



## ***ENERGY RISK MANAGEMENT***

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### **ENERGY MARKET REPORT FOR FEBRUARY 13, 2009**

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OPEC stated in its latest Monthly Oil Market Report that world oil demand will contract more than expected in 2009 due to the economic crisis. It said world oil demand will fall by 580,000 bpd in 2009 to an average of 85.13 million bpd. It previously forecasted a decline in demand of 180,000 bpd. OPEC's estimate of falling demand is less severe than that of the IEA, which estimates demand will fall by 980,000 bpd. The prediction that demand will fall could increase calls within OPEC for more supply cuts. It said demand for OPEC's oil will fall in 2009 by 1.7 million bpd on the year to 29.22 million bpd. It is up from its previous forecast of 1.4 million bpd. OPEC also stated that days of forward supply in OECD countries have remained at historically high levels of 57 days. It reported that total OPEC production fell by 959,200 bpd to 28.71 million bpd. The 11 OPEC members

#### **Market Watch**

The House of Representatives voted on Friday to approve the \$787 billion economic stimulus bill. The House vote was 246-183, with one Democratic member voting present. The measure is a compromise between House and Senate bills. The Senate is expected to vote on the bill on Friday evening. The bill contains provisions calling for executives at all financial firms receiving TARP funds to face compensation limits. The bill includes a package of tax cuts worth \$287 billion, spending some \$27 billion to modernizing roads and bridges and \$87 billion in outlays over the next two years to help states provide Medicaid coverage. The bill will also direct \$40 billion in clean energy and efficiency programs. Separately, President Barack Obama will outline his plan to stem foreclosures on Wednesday.

The Philadelphia Federal Reserve said the US economy will contract 5.2% in the first quarter, its worst performance since 1982. In its previous survey, economists estimated an annualized decline of just 1.1% in the first quarter of US GDP.

The Reuters/University of Michigan Surveys of Consumers said its index reading of confidence for February fell to 56.2 from 61.2 in January. It fell to the lowest level in three months. It reported that one year inflation expectations fell to 1.6% from January's 2.2%. However the five year inflation estimate increased to 3% from January's estimate of 2.9%.

Vitol Holding has booked another VLCC for storage of North Sea Forties crude. The period for storage is likely to be 90 days. The VLCC, Hero 1, will transfer oil from another VLCC, Olivia. It remains unclear if Vitol will book a third VLCC for cargoes it recently bought from BP Plc. About eight VLCCs are now being used for Forties storage.

Total's chief executive Christophe de Margerie said the oil price collapse has weakened the industry's capacity to increase output and future production may top out at a lower level than earlier expected. He said world oil output may reach a plateau below 90 million bpd in the years ahead, less than previously expected.

Crude oil freight rates increased largely due to pent up demand. However brokers said it was only a short term increase. They also said potential cuts in OPEC production will pressure freight rates.

Barclays Capital said gold will soon push assets under management in Exchange-Traded Products above those in commodity indices for the first time. Global assets in commodity ETPs totaled about \$52 billion at the end of January while assets in commodity indices were at \$56 billion.

**February Calendar Averages****CL – \$38.71****HO –\$1.3314****RB – \$1.2286**

bound by quotas, excluding Iraq, produced 26.33 million bpd in January, still above its 24.85 million bpd quota. Saudi Arabia's oil production fell by 322,500 bpd to 7.99 million bpd in January.

Uncertainty about how far world fuel demand and oil prices will fall has made it harder for OPEC to agree on how to balance their production policy against the divergent needs of their individual budgets. OPEC's Secretary General Abdullah al-Badri said the oil market's collapse has cut OPEC earnings by \$356 billion in six months and they could fall by further 50% this year. Many members, such as Kuwait, Nigeria, Angola, Ecuador and Iran have cut their domestic spending in lock step with production. Venezuela's President Hugo Chavez's spending plans require oil prices of about \$100/barrel while Iran needs oil prices of about \$90/barrel, in part because of its presidential election this year. Meanwhile, analysts believe Saudi Arabia needs a price of about \$50/barrel to avoid deepening its foreign debt. Saudi Arabia has projected a deficit of \$17.3 billion in 2009. Other OPEC members, either because they do not have pressing financial requirements or because they believe it would be better to pump as much as possible to maximize revenue, are content to let Saudi Arabia cut its production.

