



## ENERGY RISK MANAGEMENT

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## ENERGY MARKET REPORT FOR NOVEMBER 6, 2008

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An explosion that stopped the flow on the Kirkuk-Ceyhan pipeline was due to excessive pressure and not sabotage. Officials said they did not know when the pipeline would resume operations.

Venezuela's Oil Minister Rafael Ramirez said OPEC should agree at its next meeting in December to cut its production by at least by a further 1 million bpd to support prices. He said OPEC should act again to stop consumer nations taking advantage of low prices to build stocks. He said OPEC has not called for a special meeting on prices before its scheduled December meeting.

Ecuador's Oil Minister Derlis Palacios said world oil prices will remain volatile in November and only OPEC members producing in excess should cut output again if necessary. Separately, Ecuador's Oil Minister is expected to sign a temporary participation sharing contract with Repsol

### Market Watch

President-elect Barack Obama's senior energy adviser said he will maintain President George W. Bush's goal requiring fuel producers to use at least 36 billion gallons of biofuel in 2022. The ethanol industry will receive at least as much support as from the current administration, including tax credits to increase consumption. Distillers have been struggling as costs to produce ethanol increase while increasing supplies drive down prices of the fuel. President-elect Barack Obama plans to spend \$150 billion over 10 years to develop renewable fuels and to create 5 million so called green collar jobs. He will also require at least 60 billion gallons of advanced biofuels be produced by 2030.

The International Monetary Fund said prospects for world growth has deteriorated over the past month and developed economies will likely contract for the first time since World War II. It expects 2009 global economic growth of 2.2%, down 0.8% from its previous forecast. It lowered its 2009 baseline oil price estimate to \$68/barrel from \$100/barrel.

The ECB cut interest rates by 50 basis points to a two year low of 3.25%. It signaled that another reduction was possible later this year. Meanwhile, the Bank of England also cut British rates by 150 basis points to 3%. The euro zone's economy, contracted by 0.2% in the second quarter this year and most economists expect further declines in the third quarter GDP figures due on November 14. On Monday, the European Commission said the euro zone is already in a technical recession and predicted economic growth will come to a virtual standstill next year.

According to a Reuters survey, analysts have cut their oil price forecasts. Analysts expect WTI to average \$75.61/barrel in the fourth quarter and increase to \$77.98/barrel in the first quarter of 2009. WTI is expected to average \$104.14/barrel in 2008, \$81.30/barrel in 2009 and \$89.89/barrel in 2010. Meanwhile Brent crude is expected to average \$101.64/barrel in 2008, \$79.56/barrel in 2009 and \$88.99/barrel in 2010.

Representatives of the US oil industry said rules proposed by the Federal Trade Commission to combat manipulation of oil prices could push investors out of energy markets and harm the energy sector. An official at the API said the rules should apply only when there is proof of specific intent to use deception to impact these markets and that there should be safe harbor protections for statements by market participants that are not made to government agencies, third party reporting services or to the public through corporate announcements. He also called on the FTC to eliminate any liability for incomplete disclosures and to clarify that the rules only apply to specific wholesale petroleum transactions. The FTC said it would consider the suggestions as it makes a decision on a final rule.

According to the Association of American Railroads, chemical shipments on US railroads fell by 11.4% last week. For the week ending November 1, chemical rail car loadings fell to 27,463 from 30,993 last year.

on Thursday after it reached an agreement, which allows the company to remain in the country. The new deal would lower Repsol's tax burden in exchange for giving more of the oil it produces to the state.

**November Calendar Averages**

**CL – \$65.13**  
**HO – \$2.0354**  
**RB – \$ 1.4139**

Russia's Deputy Prime Minister Igor Sechin said Russia will present a technical accord at the next OPEC meeting to monitor oil markets. It contains points about cooperation over the analysis and predictions of market prices, scientific studies, safety, ecology and other areas.

