



## ***ENERGY RISK MANAGEMENT***

Howard Rennell, Pat Shigueta,  
& Karen Palladino

**(212) 624-1132 (888) 885-6100**

**www.e-windham.com**

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### **ENERGY MARKET REPORT FOR MARCH 10, 2009**

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OPEC's President Jose Botelho de Vasconcelos said OPEC is committed to restoring balance to the oil market and is ready to make appropriate decisions at its March 15 meeting.

Saudi Arabia notified its customers in Asia that it will maintain its crude supplies in April, in a sign that the country may urge its fellow OPEC members to refrain from further output cuts at its meeting. While keeping supply mostly steady to higher for its customers in Asia, Saudi Arabia is also maintaining its supplies steady to its customers in Europe. It later

notified its US customers that it is leaving its April crude oil allocations unchanged. On Monday, Saudi Arabia's al-Hayat newspaper cited a senior source as saying that the country will urge OPEC to comply with existing cuts before considering further cuts at its March 15 meeting.

#### **Market Watch**

Chevron Corp said it expects its refining costs to fall by \$1/barrel between 2007 and 2011. It said the decline is due to better crude selection and refining modifications. It said it will cut its refinery rates if market remains weak. Chevron said energy demand, currently down due to the economic crisis, is still poised to grow substantially in the long term. It forecasts a 19% increase in demand from countries belonging to the Organization of Economic Cooperation and Development between 2005 and 2030 while developing countries are expected to see their energy needs increase by 85% in the same period.

Iran's Reformist presidential candidate Mehdi Karroubi has promised to offer Iranians shares in the country's state-run oil industry if he is elected. He pledged to put people in charge of the management, production and distribution of oil revenues and remove it from the government budget if he wins the presidential election in June.

The EIA in its latest Short Term Energy Outlook said that world oil market has remained relatively stable since the beginning of the year and is expected to continue through most of 2009. The future direction of the world oil price in the short term will largely depend on the timing and pace of the recovery of the global economy. It reported that world oil consumption in 2009 is expected to fall by 1.38 million bpd to 84.27 million bpd, down 0.51% from its previous estimate. World oil consumption is expected to increase by 880,000 bpd on the year to 85.15 million bpd, down 0.9% from its previous estimate. Non-OPEC supply in 2009 is expected to increase by 10,000 bpd to 49.76 million bpd, down 0.26% from its previous estimate while supply in 2010 is expected to increase by 190,000 bpd to 49.95

#### **API Stocks**

**Crude** – down 419,000 barrels

**Distillate** – down 279,000 million barrels

**Gasoline** – up 1.653 million barrels

**Refinery runs** – up 0.2%, at 83.7%

million bpd. Meanwhile OPEC oil production is expected to fall by an additional 2 million bpd in the first quarter of 2009 to 28.6 million bpd while production in all of 2009 is expected to average 28.9 million bpd and increase to 29.8 million bpd in 2010. The combination of lower demand, rising natural gas liquids production and increases in crude oil production capacity over the next two years will result in an OPEC

surplus production capacity averaging 4-5 million bpd over the period. Meanwhile, total US oil demand in 2009 is expected to fall by 420,000 bpd to 19 million bpd, down 0.11% from its previous estimate while oil demand in 2010 is expected to increase by 210,000 bpd to 19.21 million bpd, down 0.16% from its previous estimate. Gasoline demand in 2009 is expected to fall by 30,000 bpd to 8.93 million bpd while demand in 2010 is expected to increase by 60,000 bpd to 8.99 million bpd. Its estimates for 2009 and 2010 are up 0.45% and 0.67%, respectively from its previous estimates. Distillate demand in 2009 is estimated to fall by 100,000 bpd to 3.84 million bpd while demand in 2010 is estimated to increase by 40,000 bpd on the year to 3.88 million bpd. It cut its estimates for 2009 and 2010 by 0.26% and by 0.77% from last month's estimate. It also reported that the price of WTI crude is expected to average \$42/barrel this year after averaging \$100/barrel in 2008. Last month, the EIA forecast the price would average \$43/barrel.

