



## **ENERGY RISK MANAGEMENT**

Howard Rennell, Pat Shigueta  
& Karen Palladino

**(212) 624-1132 (888) 885-6100**

**www.e-windham.com**

---

### **ENERGY MARKET REPORT FOR JULY 10, 2008**

---

Israel's Defense Minister Ehud Barak said he favored the use of diplomatic pressure and sanctions against Iran's nuclear program but cautioned that Israel was not afraid to take action. He warned of the country's readiness to act against Iran if it feels threatened. He said Israel had "proved in the past that it won't hesitate to act when its vital security interests are at stake."

Iran tested more missiles in the Gulf on Thursday. Iranian state TV and radio reported that Revolutionary Guards fired ground-to-sea, surface-to-surface and sea-to-air missiles overnight. Long-range missiles were also launched. A Revolutionary Guards official said

#### Market Watch

Brazilian oil workers' union threatened to shut down Petrobras oil fields in the Campos Basin that produces over 80% of Brazil's oil for five days starting on Monday. The Campos Basin oilmen union said the strike on all 42 Campos Basin offshore platforms was called to press Petrobras to count the day workers leave the platform for the short as a working day. Separately, the United Oil Workers' Federation plans to hold a meeting on Tuesday to discuss the possibility of a five day nationwide strike at all Petrobras facilities to demand a larger share of company profits for workers.

The US Treasury Secretary Henry Paulson told lawmakers that off-exchange derivatives, used by firms to hedge against a range of risks including credit and interest rates, have made the markets more efficient. However both the US Treasury Secretary and Federal Reserve Chairman Ben Bernanke cautioned that improvements are needed in the operations of these markets, particularly in processing and clearing.

The CFTC's chairman Walter Lukken told Congress there is no evidence that market traders are working together to push up crude oil prices or that oil supplies are being hoarded. He said the CFTC and other members of an interagency task force plan to give Congress an interim report in the coming weeks on the role speculators have played in the crude oil market. He said speculators are needed to provide liquidity to futures markets and added that high crude prices are due to flat oil production around the world that is unable to keep up with growing global oil demand.

US House Speaker Nancy Pelosi and House Majority Leader Steny Hoyer announced a new energy package that would include measures to speed the production and delivery of oil from federal land in Alaska. The measure would also encourage the construction of a pipeline to deliver oil from Alaska to the 48 states in the continental US. The House of Representatives may move on the package as early as next week.

Rising tension between Iran and the West has made major energy companies more reluctant to invest in Iran's gas and oilfields. Total said it will not invest in Iran because the political risk is too high. In May, the company said it was interested in Iran's South Pars gas field. However Iran countered by stating that it was prepared to develop its South Pars gas field without the help of Total. Meanwhile, Italy's Eni said it will honor existing contracts with Iran but will not sign new ones. Norway's Statoil has adopted a similar stance.

BP's chief economist said oil could face a steep fall if financial factors are removed from the current market. Non-market fundamentals, including financial factors such as the easing of the US dollar against other currencies, have prompted investors to use oil and other commodities as a hedge against the weakening dollar and inflation.