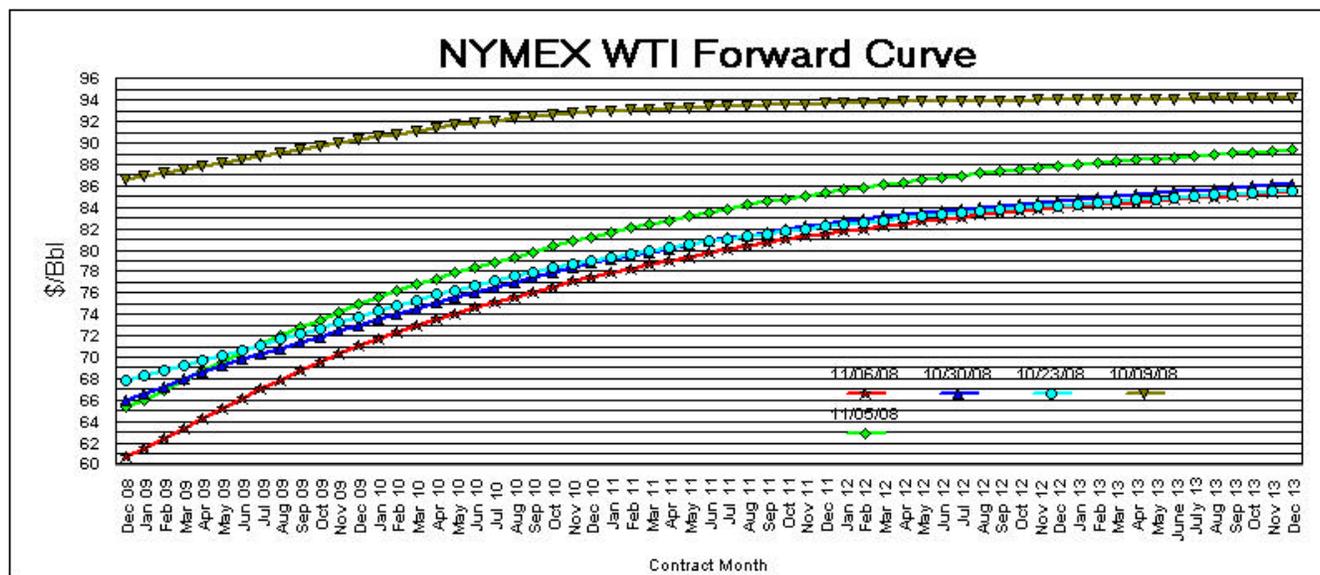
Canada's Prime Minister Stephen Harper said Canada and the US must manage their energy problems together, stressing that Canada remained the most secure US source of energy.

The IEA will mostly likely make substantial downward revisions to world oil demand in its November oil market report, scheduled to be released next week after the IMF reduced its economic growth forecasts. The IEA said massive investment of more than \$26 trillion will be needed over the next 20 years to ensure the world has enough energy supply. Of the total, the power sector accounts for \$13.6 trillion, or 52% of the total, with most of the remainder for the oil and gas sector. It said the immediate risk to supply is not one of a lack of global resources but rather a lack of investment where it is needed. It said oil demand is expected to increase by 1% per year on average from 85 million bpd in 2007 to 106 million bpd in 2030. Meanwhile oil supply is expected to increase from 84 million bpd in 2007 to 106 million bpd in 2030. The IEA also said crude oil prices will average \$100/barrel from 2008 to 2015 in 2007 dollars and increase beyond \$120/barrel in 2030. In nominal terms, excluding any adjustment for inflation, prices would reach just over \$200/barrel in 2030, almost double that expected last year.

According to Oil Movements, OPEC's crude oil exports, excluding Angola and Ecuador, are expected to fall by 310,000 bpd to 24.23 million bpd in the four weeks ending November 22 as the group implements its production cuts. It said shipments from the main Gulf producers will fall 390,000 bpd.

