



## ***ENERGY RISK MANAGEMENT***

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### **ENERGY MARKET REPORT FOR MARCH 25, 2008**

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According to DEBKAFfile, US Vice President Dick Cheney persuaded Saudi Arabia to increase its production to lower oil prices during their talks on Saturday. They agreed to an increase in production to bring oil prices down to \$80-\$85/barrel. Saudi Arabia has targeted increasing its output to 11 to 12.5 million bpd by 2009. However a decision by Saudi Arabia's Supreme Council for Petroleum and Minerals Affairs would bring the date forward by a few months. The council was convened on Sunday to underline the country's commitment to stabilize the oil market by ensuring adequate supply.

#### Market Watch

Oil investor T. Boone Pickens said he expects second quarter oil prices to trade around \$100/barrel and second half prices to move beyond the \$100 level.

Trade sources stated that US benchmark gasoline futures have driven Europe's forward gasoline curve into backwardation from April, suggesting prices will peak early. Europe began the switch to backwardation late last week as traders forecast an increase in transatlantic arbitrage fixtures.

A leadership dispute in Mexico's left wing opposition party could delay a government attempt to make politically difficult changes to oil sector laws. Conservative President Felipe Calderon has been awaiting the result of the left's March 16 leadership vote before presenting an energy bill. He has been hoping to pass energy legislation before the current congressional session ends on April 30. The Senate energy committee has been debating for weeks about how energy laws could be changed to help Pemex increase its oil output and reserves.

The Conference Board reported that US consumer confidence in March fell to 64.5, a five year low, from an upwardly revised 76.4 in February. It said its expectations index fell to 47.9 from an upwardly revised 58 in February. It said consumers continued to fret over job prospects as the labor market continued to tighten amid an economic slowdown brought on by the housing slump.

OPEC Secretary General Abdalla Salem el-Badri met with the IEA's executive director, Nobuo Tanaka on Tuesday to discuss recent oil market developments, the impact of the financial markets and the outlook for investment in the sector. They underscored the importance of ensuring oil market stability by continuing to strengthen dialogue between oil consuming and oil producing countries. A joint statement said OPEC and the IEA shared a common interest of supporting oil market stability and predictability.

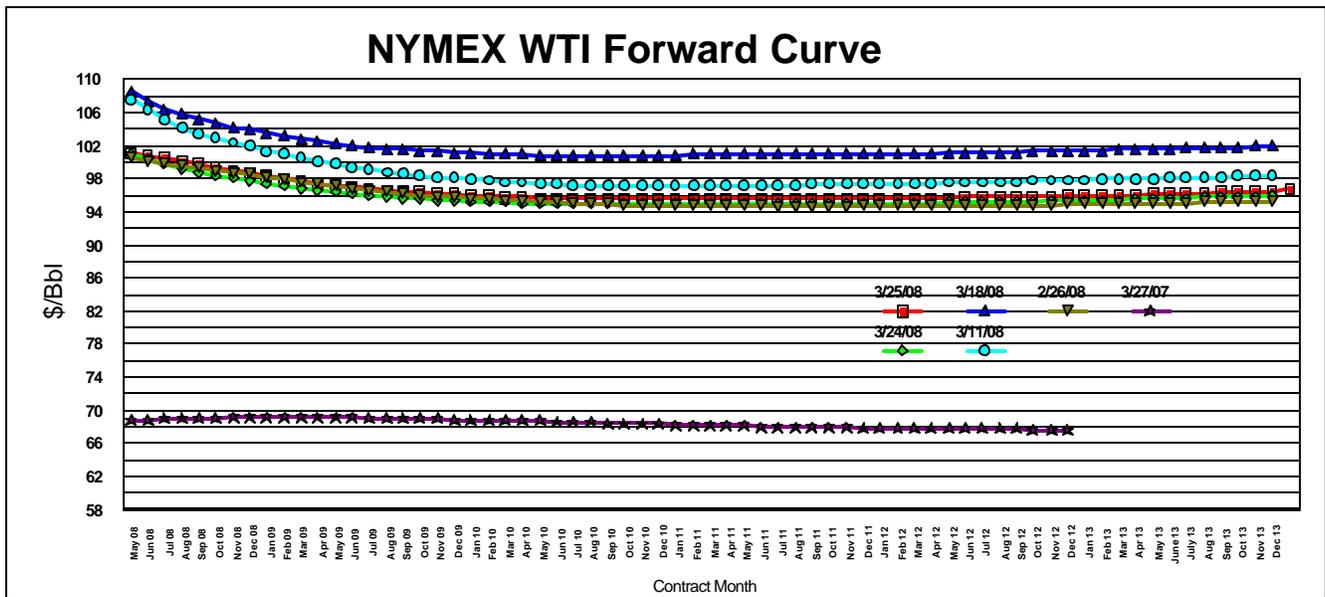
#### **March Calendar Averages**

**CL** – 105.48

**HO** – 299.06

**RB** – 264.90

Venezuela's President Hugo Chavez said \$100/barrel was a just price for a barrel of oil.



