



## ENERGY RISK MANAGEMENT

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### ENERGY MARKET REPORT FOR FEBRUARY 18, 2009

Nigeria's Oil Minister Odein Ajumogobia said the oil market remains oversupplied despite deep OPEC output cuts since September as the world economic crisis erodes demand. He said it was unclear if OPEC needs to cut more output at its March meeting or demand stricter compliance from its members with output cuts already agreed to.

Venezuela's Oil Minister said OPEC wants oil prices to increase to \$70/barrel and added that

Venezuela would support a new supply cut by the group, if necessary.

#### Market Watch

The US Oil Fund LP is extending the period during which it rolls its position in NYMEX crude oil futures over a four day period starting in March instead of its current one day roll period. The rolls will take place two weeks prior to the expiration of the front month contract. USO's roll will now overlap with other exchange traded funds, including the S&P Goldman Sachs Commodities Index. During the February roll, the fund sold over 85,000 oil futures contracts for March delivery on one day and purchased nearly 78,000 April contracts. The US Oil Fund has grown rapidly, recently accounting for about 22% of all outstanding front month contracts.

President Barack Obama unveiled plans to help families restructure or refinance their mortgages. He warned that the housing crisis could reach far beyond troubled homeowners if unaddressed. The plan is a \$75 billion homeowner stability initiative designed to reach 34 million at risk homeowners, refinancing for up to 4-5 million responsible homeowners and new capital for Fannie Mae and Freddie Mac. Homeowners whose traditional mortgages are underwater will be eligible for refinanced loans while homeowners with subprime mortgages will be able to modify their loans. Under the plan, the federal government will cover half the losses incurred by lenders that work with borrowers to reduce their monthly payments.

The Federal Open Market Committee expects US GDP to contract up to 1.3% in 2009, a larger drop than it forecast in October. It projects the economy will fall anywhere from 0.5% to 1.3% in 2009. The contraction in the FOMC's latest forecast would be followed by GDP growth of 2.5% to 3.3% in 2010 and growth of 3.8% to 5% in 2011. It expects unemployment this year to increase as high as 8.8%, up from its previous projection of 7.1% to 7.6%.

#### API Stocks

**Crude** – up 1.576 million barrels  
**Distillate** – down 875,000 barrels  
**Gasoline** – up 1.645million barrels  
**Refinery runs** – up 0.3%, at 82.2%

Russia's President Dmitry Medvedev said Russia needs to strengthen its cooperation with OPEC and the group of top gas exporters.

US Energy Secretary Steven Chu said he would not weigh in on whether OPEC should cut production when it meets on March 15. Separately, he stated that the US Energy

Department will begin cutting checks by the end of April or the beginning of May in connection with renewable energy loan guarantees.

**February Calendar Averages**

**CL – \$38.05**

**HO –\$1.3039**

**RB – \$1.2052**

Nigerian security forces repelled an attack by gunmen on an ExxonMobil housing compound. About 20 militants used five speedboats to raid the compound at Eket in the Niger Delta before security forces repelled them.

The EIA reported that US oil imports fell by 3.1% or 310,000 bpd to a five year low of 9.721 million bpd in 2008. Crude imports in December fell by 8.2% on the year to 9.031 million bpd. Canada was the top supplier of crude imports in December for the 34<sup>th</sup> consecutive month, with a total of 1.994 million bpd. Saudi Arabia maintained its role as the second largest crude source, with a total of 1.37 million bpd. Mexico, Venezuela and Nigeria, the third through fifth largest crude sources, with 1.104 million bpd, 1.006 million bpd and 840,000 bpd, respectively.

The API reported that US demand for crude oil and petroleum products fell by 3.1% in January from a year earlier to 19.488 million bpd. Gasoline demand in January increased by 146,000 bpd or 1.7% on the year to 8.96 million bpd while distillate demand fell by 148,000 bpd or 3.5% to 4.061 million bpd. On the supply side, US crude oil production increased by 1.4% to 5.137 million bpd. Crude oil and petroleum product imports averaged 12.935 million bpd, down 4.1% on the year and the lowest January level since 2005. Total imports in January accounted for 66.4% of US oil demand, down from 67.1% a year earlier.

