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Windham Group



## ***ENERGY RISK MANAGEMENT***

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### **ENERGY MARKET REPORT FOR DECEMBER 30, 2008**

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Gulf leaders condemned Israeli aggression in the Gaza Strip and urged an end to air raids that have killed at least 363 Palestinians since Saturday. The leaders of the Gulf Cooperation Council also called on Israel to lift its blockade on all Palestinian territories.

At the same time, it called on conflicting Palestinian factions to reconcile. Meanwhile, the armed wing of Hamas threatened to send rockets deeper into Israel if it continued its air raids in the Gaza Strip. Italy's Foreign Minister Franco Frattini said Israel's President Shimon Peres told his Italian counterpart that his country will not launch a ground offensive against Gaza. US President George W. Bush spoke with Palestinian Authority President Mahmoud Abbas and Prime Minister Salam Fayyad to discuss how to end the violence in the Gaza strip. They agreed for any ceasefire to be effective, it must be respected particularly by Hamas. President Bush also spoke with Egypt's President Hosni Mubarak.

Sources said Saudi Arabia is set to cut its oil production further in the new year, potentially taking output below its agreed OPEC target, as it strives to support the oil market. Saudi Arabia had previously increased its production unilaterally to about 9.7 million bpd in August to lower oil prices. However since then, it has reduced supply by about 20% and further significant output cuts are expected in February.

According to Petrologistics, OPEC's 11 members subject to output quotas, cut their oil production by about 400,000 bpd in December to 27.1 million bpd, down from 27.5 million bpd in November and below the group's target of 27.3 million bpd in force since November 1. Saudi Arabia is expected to produce 8.2 million bpd in December, down about 300,000 bpd on the month.

#### **December Calendar Averages**

**CL – \$41.92**

**HO –\$1.4219**

**RB – \$.9647**

#### **Market Watch**

Iraq's Oil Minister Hussain al-Shahristani said Iraq will put 10 oil fields up for tender in a new round of bidding for international contracts that opens on Wednesday.

Iran's President Mahmoud Ahmadinejad submitted a bill to parliament on Tuesday that would abolish costly subsidies on fuel and electricity but compensate citizens with cash payments. Parliament has yet to debate the bill but some lawmakers have warned it could stoke inflation.

China's Finance Ministry said China will increase its fuel consumption tax on leaded gasoline imports fivefold to 1.4 yuan/liter from January 1. It will also increase the tax on other imported fuels in line with taxes on domestically produced fuels.

The Movement for the Emancipation of the Niger Delta said it is closer to an all out oil war following the arrest of a member of the

group and due to the treatment of its detained leader Henry Okah. It condemned the arrest of MEND member Sobomabo Jackrich as a betrayal of trust.

According to a report by MasterCard Advisors LLC, US gasoline demand fell by 2.9% to 9.134 million bpd in the week ending December 26. Gasoline demand was down 3.8% on the year. The average for the past four weeks showed a decline in demand for the 46<sup>th</sup> consecutive week, with a decline of 3%. The US average price of retail gasoline fell by 4 cents/gallon to \$1.613/gallon on the week.

### Refinery News

Colonial Pipeline Co announced the 16<sup>th</sup> consecutive restriction of distillate product shipments to the Northeast by extending the Capacity Allocation Program to cycle 3 shipments through its distillate mainline, Line 2.

The Port of Rotterdam Authority expects lower throughput of crude oil in 2009 due to the world economic slowdown and declining refinery margins. Throughput of crude is expected to fall to 95 million metric tons in 2009, down from 100 million tons this year.

