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## ***ENERGY RISK MANAGEMENT***

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## **ENERGY MARKET REPORT FOR MARCH 11, 2008**

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The IEA reported in its latest monthly report that world oil demand would be less than expected this year due to slower economic growth in industrialized countries and record prices. It estimated world demand would average 87.5 million bpd in 2008, 80,000 bpd less than its previous estimate. Demand in the OECD was cut by 190,000 bpd. Despite forecasting lower oil demand than expected this year, the IEA kept its 2008 estimate for growth in world oil demand relatively unchanged at 1.72 million bpd due to a revision to the previous year's figure. The IEA reported that OECD oil inventories increased by 32.6 million barrels in January from an upwardly revised

### Market Watch

The Federal Reserve announced an expansion of its securities lending program. It said it would lend up to \$200 million of Treasury securities to primary dealers. The Term Securities Lending Facility is intended to promote liquidity in the financing markets for Treasury and other collateral and thus to foster the function of financial markets more generally.

Oil investor T. Boone Pickens' BP Capital Energy Equity Fund fell by 14% in the first two months of 2008. He said on February 21 that he had taken short positions in oil and natural gas markets on expectations that the prices would fall in the near term. The equity fund's total market holdings are valued at just over \$1.2 billion.

Traders said the Brent/Dubai spread has increased to its widest since September 2005 after oil prices rallied to record levels, closing arbitrage opportunities for West African and Russian crude to Asia.

China's National Statistic Bureau said China's inflation reached 8.7% in February, the highest rate in over 11 years. It said increasing food prices were driving inflation, up 23.3% on the year in February due to supply problems. In recent months, inflation has continued to rise despite higher interest rates and other measures by China to keep the economy from overheating.

China reshuffled its energy sector and set up two new bodies that analysts say may struggle to improve handling of demand, security and powerful companies. It set up an Energy Commission to develop national strategy and security and an Energy Bureau to administer the sector under the National Development and Reform Commission. They would replace the Energy Office and the current Energy Bureau. Analysts believe that without a ministry to guide policy, China may struggle to find the focus or weight it needs for challenges ranging from negotiations with oil producing nations.

The NYMEX announced that it would raise its Crude margin requirements for non-members to \$7,763 from \$7,088 at the close of Wednesday for the April and May contracts.

figure for December. The IEA said OPEC supply would be 960,000 bpd higher than demand in the second quarter following its decision last week to leave output unchanged. The IEA also stated that world refinery throughput would continue to decline in March as weak margins, maintenance and refinery hitches weigh on production. World refinery runs are expected to reach 73.5 million bpd in March compared with 73.7 million bpd in February. Separately, the IEA said China's decision last month to triple consumption taxes on naphtha, fuel oil and other oil products may have unintended consequences that could cut domestic supply and force the government to spend

