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## ***ENERGY RISK MANAGEMENT***

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### **ENERGY MARKET REPORT FOR APRIL 8, 2008**

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OPEC's President Chakib Khelil said world oil supply was enough and added that there was no need for OPEC to increase output to lower oil prices. He said high oil prices were not a result of a shortage of crude. He blamed the weak US economy that was undermining the US dollar for the high oil prices. Meanwhile, Qatar's Oil Minister Abdullah al-Attiyah expressed similar sentiment and said there was no shortage of oil. He said the oil market was saturated and global inventories stood at five year highs. He also stated that OPEC should however react immediately should oil fall under \$80/barrel, adding that oil should not be

#### Market Watch

Shipping sources stated that European gasoline traders provisionally booked six ships in the past 24 hours to move gasoline across the Atlantic. Chevron, ExxonMobil, BP, Pemex, Petrobras and Total were heard booking 37,000 ton vessels to carry a mix of grades.

ConocoPhillips chief executive, Jim Mulva said upward pressure would remain on oil prices even if the US and other industrialized countries fall into a recession. He said developing areas such as India, China and the Middle East would put additional demand on world supplies.

Total chief executive Christophe de Margerie said oil prices are likely to continue rising due to tight supplies.

The NYMEX announced that margin requirements on its crude contracts would increase at the close of business Wednesday, April 9. The margin requirement for non-member customers on the May contract would increase from \$7,763 to \$8,775 while margins on the rest of the months would also increase to \$8,775 from \$7,088.

A floor trader who served on the board of the NYMEX agreed to serve five months in prison on Tuesday after pleading guilty to fraud and evidence tampering related to natural gas trading. The former NYMEX director, Steven Karvellas also agreed to pay \$850,000 in fines and penalties. According to a court document, the fraud involving Karvellas occurred between 2002 and 2003. He admitted that he engaged in fraud by delaying the allocation of customer orders in natural gas in order to wait to see what direction the market was moving. He pleaded guilty to tampering with physical evidence as he ordered the destruction of documents, including trade tickets from 2002 after his brokerage received a Manhattan grand jury subpoena. The other traders were identified as Thomas Maloney, Brian Keane and Ryan Tremblay.

Investor's Business Daily and TechnoMetrica Market Intelligence said their IBD/TIPP economic optimism index fell to 39.2 in April from 42.5 in April, well below the 50 level that separates pessimism from optimism. The IBD index were below the previous record low of 41.2 reported in September 2005.

