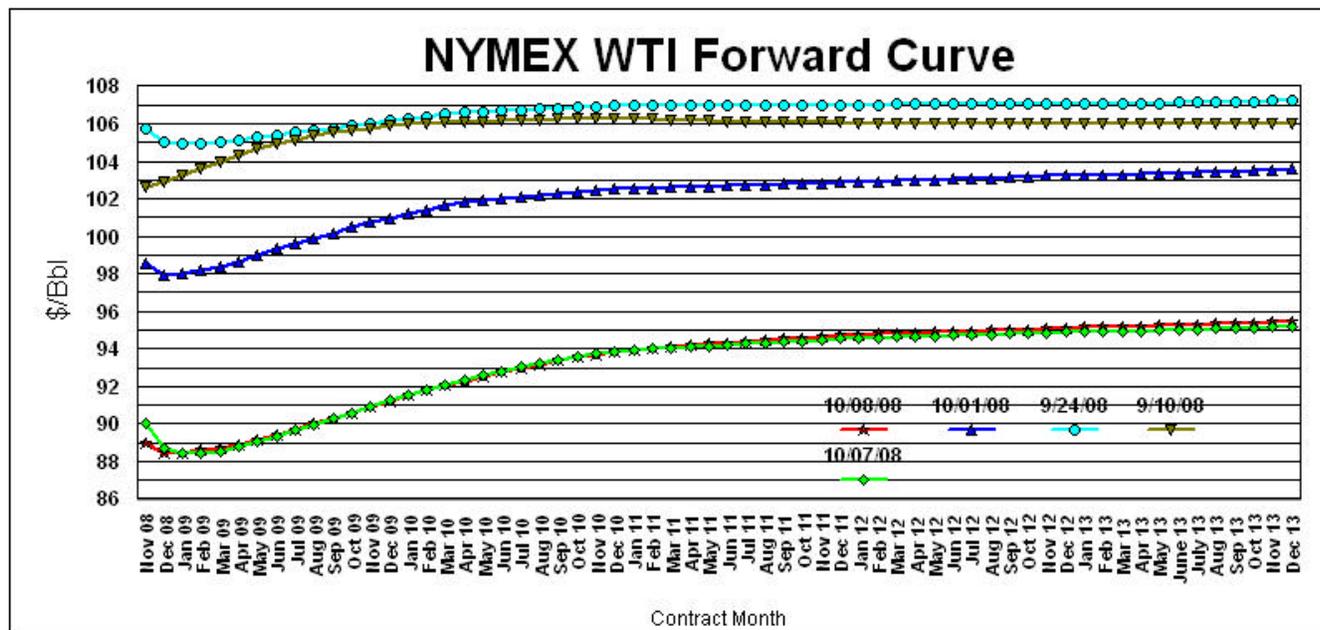
Kazakhstan's Deputy Energy Minister Lyazzat Kiinov said the country's crude oil exports are likely to increase this year to 62.8 million tons. He said oil production next year will increase up to 70 million tons from this year's planned 67-70 million tons.

Kazakhstan is determined to start commercial output at the Kashagan oilfield in 2013. However the Eni-led consortium developing the project said production may start earlier.

Chevron Corp will increase its production in 2009 and 2010 with the start of operations in the Tombau-Landana oil field in Cabinda's offshore Block 14. Oil production from the field should reach a peak of 100,000 bpd in 2010. It currently produces 520,000 bpd of oil or 25% of Angola's total oil production.

Royal Dutch Shell's Shell Ukraine E&P is planning to drill its first well in the country in 2009 and is seeking further opportunities in the country.

Petrobras said talks between the Ecuadorian government and Petrobras are ongoing following threats that the company would be asked to leave the country. Ecuador's President Rafael Correa said he



would nationalize an Amazon oil field and ask Petrobras to leave the country if the company delayed reaching a deal on Block 18.

OPEC's news agency reported that OPEC's basket of crudes fell further to \$80.04/barrel on Tuesday from Tuesday's \$81.57/barrel.

**Market Commentary**

Crude oil prices sold off today in reaction to an 8.12 million barrel build in crude oil stocks. The larger than expected build, gave credence to the current global economic situation and its impact on demand. Current crude oil stocks are set at 302.6 million barrels and are in the upper half of the average range for this time of year. Gasoline stocks increased by 7.2 million barrels and are currently set below the lower boundary of the average range for this time of year. Demand for gasoline averaged 8.8 million barrels per day and based on a four - week average is down 5.3% on the year. Total distillate stocks decreased by 500,000 barrels and are near the lower limit of the average range for this time of year. Demand for distillate slide by 3.8 million barrels or 8.3% on the year. The shape of the forward curve remains basically the same, with contango conditions accelerating from January08 on back. The November/December spread came under significant pressure, despite the fact that crude oil stocks held in Cushing, OK fell to their lowest level since November 2007, as reported by the EIA. This spread did not hold up as we had anticipated, leaving us to rethink our view on it. Based on a spot continuation chart for the front month spread, the next support level to the downside is .28. Should this level become penetrated, the November/December spread should make attempts to trade in negative territory. Gasoline crack spreads suffered from pressure once again today, with the first three gas crack spreads trading in negative territory. Based on a spot continuation chart for the gas crack spread and discounting the expiration of the October crude oil contract, gasoline crack spreads are at their lowest level since April of this year. Demand will continue to impact these spreads, forcing further downside movement.

Open interest for crude oil, NOV.08 210,061 -32,924, DEC.08 236,912 +30,561. Totals: 1,087,569 +726  
 Open interest for heating oil; is NOV.08 51,055 -2,615 DEC.08 31,559 +1,980. Totals: 208,439 +682  
 Open interest for gasoline is, NOV.08 59,607 -7,587 DEC.08 32,945 +1,903, Totals: 163,241 -2,688.

<b>Crude Support</b>	<b>Crude Resistance</b>
<b>85.40, 79.30</b> , 78.35, 68.63	105.62, 111.57 (November 200 day MA), 118.60, 122.45, 132.75, 140.30, 144.00, 147.90,
<b>Heat support</b>	<b>Heat resistance</b>
2.4040	3.1050, 3.1937, 3.3684, 3.4574. 3798, 3.6135, 3.8215
<b>Gasoline support</b>	<b>Gasoline resistance</b>
192.85, 1.9050, 1.8452	2.5266, 2.8521, 2.9600, 2.9989, 3.1050, 3.1460, 3.1840,80003.2620