



## **ENERGY RISK MANAGEMENT**

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### **ENERGY MARKET REPORT FOR JUNE 18, 2008**

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Nigeria's senior oil workers' union Pengassan said it is poised to go on strike after talks with the local unit of Chevron failed on Wednesday.

Pengassan last week set June 18 as the deadline for resolving a labor dispute.

Pengassan's Secretary General Bayo Olowoshile said there could be a strike any time.

Iran's OPEC Governor Mohammad Ali Khatibi said Iran has no plans to review its oil production policy before OPEC's meeting in September.

The IEA is seeking an immediate increase in oil production at this weekend's producer-consumer

#### Market Watch

US gasoline prices may be further supported by the rising costs of ethanol as the worst floods in 15 years hit the Midwest Corn Belt. An analyst said if there are prolonged rail and barge delays in getting Midwest ethanol to the coast, there will be an absolute upward impact on prices. The cost of corn-based ethanol has increased 20% in two weeks as flooding has damaged Midwest corn crops, shut distilleries and disrupted rail traffic. The price of ethanol has increased to about \$2.90/gallon, still well below the price of finished gasoline. However the increased price of ethanol could still filter down to consumers. According to the Iowa Renewable Fuels Association, a total of 300 million gallons per year of ethanol production capacity was forced offline by the floods.

According to JPMorgan Chase & Co, crude oil's bull run may be over as prices become increasingly volatile and Saudi Arabia pledged to increase its production. It said prices are expected to correct over the next few months. It said spare production capacity may reach 5 million bpd by 2010 and added that new production from OPEC and non-OPEC would be enough to meet demand growth in until 2010.

Meteorologists were watching a tropical wave moving west across the North Atlantic on Wednesday. While the storm showed some signs of organization, the National Hurricane Center forecast that upper level winds would remain unfavorable for development into a storm. Accuweather.com said there were three tropical waves in the Atlantic Ocean and Caribbean Sea but did not expect any to develop over the next 48 hours due to strong winds.

The UK's Met Office forecast 15 tropical storms could develop in the North Atlantic between July and November this year. It said there was a 70% chance of the number of tropical storms in the area being between 10 and 20 this season, with 15 the most likely.

China's Shanghai Composite Index increased 5% on Wednesday as it bounced from technical support and Sinopec rallied on speculation that authorities may increase domestic fuel prices, which would improve its refining margins.

Morgan Stanley said failed bets on energy trading impacted its second quarter revenues. Trading losses and a slowdown in investment banking led to a fall of more than 50% in Morgan Stanley's second quarter earnings despite a pretax gain of \$1.43 billion from asset sales.

The Royal Bank of Scotland advised clients to brace for a full fledged crash in global stock and credit markets in the next three months amid inflation. It warned that the S&P 500 index is likely to fall by more than 300 points to about 1050 by September, with contagion spreading across Europe and emerging markets.

**DOE Stocks**

**Crude** – down 1.2 million barrels  
**Distillate** – up 2.6 million barrels  
**Gasoline** – down 1.2 million barrels  
**Refinery runs** – up 0.7%, at 89.3%

meeting. The IEA's chief economist, Fatih Birol said that while it is difficult to estimate how much production should be increased to calm the market he added that the more the better. He also stated that prices are unlikely to fall substantially in the coming years due to increased costs of production.

A senior official familiar with the producer-consumer meeting in Saudi Arabia said oil officials and executives will discuss and seek ways of limiting the role of financial speculators in the world oil market. Saudi Arabia is expected to announce an increase in crude production after UN Secretary General Ban Ki Moon said last week the country would increase its production. However the official refused to comment on any possible output increase. Meanwhile, the chief executives of BP Plc and Royal Dutch Shell Plc are scheduled to attend the meeting. They are the last chief executives of international oil companies to emerge as planned attendees at the meeting. Mexico's Energy Minister Georgina Kessel said Mexico will send the head of Pemex to the Saudi meeting. She said Mexico does not have the capacity to substantially increase its production. Separately, US Energy Secretary Samuel Bodman said he had no idea what would come out of the meeting of oil producing and consuming countries in Saudi Arabia. Canada's Natural Resources Minister Gary Lunn said he would attend the June 22 meeting. He however declined to state Canada's position on oil supply ahead of the meeting.

