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## ***ENERGY RISK MANAGEMENT***

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### **ENERGY MARKET REPORT FOR JANUARY 27, 2009**

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Kuwait's Oil Minister Sheikh Mohammad al-Salem al-Sabah said the country is seeking to stabilize the oil market and would support a further output cut if that would help. He said any further production cut should be linked to the world economic downturn and aimed at achieving stability in the market.

Late Monday, Venezuela's President Hugo Chavez said OPEC is ready to cut more crude production to defend oil prices. He said, "if we have to cut 4 million barrels more, we'll do it." He said they will not allow prices to fall to levels seen 10 years ago when oil was at \$6/barrel.

An official at the National Iranian Oil Co said Iran has fully adhered to crude oil production cuts agreed by OPEC and is no longer selling large amounts of oil on the spot market. He said Iran cut about 14% of full production. Iran has cut its production by 545,000 bpd in line with OPEC's decision.

Ecuador's Oil Minister Derlis Palacios said Petroecuador will start cutting output by 18,000

#### **Market Watch**

US President Barack Obama said his administration would adopt a more comprehensive approach in its ties with Muslims, in his first interview with Arab television since taking office. He said time was ripe for Israel and the Palestinians to resume peace negotiations and that America was prepared to extend a hand of peace to Iran if it "unclenched its fist."

Goldman Sachs said retail investors have started to invest in the oil market via exchange-traded funds(ETFs). Investor position or length in the oil market has increased towards levels seen last summer, when prices were headed towards a peak of more than \$147/barrel. Goldman Sachs estimates the number of oil barrels owned by investors is only down 13% since the oil market peaked in July. It estimates index investors own 837 million barrels of oil compared with 1.032 million barrels when oil prices peaked. It said inflows into ETFs had contributed to the oil market's rally this month. However it does not believe oil's bear market is over yet, noting a counter-seasonal stock build in the US and weak demand from China.

Royal Dutch Shell released a second cargo of North Sea Forties crude from its floating storage stock on Tuesday. It sold one 600,000 barrel cargo of Forties crude loading February 6-14 to Vitol Holdings from its floating vessel at Scapa Flow at a discount of \$1.95/barrel to March Brent. On Monday, it sold a similar cargo loading February 14-16 to Vitol at a discount of 25 cents to Dated Brent. Combined with 1 million barrels of Forties crude sold by Phibro LLC, it brings the total volume recently arranged to be released from floating storage inventory to 2.2 million barrels. Traders estimate that 15 million to 19 million barrels of Forties crude is being stored afloat out of a total of up to 80 million barrels stored in floating storage. Analysts said Shell's move will likely be followed by other traders and would probably continue until the contango begins to widen again.

The head of the Nigerian National Petroleum Corp, Mohammed Sanusi Barkindo said the fall in oil prices and the world economic crisis threaten the growth of West Africa's deep offshore oil sector.

bpd this week to comply with OPEC's decision to cut production. Ecuador has to cut its production by 40,000 bpd to comply with the cartel's supply reduction.

**API Stocks**

**Crude** – up 800,000 barrels  
**Distillate** – down 345,000 barrels  
**Gasoline** – up 942,000 barrels  
**Refinery runs** – down 0.5%, at 82.4%

The Center for Global Energy Studies said OPEC has already cut oil supply enough to stabilize crude prices around \$45/barrel. It warned that OPEC's attempts to push prices above \$75/barrel may be thwarted by the weakness of the world economy. A further output cut of 2 million bpd would support oil prices in the short term. It said Saudi Arabia could cope with lower oil prices and that the

\$75/barrel target could reflect the level needed by other OPEC members. It estimates that OPEC members bound by the quota, excluding Iraq, produced 27.552 million bpd, 2.7 million bpd more than the 24.845 million bpd target which came into effect at the beginning of January.

Nigeria's Pengassan and Nupeng oil workers' union shelved their planned strike over the country's new gasoline pricing and worsening security problems in the Niger Delta, among other issues. Last week, the Petroleum Products Price Regulatory Agency or PPPRA, reduced the pump price of gasoline to 65 naira/liter, down from 70 naira for January due to the sharp decline in world oil prices. Nupeng President Peter Akpatasan said his union and the Pengassan leadership met with Labor Minister Adetokunbo Kayode to settle their differences with the government.

