



## **ENERGY RISK MANAGEMENT**

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## **ENERGY MARKET REPORT FOR AUGUST 19, 2008**

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The chairman of Libya's National Oil Corp, Shokri Ghanem said OPEC will likely keep its oil output steady at a meeting next month and a fall in oil prices will probably be temporary. He said factors beyond supply and demand, such as political tension and speculation, remained an influence for prices.

Venezuela's Energy Minister Rafael Ramirez said the country will propose an oil production cut at OPEC's next meeting in September if prices continue to fall.

### Market Watch

Republican John McCain called for expanded offshore drilling during a tour of a platform, operated by ExxonMobil Corp and Chevron Corp. He toured the platform as polls show a majority of voters support more offshore oil exploration, despite the fact that it could take years to bring such wells into production. Meanwhile, Democratic presidential candidate Barack Obama has stated that he would agree to some extension of coastal oil exploration to break a deadlock in Washington over a broader energy plan.

Dallas Federal Reserve Bank President Richard Fisher said China's economic growth can deliver a potentially massive boost to world energy demand with clear implications for long term oil prices. He also said the recent turnaround in currency markets in favor of the dollar was to be expected.

China will increase the price of electricity by 6% starting on Wednesday to help narrow generators' losses and ease a nationwide power shortage. China's two grid operators, State Grid Corp and China Southern Power Grid Co will pay thermal power producers an average of 0.02 yuan or \$0.0024 more for each kilowatt hour. Meanwhile, State Grid Corp of China said it is prioritizing supplies to the Beijing Olympic Games. The power deficit has reached 17 gigawatts from the year earlier in the areas covered by State Grid's network. Beijing's maximum electricity demand increased by 21% on the year to 11.6 gigawatts on August 9, the first day of the Olympic Games.

Georgia said Russia failed to keep its promise to start the withdrawal of troops on Monday, while US officials said there were signs Russia was adding troops and equipment to its forces in the Georgian regions of South Ossetia and Abkhazia. The Pentagon said the US still has not seen a significant withdrawal of Russian forces from Georgia. As a result, a diplomat said North Atlantic Treaty

### **August Calendar Averages**

**CL** – 116.86  
**HO** – 318.65  
**RB** – 292.11

Organization nations agreed to toughen the language towards Russia due to its failure to withdraw its troops from Georgia on Monday. Later, the European Union's foreign policy chief Javier Solana said Russian troops were beginning to move from Georgia and expressed hope they would speed up their pullout. Meanwhile, Russia's North American

Treaty Organization envoy insisted Tuesday that Russia has started pulling its troops out of Georgia but said their complete withdrawal would depend on the actions of Georgian President Mikhail Saakashvili. Russia's envoy denied a US claim that Russia had moved short range SS-21 missile launchers into South Ossetia since fighting was halted last week. Meanwhile, a Russian general said Georgian military forces were not returning to their permanent bases as required under the terms of a ceasefire agreement.

A shipping agent said Azeri oil exports by rail through Georgia to the Black Sea coast may resume today after a bridge is repaired. Russian troops attacked a railway bridge near the Georgian village of Grakali on August 16, paralyzing the country's train system. BP Plc, Azerbaijan's national oil company and other exporters halted crude exports by rail through Georgia to the Black Sea after the bridge was attacked. According to BP, the railway route has a daily capacity of between 50,000 and 70,000 barrels of oil products. Separately, Turkey said it is still unclear when the Baku-Tbilisi-Ceyhan pipeline will open after an explosion halted exports of Azeri crude. Government officials are still examining the damage to a Turkish section of the pipeline. Meanwhile another pipeline, which passes through Georgia to the Black Sea port of Supsa, is closed for the fifth consecutive day due to security concerns.