**March Calendar Averages**  
**CL – \$44.16**  
**HO –\$1.1927**  
**RB – \$1.3235**

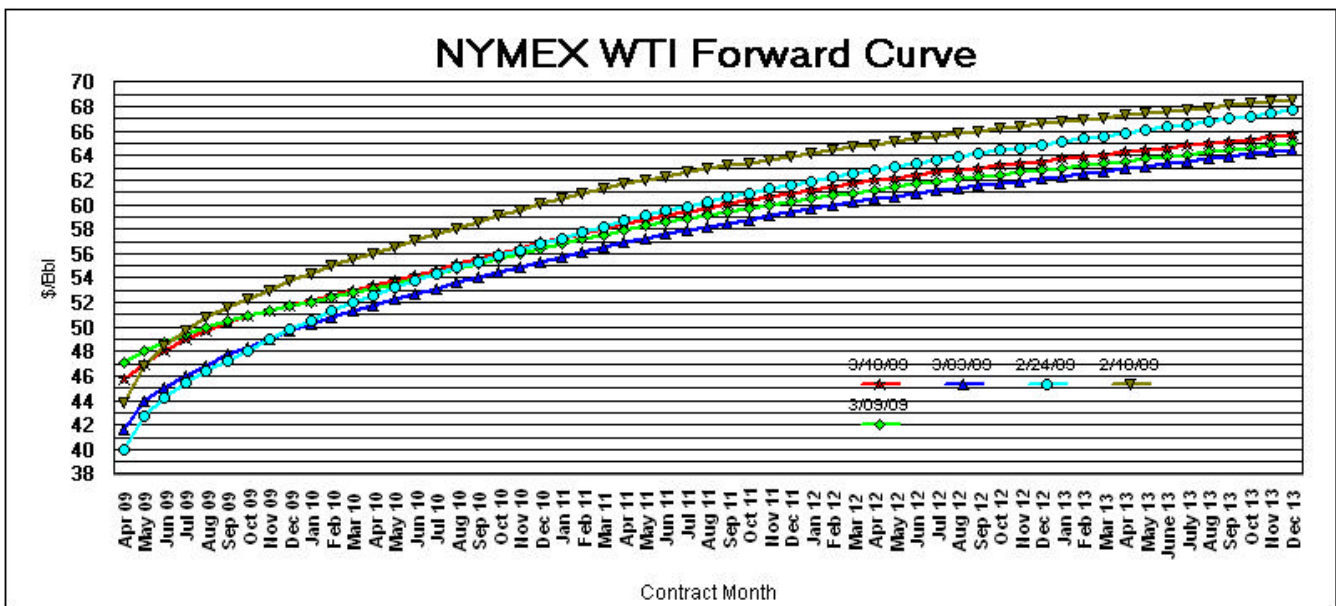
The Energy Department said the US Strategic Petroleum Reserve now holds a record 707.5 million barrels of crude oil. It said about 13 million barrels of oil is scheduled to be delivered to the reserve during March and April.

China accused the US of distorting the truth and breaking the law, saying a US Navy survey ship violated an international sea convention and China's law on its exclusive economic zones and on scientific research in its seas. On Monday, the Pentagon said five Chinese ships, including a naval vessel, harassed the USNS Impeccable in international waters off Hainan, a province-island in the South China Sea on Sunday. The US also urged China to respect international maritime rules. Meanwhile China's Foreign Minister Yang Jiechi left for Washington on Monday to work on plans for a meeting between President Hu Jintao and US President Barack Obama in London next month. There were no suggestions that the itinerary or agenda changed due to the sea dispute.

