



## ***ENERGY RISK MANAGEMENT***

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### **ENERGY MARKET REPORT FOR APRIL 2, 2008**

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Kuwait's Oil Minister Mohammad al-Olaïm said that current oil prices over \$100/barrel reflected the level of oil inventories. His comments contrast those made by his fellow OPEC ministers that factors such as speculation and political tension was supporting oil prices rather than market fundamentals.

An Iraqi shipping agent said crude oil exports from Iraq's Basra terminal increased to 1.44 million bpd since Tuesday afternoon from 768,000 bpd. Iraq's normal export rate from its southern oil terminals is about

1.56 million-1.68 million bpd. A senior official with the South Oil Co said the cut in Iraqi crude exports

#### **DOE Stocks**

**Crude** – up 7.4 million barrels

**Distillate** – down 1.6 million barrels

**Gasoline** – down 4.5 million barrels

**Refinery runs** – up 0.2%, at 82.4%

#### **Market Watch**

Federal Reserve Chairman Ben Bernanke said a US recession is possible but added that he was not ready yet to say whether the US would face such a prospect. He said it now appeared likely that real Gross Domestic Product would not grow much if at all over the first half of 2008 and could even contract slightly. However he signaled that much of the needed economic and financial market adjustment has already taken place and that conditions should improve later this year, suggesting there may not be much need for additional monetary stimulus. The Fed chairman said the one benefit from high oil prices was that they made alternatives, including conservation, attractive. However he warned that even if greater resources were put into alternative energy sources, the effects on energy prices would not be felt anytime soon.

The International Monetary Fund said the world economy is expected to grow 3.7% in 2008, down from its previous forecast of 4.1% due to the US credit crisis. It cut its forecast for US economic growth in 2008 to 0.5% from 1.5%.

The Commerce Department said new orders at US factories fell for the second month in February by 1.3%. Orders for durable goods fell by 1.1%, revised up from -1.7% reported March 26.

Nigeria's Oil Minister Odein Ajumogobia said Nigeria's plans for the reform of its Nigerian National Petroleum Corp would be presented to President Umaru Yar'Adua by the end of April. A break up into five separate units is envisaged for the company formed in 1997.

was due to the security situation. Separately, an official said Iraq aimed to complete repairs on a bomb damaged pipeline in the south later on Wednesday and restart shut in production of about 100,000 bpd. Iraq has been using oil in storage to compensate for the shut in production.

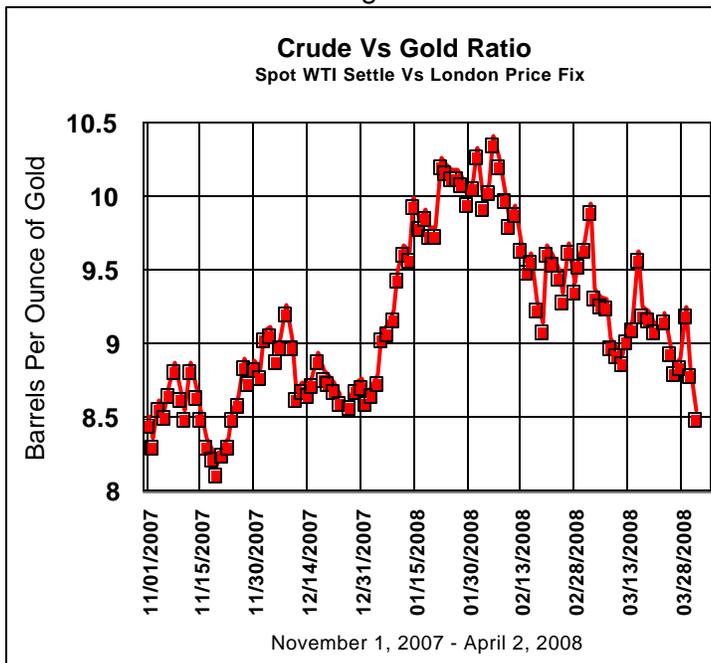
An oil workers' union in Gabon said it was ending a strike at

Shell's Gabon subsidiary after talks brokered by President Omar Bongo. The union said it would continue talks with Shell. Shell said it resumed operations on Wednesday but added that it needed a few weeks to restore production to 60,000 bpd. Its 60,000 bpd production had been shut in for 12 days by the strike over working conditions at its Gamba site.

<p><b>April Calendar Averages</b>  <b>CL</b> – 102.91  <b>HO</b> – 291.54  <b>RB</b> – 270.64</p>
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Diplomats said China gave the UN's IAEA intelligence linked to Iran's alleged attempts to make nuclear weapons.