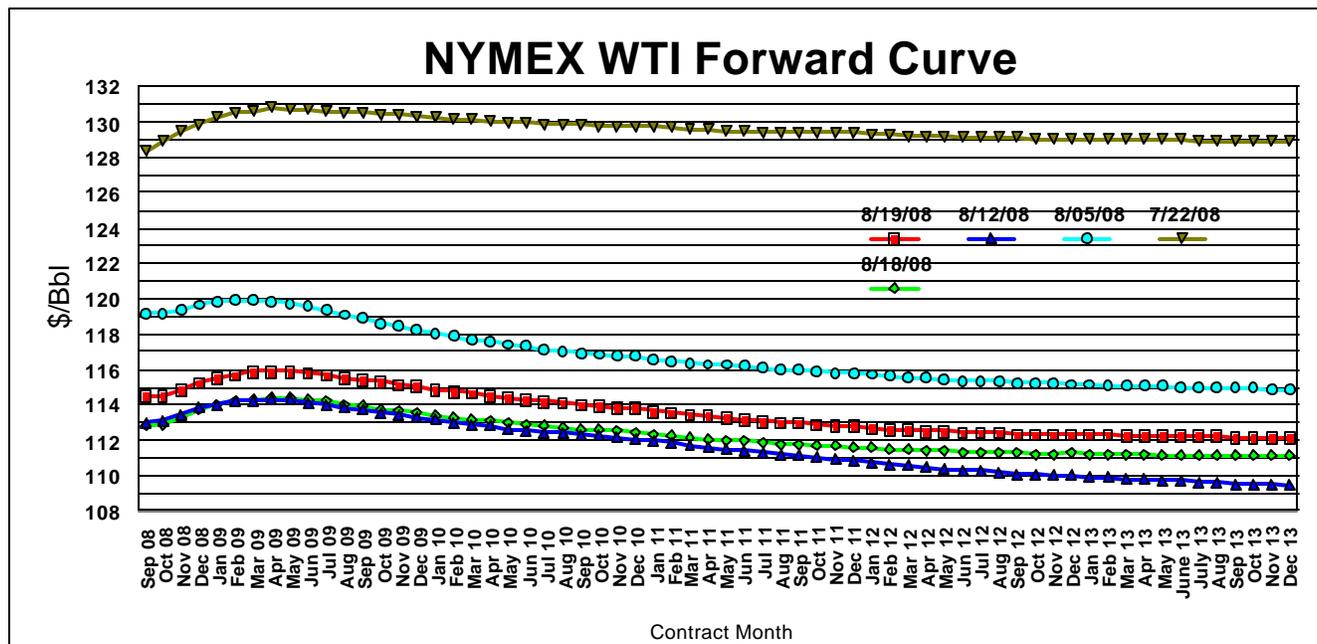
A US official said Iran's attempt to launch a dummy satellite into orbit was a failure. The official said the satellite failed shortly after liftoff and did not reach its intended position.

A top Iranian cleric, Grand Ayatollah Nasser Makarem Shirazi reprimanded, Esfandiar Rahim Mashaie, a leading aide to President Mahmoud Ahmadinejad over his remarks that Iranians are "friends with Israelis." The cleric questioned the aide's competence to hold office over his comments.

According to a report by the MasterCard Advisors LLC, US gasoline demand fell by 799,000 or 7.8% on the year to 9.453 million bpd in the week ending August 15. In the last four weeks, demand fell by 4.8% on the year. On a nationwide average, retail prices for regular gasoline fell by 1.8% or 7 cents/gallon to \$3.77/gallon, the lowest price since May 16.

### Refinery News

LyondellBasell said a coking unit at its 270,000 bpd refinery in Houston will remain shut for the entire third quarter following the collapse of a crane being used in the unit's overhaul on July 18. The



refinery will run at about 150,000 bpd for 45-50 days during the quarter due to maintenance being performed at the refinery including a coker and a crude distillation unit.

Irving Oil was seen buying as much as 1 million barrels of gasoline on the open market over the past two days, leading to speculation that there is a problem at its 300,000 bpd refinery in Saint John, New Brunswick. The refinery exports a total of 175,000 bpd of gasoline, which includes 100,000 bpd of reformulated to the US Northeast.

Galp's 213,000 bpd Sines refinery in Portugal will shut down for 40 days of planned maintenance starting on September 15. A company spokeswoman could not say how much fuel Galp had in storage or how much it may have to import while Sines is closed.

The chairman of Libya's National Oil Corp, Shokri Ghanem said a crude oil storage tank in the area of Libya's oil refining and petrochemical site Ras Lanuf caught fire during maintenance early on Tuesday. Exports of products have not been affected.