The head of Libya's OPEC delegation said volatile oil prices were unrelated to market fundamentals and added that there was no need for OPEC to change its supply policy for now.

Iraqi security forces clashed with fighters from the Mahdi Army of Shia leader Muqtada al-Sadr in Basra, amid demands by the group that detained members be released. At least 18 people have been killed and 40 wounded in the fighting. Al-Sadr said that his group could lead a nationwide campaign of civil revolt in response to the Iraqi security forces' operations in Basra. He also said he would launch a nationwide strike unless attacks against members of his movement cease. Meanwhile, industry sources said oil production and exports from Iraq's southern oil hub of Basra were unaffected by heavy fighting between Iraqi police and armed groups. A shipping source at the Basra oil export terminal said operations were continuing as normal.

According to MasterCard Advisors LLC, US gasoline demand in the week ending March 21 increased by 1.2% on the week to 9.299 million bpd. It is the highest level since January 11. In the latest four weeks, demand was down 0.3% on the year. It reported that the US average retail price of gasoline increased by 0.6% or 2 cents to \$3.28/gallon.

### **Refinery News**

A propane leak at BP Plc's Texas City refinery has resulted in an order confining workers to their units and prohibiting movement until the area is declared safe. The leak started in a fluid catalytic cracking unit. The unit continued to operate after the leak was detected.

A leak at Valero Energy Corp's Delaware City, Delaware refinery did not impact production at the refinery. The leak on a valve resulted in flaring. Meanwhile, a fluid catalytic cracking unit continued to operate at reduced rates after rates were cut to facilitate repairs to a boiler. The unit is expected to resume normal operations on March 26.

Pemex shut a 50,000 bpd hydrodesulfurization unit at its Minatitlan oil refinery on Monday for about two weeks of planned work. The unit is expected to resume operations during the first week of April. The refinery is currently undergoing an expansion which should increase its capacity by 100,000 bpd to 249,000 bpd when the project is completed in early 2009.

France's port workers union, Federation Nationale des Ports et Docks said it would strike on Wednesday after the latest talks with transport minister Dominique Bussereau over government plans

to reform France's state run ports ended in disagreement. The government is seeking to reform its state run ports and privatize handling operations. The state run ports affected by the reform include France's largest oil and gas port of Marseille. The other ports affected by the reform are on the Atlantic coast at Bordeaux, La Rochelle and Nantes-Saint-Nazaire. The union however said it was prepared to enter into talks over certain aspects of the planned reform and that it could meet again with the transport minister on Tuesday.

India's Reliance Industries is expected to close 900 petrol stations as subsidized sales by state firms make private outlets unviable.

South Korea's S-Oil Corp said it did not expect a temporary halt at its Onsan processing plant to impact loading schedules for its oil products. Its three crude distillation units at the refinery have resumed normal crude oil processing after a power outage caused a shutdown for about an hour on Monday.

South Korea's Finance Ministry stated that import taxes on oil products, including diesel, would be cut to 1% from 3% starting April 1 following government pledges to take measures to cut inflation and help cushion the impact of high oil prices on the local market. However the government decided to maintain tariffs on crude oil and LNG at the current 1%.

Gas stations in China's east coast were rationing diesel despite the government's insistence that its refiners would ensure supplies at unprofitable state-set prices. The government late Monday said that fuel supplies were adequate and that reports of rationing reflected only sporadic problems caused by demand from farmers planting their spring crops and the lingering impact of unusually severe winter weather.

### **Production News**

The US Minerals Management Service said its next sale of Gulf of Mexico oil and gas leases could yield 242 million to 423 million barrels of oil and 1.64 trillion to 2.64 trillion cubic feet in new natural gas production. The MMS is scheduled to hold the lease sale in August.

Indonesia's BPMIGAS reported that the country's oil production is expected to fall 1% on the month in March to 859,000 bpd from 867,800 bpd in February.

Anadarko Petroleum Corp increased its 2008 production forecast by 2 million barrels of oil equivalent and added that it would spend \$4.9 billion to \$5.1 billion on capital spending.

