



## ***ENERGY RISK MANAGEMENT***

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### **ENERGY MARKET REPORT FOR MAY 14, 2008**

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The international affairs director at the National Iranian Oil Co, Hojjatollah Ghanimifard said Iran was exporting oil as usual and has no plans to cut its crude exports. On Tuesday, Iran's President Mahmoud Ahmadinejad said Iran was reviewing a plan to cut its production.

Separately, refiners said Iran was reviewing its output because its stocks have increased significantly. Refiners have been refusing to pay up for heavy Iranian crude that is difficult to convert into transport fuels while Iran has refused to cut prices further. Iran has leased a fleet of tankers that can store more than 30 million barrels of oil that it has yet to sell.

Late Tuesday, the House of Representatives followed the Senate in rejecting the Bush administration's policy of adding more oil to the SPR. The House passed legislation that would suspend crude deliveries to the SPR while the price of crude remains above \$75/barrel. Similar to the Senate vote, the 385 to 25 House vote in favor of the bill was large enough to override a presidential veto of the measure. Meanwhile, White House spokesman Scott Stanzel said the president's advisors have not recommended a veto of the bill at this time but added that President Bush would not veto the Senate's legislation based on the oil reserve provision.

Iran's ambassador to the European Union, Ali Asghar Khaji said he presented a new package to EU foreign policy chief Javier Solana to resolve international concerns over its nuclear program.

#### **Market Watch**

The US Labor Department reported that the consumer price index increased 0.2% in April compared with an increase of 0.3% in March. Excluding food and energy, the consumer price index increased 0.1%. It reported that energy prices were unchanged in April after increasing 1.9% in March.

JPMorgan Chase & Co said announced it would start trading physical oil by year end. The bank's global head of commodities, Blythe Masters said the bank planned to expand in commodities and energy trading.

The NYMEX announced that the initial margin requirement on its heating oil contract would increase from \$10,800 to \$11,475 for its non-member customers at the close of business Thursday, May 15<sup>th</sup>.

The US Federal Trade Commission said it was taking a further look at diesel and jet fuel prices amid the soaring prices.

#### **DOE Stocks**

**Crude** – up 200,000 barrels

**Distillate** – up 1.4 million barrels

**Gasoline** – down 1.7 million barrels

**Refinery runs** – up 1.6%, at 86.6%

Separately, Russian Deputy Foreign Minister Grigory Karasin said Azerbaijan agreed it would not hamper the transit of Russian equipment bound for Iran's Bushehr nuclear plant. This followed an incident in March when Azerbaijani customs halted a shipment of Russian insulation equipment bound for the nuclear plant in Iran. Azerbaijan released the equipment on May 1.

May Calendar Averages	
CL	121.81
HO	344.66
RB	310.05

The EIA reported that US ethanol imports fell by about 48% in March to 253,000 barrels, down from 483,000 barrels in February. The imports are down 64% on the year. The majority of imports came from Caribbean countries and Central America, with Trinidad leading at 143,000 barrels in two shipments bound for East Coast ports in Maryland and New Jersey.

The American Petroleum Institute reported that US crude oil demand and petroleum products in April increased by 0.2% or 50,000 bpd on the year to 20.629 million bpd. It reported that gasoline demand in April increased by 0.4% or 38,000 bpd to 9.27 million bpd while distillate demand increased by 1.7% or 73,000 bpd to 4.285 million bpd. In regards to supply, the API said crude oil imports in April averaged 9.808 million bpd, down 3.7% on the year while oil product imports fell by 9.3% to 3.37 million bpd. US crude oil production in April fell by 1.7% to 5.068 million bpd.

