



## ENERGY RISK MANAGEMENT

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## ENERGY MARKET REPORT FOR OCTOBER 22, 2008

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OPEC sources stated that an OPEC output cut of at least 1 million bpd is needed to deplete the oversupply in the oil market. An OPEC delegate said a cut could be of up to 1.5 million bpd. Meanwhile, OPEC's President Chakib Khelil said oil stocks are high and some OPEC member countries are finding it hard to sell their oil. He said OPEC will have to take into account the situation of consuming countries affected by the ongoing world financial crisis when making a decision on whether to cut crude oil production.

### Market Watch

OPEC risks dividing members as it plans to cut its production at its meeting on Friday. An analyst said the divisions arise in OPEC because what countries need and want vary. Saudi Arabia needs oil prices of less than \$30/barrel to balance its budget while the UAE requires \$0/barrel and Qatar requires \$55/barrel, according to Merrill Lynch. However Iran, with double the population of Saudi Arabia, has a breakeven point of \$100/barrel while Venezuela, which is spending oil revenue on social programs, the figure is about \$120/barrel. Saudi Arabia is likely to resist a cut of more than 1 million barrels. Some analysts believe Saudi Arabia will probably forge a compromise for production cuts to be taken over coming months instead of all at one time.

According to Deutsche Bank, oil options trading show the probability that crude will fall below \$50/barrel by June has more than doubled in 10 days. There is a 9% likelihood that June 2009 crude contracts will expire below \$50/barrel, up from 4%.

ConocoPhillips' chief executive, Jim Mulva said the company expects modest production levels in coming years and warned that future quarterly profits will be substantially lower.

Iraq's Deputy Prime Minister Barham Salih said Iraq is reviewing its proposed 2009 budget as a result of falling oil prices. The draft 2009 budget, which has yet to be enacted by parliament, envisions spending \$78.8 billion, based on an oil price that would average \$80/barrel. He said Iraq could use a surplus from this year to supplement spending if revenues fall short next year.

Venezuela's President Hugo Chavez said the country would be able to withstand a global economic slowdown, even if oil prices fall to \$55/barrel. Venezuela's budget for 2009 was calculated using an average oil price of \$60/barrel.

UK Financial Services Authority chief executive Hector Sants said most hedge funds are weathering the market turmoil pretty well. He also said he does not think more hedge fund regulation is needed.

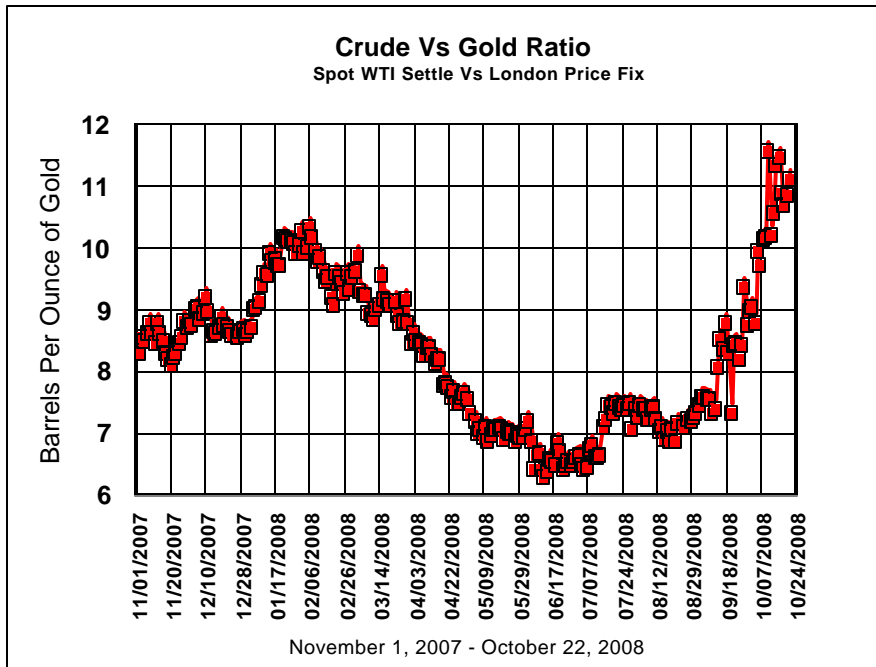
European Union Internal Market Commissioner Charlie McCreevy summoned trading associations, regulators and central bankers to a meeting to discuss how the over-the-counter sector can be made safer and more transparent. Europe's financial sector was told it has only weeks to clean up trading of the credit derivatives market. An industry and regulatory group will be set up to look at short and medium term options and put forward solutions from early next month.