US President George W. Bush called on Congress to take steps to increase oil production in the US. He outlined a plan to handle the imbalance between supply and demand. He called on Congress to lift a moratorium on drill off the US coast, open Alaska's Arctic National Wildlife Refuge to drilling, develop oil shale resources and expand domestic oil refining capacity. He also noted that the long term solution to the US' dependence on foreign oil was to increase alternative energy technology.

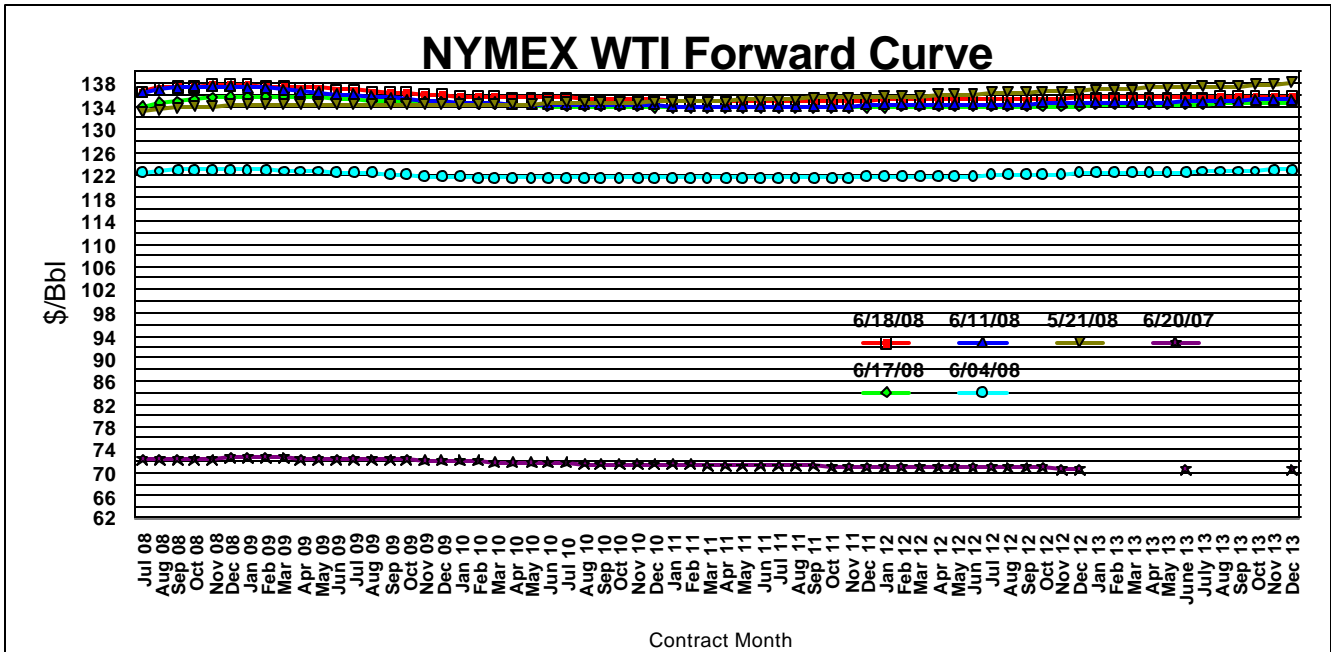
French President Nicolas Sarkozy will ask other European Union leaders on Thursday to back a reduction in value added tax on petrol across the EU to counter increasing oil prices. However European Energy Commissioner Andris Piebalgs said European fuel tax cuts as a measure to counter oil price increases would send the wrong signal. It would signal to oil producing countries that they are free to push the price further.

Iran's envoy to the UN's IAEA, Ali Asghar Soltanieh said Iran will never surrender to an illegitimate demand that it halt its uranium enrichment. On Saturday, The EU's top diplomat Javier Solana presented Iran a package of economic incentives designed to persuade Iran to halt its nuclear program.