**March Calendar Averages**

**CL** – 104.82

**HO** – 292.36

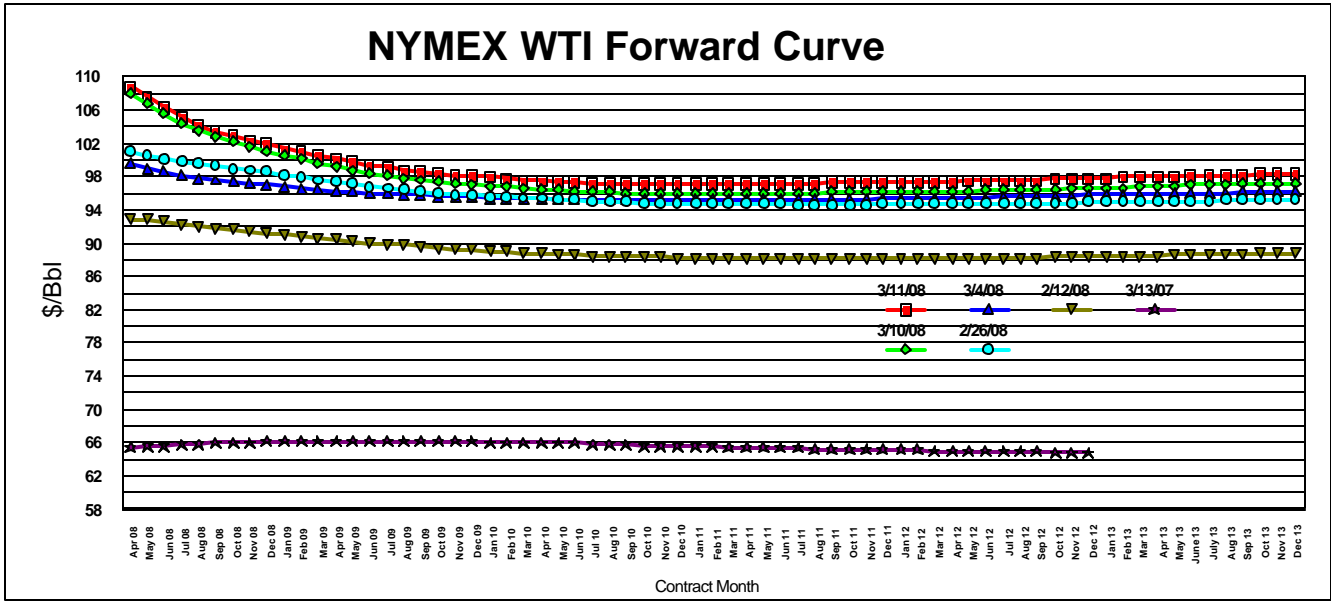
**RB** – 266.17

more on fuel subsidies.

The EIA reported in its Short-Term Energy Outlook that world oil demand is expected to grow by 1.32 million bpd to 87.04 million bpd in 2008 and by 1.26 million bpd to 88.3 million bpd in 2009. It cut the growth estimate for 2007 and 2008 by 30,000 bpd and by 150,000 bpd, respectively from its previous estimate. Non-OECD countries are expected to account for 1.1 million bpd of world consumption growth in 2008 with gains concentrated in China, the Middle East countries, India and other Asian countries. The EIA projects that OPEC crude oil production would average about 32.2 million bpd during the first quarter of 2008 or about 600,000 bpd above fourth quarter 2007 levels. The EIA expects OPEC crude production capacity to increase in 2008 by 1.2 million bpd and by 800,000 bpd in 2009. It reported that OPEC's crude oil production is expected to average 32.57 million bpd in the second quarter or 100,000 bpd less than previous estimates. The EIA reported that total petroleum consumption averaged 20.7 million bpd in 2007, up 10,000 bpd on the year. Demand is expected to grow by 40,000 bpd in 2008 to 20.74 million bpd, down from its previous estimate of 20.86 million bpd while demand is expected to increase by 200,000 bpd to 20.94 million bpd in 2009, down from its previous estimate of 21.08 million bpd. It reported that gasoline demand would increase to 9.32 million bpd in 2008 and to 9.39 million bpd in 2009, which are down from its previous estimates of 9.36 million bpd and 9.44 million bpd, respectively. It estimated that distillate demand would increase by 30,000 bpd to 4.25 million bpd in 2008 and to 4.29 million bpd in 2009, down from its previous estimates of 4.26 million bpd and 4.33 million bpd. In terms of inventories, gasoline stocks are estimated to total 224 million barrels at the onset of the peak driving season, up 22.3 million barrels on the year and 18.6 million barrels above the 5 year average. Distillate stocks however ended February about 6 million barrels below the same time last year. They are at the 5 year average and are projected to remain close to the average over the forecast period. The EIA said WTI averaged \$95/barrel in February and is expected to average \$102/barrel in March. The annual average WTI price is estimated to average \$94/barrel in 2008 and fall to \$86/barrel in 2009. The estimates are up from its previous estimates of \$86/barrel in 2008 and \$82/barrel in 2009. Retail prices for gasoline are expected to average \$3.21/gallon in 2008, up 40 cents on the year. The monthly average price is projected to peak near \$3.50/gallon this spring. It however said that there was a possibility for prices to breach the \$4/gallon level in some regions. Diesel prices are expected to show larger gains in 2008, averaging \$3.45/gallon, up 57 cents on the year.

Goldman Sachs said crude prices could fall back to \$90/barrel this spring. It said NYMEX crude reached its year-end target of \$105/barrel and was facing downside risk from substantial fund liquidation due to cyclical fundamental weaknesses in the next few months. Despite the possibility of a short term correction as fundamentals reach their weakest point in April, it said the market should tighten again in the second half of the year on the back of strengthening US and Chinese economies.

