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## ***ENERGY RISK MANAGEMENT***

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### **ENERGY MARKET REPORT FOR MAY 6, 2009**

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Algeria's Energy Minister Chakib Khelil said OPEC is unlikely to cut its output when it meets on May 28 if oil prices maintain their strength and the economy shows signs of recovery. However he stated that it is too early to say what the decision may be.

Venezuela's Oil Minister Rafael Ramirez said OPEC is seeking a minimum crude price of \$70/barrel.

US Senate Energy Committee Chairman Jeff Bingaman is seeking to add 30 million barrels of gasoline and diesel fuel to the SPR in a bid to avoid price spikes in refined products after natural disasters. The Strategic Petroleum Reserve Modernization Act of 2009 would make a significant change in how the SPR can be drawn down, given the authority of a full emergency drawdown to the Energy Secretary, rather than only the President.

#### **DOE Stocks**

**Crude** – up 600,000 barrels  
**Distillate** – up 2.4 million barrels  
**Gasoline** – down 200,000 barrels  
**Refinery runs** – up 2.6%, at 85.3%

#### **Market Watch**

According to the ADP Employer Services, US private sector job losses slowed much more than expected in April. It said private employers cut 491,000 jobs in April compared with a revised level of 708,000 in March. Economists expected 650,000 private sector job cuts in April.

Iran's Oil Minister, Gholamhossein Nozari told German energy companies they were welcome to invest in the country, which he said could become a major supplier of natural gas to Europe. However he made clear during a visit to Germany that Iran could develop its energy sector in the absence of investment from Western companies.

Ecuador's government hopes to begin signing service contracts in September with private oil companies operating in the country to replace several current transitory participation deals. Under the current participation deals, the government receives a percentage of profits from oil production while under the new service provider contracts, companies will be paid a production fee and reimbursed for investment costs. The new contracts will also see foreign companies lose the option of seeking international arbitration at the World Bank's International Center for Settlement of Investment Disputes. Instead, they will have to use local and regional courts in Ecuador to settle any dispute.

Iraq's Oil Ministry said a roadside bomb ruptured a pipeline from Iraq's northern Bai Hassan oil field early on Wednesday but the attack did not affect oil export capacity. Ministry spokesman Asim Jihad said a crew from the North Oil Co

extinguished the fire and shut the wells, each of which had a capacity of 1,5000 bpd.

<p><b>April Calendar Averages</b>  <b>CL – \$54.46</b>  <b>HO – \$1.4301</b>  <b>RB – \$1.5759</b></p>
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China said a US naval vessel involved in an incident with Chinese fishing boats in the Yellow Sea violated maritime law and urged the US to take steps to avoid a repetition. It said US surveillance vessel USNS Victorious entered China’s exclusive economic zone in the Yellow Sea without China’s approval.

**Refinery News**

Colonial Pipeline said it froze allocations of diesel, jet fuel and heating oil for cycle 26 on its main distillate line north of Collins, Mississippi as nominations exceed its ability to meet its 5-day lifting cycle. It is also allocating distillate shipments on the same line for cycle 27 of this year.

Western Refining Inc will shut its 122,000 bpd El Paso refinery for 10 days in June.