The head of the IEA, Nobuo Tanaka said world petroleum supplies will further tighten and push prices higher if OPEC decides to cut oil production once again at its March meeting. He said he is concerned that OPEC members are cutting back on new oil production projects, in response to lower crude prices, which could make it difficult to meet future world oil demand.

**Refinery News**

Sunoco Inc is in talks with union workers at its refineries in Philadelphia and Marcus Hook, Pennsylvania ahead of contract expiration on March 1. Sunoco did not agree to terms other refiners recently agreed on with the United Steel Workers Union. Local union officials said they represent 500 workers at the 178,000 bpd Marcus Hook refinery and that differences centered on pay, pension and benefit issues.

ExxonMobil shut part of its Port Jerome refinery in northwestern France on February 11 for planned maintenance.

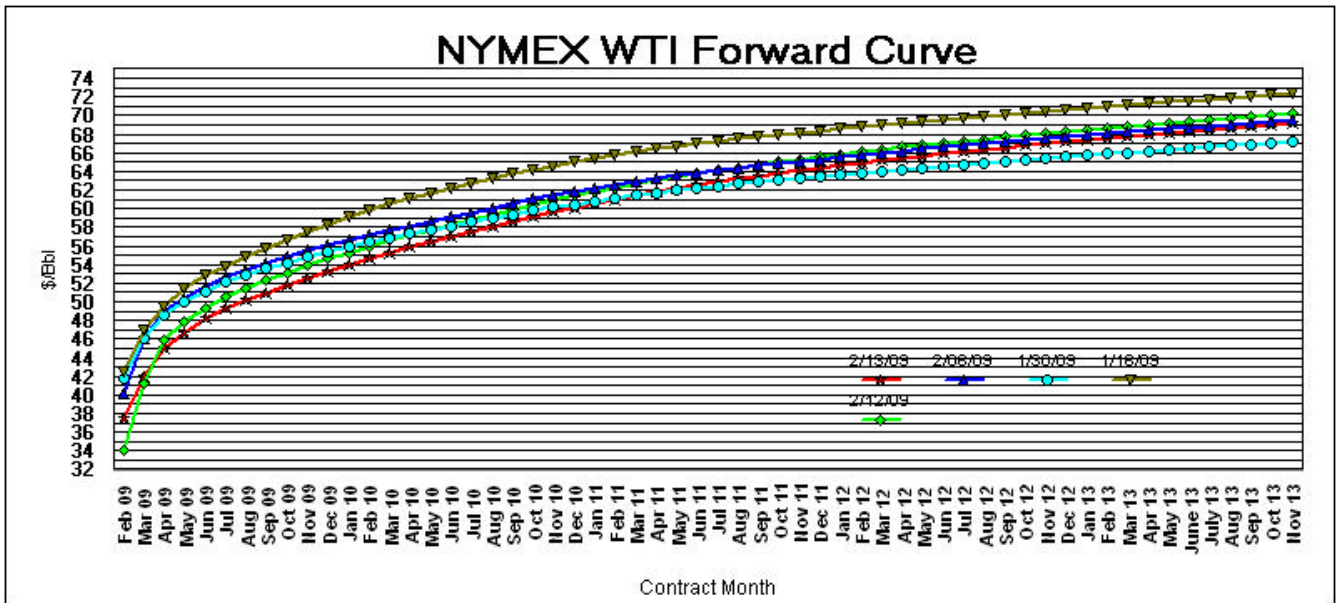
Total will start planned maintenance at its 200,000 bpd Lindsey refinery in the UK in two to three weeks. The maintenance is expected to last for about two months. Total said supplies of finished products from the refinery will not be affected.

Indonesia's Pertamina, which shut its 83,000 bpd residue fluid catalytic cracking unit at its Balongan refinery due to an outage on Thursday, resumed normal operations on Friday.

Taiwan's CPC Corp has delayed its routine maintenance at a 30,000 bpd reformer unit at Talin to late February from February 11. The unit is expected to remain shut for 100 days.

Pemex plans to repair a diesel hydrodesulfurizer at its 200,000 bpd Salamanca refinery starting March 23. The work is expected to last 88 days. In March, Pemex also plans to shut a crude unit and a catalytic cracking unit at the Salina Cruz refinery.

Saudi Arabia is expected to import 2.3 million tons of diesel this year, up from 1.68 million tons last year amid high power and transport demand. Saudi Arabia signed an agreement to buy 7.4 million barrels of gas oil from India's Reliance Industries for 2009. Last week it also agreed to buy 3 million barrels of gas oil for delivery from March to December from Japan's Itochu, bringing total term volumes to 10.4 million barrels or 1.4 million tons.