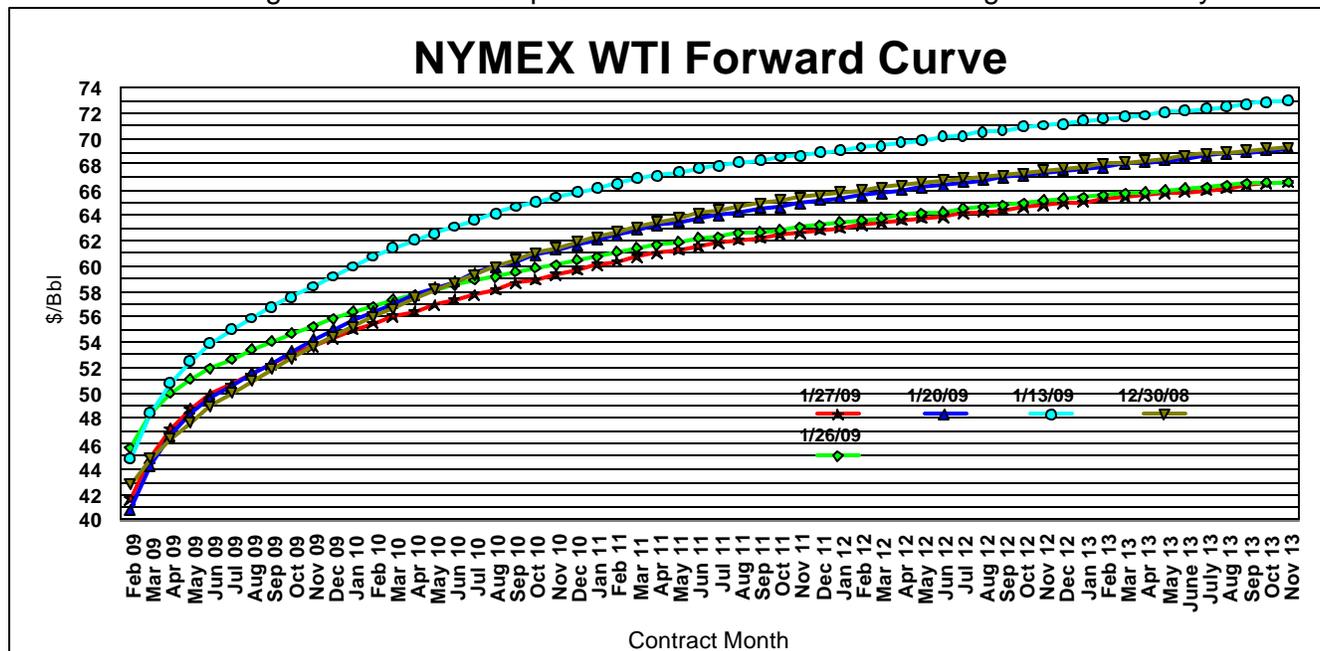
**January Calendar Averages**

**CL** – \$41.95  
**HO** – \$1.4709  
**RB** – \$1.1368

**Refinery News**

Colonial Pipeline imposed the 21<sup>st</sup> consecutive restriction of distillate product shipments to the Northeast by extending the Capacity Allocation Program to 8<sup>th</sup> cycle shipments through its distillate mainline, Line 2, between Collins, Mississippi and Greensboro, NC as nominations exceed the company's ability to maintain its five day lifting cycle.

The US Coast Guard said ship traffic resumed through the northern portion of the Houston Ship Channel on Tuesday morning after dense fog dissipated. Twelve ships forced to wait in the Gulf of Mexico before sailing to the Houston Ship Channel were able to move through the channel by noon.