**April Calendar Averages**

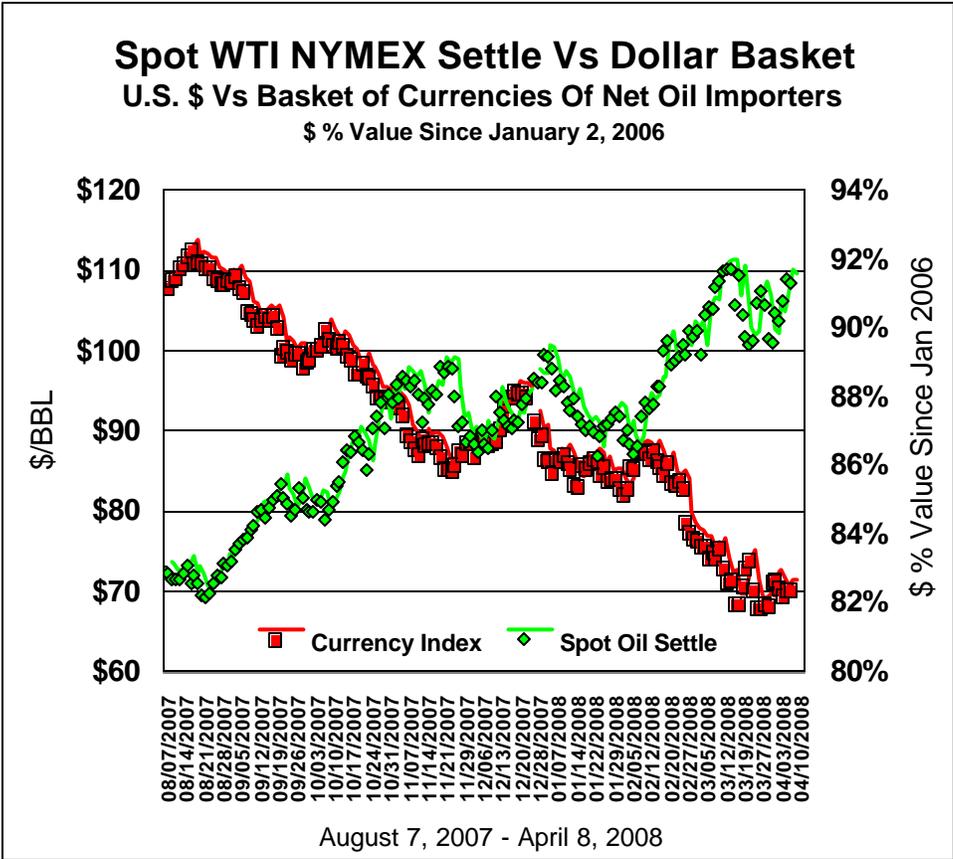
**CL** – 105.58

**HO** – 299.00

**RB** – 273.80

allowed to fall beyond a certain level because it would have a dire impact on the oil industry. OPEC’s Secretary General Abdullah al-Badri said oil prices are fair and added that there was more than enough oil in the market.

According to EIA’s latest Short Term Energy Outlook, the world oil market remains fundamentally tight entering the second quarter despite a decline in US oil consumption and increasing risks to world economic growth. It stated that world oil demand is expected to increase by 1.2 million bpd to 86.58 million bpd in 2008, with non-OECD countries accounting for over 1 million bpd of world oil consumption growth while OECD consumption is expected to increase by 90,000 bpd. Growth in non-OPEC supply is estimated at 600,000 bpd in 2008, down from last month’s estimate of 700,000 bpd. In regards to OPEC, the EIA reported that its production is expected to average 32.3 million bpd during the first quarter of 2008 or about 700,000 bpd over fourth quarter 2007 levels. OECD inventories stood at 2.58 billion barrels at the end of 2007, up 53 million barrels from its previous estimate. The EIA reported that in 2007, domestic crude oil production averaged 5.1 million bpd, unchanged on the year and is estimated to fall to 5.09 million bpd. Total oil demand in the US averaged 20.7 million bpd in 2007 and is expected to fall by 90,000 bpd to 20.61 million bpd in 2008, a reversal from the 40,000 bpd increase projected in its previous report. Demand in 2009 is estimated to increase by 210,000 bpd to 20.82 million bpd. The EIA said gasoline demand during the summer is expected to fall by 0.4% to 9.4 million bpd as a result of the current economic slowdown and high prices. Demand is expected to fall for the first time in 17 years. Demand in 2008 is estimated at 9.26 million bpd, down 60,000 bpd from its previous estimate of 9.32 million bpd. It stated that at the onset of the peak driving season, total gasoline stocks were ample at 224 million barrels. Gasoline stocks were 23 million barrels above last year’s level and 19 million barrels above the 5 year average. Distillate demand in 2008 is estimated at 4.21 million bpd, down 40,000 bpd from its previous estimate of 4.25 million bpd. Distillate stocks are estimated to start the summer season at 109 million barrels. Distillate stocks are expected to increase to 132 million barrels at the end of the third quarter. It stated that strong growth in world demand for distillate fuels and constrained supplies could limit the availability of imports and leave inventories lower than desired at the beginning of next winter. The EIA reported that WTI crude prices, which averaged \$72.32/barrel in 2007, are estimated to average \$101/barrel in 2008 and \$92.50/barrel in 2009, up from its previous