**July Calendar Averages**

CL – 140.71

HO – 397.14

RB – 348.16

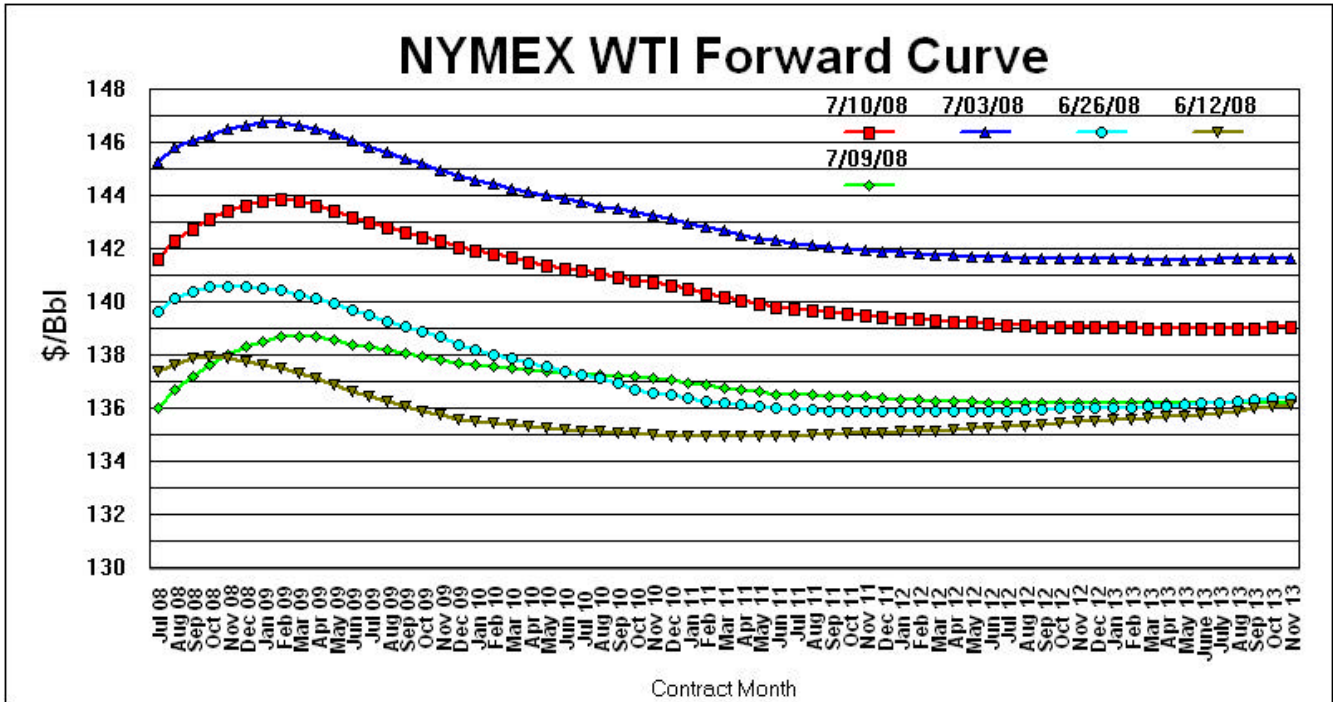
the war game is a lesson for enemies. In response, US Secretary of State Condoleezza Rice said that the US would defend American interests and those of its allies. She suggested Iran's actions justified US plans for an anti-missile shield with bases in Eastern Europe, a project Russia strongly opposes. Meanwhile, China urged restraint in the dispute over Iran's nuclear program but avoided direct condemnation of Iran for test firing missiles.

The Movement for the Emancipation of the Niger Delta said it was ending its ceasefire, in protest of an offer made by Britain's Prime Minister Gordon Brown to help Nigeria deal with the unrest in the delta. The militant group said Britain was supporting an illegal government and that it would the ceasefire at midnight on Saturday. MEND had declared a unilateral ceasefire on June 24.

OPEC's Secretary General Abdullah al-Badri said OPEC is currently pumping more than enough oil to world markets. He urged big consuming countries to play their part in lowering oil prices. He said OPEC will review the supply-demand balance at its next meeting in September but gave little indication whether the group would alter its production policy at the meeting. However he stated that OPEC would not be able to replace Iran's oil production if supplies were halted in case of a war with Israel or the US. Meanwhile, an OPEC official said the world does not need extra crude from OPEC in the foreseeable future. He said there is little or no room for additional OPEC crude. Iran's Oil Minister Gholamhossein Nozari also said there is enough crude supply in the market and added that OPEC was doing all it could. He said oil prices will remain near \$140/barrel due to the weak dollar and speculation. Separately, Iran's Oil Minister stated that Iran was holding less than 20 million barrels of crude in floating storage and added that the oil would be sold within one-and-a-half months. Spring refinery maintenance slowed Iran's oil sales during April and May to about 2.2 million bpd and much of the unsold crude, estimated at about 30 million barrels, was stored in tankers.

In its 2008 World Oil Outlook, OPEC reiterated that high oil prices are being driven by a weaker US dollar, geopolitics and other factors unrelated to supply and demand. It forecast 7.6 million bpd of new crude distillation capacity will be added to the global refining system by 2015 but warned that actual capacity growth could be much lower if expansion projects are not approved. If expansion projects are approved, supply should exceed requirements between 2010 and 2013, helping to ease tight product markets and cut margins. OPEC warned oil consuming countries that rising energy conservation and increased use of biofuels pose a big threat to demand for its crude and could force it to spend less on new oil pumping capacity next decade. It said it could be left holding an excess of production capacity if new US and European fuel efficiency standards for new automobiles and buildings and growing investment in alternative fuel sources cut oil demand in the coming years. OPEC cut its world oil consumption forecast to 2030 by 4 million bpd compared with its 2007 report and said OPEC's percentage share of meeting the world's daily oil demand in two decades may be the same level as today at about 40%.

