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## ***ENERGY RISK MANAGEMENT***

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### **ENERGY MARKET REPORT FOR JANUARY 16, 2009**

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The IEA said world oil demand will contract sharply in 2009 as the world economic slowdown further erodes consumption. It revised its previous 2009 estimate down by 940,000 bpd to 85.3 million bpd, down 500,000 bpd on the year. The IEA also reported that China's oil demand growth is just 90,000 bpd in 2009 as its GDP growth contracts to 6.5%, the slowest rate in eight years. China's oil demand is expected to increase by 1.1% to 7.951 million bpd. It reported that as demand drops amid the current economic

#### Market Watch

UBS agreed to sell the trading books of some of its commodities businesses to Barclays Bank Plc. The UK bank has already taken on the commodities business of Lehman Brother, which filed for bankruptcy in September. Barclays Bank would take on the risks or trading positions associated with its base metals, oil and US power and gas businesses. The sale is a further step consolidating the commodity trading industry around three large investment banks, Goldman Sachs, Morgan Stanley and Barclays, and large physical trading firms, Cargill, Archer Daniels Midland, Koch Industries, Glencore, BP and Shell.

Norway's Frontline said oil firms were storing about 80 million barrels of crude at sea, possibly the highest level seen in 25 years. It said about 30-35 Very Large Crude Carriers capable of carrying 2 million barrels each and 10 Suezmaxes with a capacity of a million barrels each were being used by oil firms for floating storage in the last few months. Most of the supertankers being used for floating storage were anchored in the US Gulf, with others anchored in Asia and the Middle East Gulf.

The Labor Department reported that the consumer price index in December fell by 0.7% on the month on a seasonally adjusted basis. The core CPI was unchanged. It reported that consumer prices increased just 0.1% in 2008 as a whole, the lowest since 1954 and well below the Fed's 1.5%-2% preference for the long term. According to the report, energy prices fell another 8.3% in December compared to November and fell over 21.3% for 2008 as a whole.

China's Ministry of Industry and Information Technology said China may unveil a stimulus package for the refining and petrochemical industry for next month. The package will likely involve building commercial crude oil and oil product reserves as well as making funding accessible for oil refining projects.

Venezuela's central bank will sign over \$12 billion to President Hugo Chavez's administration as the drop in oil prices is squeezing the country's finances. President Chavez said the central bank will transfer by February the \$12 billion, which is likely to go to Fonden, one of his off-budget spending vehicle.

Thermal power consumption at Tokyo Electric Power Co fell in December as the nuclear run rate increased for the month and energy demand remained weak amid the economic slowdown. The use of fuel oil, crude oil, liquefied natural gas and coal in December all fell below the previous year's levels. It reported that demand for fuel oil fell by 319,000 kiloliters to 434,000 kl while crude oil demand fell by 251,000 kl to 167,000 kl. LNG demand fell by 13,000 tons to 1.656 million tons while coal demand fell by 32,000 tons to 307,000 tons.

slowdown, oil inventories in the Organization for Economic Cooperation and Development have remained at high levels. Stocks at the end of November equaled 56.4 days of cover, compared with 56.8 days at the end of October. It stated that it sees demand for OPEC crude at between 29.5 and 30 million bpd in 2009. It said if OPEC succeeds in reaching its reduced production targets, output from all 13 OPEC members should total 28.2 million bpd. Total non-OPEC production in 2009 is forecast to increase to 50 million bpd, down 30,000 bpd from last month's estimate. Non-OPEC production in 2008 fell by 150,000 bpd in 2008 to about 49.5 million bpd. The IEA also reported that the amount of oil currently being stored in oil tankers has increased to between 50 million and 80 million barrels. It said floating storage continues to increase, with inquiries for more vessels continuing.

**January Calendar Averages**

**CL – \$41.22**

**HO –\$1.5130**

**RB – \$1.1364**

The Energy Department announced it will spend \$553 million to buy 10.683 million barrels of crude oil for shipment to the SPR from February through April. The purchases will be the first direct buys of crude for the SPR since 1994. Contracts to supply the crude were awarded to Shell Trading and Vitol. The DOE said it also awarded contracts to transfer a further 6.157 million barrels of oil to the SPR under the royalty-in-kind program at a modest rate of 26,000 bpd from May 2009 through January 2010. The SPR has the capacity to hold 727 million barrels of oil and is currently 97% full at 702 million barrels.

French President Nicolas Sarkozy said it was in the world's interest to regulate commodity and oil prices and said industrialized countries should work to ensure acceptable prices for producers.