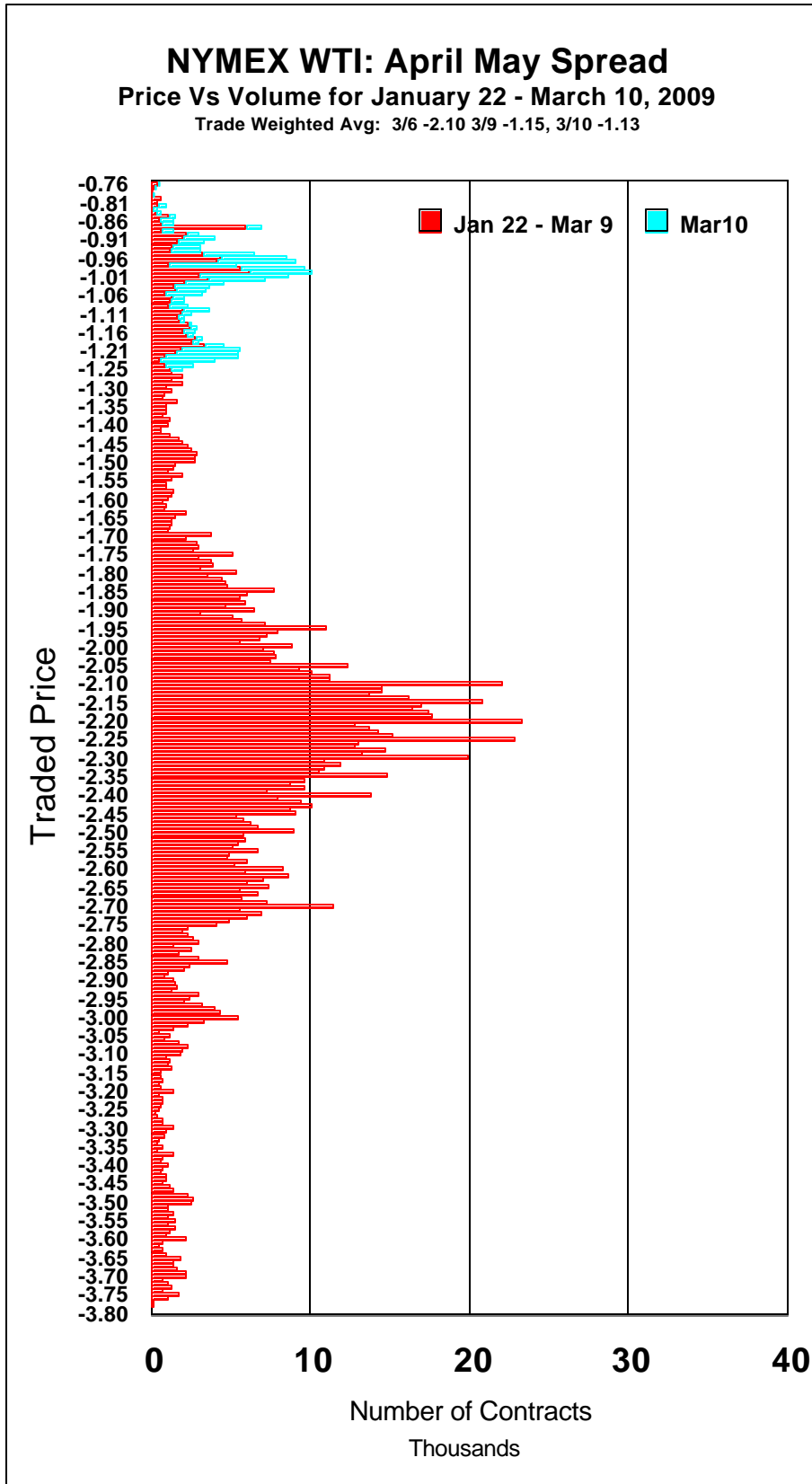
US intelligence officials said Iran lacks weapons-grade highly enriched uranium and has not yet made a decision on whether to produce any. The Director of National Intelligence Dennis Blair and Defense Intelligence Agency Director Lt. Gen. Michael Maples said recent Iranian missile tests were not directly related to its nuclear activities.

**Refinery News**

Colonial Pipeline is allocating cycle 16 nominations through its main distillates line, Line 2, between Collins, Mississippi and Greensboro, North Carolina as nominations exceed the company's ability to



maintain its five day lifting cycle.



