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Windham Group



## ***ENERGY RISK MANAGEMENT***

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### **ENERGY MARKET REPORT FOR JULY 29, 2009**

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Venezuela's Oil Minister Rafael Ramirez said he expects the price of oil to reach \$70/barrel by the end of the year.

A senior IEA analyst said volatile

oil prices have reached a floor of between \$50-\$60/barrel and added that OPEC is unlikely to announce major output cuts in September.

#### **Market Watch**

The Commerce Department reported that manufacturers' orders for durable goods fell by 2.5% last month to a seasonally adjusted \$158.57 billion. The 2.5% decline in overall durables exceeded expectations. It was the largest decline since a 7.8% decline last January. May overall durables increased by 1.3%, revised down from a previously estimated 1.8% increase.

Iraq's cabinet approved a draft law establishing a National Oil Co designed to help lift the country's oil sector. The draft law will be sent to the parliament for approval.

According to a report by the Commodity Futures Trading Commission, traders in the past 12 months sometimes held two to three times the accountability levels set by the NYMEX for crude oil, natural gas, heating oil and gasoline contracts. The CFTC's chairman Gary Gensler said the NYMEX often failed to intervene. The NYMEX set accountability levels of oil at 10,000 futures in a single month. The commission counted 43 investors exceeded the limit in the past year, with an average position of 20,059 contracts. In natural gas, 26 traders surpassed the 12,000 contract limit on all months, with an average position of 44,835 contracts. The CFTC's chairman said a new regime may do away with the accountability levels and replace them with hard limits. He said he supports position limits as a means to limit speculative trading, though he acknowledged that the mechanism for setting limits and who should be required to follow them, must still be worked out.

JPMorgan Chase & Co said it is in favor of position limits both on and off exchange markets in a hearing before the Commodity Futures Trading Commission. Its views closely matched those of Goldman Sachs Group Inc. Goldman Sachs said it would support providing the CFTC with data they can use to impose some speculative limits on over the counter traders. However while the bank will support placing some trading restrictions on its clients, it urged the CFTC not to scale back the types of exemptions that banks currently enjoy from position limits in energy commodities and other products. It said the CFTC would strip liquidity needed to make the market run efficiently if it failed to allow certain traders to exceed position limits.

#### **DOE Stocks**

**Crude** – up 5.1 million barrels  
**Distillate** – up 2.1 million barrels  
**Gasoline** – down 2.3 million barrels  
**Refinery runs** – down 1.2%, at 84.6%

#### **Refinery News**

Royal Dutch Shell said it is formulating a plan to repair and restart the Eugene Island oil pipeline after it was shut due to a leak last weekend. Divers have found a crack in the pipeline. The pipeline has a capacity of 173,000 bpd and was carrying 100,000 bpd at the time the leak was discovered.

**July Calendar Averages**  
**CL – \$63.90**  
**HO – \$1.6508**  
**RB – \$1.7759**

Valero Energy Corp reported flaring on Tuesday at its 135,000 bpd refinery in Wilmington, California. It said there is no impact on production from flaring caused by a sulfur recovery unit upset at the refinery.

Flint Hills Resources said it will shut down its naphtha hydrotreater, cyclic catalytic reformer and hydrocracker units at the west plant of its 288,126 bpd refinery in Corpus Christi, Texas. The shutdown will start on Wednesday and end on Monday, August 3<sup>rd</sup>.