UN Secretary General Ban Ki-moon said it is close to an agreement on a ceasefire in the Gaza Strip.

A Russian Defense Ministry source said Russia sent two more warships to the waters off Somalia to join its anti-submarine vessel to battle pirates there. However Russia's navy said in a statement that the two warships left for the Indian Ocean but it said they would participate in joint exercises with the Indian navy and did not mention the anti-piracy mission.

**Refinery News**

Mexico was once again forced to shut an oil port along the Gulf of Mexico following a week of problems due to rough seas. The port of Dos Bocas was shut on Friday morning.

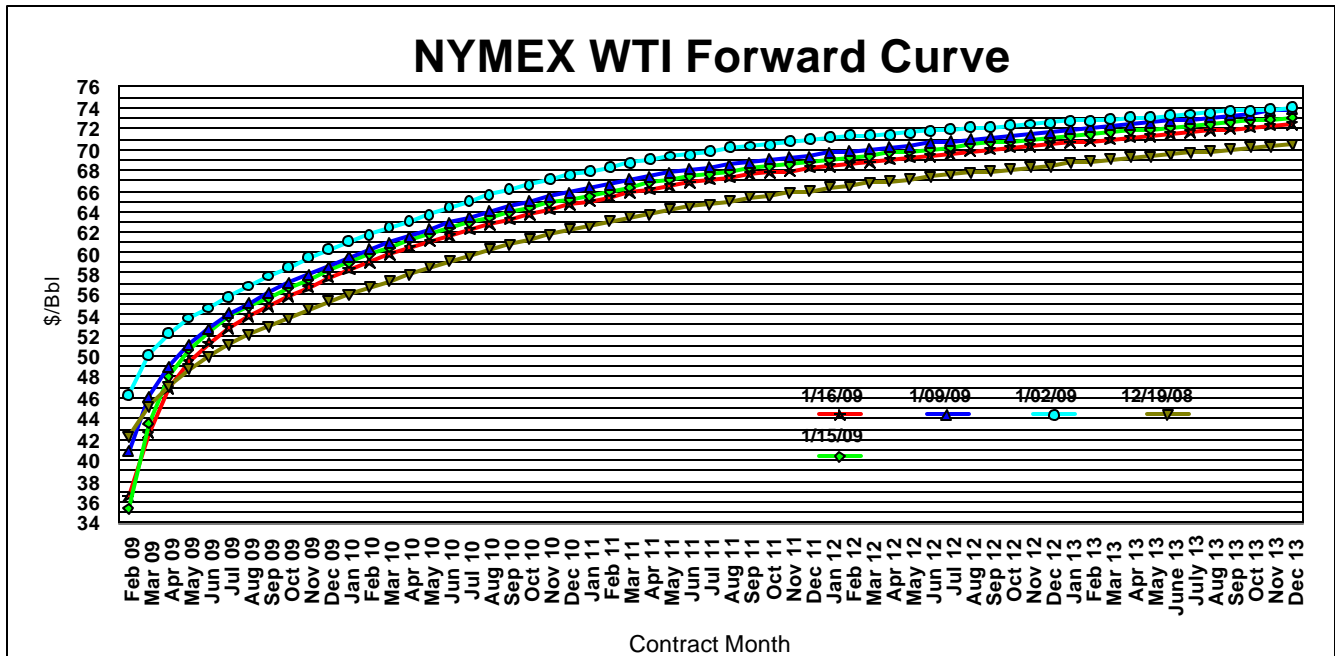
China's Sinopec Group said its crude throughput in 2008 was up 4.34% on the year. Last year's output of gasoline, diesel and kerosene increased by 9.03% on the year. Its refining capacity reached 190,000 tons/year or 3.8 million bpd.

Saudi Aramco is assessing offers into a semi-term tender to buy a monthly 35,000-40,000 tons of gas oil from March to December supplies.

**Production News**

The US Minerals Management Service proposed a five year oil and gas lease sale that would auction offshore drilling acreage in areas previously banned. It has proposed 31 Outer Continental lease sales. The move will put President elect Barack Obama in a tough political position of having to either allow the lease sales to proceed or more likely disallow much of the proposed acreage from development.

Venezuela's oil production fell by 64,000 bpd to 2.24 million bpd in December, according to the latest OPEC Monthly Oil Market Report.



Angola is set to export 1.5 million bpd of crude in March, down from 1.6 million bpd in February due to shipment delays and OPEC supply curbs. The expected export rate in March is lower than Angola's implied OPEC production target of 1.52 million bpd. It is expected to export 49 cargoes of oil in March. Separately, Angola's news agency Angop said the country's block 17 could increase its output capacity by 200,000 bpd by late 2011. The deep offshore block currently produces about 500,000 bpd.