President George W. Bush said that he was sending Vice President Dick Cheney to the Middle East to raise concern over oil prices and to press Israeli and Palestinian leaders to move towards peace. Vice President Cheney is scheduled to meet with Saudi Arabia's King Abdullah. He is also expected to visit Oman, a non-OPEC oil producer, and hold talks with its leader, Sultan Qaboos. He is also scheduled



to meet with Israel's Prime Minister Ehud Omert and Palestinian leader Mahmoud Abbas to urge them to uphold their obligations to move toward a peace settlement. Separately, White House spokeswoman Dana Perino said the administration was concerned about the impact of high oil prices on consumers and small businesses but added that it would be wrong for President Bush to promise an overnight solution to the high oil price situation.

Russia's Foreign Minister Sergei Lavrov said the international community should start talks with Iran over its disputed nuclear program. He said the past international efforts to limit Iran's nuclear program were not productive.

Iraq pumped about 500,000 bpd of Kirkuk crude through its northern pipeline to Turkey on Tuesday and has sustained the flow since late February. Stocks at the Turkish terminal of Ceyhan stood at 3.2 million barrels on Tuesday.

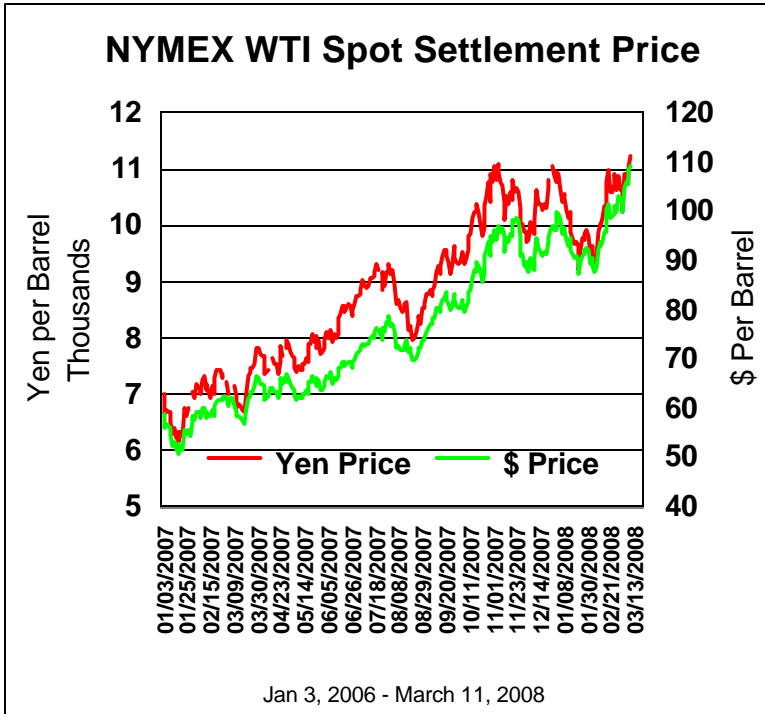
According to MasterCard Advisors, US retail gasoline demand fell by 1.1% to 9.051 million bpd in the week ending March 7. The four week average demand of 9.074 million bpd also showed a decline in demand of 3.4% versus last year. It reported that the average gasoline price increased by 3 cents to \$3.18/gallon.

The AAA stated that the average retail price of gasoline reached a record of \$3.227/gallon on Tuesday, surpassing a previous record reached in May 2007.

According to Euroilstock, total oil and product inventories in February fell by 1.1% on the month or 4.9% on the year to 1.116 billion barrels. It reported that crude stocks fell by 2.1% on the month and by 3.3% on the year to 471.22 million barrels. Gasoline inventories built by 0.6% on the month but fell by 7.7% on the year to 128.61 million barrels while distillate stocks fell by 0.1% on the month and by 7% to 374.63 million barrels. It reported that refinery capacity utilization fell to 90.66% from 91.08% last month.