### DOE Stocks

**Crude** – up 3.2 million barrels  
**Distillate** – up 2.2 million barrels  
**Gasoline** – up 2.7 million barrels  
**Refinery runs** – up 2.6%, at 84.8%

Nigeria's Oil Minister Odein Ajumogobia said the country would be comfortable with oil at \$80/barrel but added that it did not want to cut its own production to defend that price level. He said a cut in Nigeria's oil production was not in its best interest. He confirmed that Nigeria lowered the benchmark oil price in its draft 2009 budget, due to go before parliament in the coming days, to \$45/barrel from an initial \$62.50/barrel level.

An official at the National Iranian Oil Co, Hojjatollah Ghanimifard said crude prices could fall further as a result of the world financial crisis but warned that this could make some production uneconomical. He said a decline in oil prices could push some producers out of the market due to high costs and low revenue.



The IEA's Executive Director, Nobuo Tanaka said oil producing countries, including Russia, may not be investing enough to maintain output at levels sufficient to meet world demand.

Russia's Deputy Prime Minister Igor Sechin said Russia may create an oil reserve to influence world oil prices. However he stated that Russia would not cut its output along with OPEC. Meanwhile, OPEC Secretary General Abdullah al-Badri, who arrived in Moscow on Tuesday, said he would meet Russia's President Dmitry

Medvedev to discuss the exchange of market data and would not raise the issue of oil production cuts. OPEC's Secretary General said Russia's idea of creating an oil reserve is positive for world markets and will discuss the issue.

Nigeria's senior oil workers union, Pengassan said it suspended the threat of strike action after reassurances from the government that it did not plan to privatize downstream units of NNPC. Pengassan and Nupeng oil workers unions has threatened to launch industrial action starting October 23 unless the government clarified its intent over the two NNPC subsidiaries.

According to the EIA, the average price of home heating oil fell by 16 cents over the last week to \$3.23/gallon. However the price of heating oil is still 36 cents/gallon higher than a year ago.

### **October Calendar Averages**

**CL – \$81.59**  
**HO – \$2.3598**  
**RB – \$1.9178**

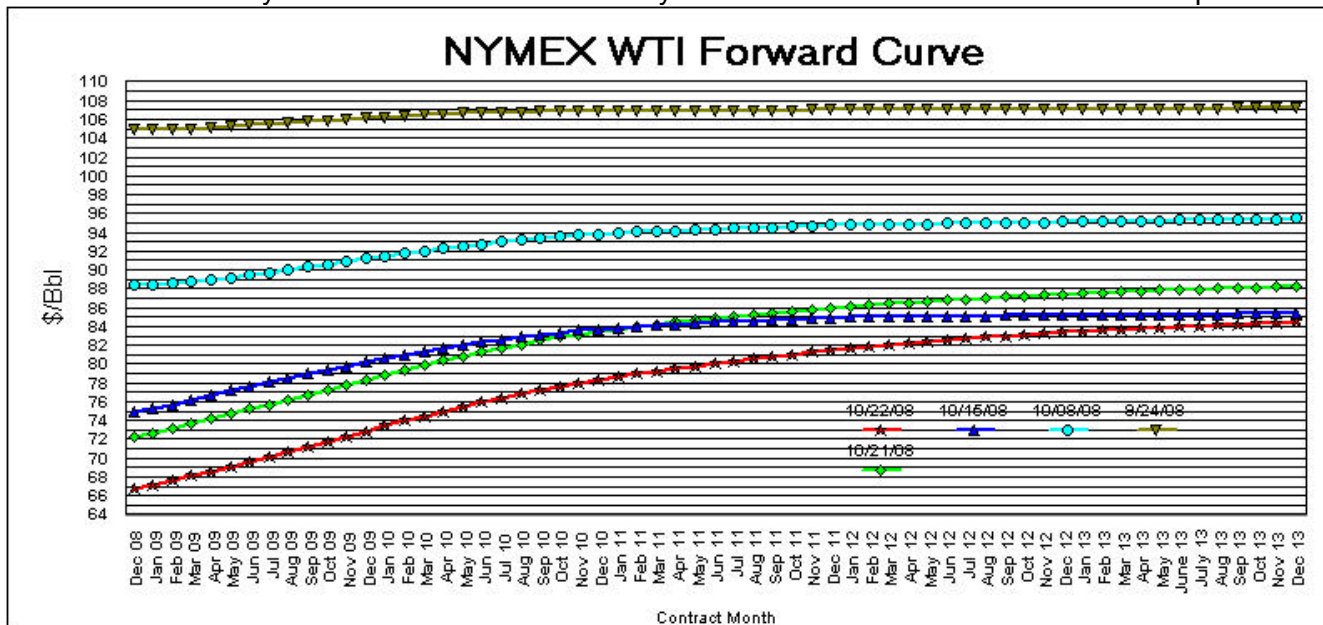
### Refinery News

Valero Energy Corp suffered an upset at its 210,000 bpd Delaware City, Delaware refinery over the weekend. It was not immediately clear which unit suffered the problem.