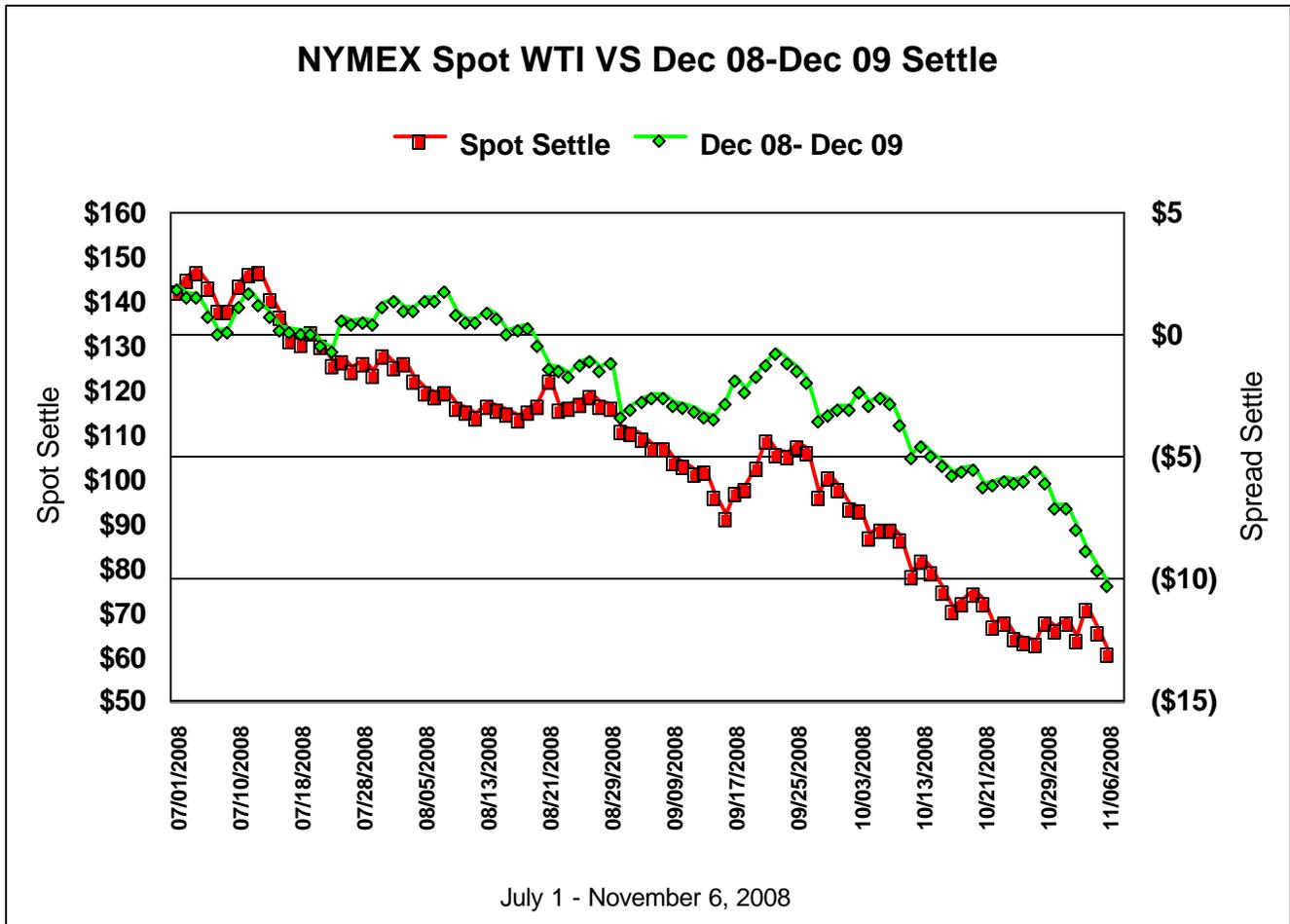
**Refinery News**

Colonial Pipeline has extended allocations on its gasoline line north of Collins, Mississippi to cycle 64.



Valero Energy Corp is in the process of restarting the 72,000 bpd hydrodesulfurization unit at its 340,000 bpd refinery in Corpus Christi, Texas. The unit was shut in early October for maintenance.

Marathon Oil Corp's 52,000 bpd crude unit at its 76,000 bpd refinery in Texas City, Texas will be shut for two weeks following a fire over the weekend.



Western Refining has moved up a planned turnaround at its El Paso, Texas refinery to this quarter. The turnaround was originally scheduled for the first quarter of next year but was moved up to compete with other refineries.

Sunoco Inc restarted a sulfur recovery unit at the Girard Point section of its 340,000 bpd Philadelphia refinery on Thursday. The unit was shut in late October for planned work.

Motiva Enterprises LLC said it has received equipment for its refinery expansion in Port Arthur, Texas keeping the project on track for completion in 2010. The refinery expansion project will double the capacity of the refinery to 600,000 bpd. It will become the largest US refinery following the project's completion.