**Refinery News**

Valero Energy Corp said it has slightly reduced rates at some fluid catalytic cracking units at its refineries due to poor margins. The chairman and chief executive officer, Bill Klesse, said he expects US gasoline margins to improve ahead of the summer driving season. He said crude oil prices are



expected to decline slightly and remain within a range of \$80-\$110 for a while. He also stated that Valero had to issue more lines of credit due to increasing oil prices. He stated that Valero was close to a deal to sell its 230,000 bpd refinery on Aruba, which has been undergoing repairs. It is expected to complete repairs by early April and raise crude processing rates to 230,000-255,000 bpd. It also said it was in the second round of bidding for its Memphis refinery and has received interest from potential buyers for its Paulsboro, NJ and Ardmore, Oklahoma refineries as well. Meanwhile Valero stated that its Port Arthur, Texas refinery was operating at higher than expected rates, despite ongoing work. The refinery is expected to operate at 260,000-270,000 bpd until the end of March as part of an effort to bring the refinery's crude inventories into

balance. It had previously expected to cut its rates by 100,000 bpd to 225,000 bpd for 75 days.

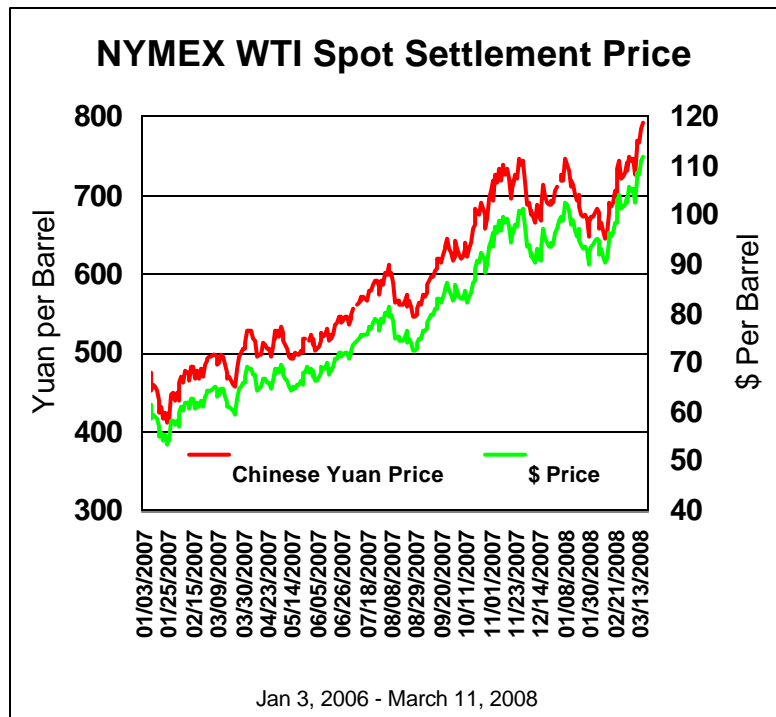
Separately, Valero Energy Corp said a small fire broke out at its Houston refinery on Monday. The fire occurred in equipment associated with a gasoline producing unit.

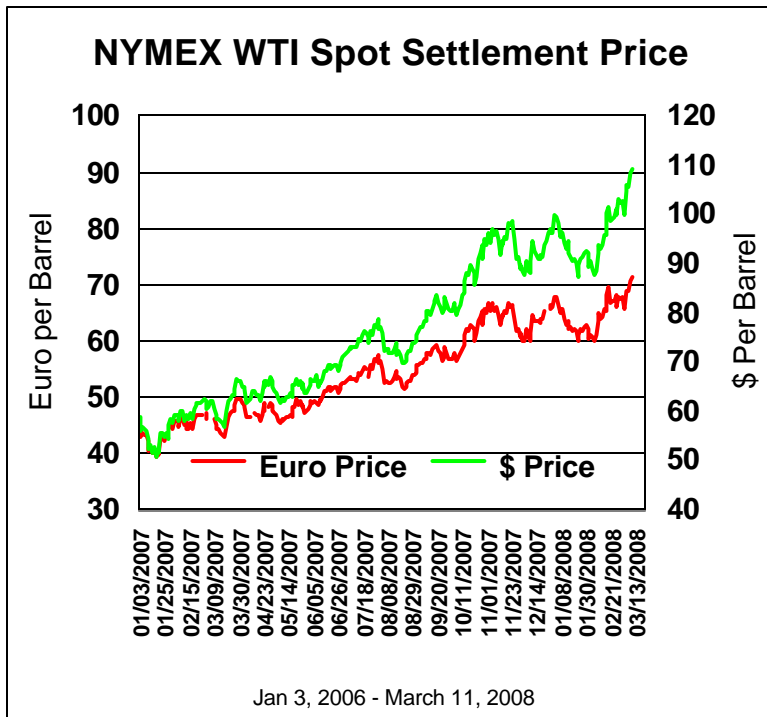
ExxonMobil Corp said it completed the start up of the fluid catalytic cracking unit at its 192,000 bpd refinery in Chalmette, Louisiana. The unit was restarted on February 27.