BP Products reported a leak on equipment associated with fluid catalytic cracking unit operations at its 475,000 bpd Texas City, Texas refinery. The leak at an exchanger at FCCU No. 3 was discovered on Sunday evening. It is not clear whether the incident had any impact on production.

A CGT union official said Total will be expected to present a plan to cut 25% of output capacity at its 339,000 bpd Gonfreville refinery in France. It will cut the Gonfreville refinery capacity to about 11.6 million tons, down from 16.3 million tons.

Japan's Idemitsu Kosan Co Ltd said it started preparations for the restart of its 120,000 bpd No. 2 crude distillation unit at its Tokuyama refinery that was shut following a fire on March 4.

Indian Oil Corp will shut a crude unit at its 120,000 bpd Haldia refinery for about two months from mid-October to increase the refinery's capacity by 25% to 150,000 bpd. It will shut a 50,000 bpd crude unit and associated downstream units and increase its capacity to 80,000 bpd.

Russia's Transneft said it fully resumed oil supplies to the Black Sea port of Novorossiisk and Tuapse and three refineries after a fire disrupted deliveries last week. An oil leak and a fire occurred

on a pipeline on March 3 forcing Russia to halt 20% of its oil supplies to world markets for a few days.

China's Sinopec Corp will increase its crude and refined fuel stocks this year to take advantage of low world prices, a move likely to increase China's oil imports. China recently pledged to stockpile resources including grain, metals and oil to make more efficient use of its foreign exchange reserve.

Libya's National Oil Corp has set up a joint venture with a UAE energy consortium to develop the Ras Lanuf oil refinery in Libya.

Indonesia's Pertamina said a refinery joint venture project with Iran may be delayed until 2016 from 2010. In 2006, Pertamina's PT Elnusa signed a preliminary deal with National Iranian Oil Refining and Distribution Co to build a 300,000 bpd refinery in Indonesia, which was expected to be completed in 2010. Pertamina took over the plan to build the refinery however construction has not yet started.

Separately, Pertamina plans to import 4.5-5 million barrels of gasoline in April to ensure adequate stocks ahead of elections. It expects to increase gasoline stocks to 20 days of forward supply from 18 days.

According to Euroilstock, total oil and oil product inventories in Europe fell by 0.1% on the month but increased by 0.5% on the year in February to 1.115 billion barrels. It reported that crude stocks fell by 0.2% on the month but increased by 1.5% on the year to 477.2 million barrels while gasoline stocks fell by 0.1% on the month and by 12.7% on the year to 122.83 million barrels. Meanwhile, distillate stocks in Europe increased by 0.4% on the month and by 6.3% on the year to 375 million barrels. The average refinery rate in February increased to 89.58% in February from 86.82% in January.

German residential heating oil stocks fell to 58% of capacity on March 1 from 60% of capacity on February 1. Last year, German residential heating oil stocks stood at 49% of capacity on March 1.

### **Production News**

The April loading program for North Sea Brent crude scheduled the loading of 3.622 million barrels, down from 4.264 million barrels in March. The volume is equivalent to 120,733 bpd, compared with 137,548 bpd in March.

The North Sea Forties crude stream will load about 20.4 million barrels or 680,000 bpd in April compared with 19.8 million barrels or 639,000 bpd in March. Norway's North Sea Gullfaks crude oil stream is scheduled to load 256,500 bpd in April, up from 248,000 bpd in March. The North Sea Ekofisk crude oil stream is scheduled to load 12.7 million barrels or 423,333 bpd in April, up from 11.75 million barrels or 379,032 bpd in March. Norway's Oseberg crude oil stream is scheduled to load about 222,000 bpd in April, up from 213,000 bpd in March.

Kuwait National Petroleum Co said Kuwait restarted oil exports on Tuesday after a brief halt due to a sandstorm and poor weather conditions. Kuwait halted oil exports of over 2 million bpd. Meanwhile, sources in Saudi Arabia and the UAE said their Gulf export operations were not affected by similar weather conditions.

Crude oil exports from Iraq's main export terminal of Basra was restored on Tuesday to 1.44 million bpd after exports fell to 960,000 bpd.

