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## ***ENERGY RISK MANAGEMENT***

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### **ENERGY MARKET REPORT FOR JANUARY 8, 2009**

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Saudi Arabia has started to inform some refiners that it is making steep cuts in deliveries in line with OPEC's decision to cut its production starting January 1<sup>st</sup>. It is expected to produce an average of 8 million bpd in January. Saudi Arabia's new production quota is 8.05 million bpd, down from 8.48 million bpd under the previous goal.

Majed Al Munif, an adviser to Saudi Arabia's Oil Minister said oil demand may fall by up to 45% as the world financial crisis deepens. However he added that there is still a need to increase oil investments to ensure supply.

#### Market Watch

US President elect Barack Obama in a speech on his economic recovery plan, said he would offer working families a \$1,000 tax cut and improve energy efficiency in millions of homes in order to create jobs and stimulate the economy. He also said the plan would extend jobless aid and healthcare coverage for the unemployed and include proposals to double production of alternative energy in the next three years. He also promised to double US production of alternative energy in the next three years.

The Labor Department said US claims for unemployment benefits unexpectedly fell for the second consecutive week. Initial claims for unemployment benefits fell by 24,000 to a seasonally adjusted 467,000 in the week ending January 3. The four week average of new claims fell by 27,000 to 525,750. According to the report, the number of continuing claims in the week ending December 27, increased by 101,000 to 4,611,000, the highest level since November 1982. The unemployment rate was unchanged at 3.4%. On Friday, the Labor Department is scheduled to release a report on December nonfarm payrolls, which is expected to show the economy lost 550,000 jobs last month, with the unemployment rate rising to 7% from November's 6.7%.

Belarus increased the tariffs for the transit of Russian oil through its territory to Germany, Poland and Ukraine, under a government order which came into force Thursday. The oil tariff was increased by 22.5% to EUR1.47/metric tons of crude oil pumped through the Druzhba pipeline.

Cathay Pacific Airways Ltd said its losses from fuel-hedging almost tripled to HK\$7.6 billion or \$980 million in two months. The unrealized hedging losses, including contracts running up to 2011, increased between October 31 and December 31 as fuel prices fell in line with falling oil costs.

The National Oceanic and Atmospheric Administration said the weather phenomenon La Nina developed in December and added that conditions are expected to continue into spring in the Northern Hemisphere. In the US, potential impacts include below average temperatures in the Pacific Northwest and above average temperatures across much of the southern US.

**January Calendar Averages****CL – \$45.61****HO –\$1.5491****RB – \$1.1293**

A Nigerian official said Nigeria is fully implementing an OPEC oil output decision. He said the new quota, which is 1.7 million bpd, should be fully implemented by the end of February.

Ecuador's Mining and Oil Minister Derlis Palacios said the country is studying ways to cut its oil production to meet OPEC's latest quota in the next 15 days at the most. To meet the OPEC cut, Ecuador's government plans to halt production of Agip Oil, which produces about 24,000 bpd, and Perenco, which produces about 30,000 bpd.

According to Oil Movements OPEC's oil exports, excluding Angola and Ecuador, are expected to fall by 210,000 bpd in the four weeks ending January 24 to 23.7 million bpd. It is the lowest level since August 2007. It estimates that exports are down by about 1.5 million bpd since a summer supply peak in mid-August 2008.

Israel's Prime Minister Ehud Olmert said Israel's security cabinet has not yet given the order to step up the army's massive operation in the Gaza Strip. He said its goal is to prevent rocket attacks and the smuggling of weapons into Gaza. Meanwhile, the UN Relief and Works Agency suspended operations in the Gaza Strip on Thursday after a UN flagged convoy was hit by tank shells, killing one person. It said operations will remain suspended until Israeli authorities can guarantee the safety and security of the UN's staff. Earlier, the UNRWA said a three hour pause in fighting by Israeli forces is insufficient and the humanitarian crisis in Gaza is worsening.

**Refinery News**

Colonial Pipeline notified shippers it is allocating its main distillate line Line 2 for the fourth cycle of 2009 as demand for space is greater than capacity.

ExxonMobil Corp reported a brief problem and maintenance on its fluid catalytic cracker boilers at its Baytown, Texas refinery which prompted an adjustment to the catcracker's operations.

