



## **ENERGY RISK MANAGEMENT**

Howard Rennell, Pat Shigueta  
& Karen Palladino

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

**www.e-windham.com**

---

### **ENERGY MARKET REPORT FOR AUGUST 8, 2008**

---

The fire in the Baku-Tbilisi-Ceyhan (BTC) oil pipeline may be put out Friday or Saturday and repairs finished in 10 days, a senior source at Turkey's Energy Ministry said today. Trade sources were reporting that BP has cut output by at least 400,000 b/d at the Azeri-Chirag Gunashli production fields that feed the line. Production prior to the blast was estimated at 800,000 b/d. BP reported that some oil is being diverted to the Baku-Supsa pipeline as well as the Baku-Novorossiisk line and a railway line to Batumi. It warned of a 21 day delay on Azeri crude lifting from the Ceyhan terminal. BP reported that the fighting in South Ossetia region was not affecting shipments of oil from Azerbaijan.

Britain, France, Germany and the US are considering imposing additional sanctions on Iran over its nuclear program, possibly in the energy, reinsurance or financial sectors. A senior British official said these are

#### **August Calendar Averages**

**CL** – 119.91

**HO** – 327.81

**RB** – 298.01

#### **Market Watch**

Tensions over Georgia's rebel territory of South Ossetia exploded today when Georgia attempted to assert control over the region with military force, which in turn triggered a Russian military response to protect ethnic Russian in the region. Georgia's President called the action as a full scale Russian invasion, and said it was in the best interests of the United States to help his country. The secretary of Georgia's National Security Council said Georgia President is preparing to declare a state of emergency. The Organization for Security and Cooperation in Europe called for an urgent ceasefire and stop further escalation since this conflict could slide into a full fledged war.

The U.S. Labor Department reported today that U.S. business productivity grew by a relatively solid 2.2% annual rate during the second quarter, as companies boosted output while they cut jobs. As a result unit labor costs, a gauge of inflation and profit pressures closely watched by the Federal Reserve, rose 1.3% in the second quarter.

China reported today that new car sales in China rose at their slowest annual pace in two years in July as a fuel price hike and easing economic growth appears to have slowed consumer demand for new vehicles. Car sales rose by 6.79% from a year earlier. From January through July new car sales has risen by 15.79%.

An analyst said gold may outperform crude oil in the next six months as buyers in India, stock up on the metal. According to UBS AG, gold jewelry demand in India and Turkey was extremely strong in the past week, with sales to India the highest since this time last year as buyers took advantage of lower prices and rebuilt inventories. The "black gold ratio" showing how much gold it would take to buy a barrel of oil increased to 0.1538 of an ounce on June 12, the highest since at least 1950. Based on historical averages, if oil falls to \$100/barrel, gold would go to \$1,515/ounce.

Ecuador's Internal Revenue Service, or SRI said local and foreign oil companies operating in Ecuador owe about \$200 million in outstanding taxes. The taxes owed are for the value added tax, income taxes and the luxury tax between 2004 and 2005.

beyond measures already taken by the UN Security Council and beyond steps likely to be considered in a possible next round of UN sanctions. On Wednesday, the US and Britain said that the major powers had agreed to consider more UN sanctions against Iran. However Russia said there was no firm deal. Separately, the deputy head of Iran's Atomic Energy Organization, Mohammad Saedi described two days of talks with the IAEA's deputy director in charge of inspections, Olli Heinonen as constructive and promised future discussions with the UN agency. He said the two sides have reached some agreements.

Venezuela's Energy Minister Rafael Ramirez said the country would support an OPEC oil production cut if it were warranted by market circumstances. He added that financial speculation is the primary driver of the current volatility in oil markets.

The National Oceanic and Atmospheric Administration said weather related residential energy demand in the US in July was 3% above the long term average. It said July ranked as the 30<sup>th</sup> warmest July on records dating back to 1895, with temperatures higher than average in the Northeast and the West and below average in the Midwest. The average temperature was 74.9 degrees Fahrenheit.