Pemex is ramping up its refinery maintenance ahead of heavy domestic demand in December with three refineries already shut or scheduled to shut for repairs this month. Pemex's Tula refinery shut one of its two fluid catalytic cracking units in mid-October. Salina Cruz plans to shut a 40,000 bpd fluid catalytic cracking unit next week after repeated delays. The Cadereyta refinery has also scheduled

repair work on a fluid catalytic cracking unit in October and November. Mexico's average gasoline imports for the first nine months of the year were 338,500 bpd, up 15.2% on the first nine months of 2007.

Petroplus said its 117,000 bpd Teesside refinery in the UK will run at significantly lower rates in the

Nymex Petroleum Option Most Active Strikes for November 6, 2008								
Symbol	Month	Year	Call/Put	Strike	Exp Date	Settle	Volume	IV
LC	1	9	P	50	12/16/2008	2.46	1000	93.80
LC	12	8	P	60	11/17/2008	3.72	900	99.75
LC	12	11	P	50	11/16/2011	2.62	645	38.84
LC	6	9	P	85	05/14/2009	24.41	600	74.29
LC	2	9	C	70	01/14/2009	5.91	500	77.85
LO	12	8	P	60	11/17/2008	3.72	9076	98.22
LO	12	8	P	50	11/17/2008	0.75	7011	106.05
LO	6	9	C	80	05/14/2009	7.05	6625	63.31
LO	6	9	P	60	05/14/2009	8.67	5300	66.16
LO	12	8	P	55	11/17/2008	1.79	3606	101.01
LO	12	8	C	70	11/17/2008	1.2	3576	96.21
LO	12	8	C	75	11/17/2008	0.59	3524	97.79
LO	1	9	P	50	12/16/2008	2.46	2936	91.91
LO	6	9	C	100	05/14/2009	3.46	2876	63.25
LO	6	9	P	40	05/14/2009	1.88	2615	68.12
LO	12	10	P	50	11/16/2010	3.18	2550	37.38
LO	3	9	P	50	02/17/2009	3.96	2460	77.71
LO	2	9	C	80	01/14/2009	3.35	2371	80.16
LO	2	9	P	55	01/14/2009	5.22	2250	83.85
LO	12	8	C	65	11/17/2008	2.43	1796	96.99
LO	12	8	C	80	11/17/2008	0.28	1777	99.20
LO	12	8	C	60	11/17/2008	4.49	1732	98.26
LO	12	8	C	85	11/17/2008	0.14	1563	101.78
LO	12	8	P	56	11/17/2008	2.08	1559	99.81
LO	12	9	P	65	11/17/2009	9.92	1551	49.91
LO	12	14	P	100	11/17/2014	25.71	1550	39.35
LO	12	10	C	100	11/16/2010	7.13	1500	34.98
LO	12	10	P	60	11/16/2010	5.62	1500	35.41
OB	10	9	C	1.62	09/25/2009	0.3155	375	58.62
OB	10	9	P	1.62	09/25/2009	0.3371	375	58.83
OB	12	8	C	1.9	11/21/2008	0.0099	325	113.51
OB	12	8	P	1.3	11/21/2008	0.1008	277	111.20
OB	1	9	C	1.4	12/24/2008	0.1436	150	80.10
OH	6	9	C	2.07	05/26/2009	0.3324	472	61.62
OH	1	9	C	4	12/24/2008	0.0021	330	80.90
OH	6	9	P	1.9	05/26/2009	0.2852	300	61.95
OH	12	8	C	2.8	11/21/2008	0.0024	250	84.90
OH	1	9	C	2.5	12/24/2008	0.0551	201	71.52
OH	1	9	C	2.32	12/24/2008	0.0852	200	70.48
OH	1	9	C	2.85	12/24/2008	0.0237	200	73.60

fourth quarter due to lower distillates demand and lower margins. The refinery is expected to run an average 30,000-40,000 bpd during the period.

China's twelve major refineries that account for more than a third of the country's capacity are expected to refine 2.46 million bpd of crude in November, down from 2.59 million bpd in October. The refineries are cutting their runs by 5% to 87% of total capacity.

Saudi Aramco and ConocoPhillips have agreed to halt the bidding process associated with the construction of the 400,000 bpd export refinery at Yanbu until the second quarter of 2009 due to uncertainties in the financial and contracting markets. They said they will continue engineering and start up plans for the project to ensure continuity while accommodating the delay.