### **Refinery News**

Colonial Pipeline Co imposed the twenty-fifth consecutive restriction on distillate product shipments to the Northeast on Wednesday. It is allocating shipments on the 12<sup>th</sup> cycle through its distillate mainline, Line 2, between Collins, Mississippi and Greensboro, North Carolina as nominations exceed Colonial's ability to maintain its five day lifting cycle.

ConocoPhillips shut a 145,000 bpd fluid catalytic cracking unit at its 238,000 bpd Bayway refinery in Linden, New Jersey. Work on the unit is part of a 30-40 day planned maintenance period at the refinery.

ExxonMobil Corp said the hydrocracker unit at its 562,000 bpd Baytown, Texas refinery is still in turnaround, which is expected to last through the end of February.

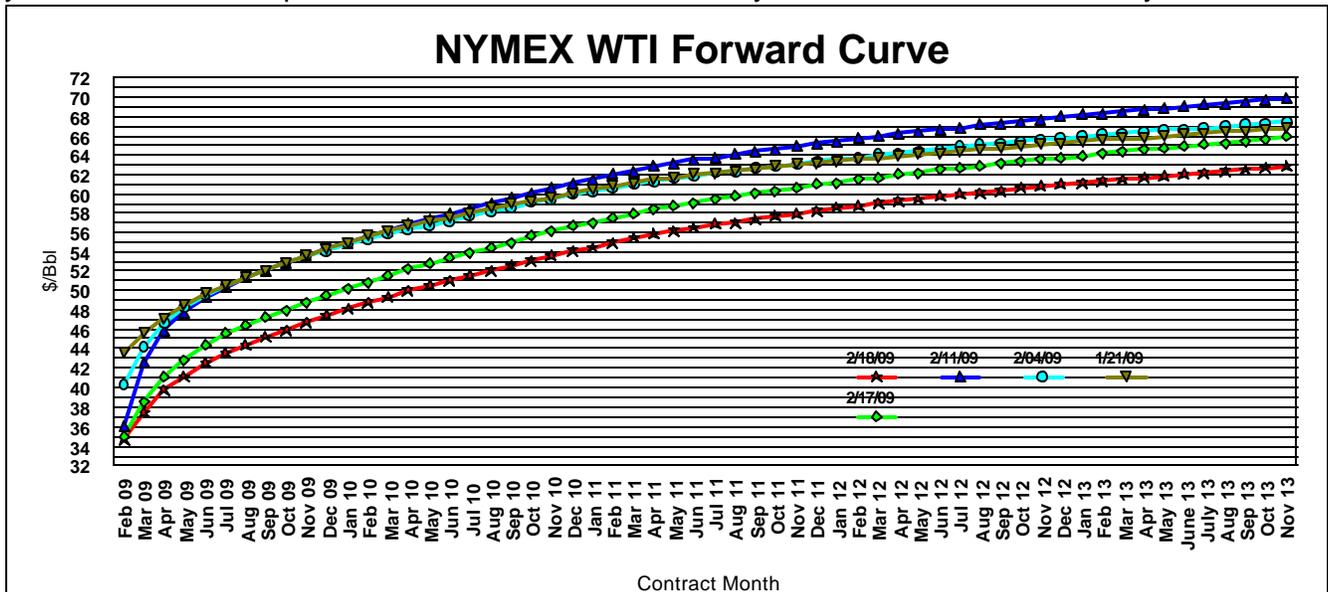
Valero Energy Corp shut a fluid catalytic cracking unit at its 295,000 bpd Port Arthur, Texas refinery and expects to restart the unit early next week. A leak was discovered in a catalyst line during the restart of the unit following last week's brief power outage. Separately, a coker unit at Valero Energy Corp's 53,000 bpd Delaware City, Delaware refinery remains shut while other units restart following an operational problem over the weekend. Valero has no timeline for restarting the coker unit.

The UAE will shut its 85,000 bpd Umm al Nar refinery for a month of scheduled maintenance starting early March.

Indonesia's Pertamina bought 2.15 million barrels of sweet crude for April arrival via its second tender, increasing the total to 3.1 million barrels. The April volume is higher than the 2.15 million barrels Pertamina imported for March arrival. Pertamina is expected to import the about the same level of crude over the next few months if there are no emergency problems.