**Refinery News**

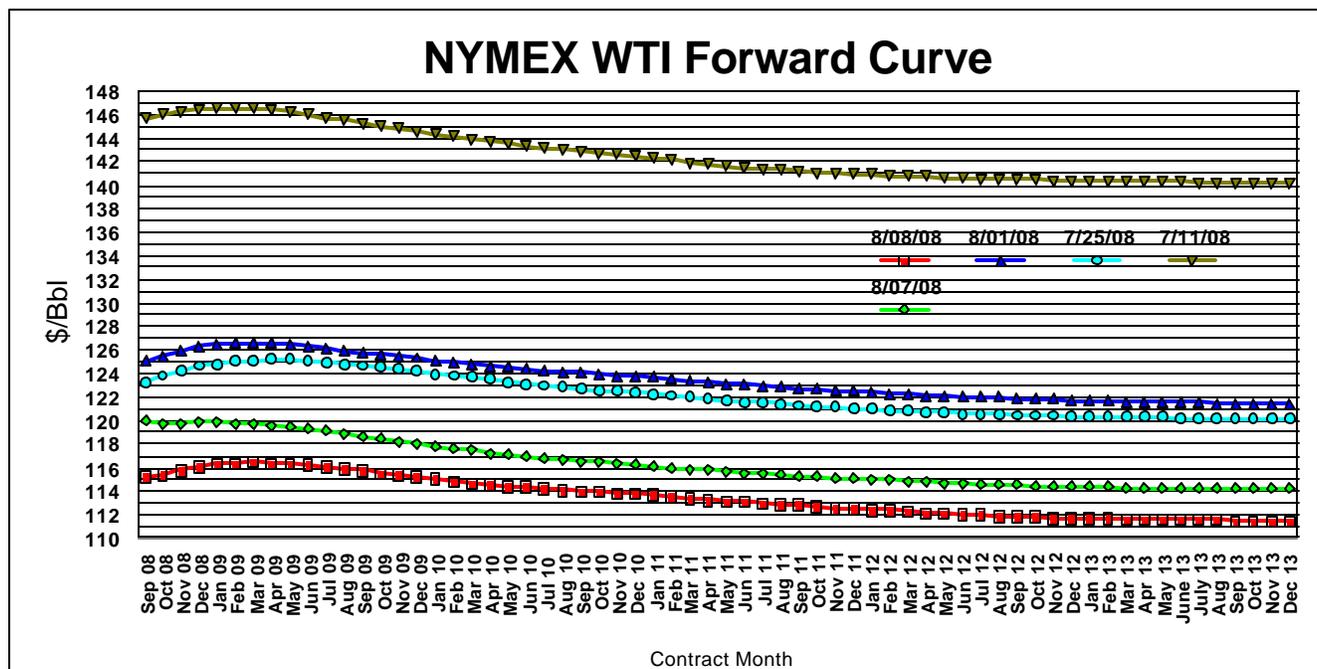
Tesoro Corp's alkylation unit at its 100,000 bpd Los Angeles refinery resumed full operations after it was shut for unplanned repairs on Wednesday.

ExxonMobil Corp said it plans to shutdown a unit between August 9 and 12 for necessary maintenance at its 149,500 bpd Torrance, California refinery.

Indian Oil Corp plans to shut a 1.8 million metric ton/year diesel hydrotreater at its Mathura refinery for 23 days in September for routine maintenance.