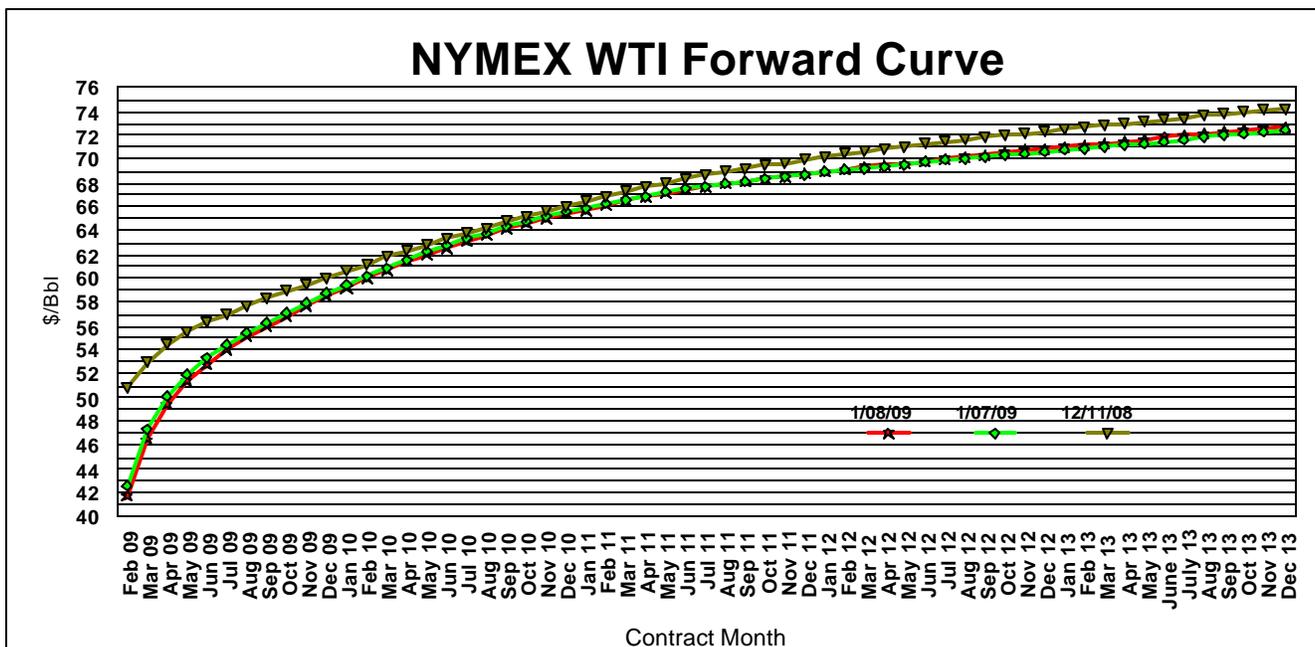
US Gulf Coast cash differentials for ultra-low sulfur diesel increased by 5 cents/gallon amid talk of exports. Trade sources said South America was one of the destinations among others.

China's twelve major refineries plan to process 2.24 million bpd of crude in January, the lowest level since August 2006 due to weak fuel demand amid the economic crisis. This is down from 2.25 million bpd in December, 2.6% lower than planned due to closures of some refining capacity in the middle of last month on concerns of excess supplies.

Merrill Lynch said Singapore complex refining margins fell during the week ending January 2 to \$6.05/barrel from \$8.40 the previous week.

India's oil workers strike has left more than 50% of the country's petrol pump empty. Earlier, India's Petroleum Secretary R.S. Pandey said about 30% of gas stations in New Delhi had run out of fuel on day two of a strike by more than 55,000 state-run oil company employees. He also said about 100 fuel stations in Mumbai were not functioning. He said ONGC's crude oil output has fallen by nearly 25% to 270,000 bpd. Its refineries are operating at 30%. Operations at private refiners Reliance Industries and Essar Oil were normal and officials said the government may turn to them for further supplies if needed. The strike has also slowed refueling of aircraft at airports due to the shortage of manpower. Meanwhile, the government has stated that the strike is illegal and has asked states to use laws that forbid disruption of supplies.

The project delays in Alberta's oil sands could benefit US refiners but at a cost to Alberta's government's ambitions. Oil sands developers have pushed back multibillion-dollar projects as oil



prices fell and the world economy ground to a halt. TransCanada Corp and ConocoPhillips' Keystone oil pipeline will soon connect Alberta with the US Gulf Coast. As the Keystone pipeline comes into service over the next several years, oil sands producers may prefer to sell their unprocessed bitumen on the spot market or sign supply deals with refiners instead of building an upgrader, even when the economy recovers. Alberta's government is pressing ahead with plans to accept bitumen in place of energy royalty payments in a bid to encourage the upgrading industry to remain in the province.

Gasoline inventories in independent storage in the Amsterdam-Rotterdam-Antwerp terminal in the week ending January 8<sup>th</sup> increased by 0.24% on the week but fell by 11.92% on the year to 850,000 tons. Gas oil inventories built by 11.07% on the week and by 76.67% on the year to 2.378 million tons as a steep contango structure in the ICE gas oil futures market has encouraged refiners to put gas oil in storage to await higher prices before selling. Fuel oil stocks increased by 18% on the week but fell by 2.19% on the year to 669,000 tons while jet fuel stocks increased by 20% on the week and by 349.18% on the year to 822,000 tons and naphtha stocks fell by 17.14% on the week but increased by 3.57% on the year to 116,000 tons.

### Production News

Shell Petroleum Development Co and Shell Nigeria Exploration and Production Co lifted the force majeure on Nigerian crude exports from the Bonny, Forcados and Bonga loading terminals. Shell declared a force majeure in July due to deferment caused by attacks on facilities and pipelines while another declaration in October was linked to OPEC quota cuts.