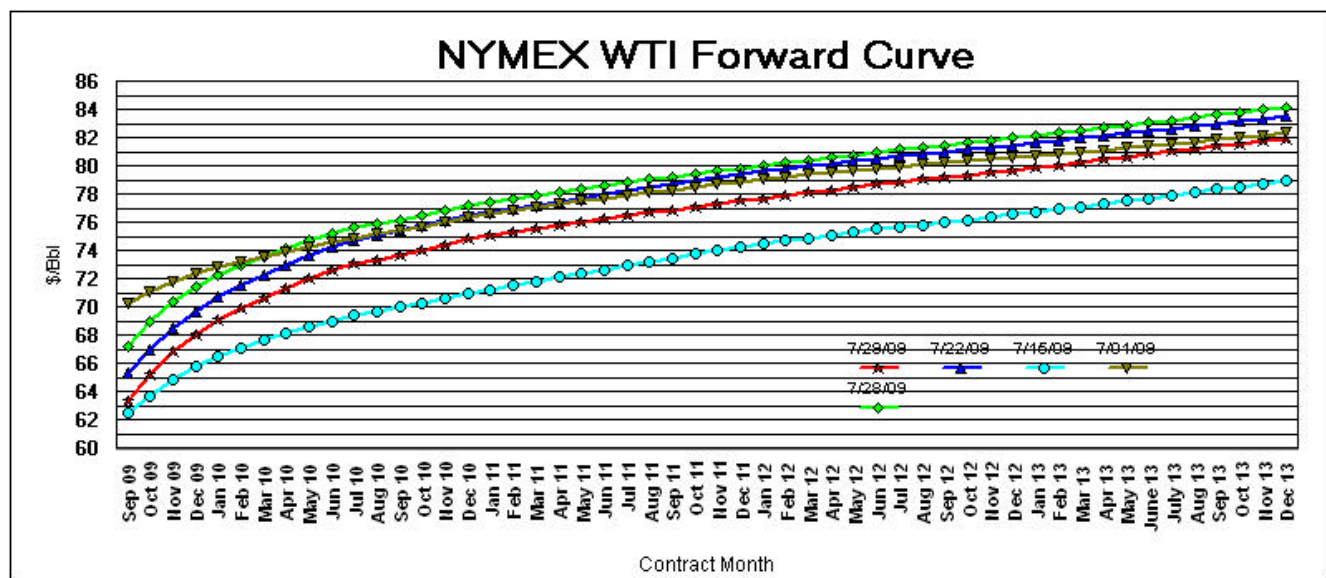
ConocoPhillips' refining and marketing sector reported a \$52 million loss in the second quarter of 2009 compared to earnings of \$664 million in the same quarter last year. ConocoPhillips expects its global refinery utilization rates to be in the mid-80% range in 2009, with rates slightly higher in the US. ConocoPhillips does not foresee shutting down any of its oil refineries despite the poor market conditions. It has reduced operations at its refineries. It said it expects its new 20,000 bpd hydrocracker at its 120,200 bpd San Francisco refinery to be commissioned this quarter. It also said the expansion of its 306,000 bpd refinery in Wood River, Illinois is moving along as planned. The \$1.9 billion project will expand the refinery's capacity to process heavy Canadian crude.

Coffeyville Resources LLC said it will shut its 115,700 bpd Coffeyville, Kansas refinery for a turnaround in the fall of 2011.

Spain's Repsol is operating its refineries at normal rates without any cuts to throughput. Repsol had relatively heavy maintenance shutdowns at its refineries in the second quarter and had closed the Cartagena plant due to poor margins from April to earlier in July.

Japan's Idemitsu Kosan Co plans to refine 2.5 million kiloliters or 507,000 bpd in August, down 13% on the year as it extends the shutdown of a 140,000 CDU at its Hokkaido refinery currently undergoing seasonal maintenance.

The Petroleum Association of Japan reported that the country's crude oil inventories in the week ending July 25<sup>th</sup> increased by 650,000 barrels on the week but fell by 3.9 million barrels to 102.4 million barrels. Japan's gasoline stocks fell by 840,000 barrels on the week but increased by 200,000 barrels on the year to 13.22 million barrels while kerosene stocks built by 960,000 barrels on the week



and by 2.02 million barrels on the year to 16.46 million barrels and naphtha stocks built by 90,000 barrels to 10.89 million barrels. Japan's crude runs increased by 40,000 bpd but fell by 640,000 bpd to 3.47 million bpd. The refinery utilization rate increased by 1% but fell by 12.2% on the year to 71.9%.

Russia's Transneft will increase its exports of crude oil from major ports in August by more than 8% on the month to 2.82 million bpd. The Baltic Sea port of Primorsk is expected to increase its crude exports by 120,600 bpd to 1.56 million bpd while exports from Novorossiisk are expected to increase by 53,700 bpd to 960,700 bpd. Exports from Ukraine's Black Sea port of Yuzhny will increase by 54,400 bpd to 132,400 bpd while exports from Gdansk will increase by 9,000 bpd to 51,000 bpd and exports from Tuapse will fall by 18,900 bpd to 56,000 bpd. Exports from the port of Odessa will remain at about 62,400 bpd.

Indonesia's Pertamina is expected to import up to 4 million barrels of diesel and about 850,000 bpd of fuel oil in August. It also expected to import about 6 million barrels of gasoline in August, up from about 5 million barrels in July.

India's Hindustan Petroleum Corp Ltd is likely to export 1 million tons of naphtha in the current fiscal year. It however will not export any fuel oil. In the previous year, HPCL exported 800,000 tons of naphtha and 200,000 tons of fuel oil.

### **Production News**

A federal appeals court said it will allow the US Interior Department to move forward with oil and natural gas leasing plans for the Gulf of Mexico that were drawn up by the Bush administration. In a ruling Tuesday, the US District Court in Washington said leasing plans for the Gulf could continue as could drilling off Alaska but the department would have to conduct a review of the environmental risks before approving significant energy development activities.