Sunoco said it would shut down a reformer unit at its Philadelphia refinery.

Taiwan's CPC Corp has cut operations rates at its 230,000 ton per year No. 3 naphtha cracking unit to 65% of capacity this week. It cut the rates after it failed to delay or resell its naphtha cargoes amid high inventory levels.

According to the Petroleum Association of Japan, the country's crude oil inventories built by 1.9 million barrels on the week and by 4.28 million barrels on the year to 115.05 million barrels in the week ending October 18. The increase came despite a 1.6% increase in its refinery utilization rate from the previous week to 72.7%. Japan's gasoline stocks built by 110,000 barrels on the week and by 900,000 barrels on the year to 13.22 million barrels while kerosene stocks built by 600,000 barrels on the week but fell by 3.04 million barrels on the year to 24.65 million barrels. It also reported that



Japan's gas oil stocks increased by 10.8% on the week and by 30% on the year to 12.89 million barrels while naphtha stocks built by 1.06 million barrels on the week to 13.91 million barrels.

BP Plc said the pipeline that delivers crude from Azerbaijan's capital, Baku to the Black Sea port of Supsa in Georgia is ready to restart and will resume operation in the near future. The 150,000 bpd pipeline has been shut since August 12 after the conflict between Russia and Georgia started.

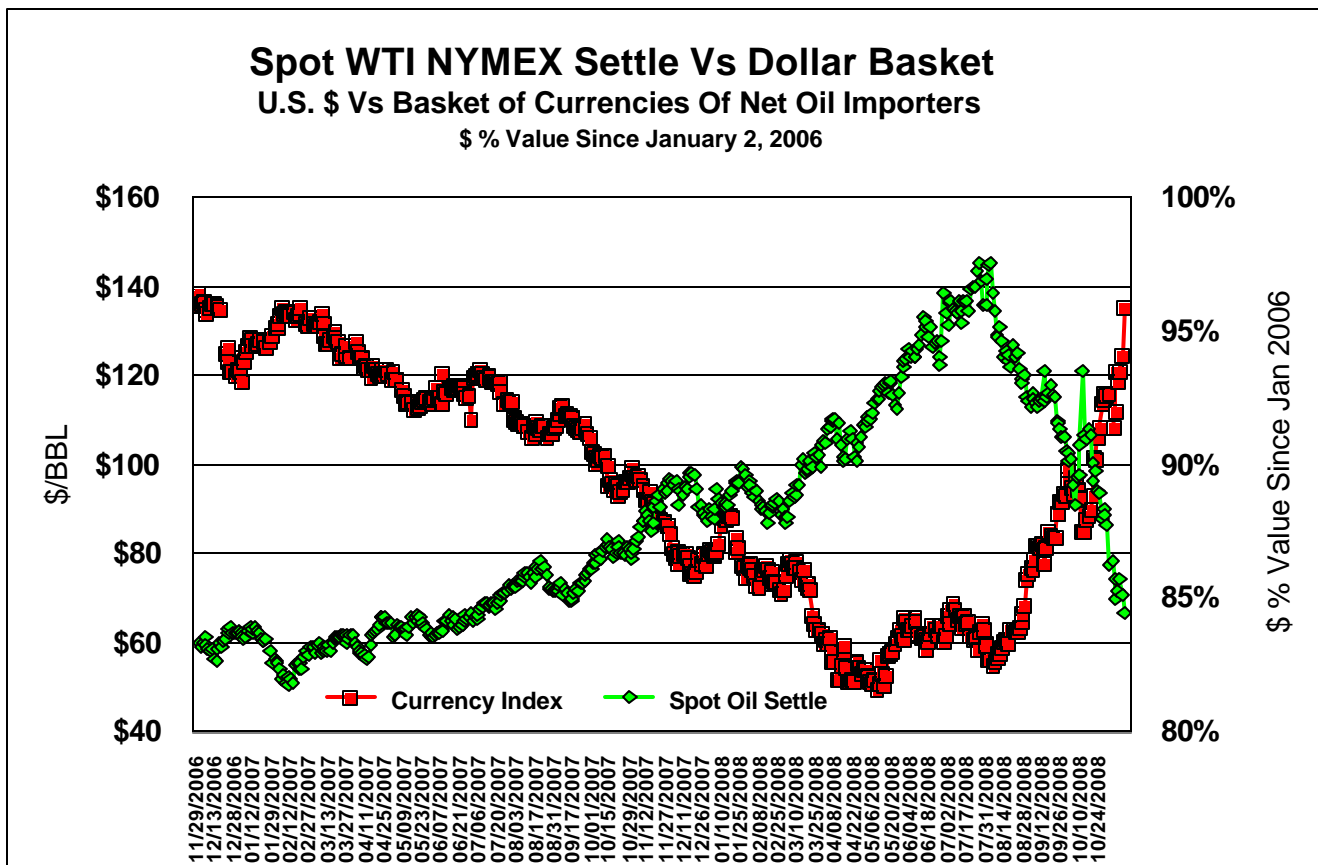
### Production News

Iraq's Oil Ministry reported that the country's oil exports in September fell to 1.64 million bpd from 1.75 million bpd in August due to power shortages and technical problems at its southern export hub Basra. Its exports from Basra fell to 1.32 million bpd from 1.45 million bpd in August while its exports from the northern oil hub of Kirkuk increased in September to 320,000 bpd from 306,000 bpd in August.

Norway's StatoilHydro has made an oil and gas discovery near its Visund field in the North Sea. It said the find in the Pan Pandora prospect was its 20<sup>th</sup> discovery so far in 2008. Separately, StatoilHydro said lower oil prices were not affecting its projects or capital expenditure. However analysts expect the company to reconsider plans for marginal assets if crude prices remain low.

Pemex reported that crude output at its Ku-Malooob-Zaap field increased by 35.9% on the year in September to 725,000 bpd during the first nine months of the year.