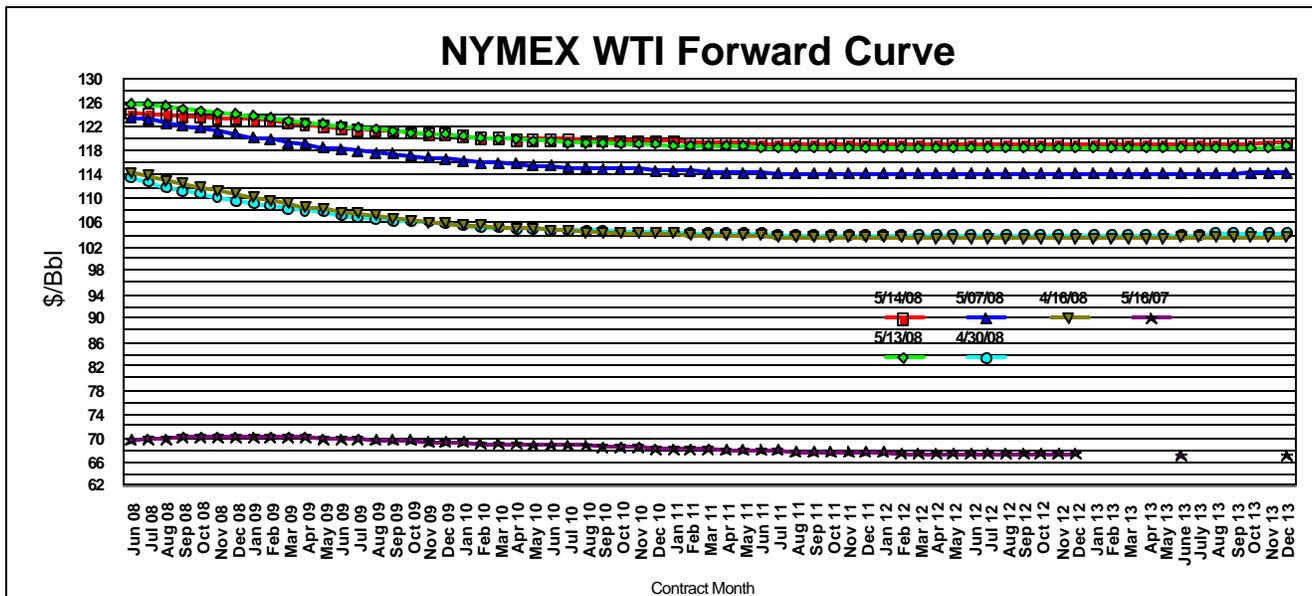
Gunmen in Nigeria's Niger Delta hijacked a supply ship working for Chevron on Tuesday and have demanded a ransom for the release of the vessel and its crew. A Nigerian military spokesman said the unidentified hijackers were demanding 30 million naira or \$254,539 in ransom for the release of the vessel and its 11 person crew.

### Refinery News

Shell raised its bid for diesel cargoes in European spot trade as oil traders said it had lost some capacity to desulphurize fuels at its Stanlow refinery.

The US Coast Guard said about 1,500 gallons of gasoline and diesel fuel has spilled into San Francisco Bay after a tugboat hit a refinery fuel line on Wednesday. The pipeline is used to transfer fuel from Tesoro Corp's Golden Eagle refinery in Martinez to barges. Meanwhile, Tesoro Corp said operations at its 166,000 bpd Golden Eagle refinery in Martinez, California is not expected to be impacted by the tugboat accident.

Total SA and Saudi Aramco confirmed their decision to invest in a 400,000 bpd refinery in Jubail, Saudi Arabia. The companies expect the refinery to begin operations at the end of 2012.



Refinery maintenance in Europe has made arbitrage shipments of Asian gasoil and jet kerosene to the region feasible however so far there have been few confirmed deals. The East-West arbitrage window reopened in early May due to increasing gasoil futures in Europe due to tight supply caused by refinery maintenance.

Germany's MWV reported that the total sales of oil products in Germany increased by 14.3% on the year in April to 6.22 million tons. It reported that gasoline sales fell by 8.2% on the year to 1.69 million tons while diesel sales increased by 11.6% to 2.58 million tons and heating gasoil sales increased by 80.8% to 1.55 million tons. It also reported that high sulfur fuel oil sales fell by 7.2% to 400,000 tons.

China's National Bureau of Statistics reported that China's refinery runs in April increased 3.6% on the year, the slowest growth in 19 months as refiners curbed production and increased gasoline and diesel imports to take advantage of tax breaks. China processed 27.38 million tons or 6.66 million bpd of crude in April, down 140,000 bpd on the month. The slower growth in April followed the 7.6% growth reported in the first quarter of the year. China's National Bureau of Statistics reported that refinery throughput in the first four months of 2008 increased by 6.6% on the year to 112.23 million tons. China pumped 15.41 million tons of crude in April, up 0.5% on the year. China's gasoline production increased 0.9% in April to 4.832 million tons compared with an increase of 5.5% to 20.516 million tons in the January-April period while refiners cut output of fuel oil by 0.5% to 1.76 million tons compared with an increase of 6.7% to 7.435 million tons in the first four months.