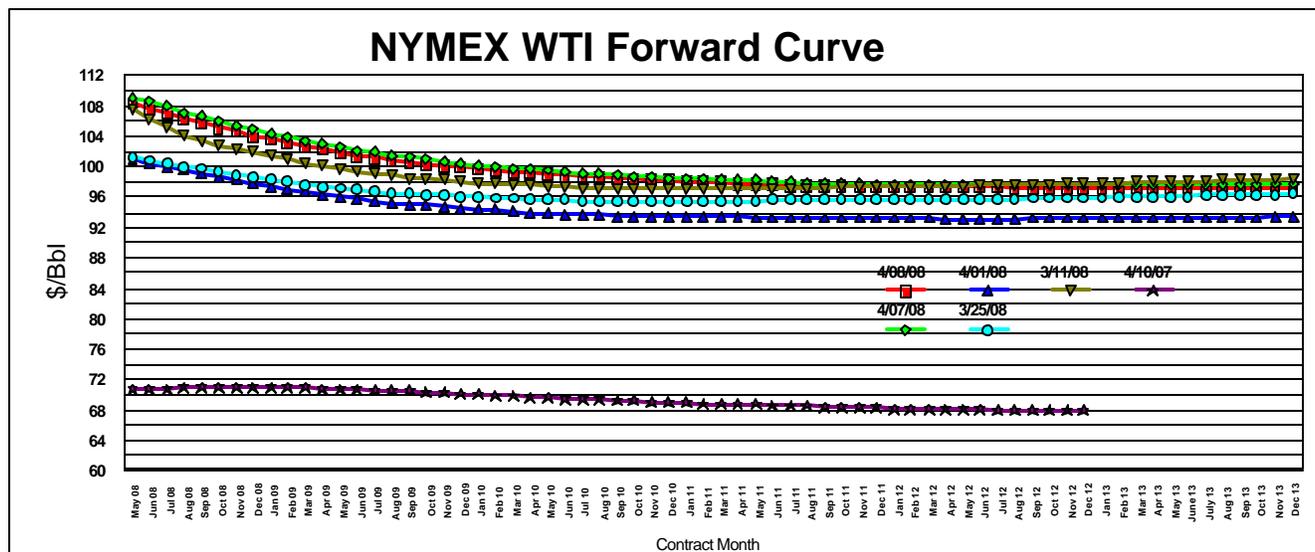
Gasoline stocks were 23 million barrels above last year’s level and 19 million barrels above the 5 year average. Distillate demand in 2008 is estimated at 4.21 million bpd, down 40,000 bpd from its previous estimate of 4.25 million bpd. Distillate stocks are estimated to start the summer season at 109 million barrels. Distillate stocks are expected to increase to 132 million barrels at the end of the third quarter. It stated that strong growth in world demand for distillate fuels and constrained supplies could limit the availability of imports and leave inventories lower than desired at the beginning of next winter. The EIA reported that WTI crude prices, which averaged \$72.32/barrel in 2007, are estimated to average \$101/barrel in 2008 and \$92.50/barrel in 2009, up from its previous

estimates of \$94/barrel and \$86/barrel, respectively. It stated that regular retail gasoline prices, which averaged \$2.93/gallon last summer, are projected to average \$3.54/gallon during the current driving season. Gasoline prices are expected to peak at just over \$3.60/gallon in June, up from its previous estimate of \$3.48/gallon. It however said it was possible for gasoline prices to breach the \$4/gallon level in some parts of the country. Diesel fuel prices, which averaged \$2.85/gallon last summer, are expected to average \$3.73/gallon this summer.

Iran's President Mahmoud Ahmadinejad said Iran has started to install 6,000 new centrifuges at its Natanz uranium enrichment facility. He said Iran has tested new advanced centrifuges. Iran already has 3,000 centrifuges operating in Natanz. Last week diplomats in Vienna said that Iran was installing advanced enrichment centrifuges at the underground Natanz facility, accelerating activity that could give Iran the means to make atom bombs in the future if it chose to.

China said it would host a meeting of officials from the US, Russia and Europe this month to discuss ways to restart talks on the Iranian nuclear issue. The April 16 meeting would discuss plans to resume talks and promote solution to the issue through diplomatic negotiations.