The EIA said deliberate moves by refiners appear to be behind reduced US refinery operations so far this year amid record high prices. However even if refiners increased operations, prices would not likely come down due to record high crude prices. In the first quarter refiners utilized 84.7% of capacity compared with the 2001-2005 average of 89.1%. The EIA said in response to poor margins for gasoline and strong margins for distillate fuel amid record high crude oil prices, refiners have been reducing crude runs and adjusting produce yields to meet market conditions this year. It said the increase in gasoline prices this year was due to increases in crude oil prices. However distillate fuel has seen record high price spreads due to a tight global market for the fuel. The EIA said if US refiners increased utilization, it would provide more distillate for world markets but it would not be enough to change world distillate prices substantially in the short term.

**June Calendar Averages**

**CL** – 132.28  
**HO** – 380.89  
**RB** - 340.85



The API reported that US crude oil and petroleum products demand in May fell 0.1% on the year to 20.614 million bpd. Declining gasoline and residual fuel demand was nearly offset by strong demand for distillates and jet fuel. Gasoline demand in May fell by 133,000 bpd or 1.4% to 9.296 million bpd amid the rise in prices. Distillate demand however increased by 222,000 bpd or 5.5% to 4.282 million bpd while jet fuel demand increased by 5.1% to 1.697 million bpd, the highest level since August 2007. It also reported that crude oil imports in May averaged 9.461 million bpd, down 8.1%. Petroleum product imports fell by 21.5% to 3.04 million bpd.

#### **Refinery News**

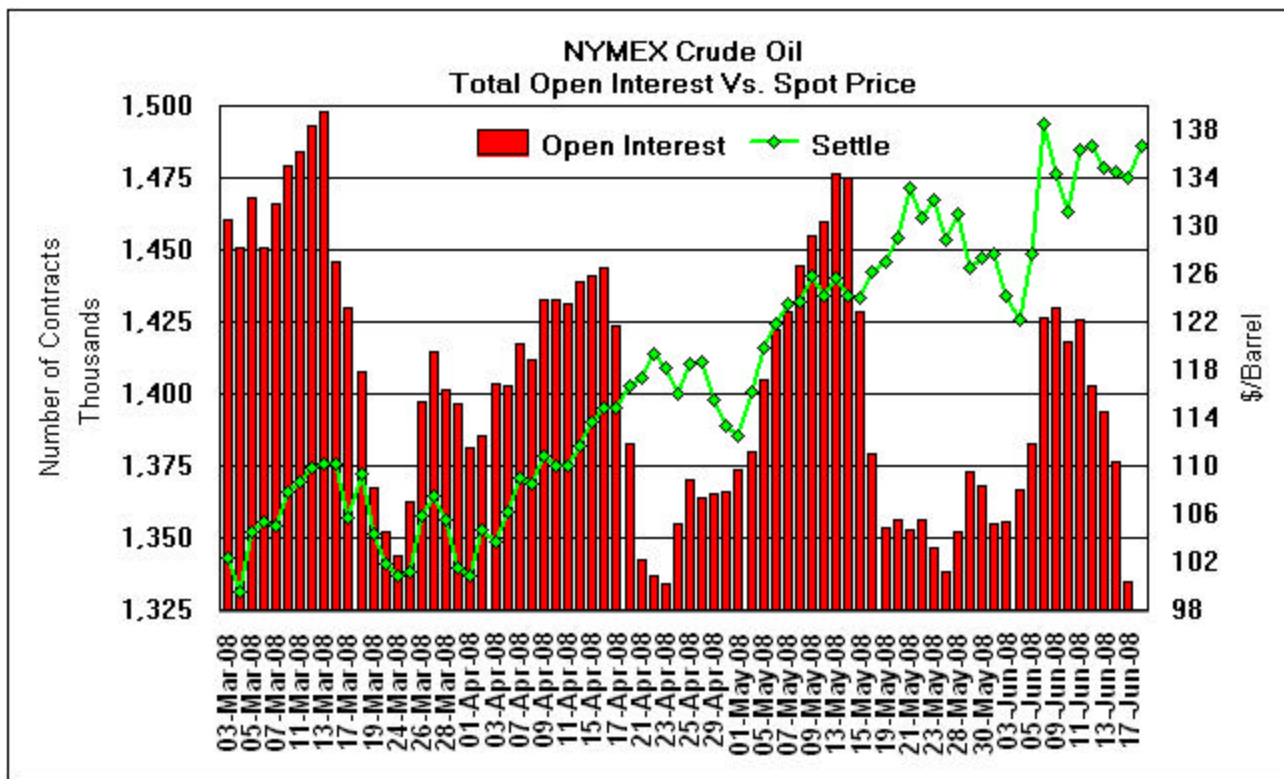
BP Plc plans to restart a train on the residual hydrotreater unit at its Texas City, Texas refinery between June 18 and 26. The company expects the refinery, which was shut ahead of Hurricane Rita in September 2005, to reach full capacity by the end of the year. The refinery has been operating at about 50% of its capacity.