Glencore won Azerbaijan's Socar's tender for 1 million barrels of Azeri Light crude oil loading in March at the Turkish port of Ceyhan. The shipment will load on March 8-10. Socar also announced a new tender for 600,000 barrels of Azeri light to be loaded on March 13-14 at the Georgian port of Supsa.

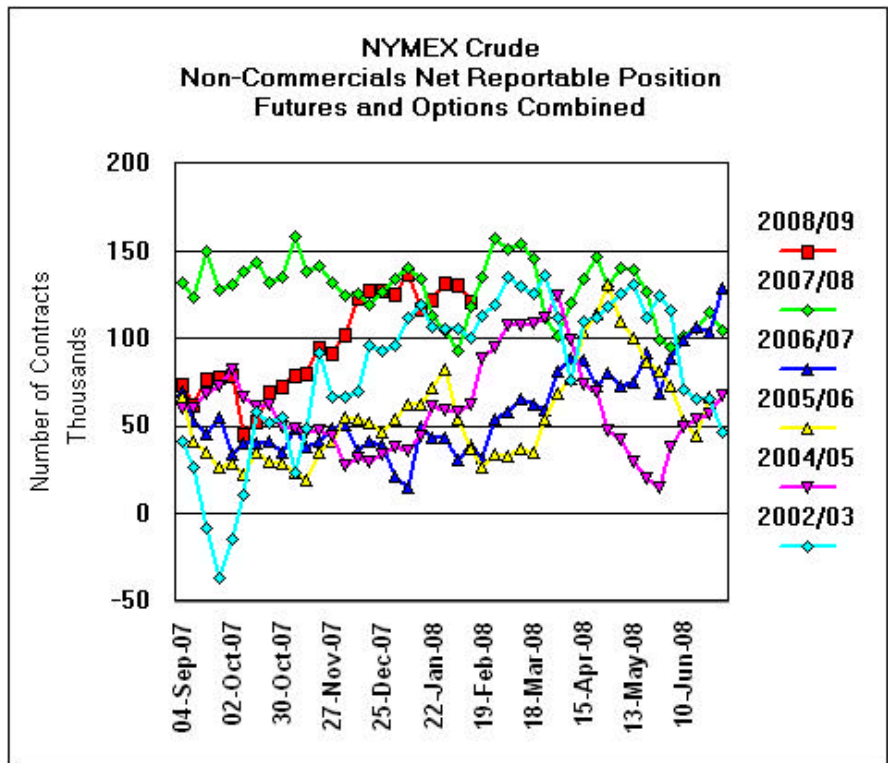
Russia's Baltic oil exports port of St Petersburg will cut its refined products shipments in February due to poor market conditions. Its total refined product shipments are estimated at 800,000 tons, down from 910,000 tons in January. It is expected to load 500,000 tons of fuel oil and 300,000 of diesel in February.

South Korea's s-Oil Corp is offering at least 3.24 million barrels of 92-octane gasoline for April 2009-March 2010 lifting, a steady volume to its existing contract.

Thermal power consumption at Japan's Tokyo Electric Power Co fell in January on the year as a higher monthly nuclear operations and weakening energy demand cut fossil fuel demand. The use of fuel oil, crude oil, liquefied natural gas and coal fell below the previous year's level. Its fuel oil demand in January fell by 341,000 kiloliters on the year to 421,000 kl, its crude oil demand fell by 197,000 kl to 195,000 kl, its LNG demand fell by 123,000 kl to 1.6 million kl and its coal demand fell by 79,000 kl to 289,000 kl.

**Production News**

Kuwait has notified at least three of its customers in Asia that it will cut its term crude supplies by 5%



in March, unchanged on the month. Saudi Arabia previously announced that its supplies in March will be relatively unchanged on the month.

Baker Hughes reported that in the week ending February 13<sup>th</sup>, the total rig count in the US fell by 60 to 1,339. It is down 434 from the 1,773 rigs reported last year. It reported that about 1,054 rigs were searching for natural gas, down 46 on the week while 273 were searching for oil, down 10 on the week.

