



## ***ENERGY RISK MANAGEMENT***

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## **ENERGY MARKET REPORT FOR JUNE 25, 2008**

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The EIA reported that world energy demand is expected to increase by 50% between 2005 and 2030. It said its base case scenario would put world oil prices at \$70/barrel in nominal terms in 2015 before it increases steadily to \$113/barrel in 2030. It also stated that developing nations outside the OECD countries are expected to post 85% growth in energy use by 2030, compared with a 19% growth rate for major industrialized nations within OECD. However the EIA warned that the current market situation means a more bullish projection, with prices on a path to reach \$186/barrel by 2030. It said if that holds, long term demand for

### Market Watch

Goldman Sachs Group Inc's analyst Arjun N. Murti increased his prices forecasts because production was failing to keep up with demand. He said WTI crude may average \$118/barrel this year, up from a previous forecast of \$108/barrel.

The chairman of Cambridge Energy Research Associates, Daniel Yergin told the Joint Economic Committee that oil prices were being driven by new fundamentals involving the merging of oil and financial markets. He said the upward price trend of oil could ease in years ahead as US demand may have peaked in 2007.

The US House of Representatives failed to secure enough votes to pas a bill to give federal authorities the power to impose civil and criminal penalties on people who gouge consumers. Under the bill, the FTC would have the authority to investigate and punish large companies with revenue in excess of \$500 million/year that artificially inflate gasoline prices. The Justice Department would also be able to impose criminal penalties, with a maximum criminal fine of \$150 million on companies and of \$2 million and 10 years in prison on individuals.

Britain's Prime Minister Gordon Brown said the UK government will act if there is evidence of manipulation in the oil markets. He added that the Financial Services Authority is examining whether that has taken place.

Germany's Economics Minister Michael Glos said lasting high oil prices are a threat to the world economy and recent oil price increases have been too extreme and too fast.

Deutsche Bank AG's chief energy economist Adam Sieminski said the world economy would collapse if oil reached \$200/barrel. Deutsche Bank is due to release its oil price forecast on June 27.

Barclays Plc, Morgan Stanley and Citigroup may help start a commodities exchange in Hong Kong. The proposed exchange will start in the first quarter of 2009 and will offer dollar denominated fuel oil contracts for delivery into China. The chairman of the Hong Kong Mercantile Exchange, Barry Cheung said the proposed exchange has attracted the interest from Lehman Brothers Holdings Inc, Merrill Lynch & Co and Noble Group Ltd. The shareholding structure will be decided in a few months. He said the exchange plans to introduce other commodity contract but did not give any details.

Indonesia's National Planning Minister Paskah Suzetta said the country plans to gradually increase subsidized fuel prices to bring them more in line with market levels. He said the government may increase fuel prices by 2% a month or 5% a quarter. The plan is pending approval from the parliament. Indonesia increased its gasoline prices by 33% to 6,000 rupiah or 65 cents/liter last month.

liquid fuels would slow to 99.3 million bpd in 2030, down 13 million barrels from its base case scenario. The EIA said crude oil production from non-OPEC countries will not be able to keep up with growing world demand in the next few years, forcing oil consuming countries to rely more on OPEC for supplies. It lowered its estimate of non-OPEC production in 2010 by 1.1 million bpd from last year's forecast to 51.8 million bpd. OPEC oil production was cut by 400,000 bpd to 37.4 million bpd. Meanwhile world oil demand in 2010 will be 1.5 million bpd less than previously expected at 89.2 million bpd. In regards to biofuels, it said global biofuels production is

<b>DOE Stocks</b>
<b>Crude</b> – up 500,000 barrels
<b>Distillate</b> – up 2.8 million barrels
<b>Gasoline</b> – down 100,000 barrels
<b>Refinery runs</b> – down 0.7%, at 88.6%

estimated to increase from 1.3 million bpd in 2010 to 2.7 million bpd in 2030, with the US accounting for almost half that growth. The EIA also reported that China's carbon dioxide emission will increase over 50% to more than 42 billion tons/year from 2005 to 2030 as China leads an increase in burning coal to generate electricity. Meanwhile, the head of the EIA, Guy Caruso said expanded offshore drilling in the US will not affect oil and natural gas prices much.