According to the Petroleum Association of Japan, the country's crude oil stocks in the week ending February 14<sup>th</sup> fell by 1.22 million barrels on the week but increased by 11 million barrels to 101.46

million barrels. Japan's crude runs increased by 10,000 bpd on the week but fell by 70,000 bpd on the year to 4.17 million bpd. The utilization rate increased by 0.3% on the week but fell by 1.5% on the



year to 85.1%. The PAJ also reported that Japan's gasoline stocks fell by 10,000 barrels on the week and by 580,000 barrels to 13.26 million barrels while kerosene stocks increased by 410,000 barrels on the week but fell by 1.52 million barrels on the year to 14.81 million barrels. Separately, Japan's Oil Information Center reported that the country's retail regular gasoline price increased for the fifth consecutive week to 109.4 yen/liter or \$4.50/gallon on Monday, up 0.5 yen on the week.

The China Petroleum and Chemical Industry Association reported that China's fuel stocks have fallen in January and February as slowing demand prompts refiners to cut crude runs and sell off their inventories instead. It is urging China's government to build up a 10 million ton inventory of fuel stocks to avoid a shortfall if the economy strengthens again and revives demand. According to the CPCIA, China's commercial oil product stocks reached a record high of 12.64 million tons at the end of last year, up 47% on the year.

### **Production News**

Iraqi oil exports from its southern Basra oil terminal fell on Wednesday to a rate of 720,000 bpd from 1.56 million bpd on Tuesday due to bad weather conditions.

Azerbaijan's Socar increased its oil production in January by 1.2% on the year to 746,310 metric tons. Its onshore and offshore oil production stood at 619,170 tons in the period, down 2.5% on the year. The remaining 127,140 tons were produced by joint ventures and consortiums set up by Socar and foreign oil companies.

Japan's AOC Holdings said it will buy 10% stakes in two oil blocks in the Norwegian sector of the North Sea from Canada's Talisman Energy. The Yme oil blocks PL316 and PL316B are set to start producing oil in the fourth quarter, with peak production estimated at more than 40,000 bpd. Output is expected to average about 25,000 bpd in the first four years.

South Korea's LG Corp said its oil field in Oman had started crude oil production, securing the firm about 5,000 bpd for the next 20 years. The West Bukha field in Oman is believed to have capacity of 10,000 bpd in total.

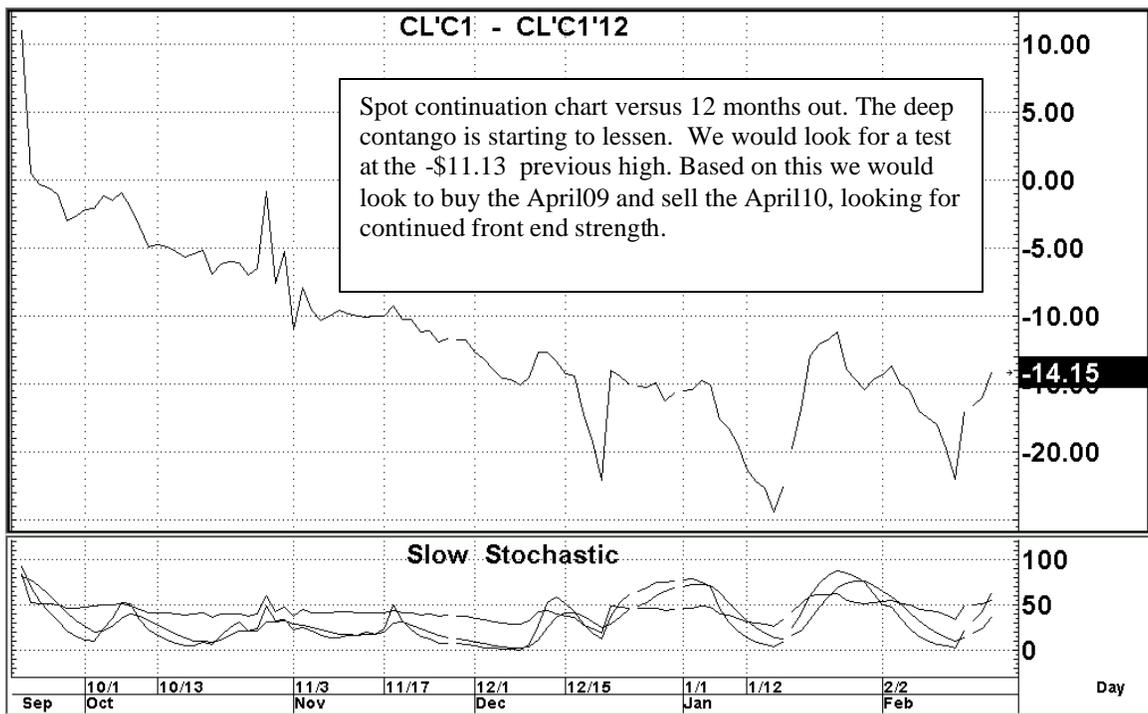
Kazakhstan's State Statistics Agency reported that the country's crude oil and gas condensate output totaled 70.7 million tons in 2008, up 5.4% on the year. It reported that Kazakhstan's crude oil production increased by 6.2% on the year to 58.714 million tons.