Devon said about 3% of its oil and natural gas production was cut after a fire and explosion at a third party pipeline near a DCP Midstream gas processing plant in Carthage, Texas on Wednesday. About 80 million cubic feet/day of natural gas production and 7,900 bpd of oil have been shut in. DCP Midstream's East Texas Complex was undamaged after a pipeline ruptured near the facility on Wednesday. The East Texas complex and adjoining Carthage hub remain shut in.

Italy's Eni SpA expects hydrocarbon output at above 2 million bpd in 2012 with oil at \$55/barrel. It expects output of more than 1.8 million bpd in 2009 with oil at \$43/barrel, with an average annual output increase of 3.5% to 2012.

OPEC's news agency reported that OPEC's basket of crudes fell further to \$41.79/barrel on Thursday from \$42.30/barrel on Wednesday.

### **Market Commentary**

Unlike the rest of the energy complex and for that matter the rest of the crude curve, the March crude contract settled sharply higher on Friday, as it bounced off Thursday's near five-year low settlement. The market posted a low of \$33.81 in overnight trading and never looked back. It retraced its previous losses and extended its gains to over \$4.20 as it rallied to a high of \$38.25 in afternoon trading. The March crude contract settled up \$3.53 at \$37.51. The crude market is seen finding support at \$36.00, \$33.81, \$33.55 followed by \$32.25. Similar to last month's move, the March/April spread came in from -\$8.19 to -\$4.46 as the rolls of index-linked funds ended and the spot month crude contract bounced back. The spread is seen targeting the -\$3.59 and -\$3.26 levels followed by -\$2.75 ahead of the March contract's expiration next Friday, February 20<sup>th</sup>. Meanwhile, the product markets ended sharply lower amid profit taking ahead of the weekend. The RBOB market, which traded back within its trading channel and held its resistance on Thursday, continued to retrace its previous gains. The market posted a high of \$1.2625 and sold off to a low of \$1.1403 early in the session. It settled down 5.2 cents at \$1.2063. The RBOB crack spread fell from \$18.87 to \$13.15 as the crude market rallied sharply higher. It is seen finding support at \$8.71, basis a trendline. The heating oil market also settled down 2.18 cents at \$1.30 as it breached its recent support at \$1.2967 and sold off to a low of \$1.288 in afternoon trading. The market is seen finding support at \$1.288, \$1.2785, \$1.2533 and \$1.2396 while resistance is seen at \$1.334, \$1.342, \$1.4084 and \$1.4232.

The Commitment of Traders report showed that non-commercials in the crude market cut their net long position by 12,698 contracts to 16,578 contracts in the week ending February 10<sup>th</sup>. It showed that non-commercials increased their total short position by 17,537 lots to 222,985 lots on the week. The combined futures and options report showed that non-commercials cut their net short position by 10,375 contracts to 120,960 contracts on the week. It also showed that the funds increased their total short position by 14,182 contracts to 136,887 contracts. Given the crude market's move in the last few days, the funds have likely continued to add to their net short position. Meanwhile, non-commercials in the product markets increased their net long positions. The combined futures and options report showed that non-commercials in the heating oil market increased their net long position by 1,865 contracts to 11,255 contracts while non-commercials in the RBOB market increased their net long position by 2,383 contracts to 46,599 contracts on the week.

Crude Oil (CL) MAR.09 154,732 -15,254 APR.09 295,589 +35,672 MAY.09 128,535 +12,191 Totals: 1,281,289 +39,227 Heating oil MAR.09 38,065 -5,523 APR.09 47,879 +1,833 MAY.09 32,360 +541 Totals: 249,949 -606 NEW YORK HARBOR RBOB GASOLINE MAR.09 35,576 -4,370 APR.09 54,174 +2,062 MAY.09 26,377 +1,504 Totals: 188,393 -708.

<b>Crude Support</b>	<b>Crude Resistance</b>
36.00, 33.81, 33.55, 32.25, 31.20, 29.66, 28.63, 26.65, 25.50	38.25, 38.47, 41.80, 42.68, 43.60, 48.77
<b>Heat Support</b>	<b>Heat Resistance</b>
1.288, 1.2785, 1.2533, 1.2396, 1.1895	1.334, 1.342, 1.4084, 1.4232, 1.44, 1.4813, 167.15, 171.85
<b>Gasoline Support</b>	<b>Gasoline Resistance</b>
1.1825, 1.1403, 1.0988, 1.0680, 1.0128	1.2305, 1.2625, 1.3055, 1.3106, 1.3373, 136.14, 1.3775, 1.4100, 1.4400