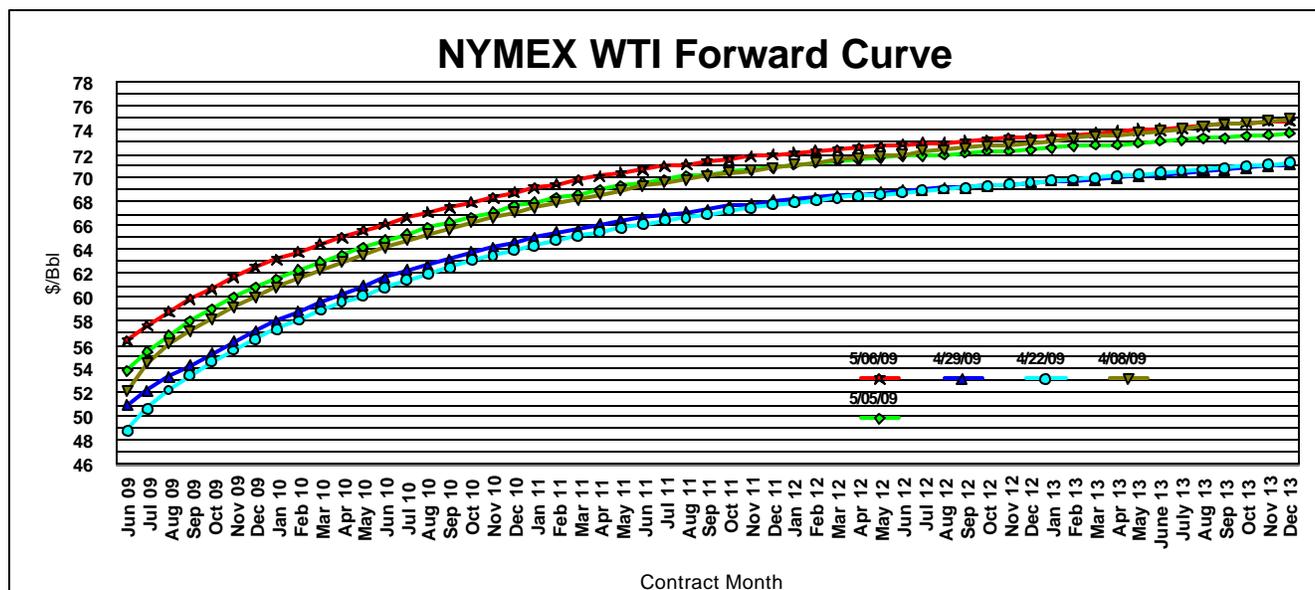
China’s Sinopec Corp plans to cut crude processing rates at its Zhenhai plant by about 20% in May for planned maintenance. The plant will start maintenance of a 180,000 bpd crude oil unit and other facilities from mid-May and the overhaul will last less than 30 days. Zhenhai will process about 334,400 bpd in May, down from 415,000 bpd in April.

China’s government approved PetroChina’s plans to triple the capacity of its refinery in Hohhot. PetroChina plans to invest \$1.22 billion to expand the 30,000 bpd refinery to 100,000 bpd while adding other facilities including a 150,000 ton/year polypropylene unit. The expansion will begin this year and be completed by 2012.

China has approved a plan to set up 10 million tons of refined fuel state reserves by 2011 as part of its economic stimulus plan. It is China’s first official plan to establish sizable refined oil state reserves after completing its first stage of state strategic crude reserves. An official familiar with the plan did not state which refined products were included in the plan.