Israel's security cabinet convened on Wednesday, April 2 to examine the country's preparedness for war. It decided to redistribute the bio/chemical warfare masks a few months after they were called in. DEBKAFile's military sources disclosed intelligence indicating the possibility that Syria may transfer to Hezbollah chemical or biological warheads known to have been developed for its war arsenal.



Norwegian trade unions and employers reached a pay agreement following talks, averting a broad industrial strike shortly before it was scheduled to begin. More than 40,000 workers in a range of industries from fish to aluminum production were set to strike if no deal had been reached.

#### **Refinery News**

The US Coast Guard said shipping traffic along the Houston Ship Channel resumed on Wednesday after ship pilots stopped steering vessels due to dense fog earlier in the morning.

Poseidon pipeline announced that a new pipeline connection linking four oil fields in the Gulf of Mexico with the Bonito pipeline system would increase flows of the light sour

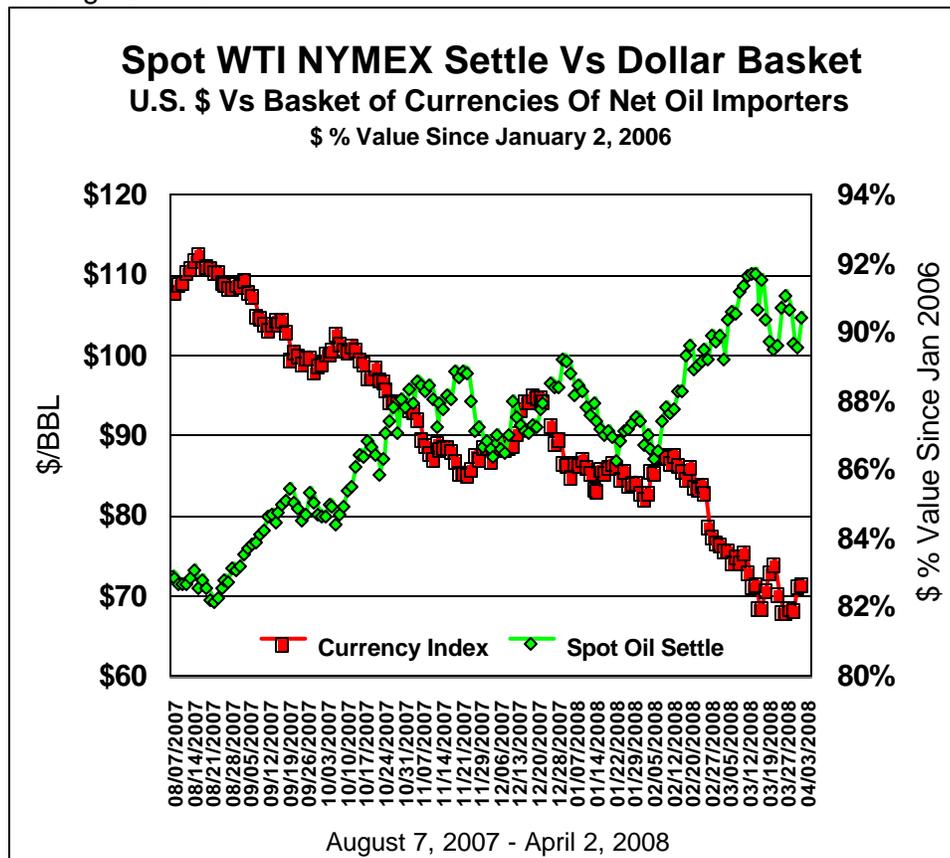
grade by 18,000 bpd, while cutting flows of medium sour Poseidon by the same amount. The removal of these streams from Poseidon would cut Poseidon flows in April to 95,500 bpd.

BP Plc's 265,000 bpd refinery in Carson, California reported unplanned flaring on Wednesday. The flaring was due to a minor problem that developed after BP completed its turnaround on a 103,000 bpd fluid catalytic cracking unit and an alkylation unit.

According to a Reuters survey, Europe's refineries are scheduled to shut in about 900,000 bpd of capacity for maintenance in April. The scheduled refinery shut in amount is lighter than last year's level, when over 1 million bpd was shut in. Early indications on May suggest a relatively heavy late spring program with at least 650,000 bpd of capacity shut in. Gasoline production is expected to fall as several refineries shut reformers, potentially reducing export supplies.

China National Petroleum Corp delayed maintenance work at some oil refineries to increase domestic fuel supplies. A few refineries increased processing of light crude oil after shutting heavy crude refining units for maintenance. It increased its crude processing by more than 6% in the first quarter from a year earlier.