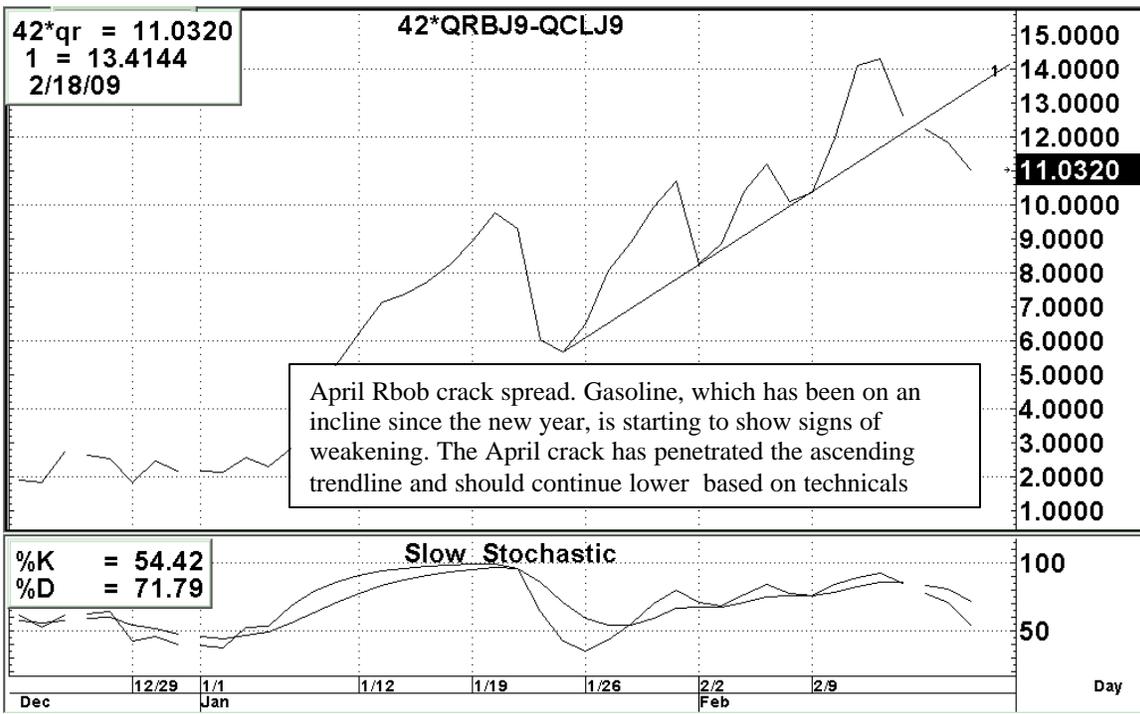
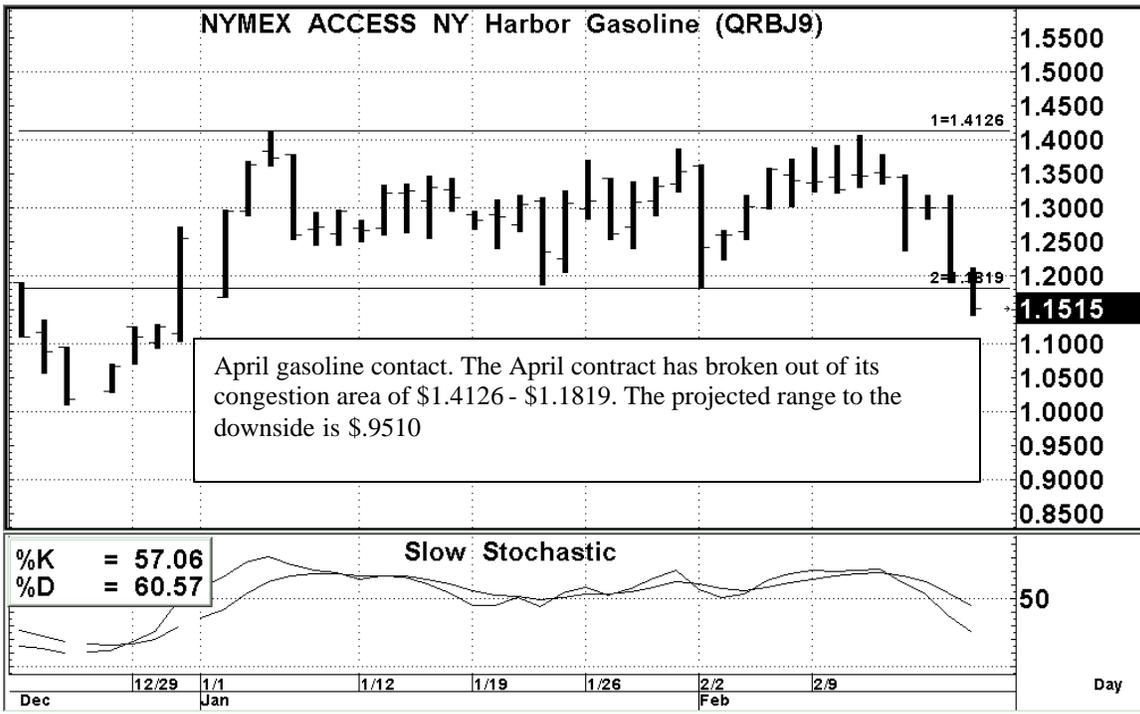
OPEC's news agency reported that OPEC's basket of crudes fell further to \$39.89/barrel on Tuesday from \$41.39/barrel on Monday.