Norway's Petroleum Directorate said oil and exploration in the country increased by 75% in 2008, with just under half of the 56 wells drilled yielding a discovery. It reported that in 2008, Norway produced 242.2 million cubic meters of oil equivalents. Its oil production fell by 4.5% on the year to 2.1 million bpd. It forecast 2009 oil production at 110.8 million standard cubic meters or about 1.9 million bpd. The NPD said its goal to add 5 billion barrels of oil reserves between 2005 and 2015 could present a challenge. To date, 1.5 billion barrels have been added. It said Norway's natural gas production was running at capacity. The NPD also said the country's gas sales increased to 99.3 billion cubic meters in 2008 from 89.6 billion in 2007 and are forecast to increase to over 102 billion cubic meters in 2009. Meanwhile the head of Norway's Petroleum Directorate said investments in Norway's oil and gas sector are likely to remain near record 2008 levels of \$18.65 billion this year.

The BP Plc-led Baku-Ceyhan pipeline is expected to produce about 671,000 bpd in February, up from 568,000 bpd in January. This follows the partial resumption of production in December at an Azeri offshore platform that had been shut since September due to a gas leak.

China's Ministry of Land and Resources said the country will have to rely on imports for about 60% of its oil demand by 2020, up from 50%. While China plans to increase its oil production to help meet demand and to double gas production by 2015, its reliance on imports will increase even faster. It forecast that by 2020, China will need 500 million tons of oil a year or 10 million bpd. China's domestic oil production is expected to reach 190 million tons or 3.8 million bpd in 2010 while gas production is expected to reach 110 billion cubic meters.

OPEC's news agency reported that OPEC's basket of crudes fell to \$45.75/barrel on Wednesday from \$46.27/barrel on Tuesday.

### **Market Commentary**

The oil market ended in negative territory for the third consecutive session, as it remained pressured following Wednesday's release of the DOE report showing the large builds in crude stocks. The market was also pressured amid continued concerns over the economy. While the Labor Department today reported that there was a decline in the number of initial unemployment claims for the week ending January 3<sup>rd</sup>, its report for December nonfarm payrolls is expected to show a loss of 550,000 jobs on the month. The crude market posted a high of \$43.63 in overnight trading before it erased its gains and retraced more than 62% of its move from a low of \$35.13 to a high of \$50.47 as it traded to \$40.87 ahead of the open outcry session. The market however retraced some of its losses only to see it trade lower once again. It remained pressured amid the losses seen in the natural gas market after the EIA's natural gas inventory report showed a smaller than expected draw of 47 bcf. The oil market later posted a low of \$40.54 ahead of the close and settled down 93 cents at \$41.70. The Feb/Mar crude spread continued to widen and settled at \$4.81 and is seen widening further in light of the supply picture. On Friday, the crude market is seen trading lower amid the expected bearish economic news, with initial support seen at \$40.57, \$37.95, \$35.13 and \$34.71. The product markets were mixed, with the RBOB market settling up 1.18 cents at \$1.0882 and the heating oil market settling down 2.35 cents at \$1.5196. The RBOB market posted a high of \$1.1139 in overnight trading before it sold off to a low of \$1.055 early in the session. The market however retraced most of its losses ahead of the close. Meanwhile, the RBOB crack breached its resistance levels and settled at \$4.00 as the RBOB market continued to outperform the crude. It is seen trading back above the \$5 level, with more distant resistance seen at \$5.60. The heating oil market retraced nearly 38% of its move from a low of 1.2136 to a high of \$1.6688 as it sold off to a low of \$1.4983 in afternoon trading. The market is seen finding support at \$1.4949, \$147.39, \$1.4412 and \$1.3875.

Open interest FEB.09 238,637 -10,708 MAR.09 193,684 +2,789 APR.09 72,396 +4,100 MAY.09 47,441 +3,013 Totals: 1,216,198 +1,009 Heating oil (HO) FEB.09 49,146 -2,569 MAR.09 36,169 +2,186 APR.09 23,128 +516 Totals: 226,546 +1,365 NEW YORK HARBOR RBOB GASOLINE (RB) FEB.09 72,715 -3,748 MAR.09 37,175 +3,119 APR.09 20,784 +694 Totals: 194,172 +1,244.

<b>Crude Support</b>	<b>Crude Resistance</b>
40.54, 37.95, 34.31, 33.75, 32.25, 29.66, 28.63, 26.65, 25.50	42.70, 43.63, 49.09, 50.47, 52.95, 53.75, 57.20
<b>Heat Support</b>	<b>Heat resistance</b>
1.4949, 1.4739, 1.4412, 1.3875, 1.3605, 1.2785, 1.1895	1.5820, 1.6025, 1.6478, 1.6688, 167.15, 171.85, 176.70, 1.8500
<b>Gasoline support</b>	<b>Gasoline resistance</b>
1.055, 1.0333, .9843, .9669, .8978, .8755, 7760, .6840	1.1139, 1.20, 1.2405, 1.2750, 136.14