The IEA raised its forecast for 2008 world oil demand, ending five months of downward revisions. It increased its forecast by about 0.1% or 80,000 bpd to 86.85 million bpd. It said pressure on world oil markets should ease next year as demand growth slows. It reported that world oil demand growth would increase by 860,000 bpd in 2009, reaching a total of 87.7 million bpd, down from growth of 890,000 bpd this year. The IEA also stated that extra Saudi oil had helped to increase OPEC production by 350,000 bpd in June, pushing output from OPEC to 32.4 million bpd. The IEA predicted overall OPEC spare capacity would increase by about 1 million bpd by the end of the year. It also estimated that non-OPEC supply in 2009 would increase by 640,000 bpd to 50.6 million bpd. As a result it sees the need for OPEC oil easing between 31.1 million bpd and 31.2 million bpd, down 600,000 bpd from 2008. The IEA also stated that fuel oil markets may start tightening in 2009 due to refinery upgrading while the trend of easing gasoline supply and distillate crunch will continue. The



IEA said distillate supply tightness will remain next year but it may ease slightly thanks to expansion work at Chinese refineries. However rising import requirements in OECD Europe and Latin America will keep the pressure on refineries to maximize middle distillate yields where possible. In contrast, gasoline and naphtha fundamentals would continue to ease next year due to an increase in refining capacity in Asia and North America and expected falls in demand from OECD countries.

According to Oil Movements, OPEC crude oil shipments are expected to increase by 80,000 bpd to 24.95 million bpd in the four weeks ending July 26. It said most of the additional crude in the coming weeks will head west to the North American market. Shipments from key Middle Eastern OPEC producers are estimated to increase by 20,000 bpd to 18.02 million bpd in the four week period ending July 26.

### **Refinery News**

Colonial Pipeline has prorated shipments of distillates north of Collins, Mississippi on its main line for the 41<sup>st</sup> cycle as demand exceeds pipeline capacity.

Valero Energy Corp is planning to perform maintenance on a 180,000 bpd crude unit at its Delaware City, Delaware refinery in October. The crude unit will be shut for three weeks.

On Wednesday, Total Petrochemicals USA said it planned to shut nine units at its 232,000 bpd Port Arthur, Texas refinery late in the day.

PetroCanada said it shutdown its 135,000 bpd refinery in Edmonton, Alberta after an incident forced the company to depressurize some units after steam boilers lost water. It could not say when the facility would return to normal operation.

Enbridge Inc pushed back plans for a major pipeline to transport Canadian crude to the US Gulf Coast in favor of an interim plan to ship the crude by tanker down the Atlantic seaboard. The shift is partly in response to an outlook for production from Canadian oil sands projects that estimated oil sands output will increase to 2.8 million bpd by 2015, down from a previous outlook of 3.4 million bpd. The interim

plan, called Trailbreaker, would move 230,000 bpd, giving Canadian producers access to the Gulf Coast around mid-2010, before Enbridge proceeds with its larger Texas Access pipeline. The Texas Access project would involve building a 400,000 bpd pipeline to refineries in the Houston area from Patoka, Illinois.

According to preliminary customs data, China's crude oil imports in the first half of the year increased by 11% on the year to 90.53 million tons or 3.63 million bpd. Oil product imports for the January-June period increased by 16.4% on the year to 21.01 million tons.

China has purchased 120,000 tons of gasoline so far for August and will likely buy more in final preparations for the summer Olympics. The import volumes for August are expected to match or would be lower than July's estimated level of at least 300,000 tons and would lag the 600,000 tons volume in June.

Taiwan's Bureau of Energy reported that its oil product demand was steady in May at 912,000 bpd. Demand for gasoline increased by 11.1% to 152,000 bpd while demand for gas oil increased by 21.3% to 109,500 bpd. However fuel oil demand fell by 12.9% to 163,000 bpd as utility demand eased.

A trade source stated that German residential heating oil stocks increased to 45% of capacity on July 1, up from 44% in June as consumers started to refill their tanks despite high prices. German heating oil tanks were 55% full a year ago.

Singapore's International Enterprise reported that the country's residual fuel stocks built by 765,000 barrels to 23.305 million barrels in the week ending July 9. It also reported that the country's light distillate stocks fell by 659,000 barrels to 8.581 million barrels while its middle distillate stocks increased by 303,000 barrels to 8.874 million barrels on the week.

### **Production News**

Production at Suncor Energy's expanded oil sands operations will not reach its full capacity or 350,000 bpd until the second half of 2009. Suncor recently shutdown part of its oil sands operation near Fort McMurray, Alberta to tie in new equipment allowing Suncor to increase its production by 100,000 bpd from the current capacity of about 250,000 bpd.