Shell said the world economic crisis will not delay the development of the Kashagan oilfield in Kazakhstan by a consortium of oil companies and may even help reduce its costs. The project to develop the Caspian offshore field would eventually double Kazakhstan's oil output to about 150 million tons/year or 3 million bpd.

Chevron Corp has started preliminary work on a production facility that will process crude from the Jack Field and St. Malo Field. The two fields have combined recoverable resources estimated to be in excess of 500 million barrels of oil equivalent. The processing facility will have a capacity of 120,000 to 150,000 barrels of oil equivalent.

Iraq has increased the official selling price for its Basra crude bound for Europe in April by \$1 to BFOE minus \$1.05 while the price of its Basra crude bound for the US was increased by \$5.30 to WTI second month plus \$1.30. The price of its Basra crude bound for Asia was increased by \$1 to the Oman/Dubai average plus 15 cents. Meanwhile the price of its Kirkuk crude bound for Europe was increased by 90 cents to Dated BFO minus 85 cents and the price of its Kirkuk crude bound for the US was increased by \$1 to spot WTI plus \$1.85.

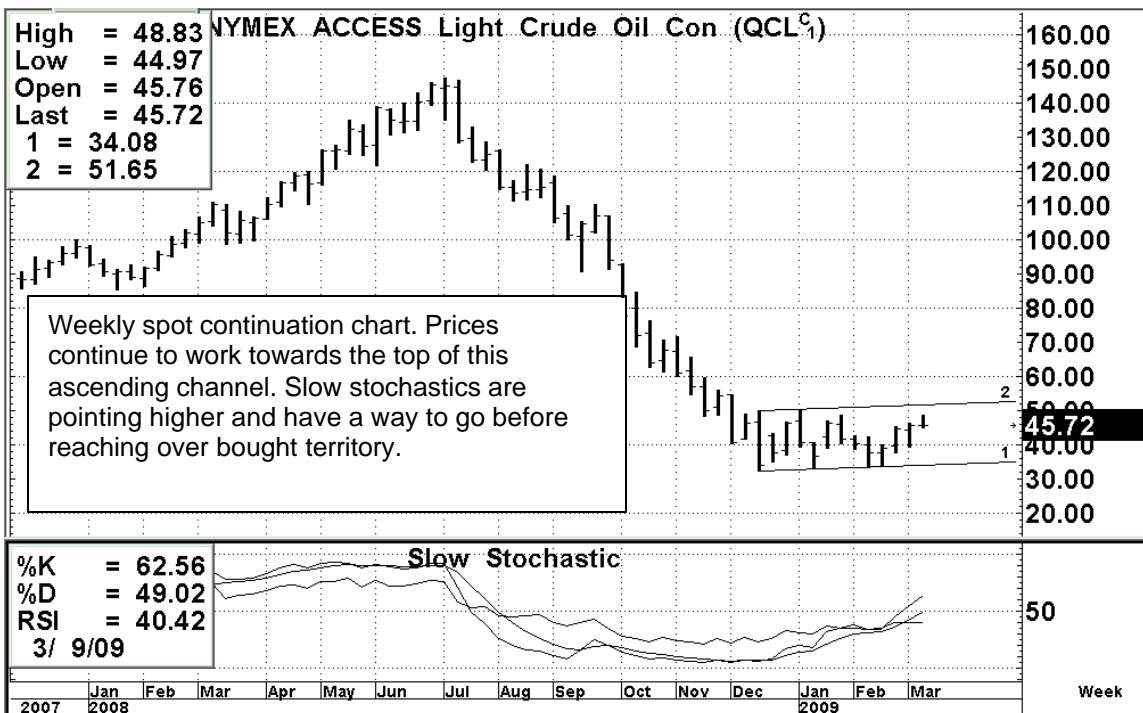
DNO International expects Iraq's government and the Kurdish regional leadership to agree on a deal that would allow DNO to export crude oil from its Kurdish fields in the coming months.

OPEC's news agency reported that OPEC's basket of crudes increased to \$44.14/barrel on Monday from \$43.15/barrel on Friday.