MasterCard Advisors LLC said US gasoline demand in the week ending April 4 fell by 2.5% or 230,000 bpd to 9.043 million bpd. In the latest four weeks, demand was down 1.2% on the year. It reported



that the US average retail price of gasoline increased by 3 cents to a record \$3.30/gallon.

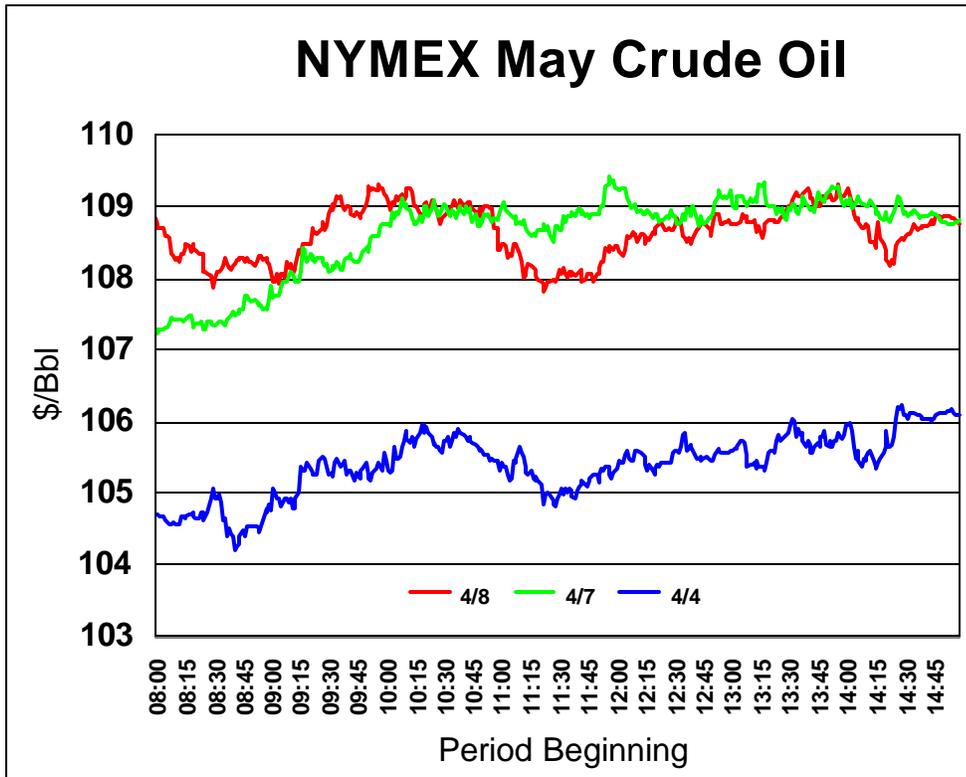
### Refinery News

Sunoco's 178,000 bpd refinery in Marcus Hook, Pennsylvania was still shut after a power outage on Monday evening. The company did not have an estimated time for restart.

Citgo said it was restarting a coker unit at its 156,000 bpd refinery in Corpus Christi, Texas after more than a month of maintenance. It began the restart on Tuesday and is expected to last until April 15.

Ukraine's Odessa oil refinery has resumed operations following a three year shutdown for renovations. The revamped Odessa refinery is expected to have an annual processing capacity of 2.8 million metric tons of oil compared with 1.39 million tons in 2005.

Oman's residual fluid catalytic cracking unit at the Sohar refinery is expected to remain shut for a month after a leakage last week. The 75,200 bpd unit was shut last Thursday after high temperatures caused a leak at the gasoline making secondary unit.



Fuel shipments from major oil refineries in Tokyo Bay were halted on Tuesday due to strong winds. Shipments from Nippon Oil's 340,000 bpd Negeshi refinery, Idemitsu Kosan's 220,000 bpd Chiba refinery, Cosmo Oil's 240,000 bpd Chiba refinery, Japan Energy's 270,000 bpd Kashima refinery were halted. They said they hoped to resume moving refined products on Wednesday.