Brazil's Petrobras said late Thursday it canceled tenders for the construction of the P-61 and P-63 production platforms as it considered the prices bid too high given current market conditions. Separately, Petrobras said it produced the equivalent of 2.4 million bpd of crude oil and natural gas in 2008, up 4.34% on the year. Its domestic crude oil production totaled 1.854 million bpd, up 3.5% on the year.

OPEC's news agency reported that OPEC's basket of crudes fell slightly to \$40.85/barrel on Thursday from \$41.31/barrel on Wednesday.

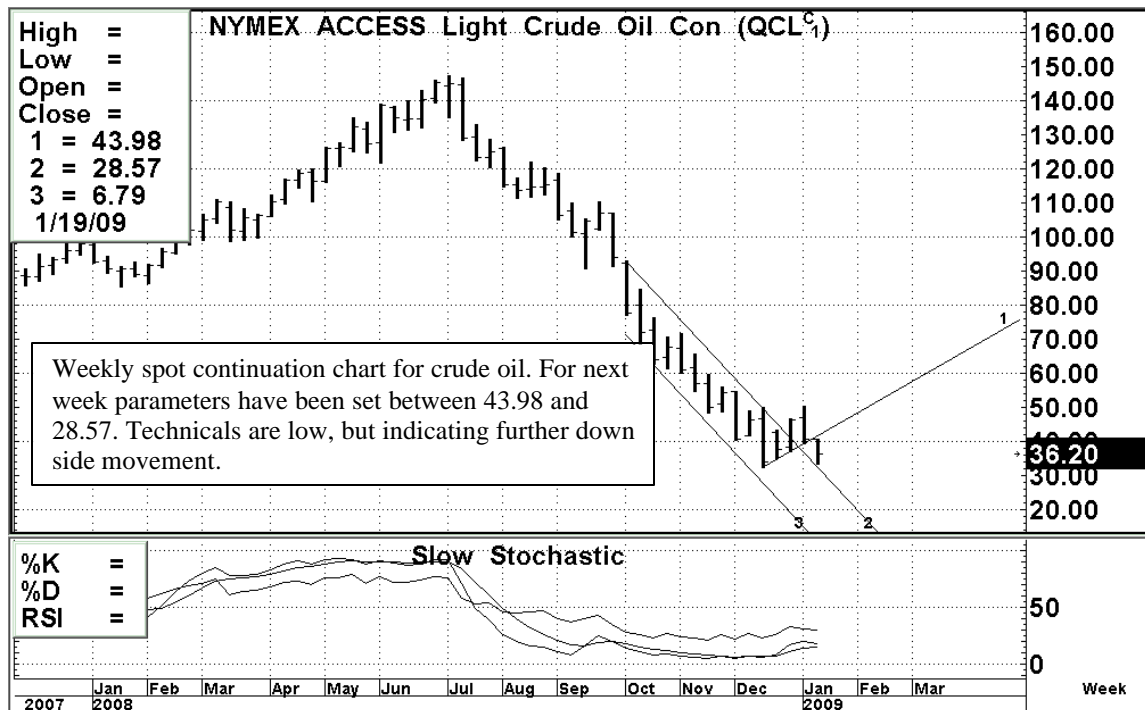
### **Market Commentary**

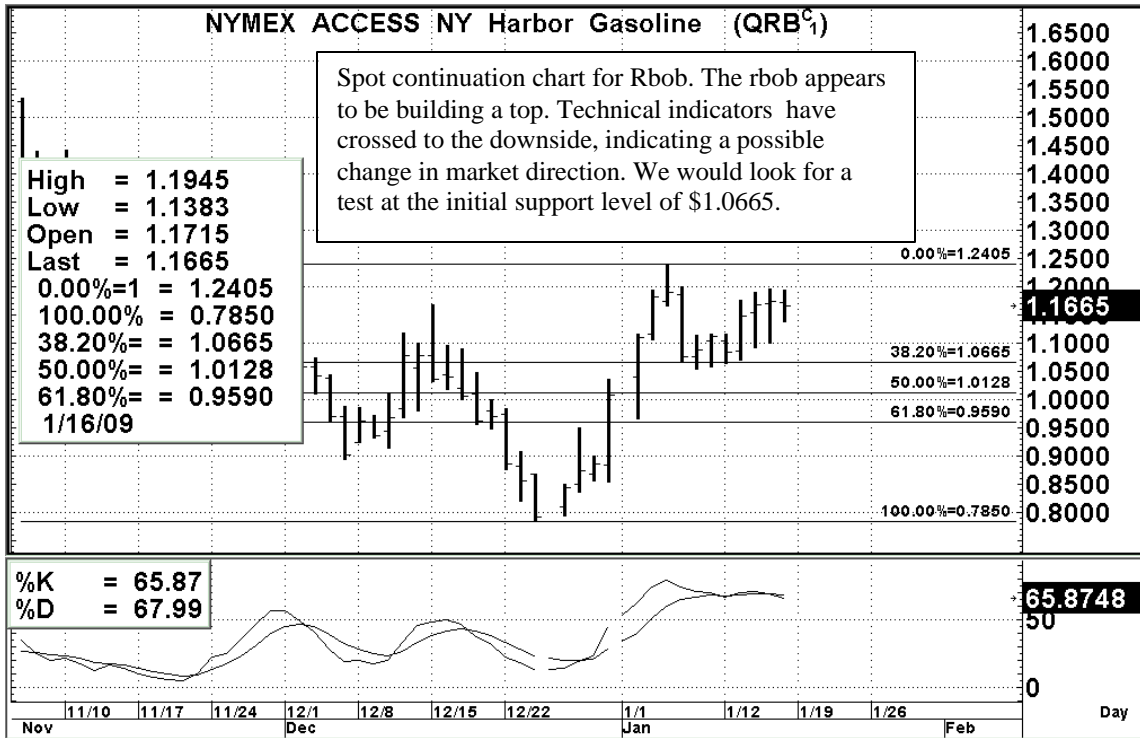
As the global economy falls further into a recession, demand for crude oil has been revised to reflect a decrease of one – million barrels per day. The IEA estimates that consumption will shrink 0.6 percent to 85.3 million barrels a day. If demand does fall, this will be the first time in two consecutive years since 1983. Despite OPEC's proposed cuts, this market continues to slide, indicating that further cuts will be necessary in order to make up for the shortfall in demand. Barring any major fundamentals next week, crude oil should continue to downslide, trading within the weekly range depicted on the chart below. This range is set at \$43.98 and \$28.57. The February/March spread although still weak, rebounded today. This may be a reflection of short rolling taking place down the curve. With the February contract expiring on Tuesday, March will become the spot month. We would look for this contract to come under pressure as new shorts enter the market. This may artificially inflate the February/March spread as seen in today's market activity. The February contract gained \$2.08 against the March contract in comparison to yesterday's close. Based on this, we would look for the March/April spread to weaken. The RBOB came under pressure today, dampened by the demand factor. Based upon the aforementioned fundamentals and the technical outlook, RBOB should continue to work lower. We had mentioned previously, that the RBOB/WTI crack spreads might start to