PetroChina is expected to import 400,000 tons of diesel in June, up 30% on the month as it seeks to stockpile diesel ahead of the summer Olympics. The 7.9 magnitude earthquake that shook China on Monday has also caused refiners to seek more fuel supply. Electricity outages have forced consumer to turn to diesel fired generators instead.

Japan's Oil Information Center reported that Japan's crude oil inventories in the week ending May 10 built by 5.27 million barrels to 96.29 million barrels. It reported that Japan's gasoline stocks built by 2.31 million barrels to 15.93 million barrels on the week as the reintroduction of a gasoline surcharge cut demand. The average price of regular gasoline increased to 160.1 yen/liter (\$5.83/gallon) as of Monday, up from 159.6 yen in the previous week. It also reported that kerosene stocks built by 660,000 barrels to 11.21 million barrels. Refiners lowered their refinery utilization rate, with an average rate of 81.6% of the total capacity of 4.9 million bpd, down from 82.4% the previous week.

Japan's Trade Ministry sold 76,000 kiloliters or 478,000 barrels of Qatar Marine crude oil for July loading to Nippon Oil Corp in a tender to resell some national reserves. The tender was issued because Mitsubishi Corp, which owns the tank where the crude is stored, was canceling its contract with the government and there were no empty government owned tanks.

### **Production News**

The Norwegian Petroleum Directorate said Norway's StatoilHydro ASA made a discovery containing reserves of between 2 million to 3 million cubic meters of oil equivalents. It drilled an exploration well in the Oseberg area.

Mexico's President Felipe Calderon sent a proposal to Congress on Wednesday aimed at increasing the country's oil production by cutting taxes on crude drilled in deep water fields. Under the bill, Pemex would pay less taxes on oil produced from deep water fields in the Gulf of Mexico. Pemex is counting on these deposits and Chicotepec field to eventually help make up for a decline in production in Mexico's Cantarell oilfield.

Venezuela's overall oil production stood at 2.32 million bpd in April, down 4.5% from the beginning of the year, according to the IEA. It estimated that Venezuela has a sustainable production capacity of 2.5 million bpd.

Ecuador's Central Bank reported that the country's oil export revenue increased to \$2.71 billion during the first three months of the year from \$1.34 billion in the same period of 2007. Ecuador exported 33.41 million barrels, up 12% from 29.82 million barrels reported last year.

Brazil's Petrobras said its oil production from domestic fields increased to 1.842 million bpd in April from 1.8 million bpd in March. Its international oil production fell to 122,200 bpd in April from 122,700 bpd in March.

AO TNK-BP Holdings' crude production in 2008 is expected to remain at last year's level of 510 million barrels or 1.4 million bpd. However a company official said its production in 2009 is expected to increase due to new project launches.

Russia's Prime Minister Vladimir Putin turned on the taps on Wednesday at a new Baltic Sea oil export facility. He said the terminal at Primorsk would help Russia diversify its export terminal for oil and refined oil products. Separately, Russia's Prime Minister said he expected Russia's oil production to increase by 67 million tons or 1.3 million bpd or 13.6% by 2015.