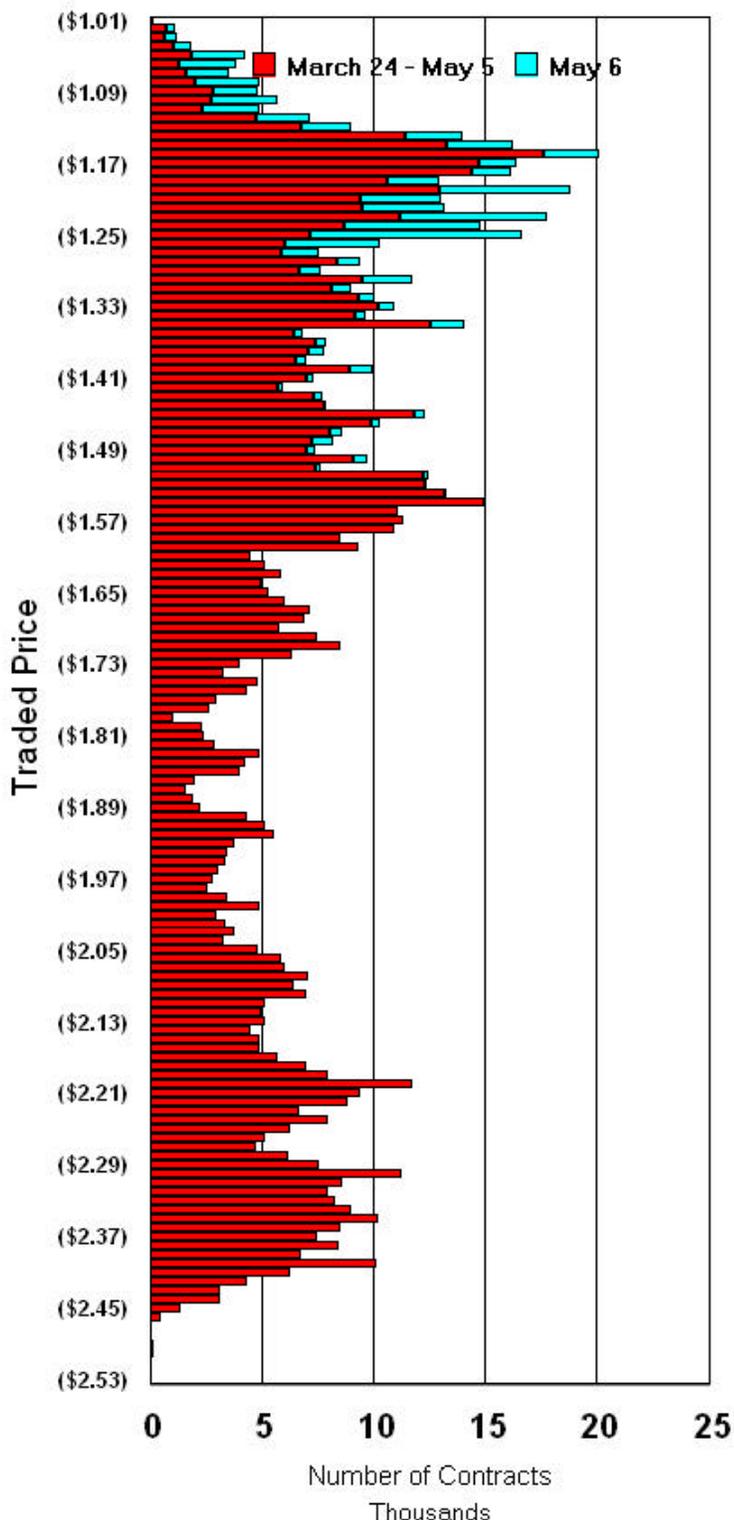
China’s main ports received 15.3 million tons or 3.72 million bpd of crude oil in April, up 9% on the year. China’s total crude stocks stood at about 274 million barrels by the end of March, the highest level in at least 15 months.

Western fuel oil cargoes arriving in Asia in May are likely to fall 18-20% to 2.6-2.8 million tons



## NYMEX WTI: June July Spread Price Vs Volume for March 24 - May 6, 2009

Trade Weighted 5/4 -1.62, 5/5 -1.65, 5/6 -1.21



compared with last month's 3.1-3.3 million tons. June arbitrage flows are estimated to be slightly lower at 2.2-2.4 million tons so far.

Traders said about 155,000 tons of Northeast Asian diesel of 10 ppm grade will set sail for Europe from May 15, increasing the shipments for the month to 285,000 tons.

Japan's Itochu Petroleum is taking 100,000-120,000 cubic meters of storage space at Chemoil's Helios terminal. It started trading mainly straight run feedstocks after a storage deal at the 450,000 cubic meter facility was sealed several days ago.

Total bought 90,000 tons of cracked 380-cst fuel oil from Saudi Aramco, increasing its total to at least 580,000 tons since late March as it increases its products trading activities in Asia.

Cargill has suspended its Asian gasoline trading, temporarily giving up its clean storage tanks in the Singapore oil hub. The less than 100,000 cubic meters of storage space at the Sebarok terminal is currently sub-let by Royal Vopak to Noble Group.

Georgia's Black Sea port of Batumi shipped 464,313 tons of crude oil and refined products in April, down from 845,900 tons last year and from 557,949 tons in March. Its crude and refined products shipments fell on the year as some crude was re-routed to the Baku-Tbilisi-Ceyhan pipeline and as railway fees increased in Azerbaijan in 2007.

Thailand's Energy Ministry reported that the country's demand for oil products, excluding bitumen and liquefied petroleum gas, in March fell by 5.9% on the year to 590,360 bpd.