lose strength when the Ukraine/Russia situation dissipates, this situation still continues. With our belief that March crude oil will experience short selling as it turns spot month, the March RBOB/WTI crack spread may gain additional strength. We would look for tests up at \$9.05.

Open interest FEB.09 61,455 -18,146 MAR.09 382,302 +20,076 APR.09 93,297 -686 Totals: 1,264,597 -5,018 Heating oil FEB.09 32,507 -866 MAR.09 48,750 +3,045 APR.09 27,486 +495 Totals: 240,145 +6,643 NEW YORK HARBOR RBOB GASOLINE FEB.09 35,097 -3,604 MAR.09 66,359 +2,245 APR.09 24,614 +969 Totals: 198,434 + 369

The Commitment of Traders report showed that non-commercials in the oil market cut their net long position by 23,364 lots to 53,294 lots in the week ending January 13<sup>th</sup>. The combined futures and options report also showed that non-commercials cut their net long position by 19,990 lots to 117,444 lots. The report showed that non-commercials increased their total short position by 21,487 contracts to 119,321 contracts. Non-commercials have likely continued to cut their net long position amid the weakness seen in the market. The combined futures and options report showed that non-commercials in the heating oil market increased their net long position by 2,358 contracts to 10,183 contracts while non-commercials in the RBOB market cut their net short position by 1,116 contracts to 52,370 contracts on the week.





<b>Crude Support</b>	<b>Crude Resistance</b>
34.31, 33.75, 32.25, 29.66, 28.63, 26.65, 25.50	52.95, 53.75, 57.20
<b>Heat Support</b>	<b>Heat resistance</b>
1.3605, 1.2785, 1.1895	167.15, 171.85, 176.70, 1.8500
<b>Gasoline support</b>	<b>Gasoline resistance</b>
1.1275, 1.0668, 1.0128, 9590, .8978, .8755, 7850	1.2750, 136.14