Valero Energy Corp has maintained run cuts on gasoline producing units across its refining system due to lower demand and profit margins. It is operating its gasoline producing units at 70%-75% of their operating capacity, continuing the cuts implemented starting in late 2008. Meanwhile, Valero Energy reported that it plans to shut units at four of its plants for work during the first quarter. It plans to shut a 93,000 bpd heavy oil cracker at its Corpus Christi, Texas refinery for 30 days starting in January. It plans to conduct work on the crude unit and coker unit at its Texas City, Texas refinery also starting in January. The entire Texas City refinery will be shut during the work. In February, Valero will perform 14 days of maintenance on a 37,000 bpd hydrocracker unit at its Benicia, California refinery. At the end of the quarter, Valero will shut a 27,000 bpd coking unit at its Paulsboro, NJ refinery. Valero also stated that it delayed several refinery projects due to weak refining returns. It has delayed the upgrading project at its St. Charles refinery in Norco, Louisiana to the fourth quarter of 2012 and has reduced the scale of a chemicals production project there. It has also delayed until 2012 a project to upgrade a fluid catalytic cracking unit at its Memphis, Tennessee refinery, which was originally scheduled for completion in 2009.

US capacity to make ethanol has declined about 5% since late October to about 10.6 billion gallons/year as several plants out of more than 170 have been shut due to lower demand and weak profit margins. As of Tuesday, there are a total of 175 distilleries, down from 181 in late October. Separately, US 2009 ethanol credit prices have increased 28% since last week amid concern over supply following plant closings. Prices for 2008 Renewable Information Numbers or RINs, which expire in 2010, reached 15 to 15.5 cents, while 2009 RINs, which expire in 2011, reached 15.75 to 17.5 cents. The price has risen as some players are buying the credits instead of actually blending the alternative gasoline into gasoline.

Japan's Nansei Sekiyu KK said it will close its 100,000 bpd Nishihara refinery around mid-May for one or two weeks of regular maintenance.

China Petroleum and Chemical Association reported that the country's oil product consumption increased by 11.9% in 2008 to 215 million tons. China consumed 365 million tons of crude oil last year, up 5.8% on the year.

Official data showed that India's domestic oil product sales in December increased by 4.4% on the year to 11.6 million tons, mostly due to a 31.8% increase in naphtha demand. Domestic diesel sales increased 1.5% on the year to 4.43 million tons. It also showed that crude imports fell by 39.9% on the year to 6.85 million tons amid refinery maintenance shutdowns. Product imports fell by 21.4% on the month to 1.6 million tons.

### **Production News**

Nigeria's Akpo oilfield, operated by Total, is due to begin producing in April with output expected to increase to 175,000 bpd by the end of the year. The field has a plateau output of 225,000 bpd of oil equivalent. Nigeria is hoping its new offshore oilfields will help increase its production as funding shortfalls and insecurity in the Niger Delta limit output from onshore and shallow water ventures. Chevron's Agbami deep offshore field began production in July and is expected to produce about 250,000 bpd by the end of the year.

Nigeria's crude oil exports are expected to increase slightly to about 1.7 million bpd in March from 1.66 million bpd in February. The lower shipment schedule is another sign that OPEC is following through on its agreement to cut production. About 129,000 bpd of light, sweet Brass River crude is expected to load in March, down by 65,000 bpd from December due to delays in production. Nigeria's Bonny Light crude stream is expected to load three cargoes in March, unchanged on the month while Qua Iboe is expected to load nine cargoes or 275,000 bpd, unchanged on the month. Meanwhile, Angola is set to

export 1.5 million bpd in March, down from 1.6 million bpd in February due to shipment delays and OPEC supply cuts.

Oil and gas producers around Australia's northwest coast have shutdown operations due to cyclone threats, shutting in about 218,000 bpd of oil production, nearly half of the country's total production. BHP Billiton Ltd shut production at its 53,000 bpd Stybarrow oilfield and its 8,000 bpd Griffin oilfield due to a cyclone on Monday. Woodside Petroleum Ltd shut its 52,000 bpd Cossack Pioneer oilfield, its 42,000 bpd Enfield oilfield and its 36,000 bpd Vincent oilfield and its Angel gas platform over the weekend. Apache Energy Ltd also shut its 8,000 bpd Stag oilfield and its 5,200 bpd Legendre oilfield since Sunday due to a cyclone. Santos shut in its 14,000 bpd Mutineer-Exeter oilfield. Several of the operators stated that they hope to resume operations on Wednesday as the storm passes.

Russia's Black Sea port of Novorossiisk reopened on Tuesday after it was closed on Friday due to bad weather conditions. There is a backlog of about 15 vessels waiting to load at the port.