Royal Dutch Shell Plc's EA Terminal in Nigeria is due to load its first export vessel in three years next week after related production resumed. Shell last week confirmed that the EA field resumed production.

Petroecuador plans to invest heavily to increase oil output by 4% by the end of the year to 192,000 bpd of crude. Petroecuador is currently producing 184,600 bpd.

ExxonMobil Corp's Cepu oil field in Indonesia is expected to start initial production in August nearly a decade after it was discovered. Some test production started in December and early output of 15,000-16,000 bpd could start in August, increasing to 20,000 bpd by the end of the year. Six wells have been drilled for early production on Cepu's main Banyu Urip field, which is estimated to have reserves of 350 million barrels. Cepu's total oil reserves are estimated at 600 million barrels. Cepu is expected to reach maximum output of 165,000 bpd of crude in 2012.

PetroChina Tuha Oil Field Co aims to produce 3 million metric tons or 22 million barrels of oil and gas next year. It is targeting 5 million tons or 36.65 million barrels of oil and gas output in 2015 and 10 million tons or 73.3 million barrels in 2020.

Saudi Aramco has set its August contract price for propane at \$490/ton, down \$10 from July. It also lowered its August butane price by \$20 on the month to \$520/ton.

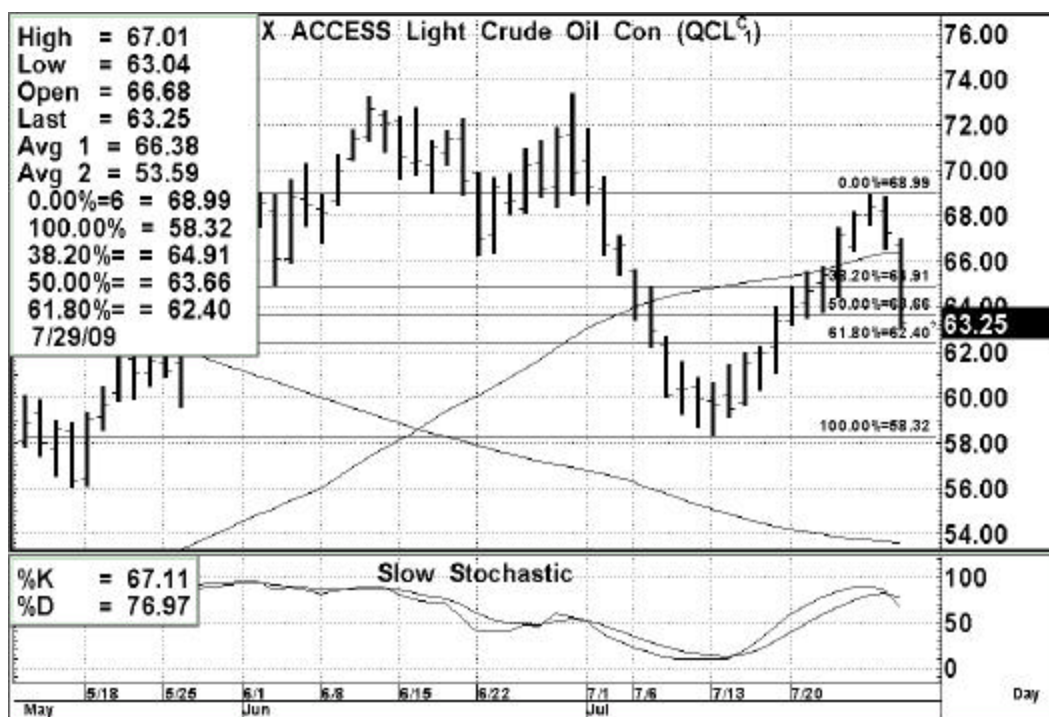
OPEC's news agency reported that OPEC's basket of crudes fell to \$68.45/barrel on Tuesday from \$69.01/barrel on Monday.