**Market Commentary**

The U.S. lowered its forecast for global crude oil demand for 2009, attributing the lowering of the forecast to the impact that the global economic slowdown is having on fuel demand. In a report released today in Washington, the estimate for world oil demand was 84.27 million barrels a day, down 400,030 barrels from February's forecast. This estimate is down 1.38 million barrels from demand in 2008, according to the report. This put pressure on prices today, causing the April crude oil to settle down \$1.36. Concerns about future fuel demand sent product prices retreating, with the gasoline settling down \$.0379 and heating oil down \$.0167. Additionally, Jose Maria Botelho de Vasconcelos, OPEC's president said that OPEC is keeping a close eye on the oil market and is ready to take appropriate decisions it deems necessary. "The deep impact of the economic turmoil on the world oil market is evident with its continuing contraction and it pressures the market with high oil stocks despite OPEC measures," de Vasconcelos said. The contango market condition, whereby the front-end trades

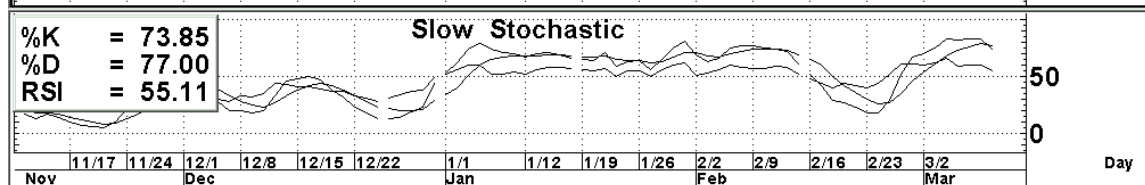
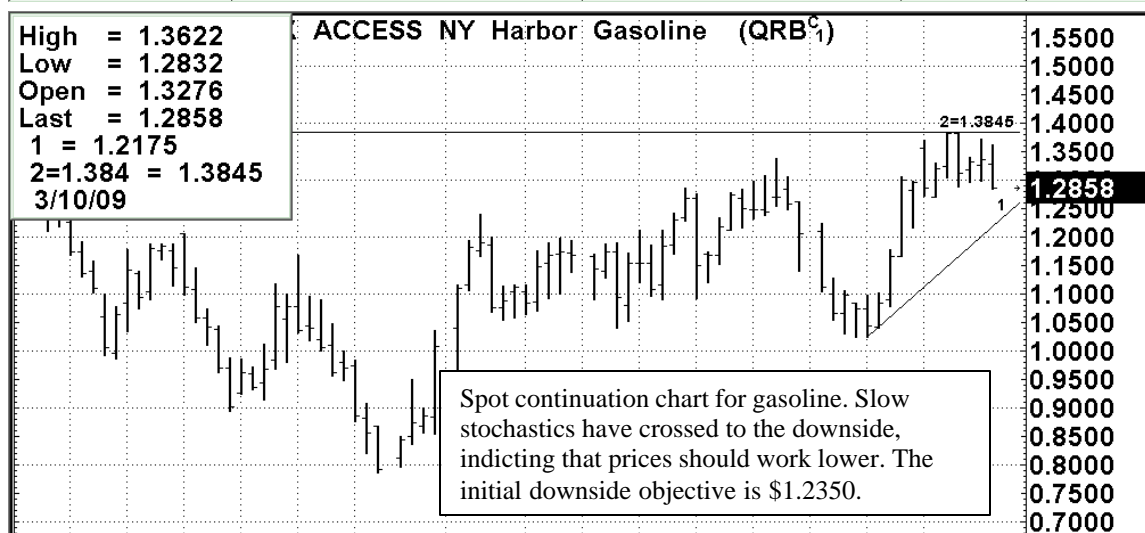
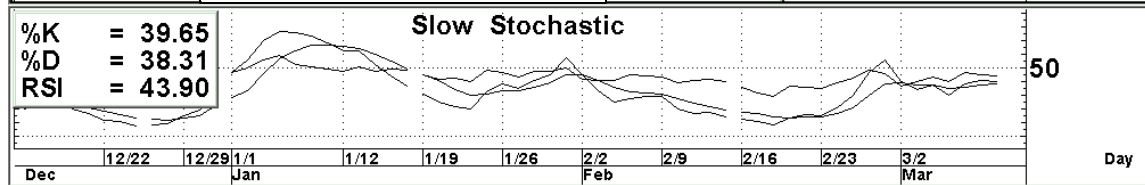
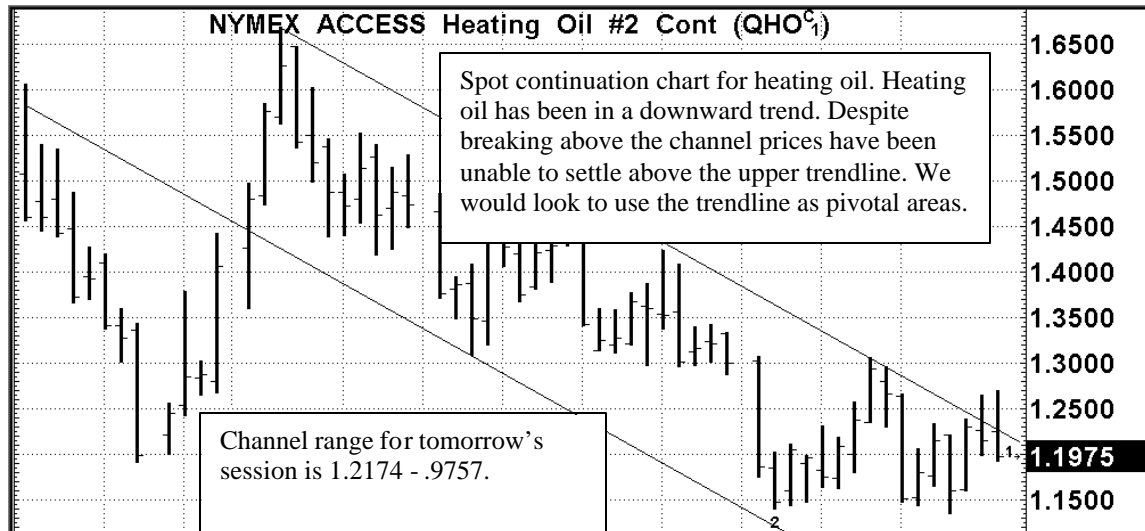
at a discount to the deferred, widened slightly today. This spread will be greatly impacted by tomorrow's release of the DOE inventory numbers, which are expected to show a slight decrease of 300,000 barrels for crude oil.