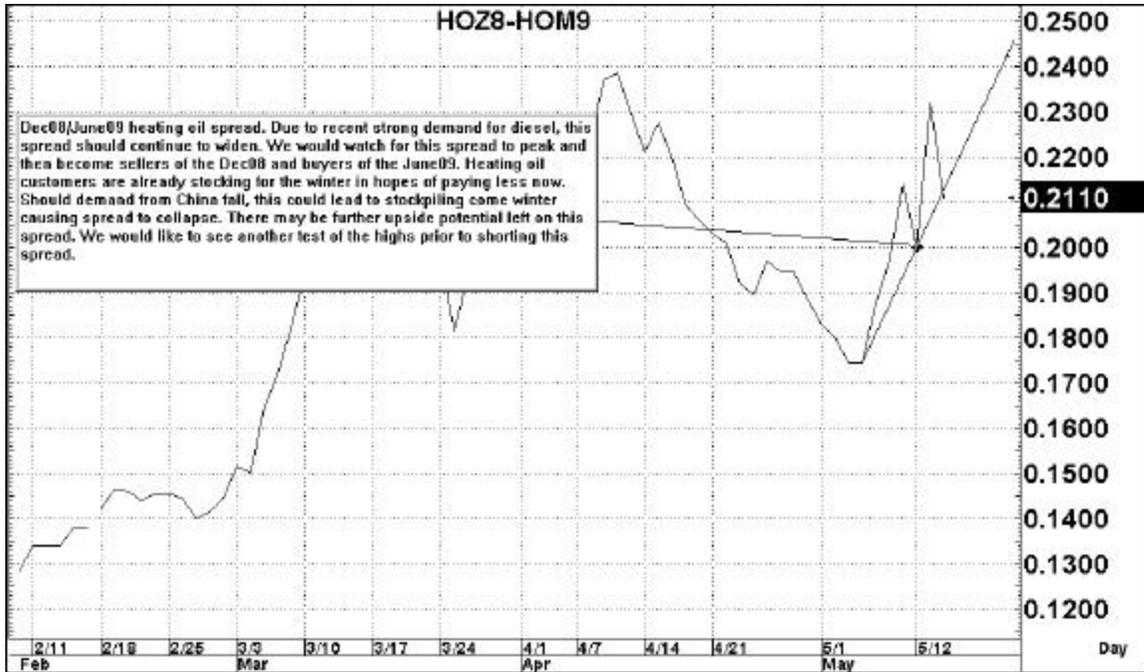
Indian Oil Corp bought 4 million barrels of West African light, sweet crude via its most recent import tender for July loadings.

OPEC's news agency reported that OPEC's basket of crudes fell to \$118.76/barrel on Tuesday from \$119.65/barrel on Monday.

### **Market Commentary:**

With the U.S. consumer price index rising less than expected and the U.S. Senate and House of Representatives voting to stop filling the SPR, energy prices tumbled today. Although the DOE/API figures were different than what was anticipated, they were not drastic enough to support further upside movement. Crude oil stocks, which was expected to build by 1.9 million barrels, only built by 200,000 barrels. Distillate stocks, expected to build by 1 million barrels, built by 1.4 million and gasoline stocks, which were expected to build by 300,000 barrels, drew 1.7 million barrels. Demand for gasoline decreased by 0.2% on the year and distillate demand increased by 0.8%. It is expected that demand will continue to fall given the high level of prices. The front end of the forward curve for crude oil continues to dip, which is an indication of weakness in the market. The front to middle and back end spreads came under pressure and we could very easily see contango market conditions start to occur. Slow stochastics for the daily and weekly charts continue to trend in overbought territory and appear to be getting ready to cross to the downside. For the remainder of the week, we would look for further down side potential, selling any move towards the recent high of \$126.98. The June/July spread may appear to be holding strong despite the lower move on the outright market, however we feel that this is more of a reflection of length lightening in the deferred contracts rather than June strength. Heating oil, clearing the weaker market on the day, still managed to record another record high. Low European stocks and global diesel demand will continue to give heating oil its unseasonable strength. The June contract is still trading above the upward channel on the spot continuation chart and not until we can get a settlement below \$3.2000 can we see this market breaking its trend. The December 08/June09 spread came under pressure today, however we would like to see another test towards the highs before putting on a short position. Gasoline fell short of breaking out of the ascending channel on the spot continuation chart and since the middle of March; it has been having trouble gaining momentum to break out. With the demand situation slowing down at a time when demand should be peaking, it will

be difficult for this market to gain rapidly. Instead, we expect it to continue to trend with in the ascending, taking the opportunity to buy and sell against the listed support and resistance numbers. Total open interest for crude oil



1,477,007 up 16,624, June08 217,333 down 13,951, July08 330,056 up 29,208 and December 08 211,612 up 68. Total open interest for heating oil 235,549 up 1,461, June08 59,710 down 2,792 and July 56,606 up 3,068. Total open interest for gasoline, 262,563 up 2,293, June 65,588 down 3,557 and July 72,559 up 4,177.

<b>June Crude Support</b>	<b>June Crude Resistance</b>
120.36, 116.05, 110.30, <b>85.40</b>	130.25
<b>Heating oil support</b>	<b>Heating oil resistance</b>
<b>3.5425</b> , 3.5100, 3.3500, 3.1680, 3.1070	37400, 3.8535, 3.8760
<b>Gasoline support</b>	<b>Gasoline resistance</b>
3.1205, 3.0730, 3.0400, 3.0250, 2.9255	3.2300, 3.2855, 3.3755, 3.4655