## Market Commentary

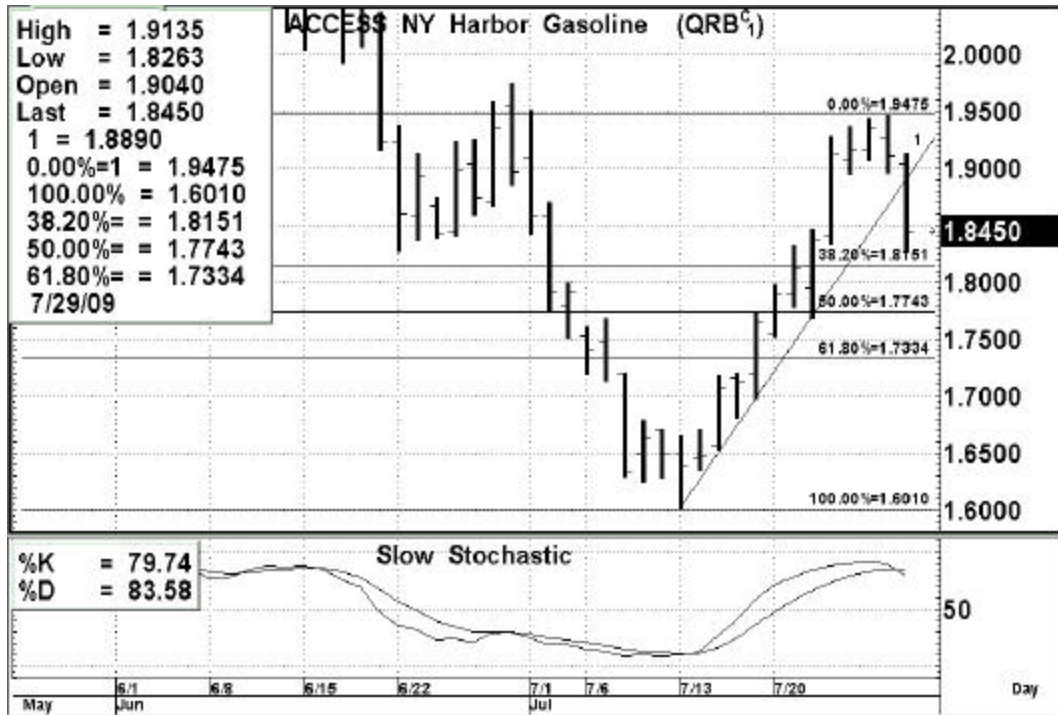
With the true fundamentals of this market finally kicking in, crude oil penetrated the \$66.20 trendline that can be depicted on a spot continuation chart. Today's DOE report indicated that crude oil stocks fell 5.5 million barrels last week, in contrast to the expected decrease of 1.5 million barrels. Crude oil stocks are now 9.5% higher than the five-year average. Stock levels at Cushing, OK, the NYMEX delivery point, rose 1.31 million barrels to 32.1 million barrels, the highest level since March of this year. This is the largest drop crude oil prices have had in three months. Slow stochastics for crude oil have now crossed to the downside, indicating a shift in market trend. The next level of support is \$62.40, the 62% retracement of the range between \$68.99 and \$58.32. Refiners, wanting to hold onto their margin profits are turning out fewer products, which caused a 2.32 million barrel decrease in gasoline stock levels. Gasoline crack spreads held firm today, with the September crack gaining \$1.59 on the day. As long as refiners can refrain from over producing gasoline and imports continue to decline, gas cracks should hold firm.

Crude Oil (SEP.09 331,575 -2,583 OCT.09 100,045 +1,883 NOV.09 55,755 +1,246 DEC.09 161,896 +595 JAN.10 35,848 +1,736 FEB.10 22,427 +311 Totals: 1,173,580 +3,139. Heating Oil (HO) AUG.09 15,327 -6,352 SEP.09 66,659 +2,036 OCT.09 33,246 -497 NOV.09 23,798 +429 DEC.09 38,460 +46 JAN.10 20,576 +105 FEB.10 13,826 +188 Totals: 299,796 -2,479. Harbor RBOB AUG.09 15,275 -3,546 SEP.09 90,756 +2,425 OCT.09 30,393 +1,184 NOV.09 15,432 +314 DEC.09 19,640 +625 JAN.10 9,800 +74 FEB.10 3,244 -65 Totals: 204,976 +1,144

Spot continuation chart for crude oil. Prices penetrated 3 support levels today, the 66.20 trendline, the 64.9138% and the 63.66 50% retracement levels. Support is now set at 62.40. A break below this number should take crude oil to 58.22.



Daily spot continuation chart for gasoline. Prices dipped below the ascending trendline and are approaching the 38% retracement level of 1.8151. Slow stochastics have crossed to the downside, supporting additional moves lower.



<b>Crude Support</b>	<b>Crude Resistance</b>
62.40, 60.95, 56.40, 56.75, 55.45, 54.49, 48.00	65.50, 66.68, 68.10, 70.10, 72.15, 73.38, 74.50, 76.13
<b>Heat Support</b>	<b>Heat resistance</b>
1.4220, 1.4130, 1.3720	1.8400, 1.8730, 1.9090, 1.9135
<b>Gasoline support</b>	<b>Gasoline resistance</b>
1.7989, 1.7895, 1.5887, 1.5370, 1.5260, 1.3560, 1.3400,	1.9475, 1.9750, 1.9800, 2.0650, 2.1600

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