A Bahrain Petroleum Co official said Bahrain

planned to shut 100,000 bpd of its BAPCO 260,000 bpd oil refinery for a planned maintenance for five to six weeks in the fourth quarter. The unit is the largest of five crude units at the refinery. The refinery expansion plan was contingent on increasing the capacity of a pipeline that brings crude for the plant from Saudi Arabia.

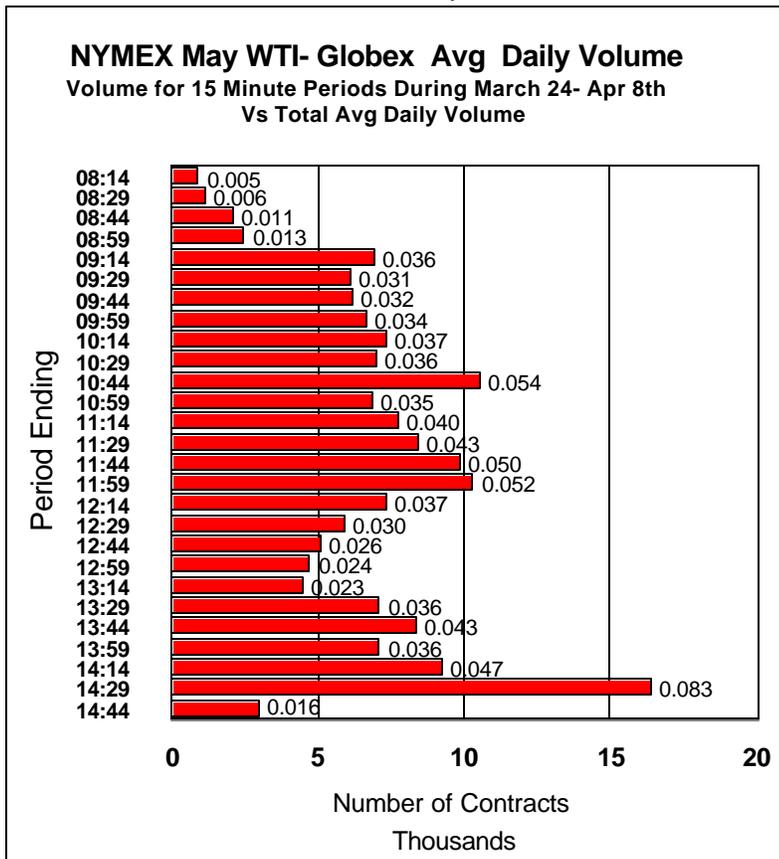
Nippon Oil Corp and South Korea's SK Energy have dropped plans to consider building a refinery overseas due to poor economics. This is the latest evidence that escalating construction costs and volatile profit margins was forcing companies to reconsider expansion plans.

China's total oil demand is expected to increase at a modest annual rate of 3.3% between 2010 and 2020, easing from 4.5% in the 2007-2010 period. China is expected to consume 407 million tons/year or 8.14 million bpd of oil by 2010 and increase to 11.26 million bpd by 2020. In refined fuel consumptions, gasoline would lead with an annual rate of 5.7%, followed by 5% for kerosene and 4.2% for diesel between 2007 and 2010.

Georgia's Black Sea port of Batumi shipped 749,100 tons of crude oil and refined products in March, down from 912,100 tons last year but up from 554,600 tons shipped in February.

Kazakhstan is expected to impose a crude export duty of \$109.91/ton starting in May. Officials have assured Western oil majors their operations would be exempt but new players on the market as well as some of the production units of the national oil company will be liable. The measure is aimed at stabilizing domestic supplies, taming inflation and increasing budget revenues.

KazMunaiGas estimated a possible annual impact of a new crude export duty on its operations at \$800 million and said it would review its production and investment plans as a result.



India's Larsen & Toubro Ltd said a pipeline that would transport crude oil from Cairn Energy's Barmer field to Salaya in Gujarat would be ready by December 2009. Cairn is expected to begin production from its Mangala oilfield in the second half of 2009.

**Production News**

PetroCanada is scheduled to shut the Terra Nova oilfield for 10 days in June for maintenance. In February, the Terra Nova field produced 106,109 bpd.