A seven day strike at France's Fos-Lavera oil port near Marseille blocked 40 oil tankers. A total of 82 ships are now blocked at the port.

The fire brigade in the southern German city of Ingolstadt said there was a fire at a refinery operated by Petroplus Holding AG.

Japan's Kashima Oil Co said it received approval to restart its No. 2 paraxylene-making unit with capacity of 420,000 tons/year, nearly two months after a fire shut the unit. The unit is scheduled to restart operations from June 25.

The Petroleum Association of Japan reported that the country's crude oil inventories increased by 6.88% on the week but fell by 6.11% on the year to 16.79 million kiloliters. Its gasoline stocks increased by 1.47% on the week and by 24.44% on the year to 2.52 million kl while kerosene stocks increased by 0.99% on the week but fell by 29.08% on the year to 1.74 million kl. It also reported that gas oil stocks fell by 11.54% on the week and by 5.1% on the year to 1.72 million kl. Refineries were operating at 71.5% of capacity, up from 71% last week. It also reported that crude throughput increased by 25.603 million kl to 3.895 million kl while gasoline production fell by 15.998 million kl or 875,000 bpd.



Heartland Ethanol said it is canceling its plans to build seven ethanol plants in Illinois. It said the high cost of corn and difficulties getting financing in a tight credit market were behind the decision.

### **Production News**

The Canadian Association of Petroleum Producers revised downwards its estimate of oil sands production in 2015 by about 180,000 bpd to 2.77 million bpd. The forecast was cut amid mounting cost pressures and regulatory scrutiny over the environmental impacts. It also cut Canadian oil sands production estimate for 2020 to 3.54 million bpd from its previous estimate of 3.77 million bpd. Canada's total crude oil production is estimated to average 3.89 million bpd in 2015 and 4.47 million bpd in 2020.

Iraq's South Oil Co said the country's oil exports from the southern port of Basra returned to normal after windstorms disrupted shipping for four days.

Norway's Oseberg system is scheduled to load about 194,000 bpd in July, less than earlier forecast following a fire at an offshore platform.

The Norwegian Shipowners' Association said wage talks between Norwegian drilling rig owners and three trade unions reached an agreement overnight, avoiding a strike at four offshore rigs. One of the unions, SAFE, has decided to submit the result of the negotiations to a vote among its members with an August 1 deadline.

UK tanker drivers working for Royal Dutch Shell have been offered a 14% salary increase over two years after a four day strike.