A second fuel storage tank leased by Trafigura Pte Ltd at a Malaysian port caught fire after overheating on Monday. Traders said the impact from the incident was limited. The fire at Tanjung Langsat port in southern Johor state flared as firefighters struggled to put out the fire at the first tank due to a lack of fire fighting material. An official said the six other nearby tanks could be affected if the first was not put out in time.

China's Sinopec Corp will skip its diesel imports in September due to high domestic stockpiles, following the purchase of 100,000 tons for August. It is the first time in several months that Sinopec will not import diesel.

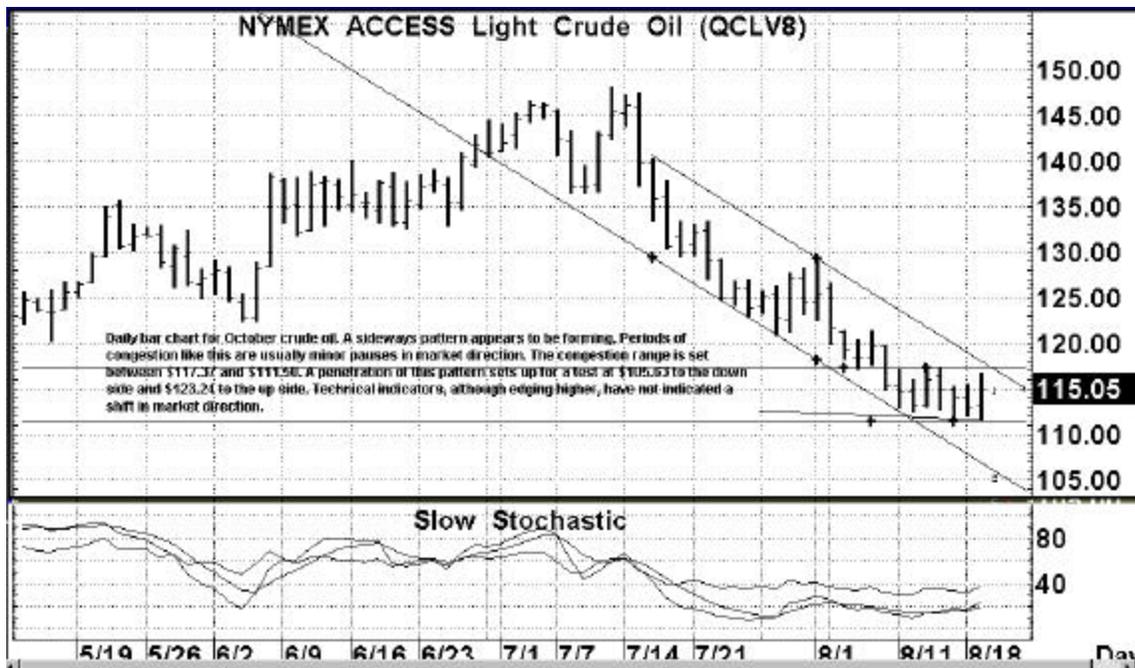
India's Mangalore Refineries and Petrochemicals Ltd will sell an extra 210,000 tons of diesel by December to Iran, which is increasing imports ahead of heavy refinery maintenance work this year. The additional volumes would raise MRPL's diesel exports to Iran to 450,000 tons. Traders said Iran has nearly doubled its imports of diesel, used for heating and power generation, to compensate for lost output ahead of shutdowns at its two largest oil refineries in the fourth quarter. Iran is scheduled to shut a 180,000 bpd crude unit at its 450,000 bpd refinery in Abadan for 30-40 days starting at the end of October. Iran also plans to shut a 120,000 bpd vacuum distillation unit at its 270,000 bpd plant at Isfahan for three weeks of maintenance starting in early October.

Russian Railways said it halted shipments of cargoes to the Black Sea port of Tuapse due to a dockers' strike. However the strike affected only dry cargoes, while crude oil and oil products were loading normally. Dockworkers at the port went on strike on August 13 after it did not receive adequate payment for night shifts.

### **Production News**

Royal Dutch Shell Plc began returning workers to the Gulf of Mexico as the threat from Tropical Storm Fay subsided. About 425 workers had been evacuated from Shell's operations in the eastern portion on the Gulf. There was no impact to its production. Marathon Oil Corp also started returning its workers to offshore platforms in the Gulf of Mexico. Marathon's production was also unaffected by the evacuation.