**Market Commentary**

Crude oil prices came under pressure again today on speculation that tomorrow's DOE report will indicate that U.S. supplies climbed for the 19th time in 21 weeks as the recession cuts demand. According to a survey conducted by Bloomberg News, crude oil inventories increased 3.2 million barrels for the week ending February 13. Adding further pressure on prices, a government report today showed that U.S. housing starts in January were at their lowest level on record, a sign that the recession in the world's largest energy-consuming country will deepen. Back end pressure was once again prevalent in this market, as it appears that shorts are entering the market from the second quarter 2009 on back. The deep contango that has been in this market since September 2008 is starting to alleviate itself. We would keep an eye on floating storage, which in the past two weeks, showed signs of movement out of storage and into the market. The global economy and its impact on fuel demand will play a key part in indicating further direction of this market. Gasoline, which has been on a steady incline since the beginning of the New Year, is showing signs of breaking down. The April contract has broken out of its sideways pattern between the range of \$1.4126 and \$1.1819. The projected range to the downside is \$.9510. Barring any significant draws in gasoline stocks and positive shifts in demand, we would look for the April to test this level.

Crude Oil (CL) MAR.09 68,293 -52,801 APR.09 312,989 +4,579 MAY.09 133,150 +3,419 Totals: 1,230,255 -32,772 Heating oil MAR.09 34,460 -1,966 APR.09 51,901 +2,998 MAY.09 34,050 +613 Totals: 258,898 +5,850 NEW YORK HARBOR RBOB GASOLINE MAR.09 30,230 -1,870 APR.09 59,282 +2,939 MAY.09 27,349 +249 Totals: 191,512 +2,521





<b>Crude Support</b>	<b>Crude Resistance</b>
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>
1.10951.0520	1.3315, 1.4813, 167.15, 171.85, 176.70, 1.8500
<b>Gasoline support</b>	<b>Gasoline resistance</b>
1.0128,9590, .8978, .8755, 7850	136.14, 1.3775, 1.4100,1.4400