**NYMEX Petroleum Options Most Active Strikes for June 18, 2008**

Symbol	Month	Year	Call/Put	Strike	Exp Date	Settle	Volume	IV
LC	8	8	P	131	07/17/2008	3.95	2,000	45.89
LC	8	8	P	121	07/17/2008	1.45	2,000	47.23
LC	8	8	P	120	07/17/2008	1.29	2,000	47.34
LC	8	8	P	130	07/17/2008	3.59	2,000	45.84
LC	12	8	P	115	11/17/2008	4.85	1,000	45.24
LC	9	8	P	100	08/15/2008	0.44	1,000	49.47
LO	9	8	P	100	08/15/2008	0.44	10,303	48.01
LO	8	8	C	200	07/17/2008	0.06	6,889	54.71
LO	8	8	P	100	07/17/2008	0.08	5,575	50.83
LO	12	8	C	85	11/17/2008	53.02	4,550	59.46
LO	12	8	C	70	11/17/2008	67.78	4,000	80.92
LO	9	8	C	170	08/15/2008	1.73	3,700	46.31
LO	8	8	P	120	07/17/2008	1.3	3,357	46.06
LO	12	8	P	100	11/17/2008	1.92	3,248	42.97
LO	9	8	P	115	08/15/2008	1.95	3,116	45.72
LO	8	8	P	125	07/17/2008	2.21	3,034	44.83
LO	8	8	C	160	07/17/2008	1.2	2,620	47.23
LO	12	8	C	69.5	11/17/2008	68.28	2,500	81.79
LO	8	8	C	150	07/17/2008	2.61	2,260	45.41
LO	8	8	P	80	07/17/2008	0.01	2,255	65.71
LO	8	8	P	90	07/17/2008	0.01	1,953	52.22
LO	9	8	P	105	08/15/2008	0.76	1,901	47.24
LO	12	10	C	62	11/16/2010	73.13	1,900	77.47
LO	12	10	C	57	11/16/2010	78.13	1,900	87.13
LO	8	8	C	85	07/17/2008	52.17	1,800	91.01
LO	8	8	C	140	07/17/2008	5.47	1,699	43.84
LO	8	8	P	130	07/17/2008	3.59	1,596	43.88
LO	9	8	C	165	08/15/2008	2.27	1,550	45.84
LO	8	8	P	102	07/17/2008	0.11	1,509	50.25
LO	12	8	C	70.5	11/17/2008	67.28	1,500	80.05
LO	12	10	P	70	11/16/2010	2.31	1,500	34.87
OB	7	8	C	3.4	06/25/2008	0.1136	250	39.99
OB	7	8	C	3.5	06/25/2008	0.061	226	39.80
OB	10	8	P	3	09/25/2008	0.1429	200	42.47
OB	10	8	P	3.29	09/25/2008	0.2529	150	40.03
OB	10	8	P	3.1	09/25/2008	0.1759	150	41.61
OH	8	8	C	3.27	07/28/2008	0.6409	450	43.64
OH	10	8	C	3.84	09/25/2008	0.3814	450	41.05
OH	7	8	P	3.6	06/25/2008	0.0101	301	39.84
OH	10	8	P	3.62	09/25/2008	0.1785	300	40.91
OH	7	8	C	3.25	06/25/2008	0.61	300	53.53
OH	8	8	C	3.71	07/28/2008	0.3076	300	41.84
OH	9	8	P	3.83	08/26/2008	0.2278	275	40.99
OH	9	8	P	3.66	08/26/2008	0.156	200	41.09
OH	10	8	C	4.4	09/25/2008	0.1877	200	43.30
OH	10	8	C	3.37	09/25/2008	0.6775	200	42.57
OH	7	8	C	2.82	06/25/2008	1.04	200	98.44
OH	9	8	C	3.87	08/26/2008	0.2999	150	41.07

The average daily loading rate of nine of the main North Sea crude oil systems will average 2.369 million bpd in July, up from 2.315 million bpd the previous month. Brent crude loadings will total 175,000 bpd in July, up 14,000 bpd on the month while Forties loadings will total 581,000 bpd, down 39,000 bpd on the month and Oseberg loading will total 194,000 bpd in July, down 6,000 bpd on the month. Ekofisk loadings will total 408,000 bpd in July, up 48,000 bpd on the month, DUC loadings will total 155,000 bpd, down 45,000 bpd while Flotta crude loadings will total 63,000 bpd, down 24,000 bpd and Gullfaks loadings will total 276,000 bpd, up 76,000 bpd on the month. The North Sea Staffjord crude loading will total 276,000 bpd in July, up 19,000 bpd on the month while Troll crude loadings will total 241,000 bpd, up 11,000 bpd on the month.