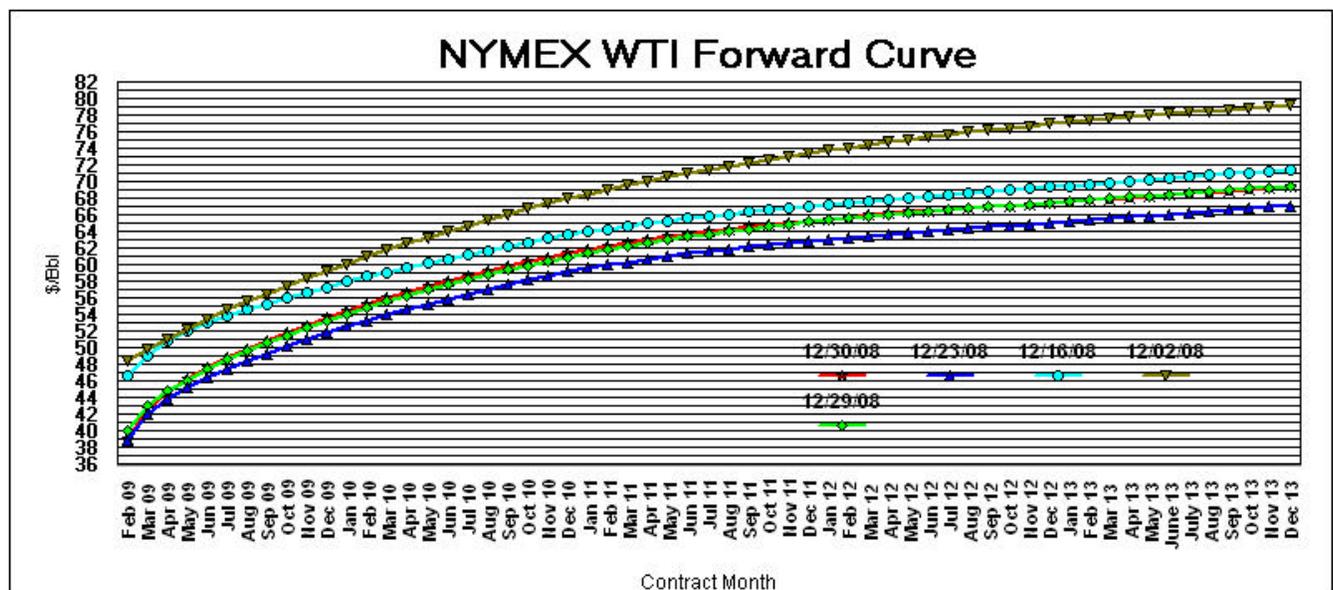
Valero Energy Corp said there was no impact to production from a problem at a sulfur recovery unit that caused flaring at its 325,000 bpd Port Arthur, Texas refinery.

Petro Star Incorporated reported that a fire was extinguished at its 48,000 bpd Valdez refinery on Monday evening. The fire damaged portions of the processing facility and associated piping. The cause of the fire is yet to be determined. Arctic Slope Regional Corp said it is considering increasing production at its oil refinery near Fairbanks to compensate for the shutdown of the Valdez refinery.

Singapore's International Enterprise reported that the country's residual fuel stocks fell by 2.839 million barrels to 12.866 million barrels in the week ending December 29<sup>th</sup>. It also reported that the country's light distillate stocks fell by 1.782 million barrels to 7.572 million barrels while its middle distillate stocks fell by 134,000 barrels to 11.854 million barrels on the week.

Indonesia's Pertamina has cut fuel oil import requirements for January to 300,000-400,000 barrels from 680,000 barrels in December. It has also cut its import requirements for diesel and jet fuel amid the consumption decline.

China Aviation Oil Corp Ltd tendered to buy 105,000 tons of jet fuel for January.



## **Production News**

The Trans-Alaska Pipeline System resumed operations on Tuesday after it was shutdown late Monday due to a combination of bad weather and storage concerns.

Royal Dutch Shell Plc said an attempt to steal oil from a dormant well in Ogoniland triggered a fire late Monday. A Shell spokesman said that, though, the incident has no impact on oil production, Shell no longer produces in Ogoniland.