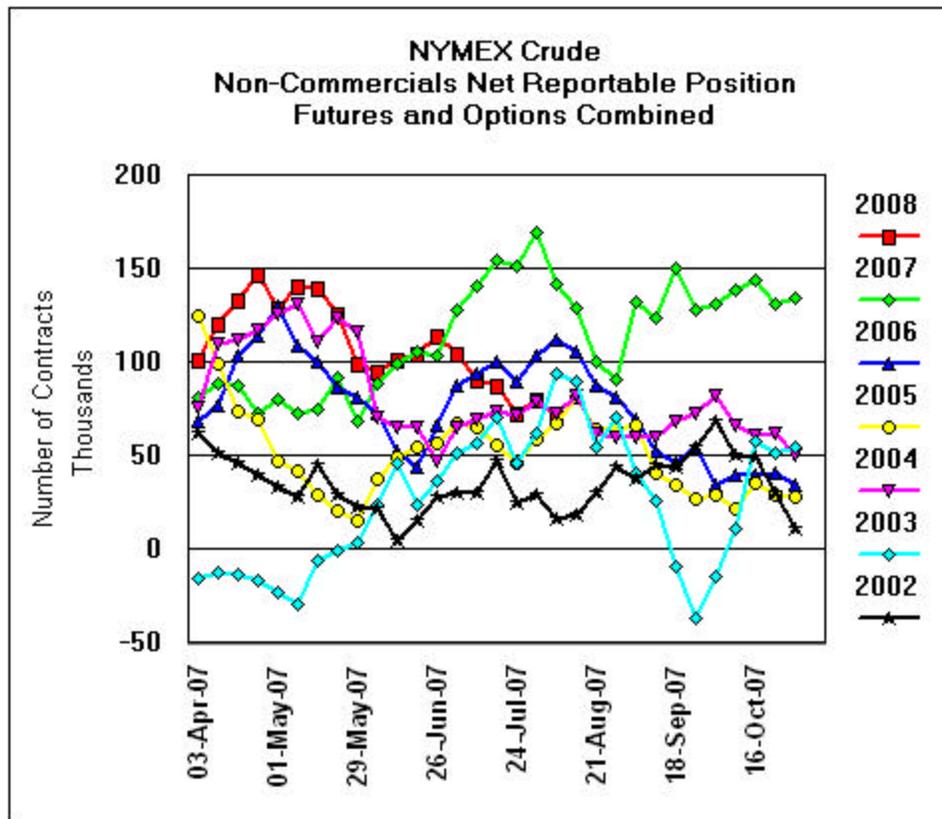
**Production News**

Shipments of Brent and Forties crudes are set to increase in September. The September loading program for Brent scheduled the loading of 161,000 bpd, up from 156,000 bpd in August. The September loading program for North Sea Forties crude oil scheduled the loading of 640,000 bpd or



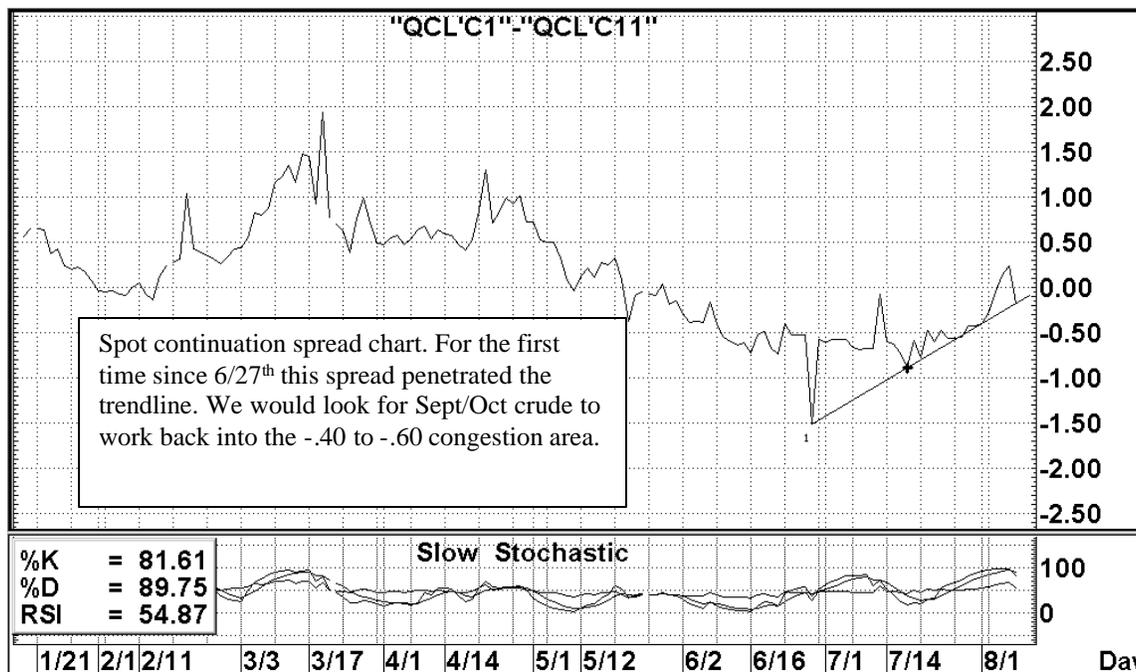
19.2 million barrels, up from 465,000 bpd or 14.4 million barrels in August.

Iraq is aiming to start producing crude from its southern Nassiriya oilfield soon and hopes production will reach 100,000 bpd in just over a year. Iraq has 115 billion barrels of proven oil reserves and is aiming to increase its current production of about 2.3 million bpd. It will start producing 30,000 bpd from the Nassiriya oilfield soon and increase to 100,000 bpd in just over a year, according to Iraq's Oil Ministry. Iraq's Oil Ministry also reported that Iraq exported 411 million barrels in the first seven months of 2008.



Nigeria's Oil Minister Odein Ajumogobia said the country is producing about 1.8 million bpd as security concerns and militant attacks continue to plague the country. He said Nigeria is trying to safeguard the existing production of 1.8 million bpd while it continues to address the problems.