Crude oil prices should continue to see-saw within the range of \$35.00-\$50.00, working to find a bottom. April heating oil experienced an outside trading session, marking a higher high and a lower low than that of the previous session. This is a bearish signal. We would look for heating oil to trade within the descending channel depicted on the chart below. This channel comes into tomorrow's session set at \$1.27174-\$0.9757. Gasoline sold off today in response to the lower forecast for fuel demand. Slow stochastics crossed in overbought territory, indicating that prices should work lower. The initial downside objective is \$1.2350.

Open interest: (CL) APR.09 204,514 -35,372 MAY.09 242,890 +28,165 JUN.09 158,047 +2,334  
 Totals: 1,222,565 + 439 Heating oil APR.09 47,713 -3,000 MAY.09 42,681 +2,104 JUN.09 36,439  
 +264 Totals: 255,023 + 202 NEW YORK HARBOR RBOB APR.09 52,243 -2,150 MAY.09 46,391  
 +4,722 JUN.09 25,807 +37 Totals: 193,776 +5,232



<b>Crude Support</b>	<b>Crude Resistance</b>
41.00,40.00,38.95, 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>
1.1359, 1.10951.0520	1.3315, 1.4813, 167.15, 171.85, 176.70, 1.8500
<b>Gasoline support</b>	<b>Gasoline resistance</b>
1.2800,1.2700, 1.2625 1.1680,1.0128, .9590, .8978, .8755, 7850	1.3845, 1.4100,1.4400, 1.4760