Venezuela has notified India's Oil and Natural Gas Corp it will have to reduce output from their 30,000-35,000 bpd San Cristobal oilfield joint venture after OPEC agreed to cut its production. The informal notification is the first sign of Venezuela enforcing its share of the group's 2.2 million bpd output cut. Venezuela is due to cut its production by about 350,000 bpd from November levels to 1.99 million bpd under OPEC's agreement.

Algeria is set to cut its crude oil exports in February by 5% or more on the month in line with OPEC's agreement to cut production.

Angola is likely to cut its February crude oil exports by about 13% on the month to 1.6 million bpd following OPEC's agreement to cut production. Its original program showed February exports were planned to be 1.83 million bpd.

Oman's oil production in 2009 is expected to increase to about 810,000 bpd. The non-OPEC oil exporter's Oil Minister Mohammad bin Hamad al-Rumhy said \$70/barrel is a fair price for oil.

Indonesia's BPMIGAS reported that the country's crude oil production in December is likely to fall to 842,000 bpd from 845,300 bpd in November due to problems at production facilities. Indonesia is also expected to produce 120,000 bpd of condensate in December compared with 122,000 bpd in November.

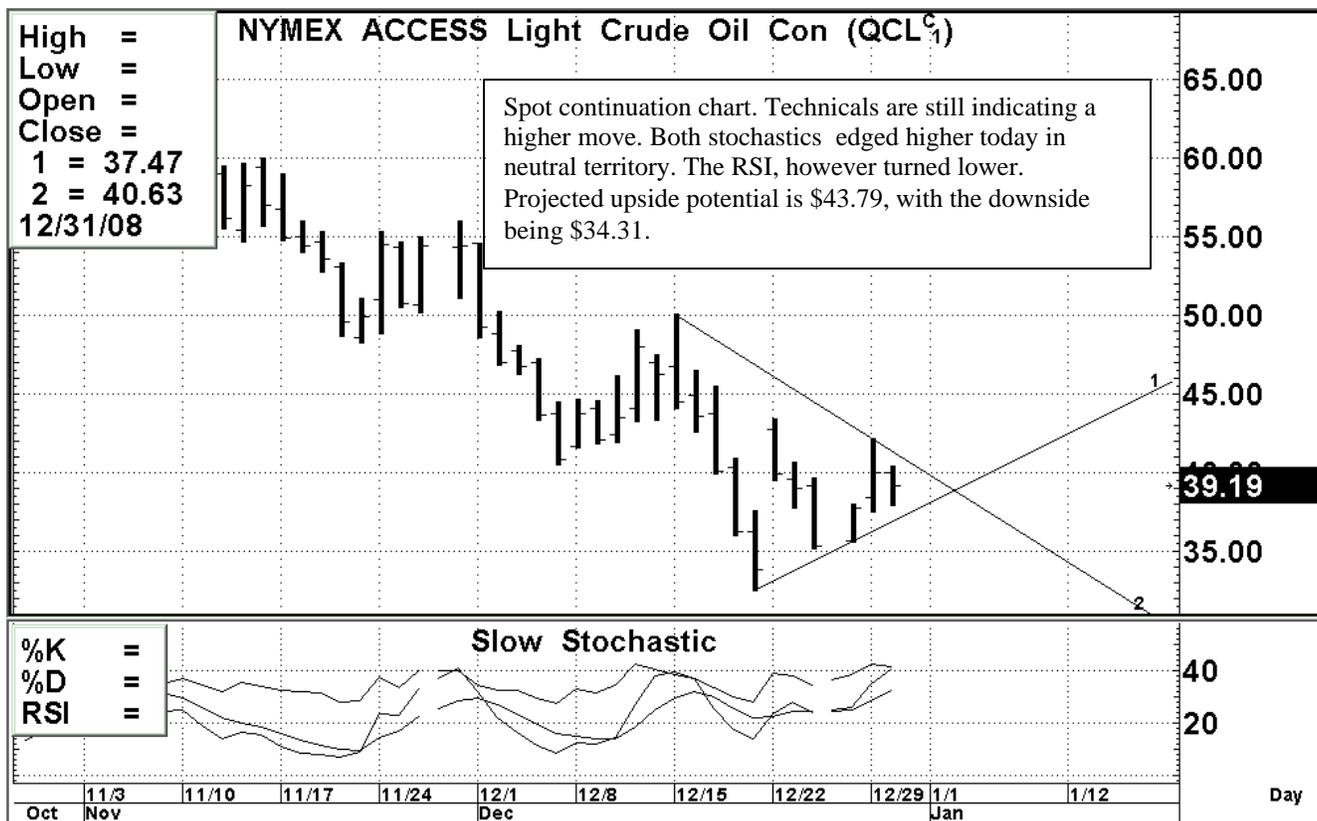
Russia's Rosneft said its output growth will be insignificant in 2009 due to the impact of the financial crisis. Russian oil production is heading for its first decline in a decade this year after large increases in previous years. Rosneft's production this year is expected to increase by 8% to 110 million tons or 2.2 million bpd.