South Korea's S-Oil Corp restarted its secondary units but is not expected to increase crude runs yet after it was hit by an outage last week. Its secondary units, including its hydrocrackers, middle distillate units and residual fluid catalytic cracking units, were still running at minimal capacity. A source said it was running at about 420,000 bpd. S-Oil declared force majeure after the power outage and had cancelled the export of 150,000 tons of ultra low sulfur diesel and 67,000 tons of gasoline for loading next month.



Japan's Nippon Oil said it would increase its crude processing for China's PetroChina to 70,000 bpd for the business year that started April 1. Since April 2007, Nippon Oil has been processing 50,000 bpd of crude for PetroChina's trading unit, Chinaoil.

Japan's Oil Information Center reported that the country's retail regular gasoline prices fell on April 1 after a provisional gasoline tax expired on March 31. The average pump price of regular gasoline in Japan was 142.2 yen per liter or \$5.30/gallon on Tuesday, down from 152.9 yen on Monday.

The Petroleum Association of Japan reported that the country's crude oil stocks increased by 273,634 kiloliters to 14.7 million kiloliters or 92.5 million barrels in the week ending March 29. It reported that gasoline stocks increased by 157,391 kl to 2.41 million kl on the week while kerosene stocks fell by 25,381 kl to 1.83 million kl and gas oil stocks built by 18,324 kl to 1.65 million kl. It reported that refinery runs fell to 86.6% from 87.4%.

Industry sources stated that China is expected to import about 1.8 million tons of fuel oil in April as demand from medium sized power stations and refineries increase.

China cut the price of wholesale jet fuel by 1.3% or 80 yuan to 6,100 yuan or \$869/ton as of April 1, helping domestic carriers compete with international rivals.

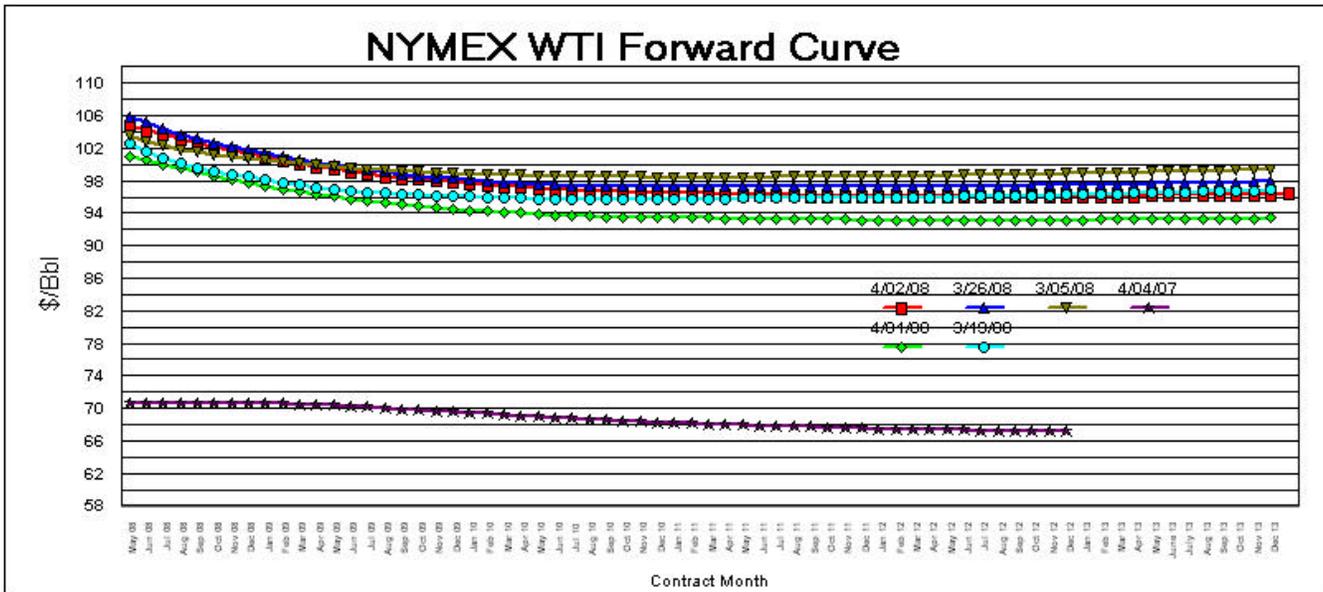
Korea Petrochemical Industrial Co has shut its 460,000 ton/year naphtha cracker at its Ulsan plant. Lotte Daesan has also shut its 650,000 ton/year cracker for a planned turnaround until May 9.

Russia's Transneft started pumping oil into the East Siberia-Pacific Ocean pipeline. The company said it was filling a 238 kilometer pipeline stretch in the Irkutsk Region with oil.