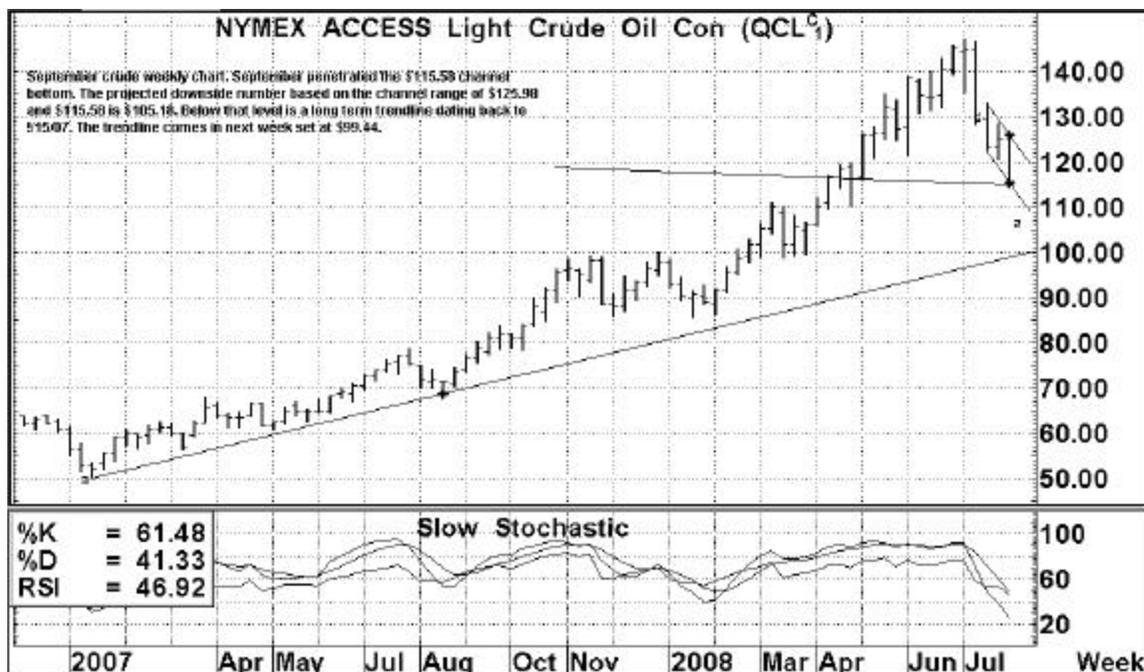
Petroecuador reported oil export revenue of \$705.92 million in July, down 4% on the month. In terms of volume, Petroecuador exported 6.14 million barrels of crude in July, down 1% from 6.2 million barrels reported in June.



barrels reported in June.

Petrobras said it is evaluating changes made by the Ecuadorian government to oil exploration and production contracts there. A Petrobras official said

the company does not normally act as a service provider in oil production as the Ecuadorian government is proposing and may opt to pull out. Ecuador's government announced that it had reached a deal that will allow Petrobras to maintain its contracts there but it will change the company's role in oil production projects from that of operator to service provider.

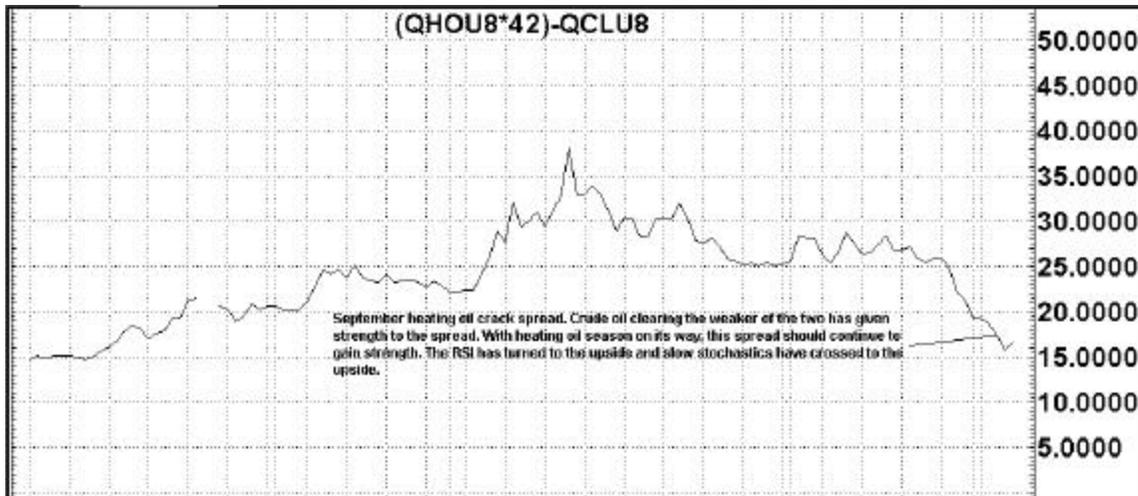


OPEC's news agency reported that OPEC's basket of crudes increased to \$115.08/barrel on Thursday from \$114.64/barrel on Wednesday.