Saudi Arabia has foiled a large scale attack on oil installations in Yanbu on the Red Sea and in Eastern Province. The official Saudi Press Agency reported that Saudi security forces arrested 701 suspects since January that were planning to attack oil facilities among other targets, with 520 of those arrested still being detained.

The UAE's Oil Minister Mohammed al-Hamli said the country would only increase its oil production as part of a decision agreed by all OPEC members. He also stated that there is no need to increase production and blamed speculators for the rally in oil prices. Meanwhile, Kuwait's Oil Minister Mohammad al-Olaim reiterated that Kuwait plans to increase its oil output capacity by 300,000 bpd by mid-2009.

Iran's Revolutionary Guard Corps warned that the US would face a calamity if it attacked Iran.

Iran's Deputy Foreign Minister Mahdi Safari said Iran will withdraw assets from the European Union in response to the tightening of sanctions imposed over its nuclear program. Separately, the EU's foreign policy chief Javier Solana said the EU will continue to use both negotiations and UN sanctions to encourage Iran to suspend its uranium enrichment.

The Movement for the Emancipation of the Niger Delta said it would still respect a unilateral ceasefire following clashes with the military late on Tuesday.

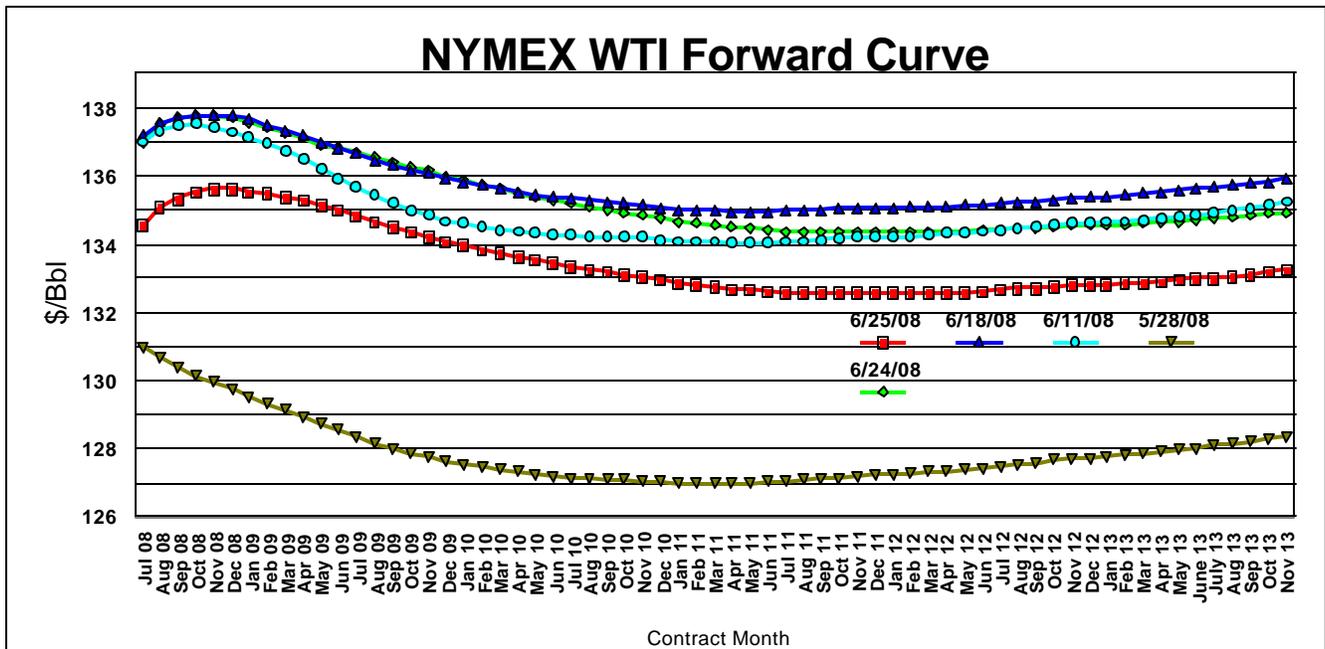
### **Refinery News**

Chevron Corp reported emissions at its 260,000 bpd refinery in El Segundo, California. The cause of the emissions was unknown and under investigation. Separately, it restarted the smaller of two crude units at the refinery following five weeks of maintenance.