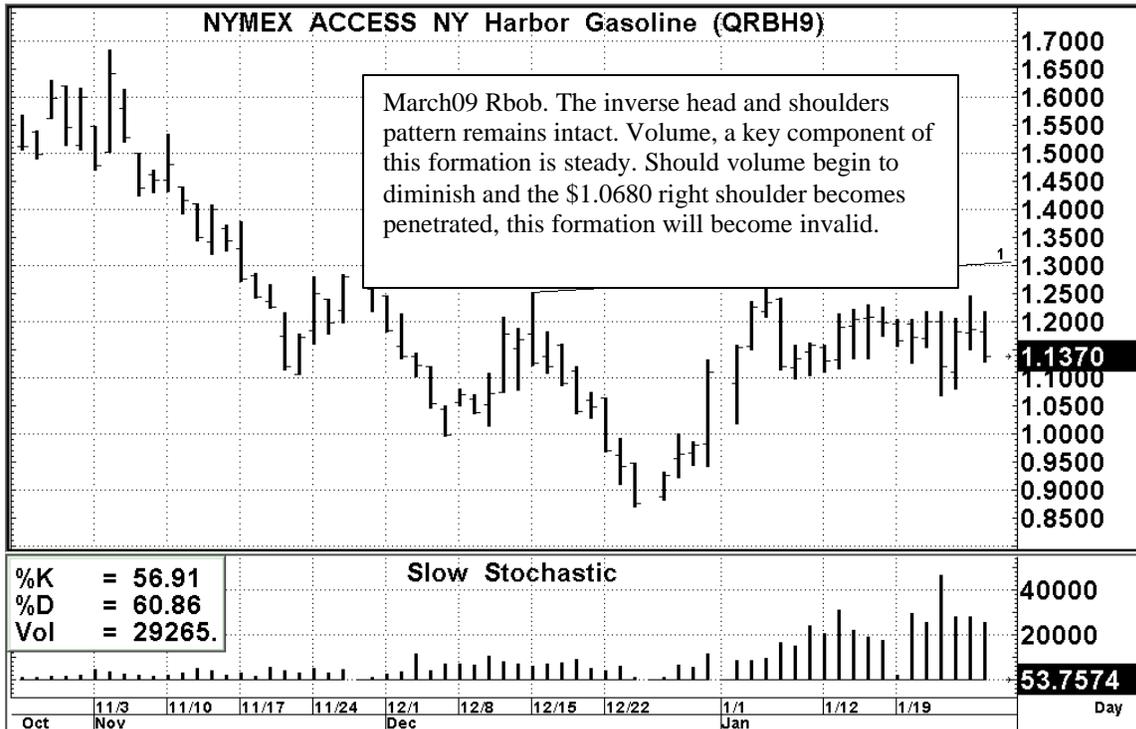
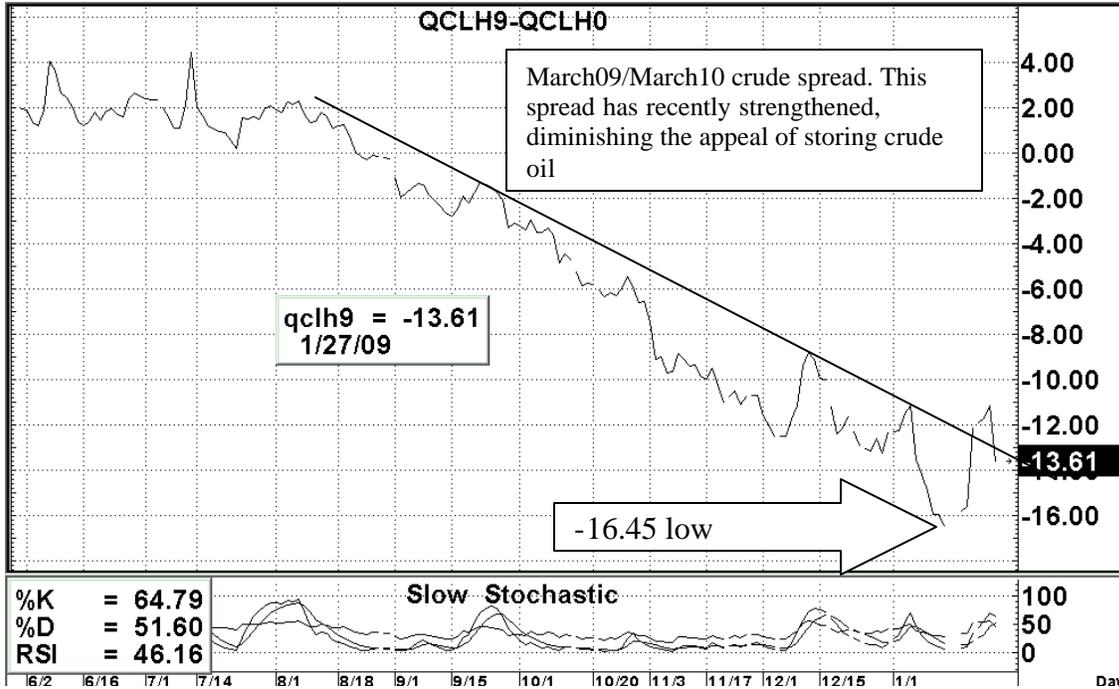
OPEC's news agency reported that OPEC's basket of crudes increased to \$42.53/barrel on Monday, up from Friday's \$40.91/barrel.