Estonia's main oil loading port, the port of Tallinn, shipped 2.227 million tons of oil products in March, up 22.5% from 1.817 million tons loaded in February. However loading were down 8.4% on the year. The port said oil flow for the first three months of 2008 was 15.9% less at 5.781 million tons compared to 6.783 million tons loaded last year.

**Production News**

Royal Dutch Shell reported that a fire was still burning for the fourth day on a section of its Trans-Niger pipeline in Ogoniland in southern Nigeria, which transports oil to the Bonny export terminal. A second fire was also reported to have started on Sunday on another pipeline in the region. It said its output



and exports have not been impacted so far.

Russia's Energy Ministry reported that the country's oil production fell to 41.273 million tons or 9.76 million bpd in March, down 0.3% on the month while exports via Transneft increased by 6% to 17.906 million tons or 4.23 million bpd.

PDVSA and Chevron Corp plan to spend \$7.71 billion in the Petropiar extra heavy oil upgrader, a venture that has been the subject of an arbitration proceeding with ConocoPhillips, which previously operated the project. The Petropiar project pumps extra heavy oil from the Orinoco river basin and turns it into a lighter grade of crude. It has a processing capacity of 190,000 bpd.

**Market Commentary**

Despite a build of 7.4 million barrels in crude oil stocks, prices rallied just over \$4.00 on the day. A survey of interested parties came up with several reasons behind this rally. Among those reasons was the dollar's first decline against the euro in three days, causing investors to once again turn to commodities as an investment tool. Lack of selling pressure below the \$100.00 level basis the May contract was also mentioned, along with gasoline stocks prematurely drawing ahead of the US driving season. One thing is for certain in this market; crude oil is defying the true fundamentals that one would think would drive this market. This is the eleventh gain in stock levels in a twelve-week period. Crude stocks, which are set at 319.2 million barrels, are in the upper half of the average range. With the onset of the summer driving season approaching, gasoline stocks, despite a 4.53 million barrel draw, are above the upper limit of the average range, with demand unchanged on the year. Distillate stocks, which decreased by 1.6 million barrels, are in the lower half of the average range, but demand

is 3.1% lower basis the same four-week average for last year. All these factors do not add up to plus \$100.00 crude oil however, psychologically, one cannot buck the trend and therefore must go with the flow. We would continue to look for the gasoline to outpace both crude oil and heating oil due to seasonality. Should one like to be a buyer of this market on an outright basis, we would recommend doing so cautiously. One point worth making note of is that the May/June crude oil spread did not reflect today's market activity. Instead, this spread moved sluggishly in comparison to the rest of the market. This could be a sign of underlying weakness not yet seen, or Goldman rolls starting early. Total open interest for cru de oil is 1,381,645 down 14,967, May08 330,812 down 18,259, June08 185,573 up 7,178 and Dec08 198,797 down 3,403. The RBOB market, which rallied higher following the release of the inventory reports, will likely retrace some of its gains before it continues on its upward trend. The market is seen finding support at 271.00, 268.72, 266.44, 263.22 followed by 261.66, 259.20 and 259.08. Resistance is seen at 278.36, 278.45, 280.00 and 283.10. The May RBOB crack is seen finding support at 10.975 and targeting the 14 cent level on the upside while the May RB/HO spread tests its upside at -16.91 followed by -9 cents.

		<b>Explanation</b>	
<b>CL</b>	<b>Resistance</b>	105.70, 106.78, 108.90, 110.35, 111.80, 112.58	Previous highs, Basis trendline
	<b>Support</b>	105.10	Wednesday's high
<b>HO</b>	<b>Resistance</b>	102.98, 102.32, 101.67, 99.84	Wednesday's low
	<b>Support</b>	99.55, 98.35, 97.54, 95.51, 86.34	Previous low, 50%(86.33 and 101.86), Trendline, 62%, Previous low
<b>RB</b>	<b>Resistance</b>	297.66, 305.39, 305.56, 305.63, 308.00, 308.74	62%(305.56 and 284.89), Previous highs
	<b>Support</b>	296.32	Wednesday's high
<b>RB</b>	<b>Resistance</b>	290.00, 288.85, 284.89	Wednesday's low
	<b>Support</b>	283.75, 279.23, 275.08, 273.27	Previous lows
<b>RB</b>	<b>Resistance</b>	278.45, 280.00, 283.10	Basis trendlines
	<b>Support</b>	278.36	Wednesday's high
		271.00, 268.72, 266.44, 263.22	Retracement levels, Wednesday's low
		261.66, 259.20, 259.08, 252.26, 249.35	Basis trendline, Previous lows