Enterprise Products Partners LP shut its 125,000 bpd Seminole pipeline that transports propane and other natural gas liquids from West Texas to Mont Belvieu, Texas after a leak was discovered in Pasadena, Texas. The cause of the leak was not determined and no restart estimate was available.

VeraSun Energy Corp said it delayed opening a newly construction ethanol plant due to weak margins for the biofuel. The 110 million gallon/year Hankinson, North Dakota plant was expected to begin operations this month. The company previously delayed startup at plans in Welcome, Minnesota and Hartley, Iowa.

<b>June Calendar Averages</b>
<b>CL</b> – 133.03
<b>HO</b> – 379.78
<b>RB</b> – 341.20



Nigeria's 110,000 bpd Kaduna refinery resumed operations on Wednesday after output was cut for several weeks due to sabotage attacks.

Japan's Cosmo Oil said it was checking the impact of a problem with the underwater piping used to transport crude at its 240,000 bpd Chiba refinery. The problem is forcing ships destined for the refinery to offload at a nearby sea berth instead.

Royal Dutch Shell shut about 250,000 bpd of refining capacity in Singapore and Malaysia for regular maintenance. Shell Singapore shut its 115,000 bpd crude distillation unit at the Bukom Island refinery this week for a three week maintenance turnaround. Shell also shut its 125,000 bpd refinery at Port Dickson in Malaysia for regular maintenance. The shutdown started on June 17 and will last 45 days.

China's West Pacific Petrochemical Corp will cut its crude runs in July by about 30% on the month due to repairs at its 2 million tons/year hydrocracker unit. Maintenance of the unit will begin soon and last for about a month.

Russia's Ufa group of refineries in the Volga region will increase its runs by about 30% in July to 1.827 million tons or 432,000 bpd, up from 1.332 million tons or 325,000 bpd in June.

Ukraine's Kherson refinery, which was shut for work since 2005, may resume operations in July and could refine 450,000 tons of oil by the end of the year. The refinery has ordered 90,000 tons of Caspian crude and has started assembling rail tankers to transport oil from the southern port of Odessa. Ukraine processed 4.204 million tons of oil in the first five months of the year, down from 6.036 million tons processed last year.

Korea Electric Western Power Corp plans to buy 400,000 tons of fuel oil in the second half of 2008, about 43% less than last year as the utility increases its gas consumption. Korea Electric East-West Power Corp also said it will consume about 400,000 tons of fuel oil in the second half of the year, down 15% on from year ago levels. Regional demand for fuel has weakened due to high outright prices.

Japan's Ministry of Finance reported that Japan's customs cleared crude oil imports in May increased by 8% on the year to 18.525 million kiloliters or 3.76 million bpd. The increase in imports comes amid the prolonged shutdown of Tokyo Electric Power Co's nuclear power plant following an earthquake last July. The shutdown has doubled TEPCO's demand for direct burning crude and fuel oil for thermal generation.

According to Japan's Oil Information Center, the country's retail regular gasoline prices fell to 172 yen or \$1.60/liter or \$6.06/gallon on Monday, down from 172.3 yen a week ago and a record 172.4 yen two weeks earlier.

### **Production News**

Royal Dutch Shell restarted production on Tuesday at its Nigerian offshore Bonga oilfield but is maintaining a force majeure on its exports.

A strike by Nigeria's senior oil workers against Chevron's local unit entered a third day. However production remained unaffected. The Pengassan union and Chevron's management will hold talks with Oil Minister H. Odein Ajumogobia on Thursday and with the head of the state owned oil company, Abubakar Yar'Adua on June 27.

Nexen Inc plans to shut its Buzzard oil field in the North Sea soon for planned maintenance. The maintenance turnaround is expected to last a week.