ConocoPhillips reported flaring at the Carson, California refinery on Monday afternoon. The cause of the release was under investigation.

Marathon Oil said several small units at its 192,000 bpd refinery in Robinson, Illinois were undergoing maintenance.

Chevron Corp said it had about 40 major capital projects with a net investment of \$1 billion or more each and was targeting reserves of about 11.3 billion barrels of oil equivalent at the end of 2010. Chevron said that it would not build a 200,000 bpd crude unit that it had been considering for its Pascagoula, Mississippi refinery due to high costs.





Ineos restarted its 207,000 bpd Lavera refinery on Monday after a technical incident shut part of the refinery in mid-February. The outage was initially planned to last five weeks but work to repair corrosion on the plant's main distillation unit took just under a month.

Sinopec Corp's Luoyang refinery is scheduled to be shut for 55 days from early April as part of a wider expansion plan. The refinery has a single crude distillation unit of 120,000 bpd, which would be raised by a third to 160,000 bpd during the shutdown.

Total and Saudi Aramco are expected to make a final decision on building a new 400,000 bpd refinery by mid-2008 and start operations in 2012. Saudi Arabia is planning four new plants as it seeks to increase domestic refining capacity by as

much as 1.6 million bpd from 2.098 million bpd.

A refinery in western Spain, with a capacity of 110,000 bpd, is expected to be fully operational by the end of 2011, a year after originally scheduled. The refinery would produce about 5.4 million tons of petroleum products a year.

Iran signed an agreement to build a 300,000 bpd oil refinery in Indonesia with a Malaysian partner. Iran and Indonesia also reached an agreement on a 360,000 bpd plant to refine gas liquids in Iran's Gulf port of Bandar Abbas. Iran's Oil Minister Gholamhossein Nozari said the refinery would be 40% owned by Iran, 40% by Indonesia and 20% by Malaysia.

Nigeria's army said it has found a private pipeline that was used to supply oil to a militant leader's home. The pipeline ran from a major oil refinery to a hideout in Rivers State of Ateke Tom, the head of the Niger Delta Vigilantes, who is wanted by the authorities. A Nigerian military spokesman said a large stockpile of weapons has also been found at the militant's house. The pipeline ran from a refinery in Port Harcourt through the militant hideout and continued to a private jetty where the oil was sold illegally.

**Production News**

The Norwegian Petroleum Directorate said Norway's oil production increased to 2.193 million bpd on average in February from a revised 2.16 million bpd in January.

Denmark's North Sea DUC crude oil stream is scheduled to load about 200,000 bpd in April, up from 194,000 bpd in March.

The April loading program for North Sea Flotta crude scheduled a total of 1.95 million barrels. Meanwhile, the Oseberg crude oil system is scheduled to load 6.6 million barrels, up from 6 million barrels in March.