Gas oil stocks in independent storage in the Amsterdam-

Rotterdam-Antwerp terminal fell by 1.23% on the week but built by 4.15% on the year to 1.606 million tons in the week ending November 6. Fuel oil stocks increased by 25.76% on the week and by 8.92%

on the year to 537,000 tons while gasoline stocks increased by 9.74% on the week but fell by 1.48% on the year to 665,000 tons. Naphtha stocks increased by 82.26% on the week and by 25.56% on the year to 113,000 tons while jet fuel stocks increased by 10.36% on the week and by 212.12% on the year to 618,000 tons.

Singapore's International Enterprise reported that the country's residual fuel stocks built by 1.955 million barrels to 20.278 million barrels in the week ending November 5. It also reported that the country's light distillates stocks built by 99,000 barrels to 9.568 million barrels while its middle distillate stocks fell by 1.641 million barrels to 11.842 million barrels on the week.

The Petroleum Association of Japan reported that Japan's crude oil inventory fell by 150,000 barrels on the week but built by 3.82 million barrels on the year to 108.51 million barrels in the week ending November 1. It reported that Japan's gasoline inventory built by 480,000 barrels on the week and by 1.24 million barrels on the year to 13.75 million barrels as the refinery utilization rate increased to a two month high of 77.1%, up 4.3% on the week but down 4.3% on the year. Crude runs increased by 210,000 bpd on the week but fell by 160,000 bpd on the year to 3.78 million bpd. It also reported that Japan's gasoline demand totaled 1.01 million kiloliters or 906,000 bpd, down 15% on the year. Meanwhile, Japan's kerosene stocks increased by 260,000 barrels but fell by 1.03 million barrels on the year to 25.63 million barrels while its naphtha stocks increased by 260,000 barrels to 14.69 million barrels.

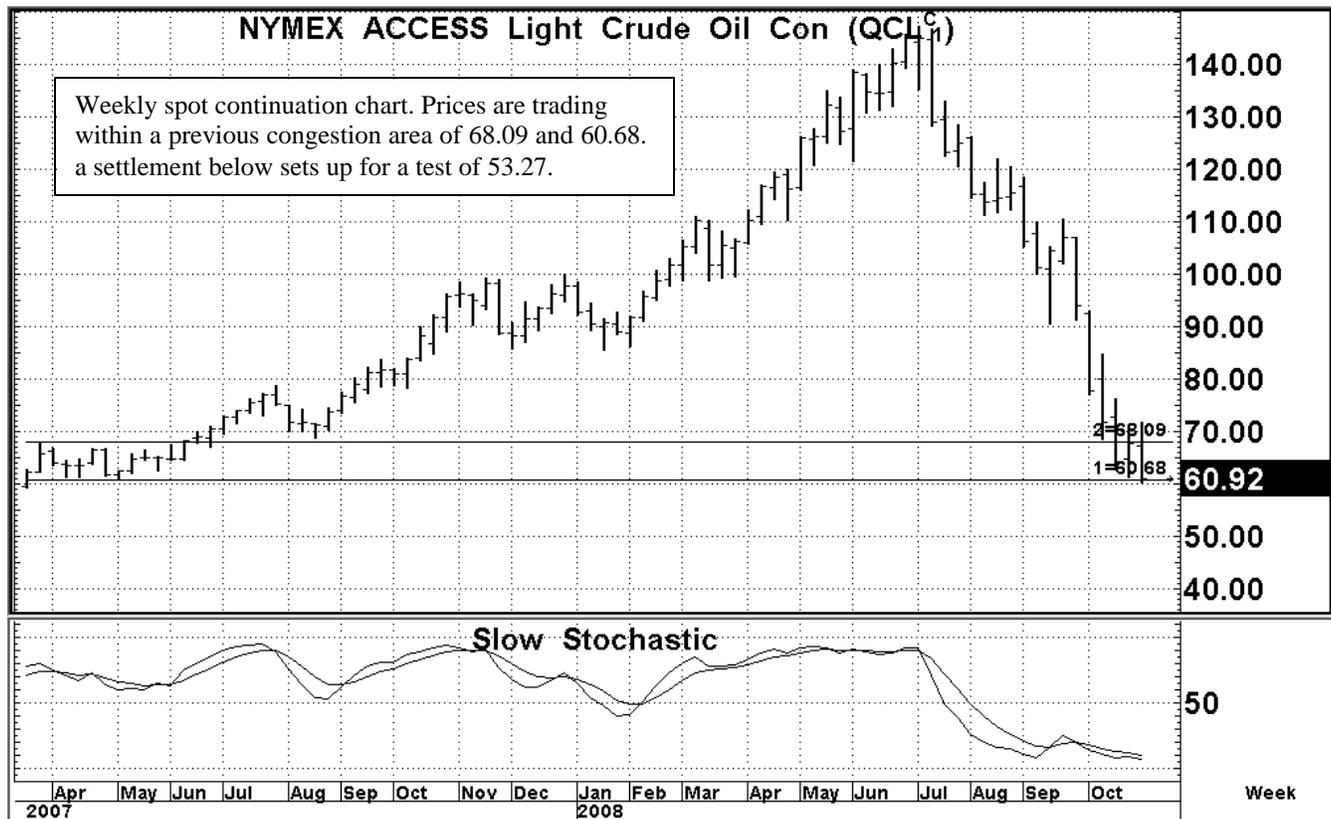
Gas oil exports from Japan for December loading is expected to be slightly lower than November, partly due to higher domestic prices and to lower crude runs planned for December.