### Production News

The Energy Department said that while the number of rigs drilling for US oil and

natural gas has fallen sharply since last summer's steep decline in energy prices, production per well has increased. It said the number of oil and gas rigs has declined by 53% from a peak of 2,031 last September to 945 at the beginning of this month, the lowest level since March 2003. It said that operators tend to focus on the most potentially profitable parts of their prospect portfolios as the number of new wells falls.

Chevron Corp and StatoilHydro announced that the Tahiti field in the US Gulf of Mexico started production on Tuesday. The field is expected to produce 125,000 bpd of oil and 70 million cubic feet/day of natural gas by the end of the year. The field is estimated to contain between 400 million and 500 million barrels of oil equivalent.

Saudi Aramco CEO, Khalid al-Falih said Saudi Arabia will meet an end of June target for increasing its oil output capacity to 12.5 million bpd. All oilfield development projects scheduled for completion in June are on target, including Khurais, Nuayyim and Shaybah, which will add a total of 1.45 million bpd of capacity. He said Saudi Arabia is currently producing 8 million bpd and there are no current expectations of a change in its output. He also stated that low oil prices are good for economic recovery however it cuts investments.

Apache Corp shut the 16,000 bpd Forties Delta platform in the North Sea for 16 days of planned maintenance on May 2.

Shell said it formally withdrew a three year plan for energy exploration in Alaska's Beaufort Sea after it was stymied by environmental litigation. It will soon file new exploration plans for 2010 that will be much smaller in scale to address environmental concerns expressed by North Slope residents.

Iraq's Deputy Oil Minister Ahmed al-Shamma said Iraq is in the final stages of studying bids from Japan's Nippon Oil, Italy's Eni and Spain's Repsol and expects to announce the winner of a deal to develop its Nassiriya oilfield by the end of May. Officials previously stated that the oilfield could pump 100,000 bpd within 18 months.

Pemex said it found commercial quantities of oil in Mexico's deepwater Gulf of Mexico well. It aims to have five rigs drilling 10 wells a year by 2012. Pemex estimates Mexico's remaining potential reserves at 52 billion barrels of oil equivalent.

Total reported that its adjusted net profit fell by 35% on the year to \$2.83 billion. Its production fell by 4.3% to 2.32 million bpd of oil equivalent in the first quarter. Total said it will continue to invest in spite of the weak environment, while reducing costs across the company. Total's CFO Patrick de la Chevadiere said he is confident in the company's ability to add new production this year. He also said Total is in talks with China National Petroleum Corp about the possibility of working together on a project in Venezuela.

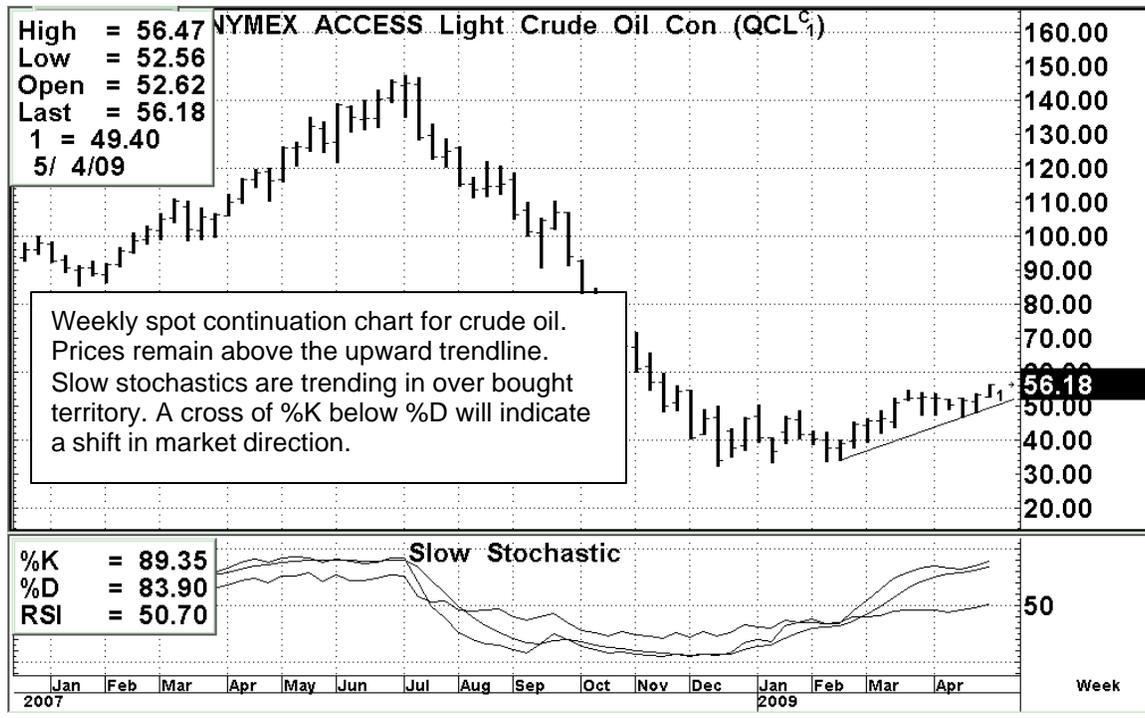
OPEC's news agency reported that OPEC's basket of crudes increased further to \$52.71/barrel on Tuesday from \$52.11/barrel on Monday.