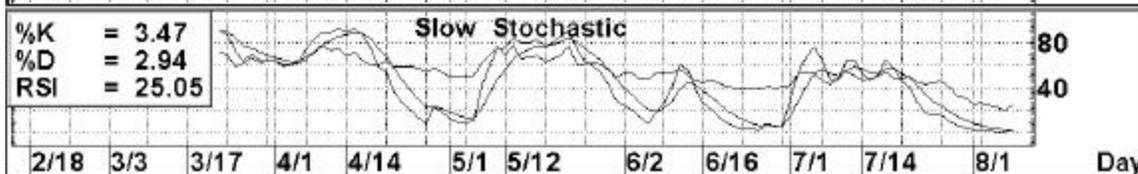
### **Market Commentary**

In reaction to a stronger dollar, the energy markets sold off today. The dollar reached a five-month high as the euro fell the most in eight years. This helped to take away the appeal of commodities as a hedge, forcing selling in the energy markets. A late floor session sell-off brought September crude oil below the bottom trendline on the descending channel basis a weekly bar chart. With this penetration, prices are now set up to test the projected support at \$105.18. Below this level is a trendline set at \$99.44, stemming from the lows of January 2007. The September/October crude oil spread is now back in negative territory and has broken through a trendline dating back to June 27. We would look for further weakness in this spread and for it to trade within the -.40 to -.60 range. Heating oil has settled below the downward channel on a daily bar chart. The projected downside target based on this break out is \$2.9266. The September heating oil/crude oil crack spread has gain some strength and technicals are supporting additional strength. With heating oil season on its way, heat cracks should start to widen a bit. Although gasoline closed lower today, it did not penetrate a descending trendline that can be drawn a daily bar chart. The moving oscillators appear to be supporting a move to the upside. Slow stochastics have crossed back below the 20 parameter. Should they cross above again this would indicate a change in trend and we should see gasoline retrace some of its losses. The RSI has never broken below the 30 parameter used to determine a change in market trend, which is supportive for prices. Although a view of this market is for crude oil to continue to come under pressure, giving up strength to both products, we would watch the situation brewing between Russia and Georgia. Israel is reported to have given military training to Georgia. This has not gone down well with the Kremlin. Therefore, as the military crisis intensifies in South Ossetia, Moscow may be expected to punish Israel for its intervention. Russia who supplies the bulk of natural gas to Europe, will surely use this as a tool for Europe's support. Open interest for crude oil is 1,254,304 down 19,837, September 08 235,330 down 37,659, October 08 175,783 up 12,720 and December 08 177,884 down 6,804. Total open interest for heating oil is 225,092 down 348, September 08, 62,558 down 4,001 and

October 08  
 32,883 up  
 2,380. Total  
 open  
 interest for  
 gasoline is,  
 218,073 up  
 1,155,  
 September  
 08, 70,508  
 down 4,756  
 and October  
 08 43,311  
 up 3,654.



The latest  
 Commitment  
 of Traders  
 report  
 showed that



non-commercials in the crude market increased their net short position by 4,890 lots to 5,550 lots in the week ending August 5<sup>th</sup>. It showed that non-commercials cut their total long position by 4,290 lots to 197,332 lots on the week. The combined futures and options report showed that non-commercials cut their net long position by 8,174 contracts to 72,101 contracts, as the funds cut their total long position by 7,483 contracts to 208,073 contracts. Given the market's move in the past few sessions, non-commercials have likely continued to cut their net long positions. In the product markets, the combined futures and options report showed that non-commercials in the RBOB market increased their net long position by 2,799 contracts to 46,765 contracts while non-commercials in the heating oil market increased their net long position by 1,576 contracts to 10,756 contracts on the week.

<b>Crude Support</b>	<b>Crude Resistance</b>
108.40,105.18, <b>85.40</b>	132.90, 134.85,140.60, 144.00,147.90,
<b>Heat support</b>	<b>Heat resistance</b>
3.0980, 3.0285	3.6135,3.8215, 4.0210, 4.0765, 4.1200, 4.3614
<b>Gasoline support</b>	<b>Gasoline resistance</b>
2.8190, 2.7285, 2.5920	3.1680,3.1760,3.6021, 3.755, 34655