Traders said about 65,000 tons of South Korean jet fuel has been booked for Europe for lifting on November 26.

### **Production News**

Russia's Energy Ministry reported that the country's exports of refined products increased in October as oil companies increased sales of the fuels amid falling crude oil export revenues due to lower prices. Russian oil companies exported 96,472 tons/day of gasoil in the first 29 days of October, up 6.3% on the month. Its gasoline exports increased by 14.8% to 10,917 tons/day while its fuel oil exports increased by 15.9% to 128,786 tons/day.

Russia's OAO Transneft has offered to build oil transportation facilities in Venezuela for projects of a Russian-Venezuelan consortium, which includes PDVSA, OAO Gazprom, Rosneft, TNK-BP, Surgutneftegas and Lukoil Holdings.



Indonesia's Finance Minister Sri Mulyani Indrawati said the country will cut subsidized gasoline prices by about 8% to 5,500 rupiah or \$0.50/liter following a steep fall in world oil prices in recent months. Its diesel fuel prices will however remain unchanged at 5,500 rupiah/liter.

OPEC's news agency reported that OPEC's basket of crudes increased to \$58.94/barrel on Wednesday from \$57.77/barrel on Tuesday.

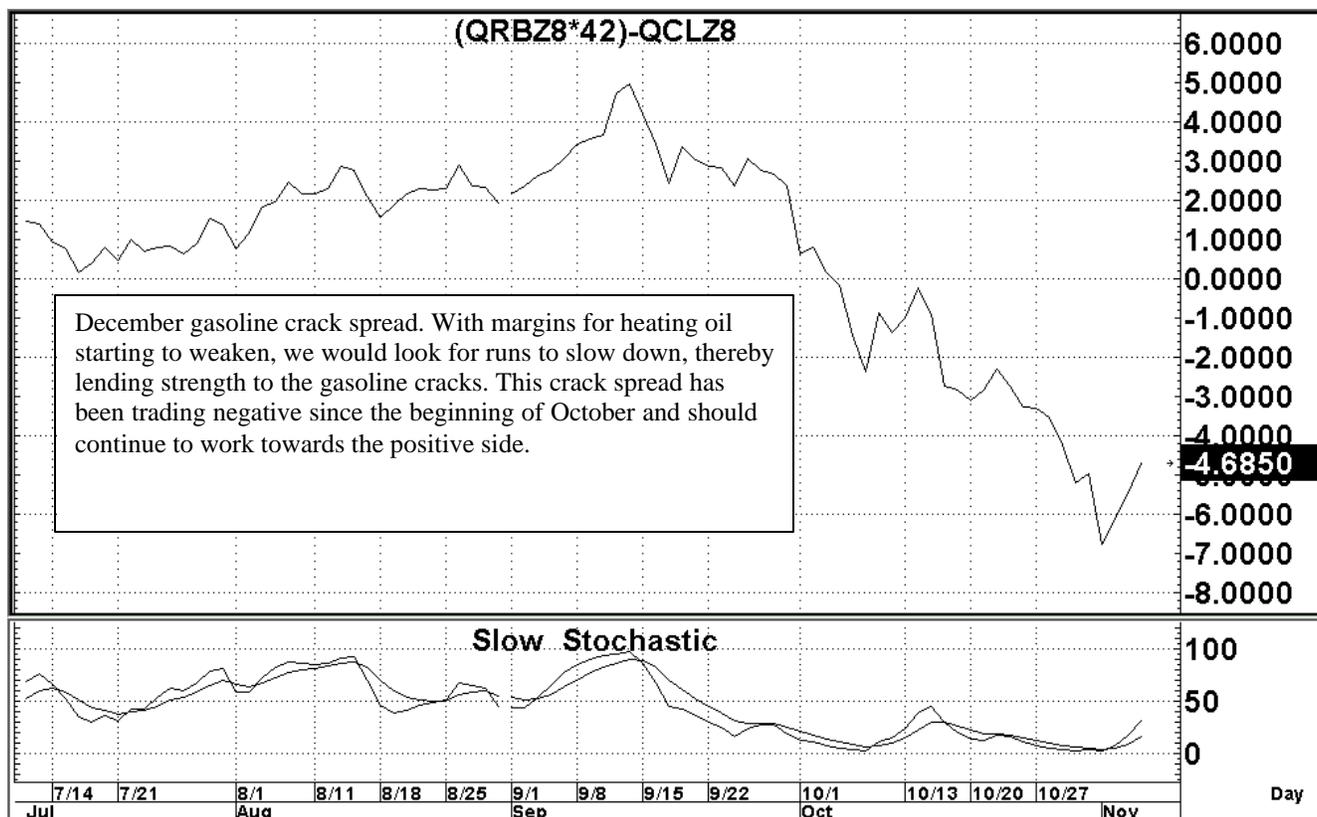
### **Market Commentary**

As the dollar moved higher, the attractiveness of commodities as a hedge subsided, adding to the pressure on prices. Demand, or lack thereof, was also a key factor in the move lower today. Crude oil fell to its lowest level in 19 months, bottoming out at \$60.16. The December crude oil, based on a weekly chart has attained a higher high and a lower low. Tomorrow's activity will prove interesting and will help determine further direction of this market. Basis a weekly spot continuation chart, there is an old period of consolidation between the range of \$68.09 and \$60.68. This is the third week in a row that prices have traded within this range, with today the first time prices penetrated to the downside. We would look for an attempt to take out the bottom of this range and for prices to settle below