Murphy Oil Corp president and chief executive Claiborne Deming said it saw strong production growth from its domestic and international projects in coming years. The projects include Malaysia's Kikeh field, which came started operations in August 2007 and is expected to produce 120,000 bpd by year end.

PDVSA signed a deal with India's Oil and Natural Gas Corp to explore and produce oil and gas in another joint venture with a state owned foreign company. Venezuela's Oil Minister Rafael Ramirez said that Venezuela would supply 150,000 bpd of crude to Indian refineries. Both partners would create a joint venture called Petrolera IndoVenezolana. Venezuela estimated that they would pump about 232 million barrels of crude over the next 25 years.

Marathon Oil Corp said it expects a first quarter exploration expense of about \$135 million to \$145 million.

Separately, Marathon Oil Corp said it hoped to restart its North Sea East Brae natural gas and condensate field later Tuesday after a power outage on Monday halted work on three platforms. The Brae Alpha, Brae Bravo and East Brae platforms had successfully restarted before East Brae was forced to shut down again.

An explosion occurred on Tuesday on a link to a major gas pipeline owned by Russia's Gazprom. The blast occurred on a pipeline, which takes Gazprom's gas from the Arctic region of Urengoi through Ukraine and into Europe. Supplies to Europe continued to run smoothly.

OPEC's news agency reported that OPEC's basket of crudes increased by \$2.53/barrel to \$101.16/barrel on Monday.

**Market Commentary**

Today's stabilization of the dollar made the energy markets a less attractive hedge against inflation. This sparked off some profit taking to the downside as longs liquidated some of their gains. The EIA has also decreased its expectations for gasoline consumption for this upcoming summer driving season by 0.4%. Crude oil so far this week has held the support line at \$105.86 based on the weekly chart for May. Stochastics on this chart are in the over bought area but do not appear to be setting up for a cross to the downside. We would look for further pressure on this market, barring any major change in stock level numbers. Should prices test the aforementioned support at \$105.86 and hold, this would provide a buy opportunity. Tomorrow's DOE/API release are calling for a build in crude of 2.2 million barrels, a draw in gasoline of 2.3 million, a draw in distillates of 1 million barrels and runs are expected to increase by 0.8%. Once again we would look for all eyes to be on the demand factor for gasoline in light of the upcoming summer driving season. The draw in gasoline stocks should not prove to be a major factor as long as demand doesn't increase dramatically. As for heating oil, the demand for diesel in conjunction with the gasoil situation in Europe, has helped to support this product. The heating oil market settled in positive

		<b>Explanation</b>	
<b>CL</b>	<b>Resistance</b>	110.35, 111.80, 112.58, 116.13	Previous high, Basis trendlines
		108.80, 109.64	Monday's high
	<b>Support</b>	107.64	Tuesday's low
		106.15, 105.86, 104.03, 103.21, 99.84, 99.55	Previous lows
<b>HO</b>	<b>Resistance</b>	314.05, 323.98	Basis trendline
		312.40	Tuesday's high
	<b>Support</b>	309.30, 306.60	Tuesday's low
		301.89, 298.60, 295.40, 293.00, 291.42, 284.89	38% (284.89 and 312.40), 50%, 62%, Previous lows
<b>RB</b>	<b>Resistance</b>	279.78, 280.00, 289.16	Previous high, Basis trendline
		276.10, 279.20	Tuesday's high
	<b>Support</b>	272.87	Tuesday's low
		271.87, 270.62, 269.43, 266.99, 263.22	38% (259.08 and 279.78), Previous low, 50%, 62%, Previous low

territory unlike the rest of the energy complex. The market will remain supported on Wednesday amid the expectations of continued draws in distillate stocks. The market is seen finding support at 309.30, 306.60 followed by 301.89 and 298.60. Resistance is seen at 312.40, 314.05 followed by more distant resistance at 323.98. Total open interest for crude oil is 1,417,938 up 14,570, May08 288,169 down 21,925, June08 230,006 up 25,636 and Dec08 197,009 down 165.