### **Market Commentary**

Once again speculators entered the market as crude oil stocks built less than expected and signs that the economy is improving circulated the market place. Crude oil stocks, which were expected to increase by 2 million barrels, posted a modest gain of 600,000 barrels for the week ending May 1<sup>st</sup>. According to a report by ADP Employer Services, U.S. unemployment fell 491,000, less than the 645,000 that was expected according to a Bloomberg survey. The U.S. government will release a report on May 8<sup>th</sup>. Gasoline stocks decreased 167,000 barrels; a gain of 550,000 barrels was expected. Distillate stocks increased by 2.43 million barrels, an increase of 900,000 barrels was

expected. The front end of the forward curve for crude oil strengthened, with the June contract gaining against the deferred. Despite today's run-up in prices, the overall fundamentals of this market do not support this higher move. Crude oil inventories remain at 18-year highs, with demand still suffering. We have yet to see steady growth in the global economy that will indicate a shift in demand. Technically, this market appears to be overdone to the upside and we would look for a retracement back to the ascending trendline on the weekly spot continuation chart. This trendline comes in at \$49.40. As mentioned in our previous wire, today is the fourth business day of the month, when gasoline historically trades higher. We would have been buyers of the June gasoline contract at the end of today's floor traded session. The June gasoline contracted settled at \$1.6260. We would look for continued strength up and until the ninth business day of the month, which is May 13<sup>th</sup>. The market typically pauses at this point prior to going higher. Light profits can be taken, or additional length added. We expect that gasoline will continue higher throughout the month.

Crude Oil (CL) JUN.09 294,409 -12,525 JUL.09 231,097 +8,655 AUG.09 73,274 +5,470 SEP.09 46,696 +536 Totals: 1,197,954 +7,650 N.Y. Heating Oil (HO) JUN.09 63,708 -2,979 JUL.09 34,516 +181 AUG.09 20,822 +387 SEP.09 17,103 +161 Totals: 255,773 -1,786 NEW YORK HARBOR RBOB (RB) GASOLINE JUN.09 82,784 -3,234 JUL.09 40,324 +1,407 AUG.09 23,778 -577 SEP.09 18,611 -284 Totals: 208,670 -2,149



<b>Crude Support</b>	<b>Crude Resistance</b>
48.00, 46.68, 45.10, 44.50, 43.80, 40.00, 38.95, 32.25, 29.66, 28.63, 26.65, 25.50	57.20, 59.20
<b>Heat Support</b>	<b>Heat resistance</b>
1.2715,1.2300, 1.1359, 1.1095, 1.0520	1.4715, 1.4865, 1.5050, 1.5143,1.5285, 1.5520, 1.6715
<b>Gasoline support</b>	<b>Gasoline resistance</b>
1.5370, 1.5260, 1.3560, 1.3400, 1.3180,1.2700, 1.2625 1.1680,1.0128, .9590,	1.6447, 1.6788, 1.7555

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