DNO International's total monthly oil production increased by 37% on the month in May to 21,889 bpd, with Kurdistan production nearly doubling on the month to 11,685 barrels.

Angola's crude oil shipments, excluding the Palanca grade, will increase 1.6% in August to 1.89 million bpd. Excluding Palanca exports, 61 cargoes totaling about 58.6 million barrels will load in August, compared with 60 cargoes totaling 57.6 million barrels in

July.

OPEC's news agency reported that OPEC's basket of crudes fell further to \$128.98/barrel on Tuesday from \$129.78/barrel on Monday.

**Market Commentary**

A weak dollar, threats of a strike at Chevron's Nigerian refinery and statements by U.S. President George Bush that he does not expect output increases at Saudi Arabia's June 22<sup>nd</sup> meeting had more of an impact on the market than today's DOE/API numbers. Crude oil stocks decreased last week by 1.2 million barrels, while imports were up 571,000 on the week, but down 487,000 bpd from the same period last year. Gasoline stocks decreased by 1.2 million barrels on the week, imports were unchanged, however demand fell 1.8%. Distillate stocks increased by 2.6 million barrels on the week, imports were up 130,000 bpd on the week while demand fell 0.4% from the same period last year. The fundamentals of this market are in the long run supportive of higher prices while the technicals are calling for a period of sideways to downward movement. Economically growing countries, such as China and India continue to draw from this market, while the technology and supplies to meet future demand are running at a much more sluggish pace. The U.S. cannot come to agreement on how to meet future demand, as the environmentalists are on one side of the fence and the Bush administration is on the other side. Offshore drilling is a delicate topic and is sure to be a big political play. Although oil-producing countries can up production, how many times can one go to the well before the well runs dry? Looming over the market is, what involvement does speculation play in the rise in oil prices over the past year? Both rising volume and open interest are indicative of this involvement, leaving the argument that speculation is playing a larger role than one may want to believe. At this time we would continue to ride the bull train, looking for stops along the way to refresh our view of this market and deciding whether or not to add more baggage or unload some of what we have. Based on this, we would continue to buy and sell at the listed support and resistance numbers. We would not look for crude oil to change direction until a breach of the \$85.40 support area occurs. Support for the August 08 contract based on a weekly chart is set at \$127.76, with resistance at \$142.25. Technically, the July08 gasoline is still in a period of consolidation and appears to have more room to the downside. We would, however rather be buyers of dips than sellers of rallies. We liked the \$3.3600 support area and would look to be buyers down around that level. The July gasoline based on a weekly chart has resistance at \$3.6595 and support at \$3.2266. Heating oil performed as we had expected and using the \$3.8045 pivotal area worked out well today. Although this market still has unseasonable strength, we would look for it to be under pressure in comparison to the gasoline and crude oil. We would now use the \$3.8200 pivotal level, selling breaches and buying breaks above. Open interest for crude oil is 1,335,207 down 41,592, July08 101,816 down 48,308, August08 277,677 up 7,339, December 08 187,197 down 2,464. Total open interest for heating oil is 216,092 down 1,739 July08, 35,214 down 4,923, August08, 42,765 up 605. Total open interest for gasoline, 257,887 up 779, July 50,799 down 4,026, August08, 56,967 up 2,021.

<b>August Crude Support</b>	<b>July Crude Resistance</b>
131.30, 127.76, 126.77, 122.05, 120.60, 114.85, 108.95, 98.20, <b>85.40</b>	137.35, 141.00, 150.00
<b>Heating oil support</b>	<b>Heating oil resistance</b>
3.8000, 3.6800, 3.5450, 3.5100, 3.3500, 3.1680, 3.0980	4.0338, 4.0475, 4.0640
<b>Gasoline support</b>	<b>Gasoline resistance</b>
3.3600, 3.3250, 3.3075, 3.1760, 3.0920, 3.0730, 3.0400, 3.0250, 2.9255	3.63.45, 3.755, 3.4655