### **Market Commentary**

With news of movement in floating storage of crude oil, prices tumbled today. Both Royal Dutch Shell, PLC and Citigroup Inc's Phibro, LLC sold off oil that had been in storage. Both tankers that have been loaded with approximately 1.6 million barrels of crude oil are heading towards the U.S. Gulf Coast. The price of delivering crude oil twelve months out had become less appealing as the contango for that spread narrowed from \$-17.00 to just under \$-11.00. As the contango decreases and freight costs rise, the incentive to store crude on tankers becomes less desirable. This will put more crude oil into the open market. Prices continue to react to the economy, which today in the U.S. indicated that the recession continues to take a bite out of consumer confidence. Home values declined further deepening economic woes. Moving oscillators for crude oil continue to trend in neutral territory but appear to be getting ready to cross to the downside. Percent K has turned lower, with percent D reaching higher. Should they cross and percent K cross below percent D, this will signal additional downside potential. We await tomorrow's DOE inventory release to help get a clearer picture of this market. Should inventories build, this will be the 16<sup>th</sup> build in 18 weeks. Demand again will be the key factor.

Tonight's API report did little to move the market as it reported a build of just 800,000 barrels in crude stocks. It reported a build of 1.643 million barrels in Padd 2 alone. It reported the build in stocks as imports increased by 31,000 bpd on the week to 10.162 million bpd while crude runs fell by 72,000 bpd to 14.031 million bpd. The API also reported that distillate stocks fell by 345,000 barrels on the week, leaving stocks up 7.4% on the year. It reported the draw as production fell by 158,000 bpd or 3.6% to 4.228 million bpd on the week. However it reported that apparent demand fell by 1.7% on the week to 4.687 million bpd while apparent demand basis its three week moving average increased by 2.1% to 4.743 million bpd. It reported that gasoline stocks built by 942,000 barrels on the week, with a build of 1.512 million barrels in Padd 2. It showed the build in stocks as apparent demand fell by 1.6% on the week to 9.048 million bpd while apparent demand basis its three week moving average increased by 0.2% to 8.943 million bpd.

Open interest MAR.09 360,026 -17,666 APR.09 115,813 +4,309 MAY.09 64,662 +3,678 Totals: 1,233,186 -6,453 Heating oil FEB.09 21,324 -2,094 MAR.09 58,256 -685 APR.09 29,291 +145 Totals: 249,626 -1,371 NEW YORK HARBOR RBOB GASOLINE FEB.09 16,784 -5,874 MAR.09 69,436 +1,242 APR.09 27,962 +643 Totals: 188,767 -3,694.



<b>Crude Support</b>	<b>Crude Resistance</b>
41.40, 40.37, 39.11, 32.25, 29.66, 28.63, 26.65, 25.50	48.77, 50.07, 54.75, 55.98, 57.20
<b>Heat Support</b>	<b>Heat resistance</b>
1.3159, 1.3039, 1.2785, 1.1895	167.15, 171.85, 176.70, 1.8500
<b>Gasoline support</b>	<b>Gasoline resistance</b>
1.0988, 1.0680, 1.0128, 9590, .8978, .8755, 7850	1.2170, 1.2298, 1.2750, 136.14