China National Offshore Oil Corp expects to reach a joint venture deal with Brazil's Petrobras to aid in developing the country's subsalt oil and gas deposits. CNOOC's chief executive Fu Chengyu said CNOOC and Petrobras were in talks, with Petrobras expected to travel to China in November to further discuss the deal. Separately, Petrobras' chief executive Jose Sergio Gabrielli said the ongoing world financial crisis could delay development of promising subsalt oil deposits by Petrobras. He said the company's cash flow would help fund near term investments but added that the problem is in the medium and long term.



OPEC's news agency reported that OPEC's basket of crudes fell to \$64.32/barrel on Tuesday from \$64.63/barrel on Monday.

**Market Commentary**

Crude oil prices fell to a 16-month low today as the DOE report indicated that crude oil stock levels increased by 3.2 million barrels. Adding to the pressure on prices was the fact that fuel demand for the past four weeks declined 8.5% from a year ago. This coupled with a build of 2.7 million barrels in gasoline inventories, pushed this product to its lowest level since February of 2007. Demand for gasoline based on a four-week average, decreased 4.3% on the year. Distillate stocks also increased this past week by 2.2 million barrels. Heating oil demand on a four-week average is down 5.8% on the year. All indications are leading towards a test of the \$50.00 level in crude oil. This will bring prices right back to the \$49.90 key support number. The December/January spread flirted with the long standing gravitational area of -.61 to -.47 today, unable to weaken any further and once strengthening above -.47 gained momentum. We would look for a test of the recent high of -.14, based on a continuation chart for the front crude oil spread. Once again we would use this congestion area as a

pivotal trading range. Any penetration to the downside of -.47 should be considered a selling point, selling the December and buying the January. We would look to cover on failed attempts to trade below -.61. The December heating oil contract gave up some of its gains against the December gasoline but given the current forecast for colder weather on the horizon, we do not think this will be a lasting weakness. Our upside 0.6600 objective for this spread still remains in place. Open interest for crude oil, DEC08 327,688 -1,707, January 09 95,378 +4,120. Totals: 1,035,697 -3,621. Open interest for heating oil; is NOV.08 20,394 -3,280, DEC.08 53,529 +2,053. Totals: 214,867 +229. Open interest for gasoline is, NOV.08 25,644 -1,988, DEC.08 62,266 +1,116, Totals: 162,185, +10.

<b>Crude Support</b>	<b>Crude Resistance</b>
68.63, 67.30, 60.68, 49.90	72.53, 74.30, 76.10, 85.40, 87.10, 98.58, 110.07
<b>Heat support</b>	<b>Heat resistance</b>
1.9730	2.1844, 2.4500, 2.5732, 2.6400, 2.6880, 2.6965, 2.7475, 3.0184
<b>Gasoline support</b>	<b>Gasoline resistance</b>
1.4700, 1.3351	192.85, 2.0270, 2.0690, 2.1400, 2.1980, 2.2865

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