A senior Pakistan official said Iran has agreed to increase its crude oil supplies to Pakistan to 50,000 bpd from 10,000 bpd with immediate effect. The payments will be settled between the central banks of the two countries and Pakistan will be allowed to pay for the oil on a three month deferred basis.

OPEC's news agency reported that OPEC's basket of crudes increased by \$1.33/barrel to \$34.69/barrel on Monday from \$33.36/barrel reported last Wednesday.

## **Market Commentary**

Poor demand continues to dominate the market as energy prices sold off today. Consumer confidence fell from 44.7 to 38 while the value of homes in parts of the U.S. declined. Inventory numbers due out tomorrow are expected to show an increase in gasoline of 1.6 million barrels, an increase in distillates of 1.5 million and crude oil stocks are expected to decrease by 1.7 million barrels. Crude oil prices are poised to reflect their first annual decline in seven years. Analysts expect oil prices to rise through the year to \$70 a barrel in the fourth quarter as demand improves and OPEC production cuts announced this month impact the market. The U.S. economy may return to growth in the second half of 2009, reviving consumption in the world's largest energy user. Technically, this market appears to have more room left to the upside. The initial upside target is \$43.79. Although technicals are slightly supportive, we would not discount the impact that the bearish economy will continue to have on this market.



Gasoline gained today on hopes of an economic growth spurt in the second half of 2009. The February gasoline contract gained .0143 cents over Monday's close gaining against the crude oil and heating oil. With expectations for the economy to show signs of recovery in the second half of 2009, we would look for strength to come into the second quarter of that year. Therefore, we would look to sell the February contract and buy either the April or May contracts against it, looking for gains.

Open interest: Crude FEB.09 283,690 +4,377, MAR.09 134,884 +9,090 APR.09 58,506 +784 MAY.09 35,609 +1,316 Totals: 1,164,760 +18,729 Heating oil (HO JAN.09 10,254 -4,596 FEB.09 54,320 +3,316 MAR.09 30,804 +897 APR.09 20,218 +44 Totals: 228,161 +616 NEW YORK HARBOR RBOB GASOLINE (RB JAN.09 10,277 -5,824 FEB.09 76,646 +2,141 MAR.09 28,233 +730 APR.09 19,369 -128 Totals: 195,287 -1,965

Crude Support	Crude Resistance
34.31, 33.75, 32.25, 29.66, 28.63, 26.65, 25.50	42.51, 43.79, 44.93, 47.50, 50.07, 52.95, 53.75, 57.20
Heat Support	Heat resistance
1.3005, 1.1895	1.4953, 1.5400, 167.15, 171.85, 176.70
Gasoline support	Gasoline resistance
7760, .6840	1.0134, 1.0500, 1.0866, 115.75, 120.50, 121.90, 136.14

Please note the NYMEX floor will be closed Thursday for the New Year's holiday. Normal trading hours will be observed on Friday. Electronic trading on Globex will close at 5:15 pm EST on Wednesday and reopen at 6pm EST on Thursday for the Friday session.

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