**NYMEX Petroleum Options Most Active Strikes for March 11, 2008**

Symbol	Month	Year	Call/Put	Strike	Exp Date	Settle	Volume	IV
LC	12	8	P	75	11/17/2008	1.22	2,000	34.75
LC	12	8	P	50	11/17/2008	0.03	1,500	35.61
LC	12	10	P	60.5	11/16/2010	1.92	1,500	33.89
LC	12	8	P	90	11/17/2008	4.33	1,150	34.69
LC	12	10	P	90	11/16/2010	9.72	1,000	36.12
LC	12	9	P	80	11/17/2009	4.78	1,000	34.58
LC	12	9	C	150	11/17/2009	2.56	1,000	21.87
LC	8	8	P	65	07/17/2008	0.07	1,000	37.08
LC	12	8	C	95	11/17/2008	12.83	1,000	14.27
LO	5	8	C	108	04/17/2008	4.87	12,364	37.62
LO	5	8	C	102	04/17/2008	8.2	8,000	37.85
LO	4	8	C	110	03/14/2008	1.25	7,770	45.70
LO	7	8	C	102	06/17/2008	8.59	7,500	33.36
LO	7	8	C	107	06/17/2008	6.23	7,500	33.28
LO	5	8	P	100	04/17/2008	2.08	7,294	37.82
LO	7	8	P	90	06/17/2008	1.71	5,550	33.74
LO	5	8	C	120	04/17/2008	1.61	5,132	40.69
LO	5	8	P	95	04/17/2008	1.04	3,774	38.98
LO	5	8	P	94	04/17/2008	0.89	3,366	39.16
LO	4	8	C	112	03/14/2008	0.67	3,364	46.63
LO	12	8	P	80	11/17/2008	1.97	3,300	30.64
LO	8	8	C	102	07/17/2008	8.71	3,250	32.25
LO	8	8	C	107	07/17/2008	6.5	3,250	32.26
LO	7	8	C	111	06/17/2008	4.87	3,000	33.95
LO	7	8	C	114	06/17/2008	4.05	3,000	34.51
LO	6	8	P	75	05/15/2008	0.1	2,900	39.63
LO	6	8	P	100	05/15/2008	3.42	2,603	35.07
LO	5	8	C	96	04/17/2008	12.69	2,502	39.43
LO	7	8	P	95	06/17/2008	2.9	2,501	33.22
LO	4	8	C	96	03/14/2008	12.75	2,500	53.83
LO	7	8	C	125	06/17/2008	2.07	2,350	36.59
LO	6	8	C	120	05/15/2008	2.22	2,295	37.47
LO	7	8	P	88	06/17/2008	1.36	2,275	34.00
LO	4	8	P	100	03/14/2008	0.04	2,113	46.82
LO	4	8	C	107	03/14/2008	2.78	1,846	45.40
LO	10	8	P	100	09/17/2008	7.2	1,780	30.42
LO	8	8	C	120	07/17/2008	3.2	1,700	34.52
LO	4	8	P	105	03/14/2008	0.48	1,652	45.36
LO	12	8	C	125	11/17/2008	3.51	1,650	31.76
LO	4	8	C	108	03/14/2008	2.18	1,638	45.45
LO	12	8	P	85	11/17/2008	2.99	1,601	30.10
OB	5	8	P	2.44	04/25/2008	0.0398	600	39.53
OB	7	8	P	2.4	06/25/2008	0.0594	200	32.90
OB	5	8	P	2.52	04/25/2008	0.059	200	39.14
OB	5	8	C	2.95	04/25/2008	0.0761	200	40.16
OH	5	8	P	2.89	04/25/2008	0.1277	100	36.61
OH	5	8	C	2.89	04/25/2008	0.1698	100	36.68

Venezuela recently shipped 3.87 million barrels of crude oil to China and India, as part of the country's plan to diversify its client base. It shipped 1.867 million barrels to China and 2 million barrels to India.

PDVSA said its four oil upgrading ventures in the Orinoco basin were producing more than 600,000 bpd of crude.

Indonesia's Energy Minister Purnomo Yusgiantoro said Indonesia's oil subsidies could reach 100 trillion rupiah or \$10.9 billion this year on the back of increasing oil prices. He warned that it was unclear how long the nation could withstand such pressure.

**Market Commentary**

The battle continues between the true fundamentals of this market and the struggle by investors to secure returns on their investments. In reaction to a release by the IEA lowering their forecast for demand by 80,000 barrels per day for crude oil, prices traded lower on the day. A statement from the Federal Reserve, stating that it will pump \$200 billion into the financial system in an attempt to aid a troubled banking system, also supported this move down. Bulls, who would have none of this, struck back. While supplies for gasoline are at a 15 year high, demand is expected to pick up with the pending