it. Should the December contract settle below \$60.68, the projected level to the downside is \$53.27. The December/January spread continues to lose strength and is approaching the lowest level that the front month spread has traded at since May of 2007. That level was -\$1.04. Gasoline continued to come under pressure today, pressured by slackening demand. Stockpiles keep mounting as refiners run crude oil in order to reap the benefits of high margins for heating oil. These margins are beginning to

weaken, which should in turn lead to cuts in runs. These cuts may come in the form of maintenance. With this expectation in mind, we would look for the gas crack spreads, which have been trading in negative territory since the beginning of October, to gain strength, working back towards the positive side. As with the rest of the complex, heating oil came under pressure today and from a technical standpoint

		<b>Explanation</b>	
<b>CL</b>	<b>Resistance</b>	70.46, 71.77, 72.53, 74.30, 76.04, 76.24	Previous highs
	<b>Support</b>	60.77, down \$4.53 60.16 56.19, 52.73, 49.90	Thursday's high Thursday's low Previous lows
<b>HO</b>	<b>Resistance</b>	2.15, 2.2113	Previous high
	<b>Support</b>	1.9424, down 11.23 cents 1.9355 1.9790, 1.9925, 2.037, 2.0594 190.89	Thursday's high Thursday's low Previous low
<b>RB</b>	<b>Resistance</b>	1.5333, 1.58, 1.582, 1.6373, 1.7240, 1.7334	Previous highs
	<b>Support</b>	1.336, down 8.84 cents 1.38, 1.4235, 1.44 1.3235 1.3215, 1.25	Thursday's high Thursday's low Previous low

appears to have more room to the downside. Slow stochastics appear to be getting ready to cross to the downside, with %K turning to the downside



and % D turning higher. Should these two moving oscillators cross, lower prices will follow.

Open interest for crude oil, DEC08 282,403, -4,459, January 09 130,505 +3,995. Totals: 1,128,506, +3,140. Open interest for heating oil; is DEC.08 51,859 -681. Jan09 37,836 +735 Totals: 219,273

+406. Open interest for gasoline is, DEC.08 63,737 -4,053, Jan09 32,945 +685 Totals: 156,373 - 2,801.

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