Britain's North Sea Brent crude oil system is scheduled to load about 156,000 bpd in August, down from 175,000 bpd in July.

The North Sea Forties crude oil system is scheduled to load about 465,000 bpd in August, down from 581,000 bpd in July. The North Sea Oseberg crude oil system is scheduled to load about 213,000 bpd in August, up from 194,000 bpd in July.

Inpex Holdings Inc said crude oil production at the Kashagan project in Kazakhstan, may be delayed by two years to 2013.

Pemex said it expects domestic ethanol demand to reach 15,000 bpd by 2012 after it begins using the fuel as a gasoline additive in Mexico's three main cities.

Iraq raised the August official selling price for its Basra Light crude bound for the US by \$1.20 to second month WTI minus \$6.50/barrel.

OPEC's news agency reported that OPEC's basket of crudes fell further to \$133.16/barrel on Wednesday from \$135.21/barrel on Tuesday.

## Market Commentary

The oil market rallied sharply higher in late afternoon trading after holding its resistance at its previous high for much of the session. The market, which posted a low of \$135.43 in early morning trading, retraced its losses and rallied higher amid the reports that Iran test-fired more missiles and news that Nigeria's Movement for the Emancipation of the Niger Delta militant group ended a ceasefire in protest of an offer made by Britain's Prime Minister to help Nigeria deal with the unrest in the Niger Delta. There was also news that Brazil's oil union threatened to shut production at Petrobras' Campos Basin oil fields. The market extended its gains over \$2 and tested its previous high of 138.28 several times throughout the session. The crude market's rally was accelerated further later in the session after it was finally able to breach that level. The market extended its gains over \$5.80 as it posted a high of \$141.86 following the reports that Israel was ready to act against Iran if it was threatened. It settled up \$5.60 at \$141.65. The market will remain supported on Friday amid the continuing rhetoric on Iran. Any retracement of its gains will be limited as it continued to find further buying at its triple bottom just above the \$135 level. Open interest in the crude market built by 16,102 lots to a total of 1,332,380 as traders rolled their August position and added new longs. Open interest in the August contract fell by 22,696 lots to 223,504 lots while open interest in the September and October contracts built by 27,476 lots and 2,429 lots to 228,931 lots and 93,484 lots, respectively. The heating oil market led the oil complex higher as it extended its gains to over 20.3 cents late in the session. The market bounced off a low of 384.55 in overnight trading on Globex and never looked back. The market seemed to have been supported following the IEA report stating that distillate supply tightness will remain next year. The market breached its previous high of 399.90 and rallied to a high of 405.53 late in the session. It settled up 18.58 cents at 403.74. The August heat crack spread continued to widen and settled at \$27.92, up from \$25.72 on Wednesday. It is seen targeting its previous high of \$31.01. The heating oil market will likely retrace some of its sharp gains, however the market's losses will remain limited as it is seen finding further buying at its recent lows. It is seen finding support at 400.00, 393.10, 391.90, its low of 384.55 and 382.05. The RBOB market, which seemed ready to continue trading within Tuesday's trading range, followed the heating oil market higher and rallied over 14 cents higher as it posted a high of 352.11 late in the session. It settled up 13.01 cents at 351.09. The RBOB crack spread also retraced

some of its losses amid the sharp rally in the markets and settled at \$5.94. The RBOB market is seen finding support at 345.15, 340.00 followed by 338.55, 336.30 and 335.77.

			<b>Explanation</b>
<b>CL</b>	<b>Resistance</b>	142.44, 144.53, 145.85, 150.00	Previous highs
	141.65, up \$5.60	142.13	Thursday's high
	<b>Support</b>	140.75, 138.30, 135.43	Thursday's low
		135.34, 135.14, 133.95, 131.14	Previous lows, 50%, 62% retracement(122.05 and 145.85)
<b>HO</b>	<b>Resistance</b>	407.65, 411.00, 413.50	Previous highs
	403.74, up 18.58 cents	405.53	Thursday's high
	<b>Support</b>	400.00, 393.10, 391.90, 384.55	Thursday's low
		382.05, 379.82, 378.27, 376.31, 371.04, 356.49	Previous lows, 62%(356.49 and 413.50), Previous lows
<b>RB</b>	<b>Resistance</b>	355.75, 357.96, 359.27, 360.21	Previous highs
	351.09, up 13.01 cents	352.11	Thursday's high
	<b>Support</b>	345.15, 340.00, 338.55, 336.30	Thursday's low
		335.77, 333.50, 332.12, 329.97, 314.75	Previous lows, 62%(314.75 and 360.21), Previous lows