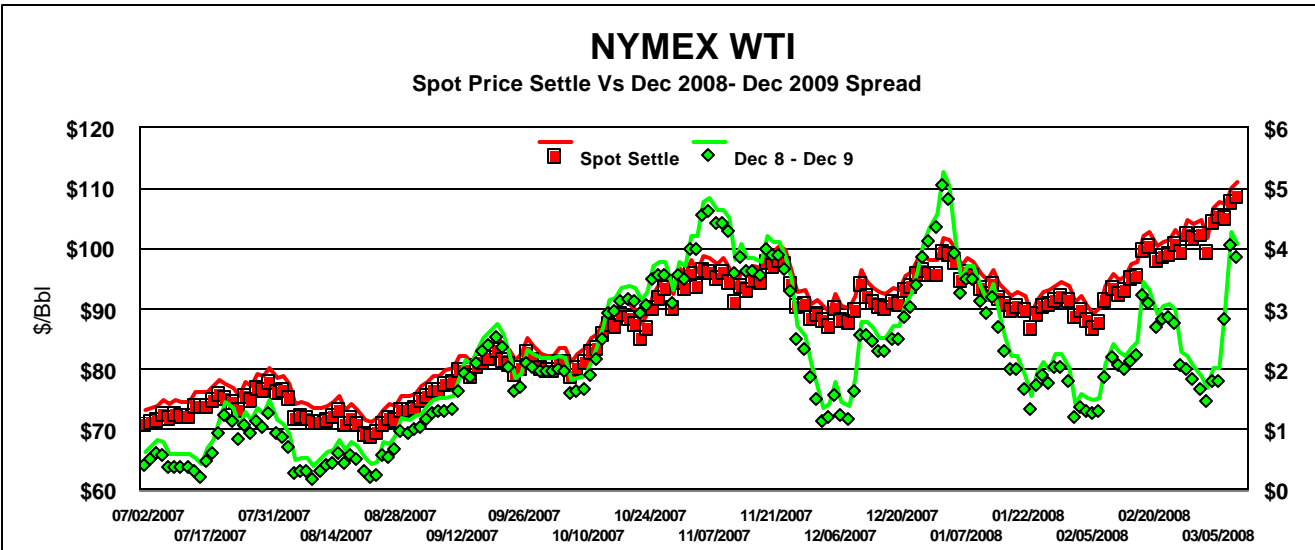
summer driving season approaching. At some point in time one would expect that this bubble will



burst, but it is a matter of when. As of now it does not appear that a trend reversal is near and not until prices can break and settle below the upward

		<b>Explanation</b>	
<b>CL</b>	<b>Resistance</b>	110.46, 116.13	Basis trendline
	108.75, up 85 cents	109.05, 109.72	Tuesday's high
	<b>Support</b>	107.25, 106.61	Tuesday's low
		104.08, 103.90, 102.85, 102.05, 101.52, 99.55	Previous lows
<b>HO</b>	<b>Resistance</b>	307.32	Basis trendline
	299.57, up 2.23 cents	301.01	Tuesday's high
	<b>Support</b>	295.25, 294.00, 291.99	Tuesday's low
		291.73, 290.45, 289.26, 279.29, 276.96	Previous lows, Basis trendline, 38% (244.16&301.01), Previous low
<b>RB</b>	<b>Resistance</b>	275.56, 280.00	Previous high
	272.61, up 1.12 cents	274.35	Tuesday's high
	<b>Support</b>	269.25, 268.00, 266.66	Tuesday's low
		263.53, 262.76, 257.69, 252.98, 252.20	Previous lows

channel, which is \$7.00 dollars lower than the current settlement of \$108.75. Once again we would have to stick with buying and selling the listed support and resistance number s. Open interest in crude oil is 1,479,465 up 12,890, April08 267,005 down 13,971, May08 271,066 up 32,180 and Dec08 203,269 down 9,407. Similar to the crude market, the heating oil market rallied to yet another high of 301.01 in overnight trading. The market however erased its gains and sold off to a low of 291.99 as the crude market sold off following the Fed announcement. In volatile trading, the market bounced off its low and retraced most of its earlier losses as it traded back towards its high ahead of the close and settled up 2.23 cents at 299.57. The market remained supported amid the expectations that the weekly petroleum stock reports on Wednesday would show a draw of about 2 million barrels in



distillate stocks. The market is seen continuing its upward trend as it continues to trade within its upward trending channel. The RBOB market also continued to trend higher and settled up 1.12 cents at 272.61. The market posted a high of 274.35 before it sold off to a low of 266.66 early in the session. The markets on Wednesday are seen remaining supported amid the expectations that product stocks will show draws. In the heating oil support is seen at 295.25, 294.00, 291.99 followed by 291.73, 290.45, 289.26, 279.29 and 276.96 while resistance is seen at 301.01 and 307.32. In the RBOB, support is seen at 269.25, 268.00, 266.66 followed by 263.53, 262.76, 257.69, 252.98 and 252.20. Resistance is seen at 274.35, 275.56 and 280.00.

# NYMEX WTI: April May Spread

## Price Vs Volume for January 23 - March 11, 2008

Trade Weighted Avg: 3/11 1.25, 3/10 1.13, 3/7 .83, 3/6 .87, 3/5 .79