India's Oil & Natural Gas Corp said it planned to produce 29.04 million metric tons of oil in the next fiscal year starting April 1.

Russia's Lukoil said it agreed to participate in tenders for new oil field licenses in Iraq. Lukoil's chief executive Vagit Alekperov said that Lukoil was significantly closer to an agreement with Iraqi officials over the West Qurna-2 oil field.

Nigeria increased some of its April official selling prices for its crude oil grades. The official selling price for Bonny Light crude and Qua Iboe was set a premium of \$3.55 over the Dated Brent price, up 45 cents from March. The official selling price of Forcados crude was set at Dated Brent plus \$3.45, up 60 cents on the month while the price for Escravos crude was set at Dated Brent plus \$2.90, up 60 cents on the month.

Libya kept the April official selling price of Essider crude at dated BFOE minus 55 cents/barrel, unchanged on the month.

OPEC's news agency reported that OPEC's basket of crudes fell further to \$96.15/barrel on Monday, down from \$96.41/barrel on Friday.

A senior Turkish Energy Ministry official said a bill liberalizing liquefied natural gas imports would be presented soon to Turkey's parliament in a bid to avert the gas supply problems, which have impacted the country in recent winters.

**Market Commentary**

The oil market broke a three day downward trend as the market was supported by the dollar's continuing weakness. The market, which continued to trade within Thursday's trading range, sold off to a low of 99.13 following the release of the Conference Board data showing its index of US consumer confidence fell in March to 64.5, a five year low. The market however was underpinned by concerns over supply in light of reports of clashes between Shiite militias and Iraqi security forces in Basra, even though Iraqi oil officials stated that clashes did not impact Iraq's oil exports. The market also quickly bounced off its low as T. Boone Pickens said he believed oil prices would trade around \$100/barrel and trade beyond that level in the second half of the year. The oil market later breached its earlier high on some late day buying ahead of the close and settled up 36 cents at 101.22. The market continued its upward trend on Globex as it posted a high of 101.86. The market on Wednesday will seek further direction from the weekly petroleum stock reports, which are expected to show builds in crude stocks of up to 1.5 million barrels on the week. The market is seen finding support at 101.00, 99.90, 99.13 followed by 98.65, 98.33, 96.50 and 94.90. Resistance is seen at 101.86, 102.42, 102.69, 103.12, 104.50, 105.88 and 107.89. Open interest in the crude market continued to decline, with total open interest falling by 7,901 to 1,344,256. Open interest in the May contract fell by 13,464 lots to 352,139 as the market continued to liquidate their longs. The product markets ended the session mixed once again, with the heating oil market settling down 3.83 cents at 292.48 and the RBOB market settling up 3.9 cents at 268.02. Even though the RBOB market traded higher, it failed to breach its recent trading range as it continued to trade within last Monday's trading range. The market, which posted a high of 269.73 early in the day, bounced off a low of 261.50 amid reports of a refinery problem. The market was also supported ahead of Wednesday's release of the DOE report, which is expected to show a draw in gasoline stocks of about 1 million barrels. The market on Wednesday will continue to trade higher if the inventory reports do show the expected draws in product stocks. The May RB/HO spread came in further amid the strength in the RBOB market and settled at -

16.91 cents. It is seen finding resistance at -14.74 followed by -9 cents.

		<b>Explanation</b>	
<b>CL</b>	<b>Resistance</b>	102.42, 102.69, 103.12, 104.50, 105.88, 107.89	Previous highs, 38%(110.35 and 98.65), 50% and 62%
	101.22, up 36 cents	101.86	Tuesday's high
	<b>Support</b>	101.00, 99.90, 99.13	Tuesday's low
		98.65, 98.33, 96.50, 94.90	Previous lows
<b>HO</b>	<b>Resistance</b>	299.80, 301.00, 303.35, 312.20, 315.41, 319.00	Basis trendline, Previous highs
	292.48, down 3.83 cents	294.25, 298.35	Tuesday's high
	<b>Support</b>	290.00, 285.94	Tuesday's low
		280.50, 279.47, 270.66	50%(238.80 and 322.20),Basis trendline, 62%
<b>RB</b>	<b>Resistance</b>	273.55, 274.35, 275.56	Previous highs
	268.02, up 3.90 cents	268.60, 269.73	Tuesday's high
	<b>Support</b>	264.00, 261.50	Tuesday's low
		259.05, 250.46, 249.56, 246.55, 242.37, 238.14	Previous lows