According to an Ernst & Young report, US oil production and reserves were flat in 2007 as oil companies were challenged in finding investment and production opportunities. US oil production from the companies analyzed for the report stood at 1.2 billion barrels for the fourth consecutive year while proved oil reserves ended the year at 16.1 billion barrels, unchanged on the year.

The Danish Energy Authority reported that oil production from Denmark's North Sea fields would fall to 103.2 million barrels this year. It expects production in 2009 to fall to 94.3 million barrels, down 11% on the year. The forecast for 2010 was cut by 2.5% to 98.8 million barrels.

Iraq's Kurdish region has signed two production sharing deals with a South Korean consortium, the second such announcement despite the central government stating that the contracts are illegal. Aside from two new production sharing agreements, the South Korean consortium will take smaller stakes in six other blocks that will give it access to an estimated 1.9 billion barrels of oil. In return for oil, Korea National Oil Corp has agreed to invest in a five year infrastructure program.

OPEC's news agency reported that OPEC's basket of crudes increased to \$131.25/barrel on Tuesday from \$130.70/barrel on Monday.

### **Market Commentary**

A larger than expected increase in crude oil stocks and distillate stocks sent energy markets tumbling, with crude oil falling as much as \$5.05 and heating falling .1266 cents, at one point during the session. Gasoline complied, and fell as much as \$13.80 on the day. Prices however, recovered as the Federal Reserve made a decision to leave rates unchanged. The trading of this market lately is more about a product of investment, rather than a product of demand. Diesel demand overseas is beginning to wane, as the price has become too much to bear. Demand for product on this side of the Atlantic is also showing signs of slowing as demand for gasoline over a four week period has fallen 2.1% from the same four week period last year and distillate demand during the same time frame is down 1.1%. This market has been product driven for quite some time and with demand showing signs of declining, one would expect this market to remain under pressure. Times have changed however, and we must

not just think in terms of the raw fundamentals of this market. It has become an instrumental tool for investors, as they try to hedge against an erratic dollar. Relying on old market savvy must now also include, on a more intimate level, awareness of where investors feel they should be putting their investments. From a technical standpoint, this market should test numbers to the downside. Crude oil slow stochastics and RSI's have drifted lower today, with %K pulling further away from %D, a bearish signal. We would look for further downside potential tomorrow, looking for the August08 crude oil contract to test support at \$131.33. The forward curve has fallen further on the scale and is now at its lowest level since May 28<sup>th</sup> of this year. The front end has changed slightly, with the nearby drifting further away from the deferred. Once again we would view this as a sign that near term supply is ample in comparison to demand and going forward, there are expectations for the same. Based on this, we continue to look for weakness in the August08/September08 spread. With the disparity in the API (+1.048) vs. the DOE (-0.1) reports for gasoline, we must focus on the demand factor. Gasoline stocks have been trending in the lower half of the average range, with demand for this product based on a four - week average falling. It appears that the economic situation is taking a bite out of summer driving in the U.S., as more people are staying closer to home. Based on the daily chart for the August08 contract, it appears that there is more room to the downside for this product, however we would not look for the bullish trend to diminish until we can get a settlement below \$3.1760. The July08 heating oil contract continues to trend lower within the descending channel on a daily chart, which comes in tomorrow set at \$3.8508 and \$3.6254. Slow stochastics for this chart are in oversold territory, with RSI's somewhat neutral. With demand for diesel overseas declining, heating oil may start to lose some of its unseasonable strength. For now we would look to buy against a bounce off of the bottom of this channel and sell any failure to breakout on the upside. Open interest for crude oil is 1,303,075 up 639, August08 319,370 down 7,513, Septmeber08 147,684 down 2,090 and December 08 179,016 up 4,683. Total open interest for heating oil is 222,793 up 1,168, July08, 22,596 down 2,092, August08, 55,347 up 2,554. Total open interest for gasoline, 266,171 up 377, July 29,589 down 4,075, August08, 72,554 up 1,815.

<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, 143.29, 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, 4.1200
<b>Gasoline support</b>	<b>Gasoline resistance</b>
3.3400, 3.3250, 3.3000, 3.1760, 309.20, 3.0730, 3.0400, 3.0250, 2.9255	3.63.45, 3.755, 34655