Iran's Oil Ministry stated that the country's Forouzan oilfield production capacity will increase by 4,000 bpd. The oilfield's rate of production was already increased during the last two months by 5,000 bpd to reach 46,000 bpd.



Angola looks set to meet its 1.9 million bpd OPEC quota for October. Provisional programs for October indicate there are eight cargoes of Girassol crude of 950,000 barrels each in addition to

eight of Dalia crude, eight of Hungo crude, eight of Kissanje crude, seven of Nemba crude, four of Mondo crude, three of Saxi crude, two of Kuito crude, two of Palanca crude and one of Xikomba crude.

Iraq's Oil Minister Hussain al-Shahristani rejected a contract signed during the Saddam Hussein regime with Lukoil, saying the contract was totally unfair. He also said Iraq will sign a renegotiated oil service contract with China to replace a production sharing deal agreed under Saddam Hussein. The oil minister is traveling to China at the end of August to discuss the deal, which was originally signed in 1997 between Iraq and the China National Petroleum Co.

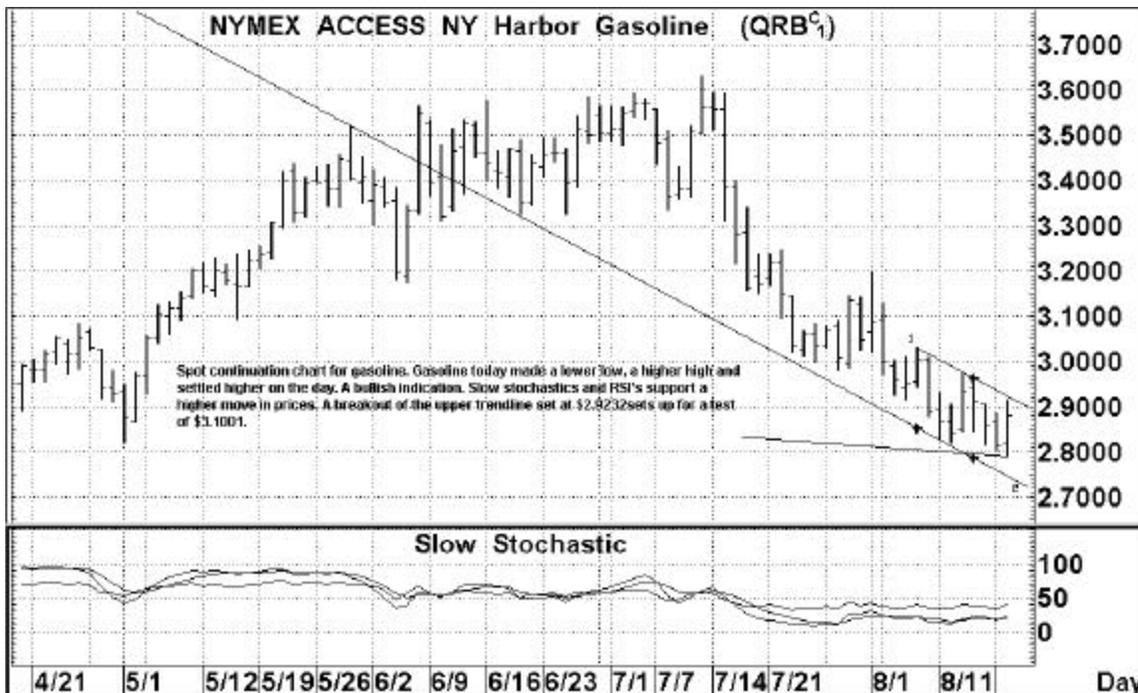
China aims to maintain largely steady oil production through 2030 but hopes to more than triple its natural gas production in the next 20 years. By 2030, annual oil production could be maintained at 200 million tons while natural gas output would reach 250 billion cubic meters. Last year, China produced 187 million tons of oil and 69.3 bcm of gas. China has 21.2 billion tons of exploitable oil resources and 22 trillion cubic meters of exploitable natural gas reserves.

OPEC's news agency reported that OPEC's basket of crudes increased to \$108.68/barrel on Monday, up from Friday's \$107.88/barrel level.

### **Market Commentary**

The energy markets reacted strongly today to a weaker dollar, changes in predictions as to where and how Tropical Storm Fay may hit and expectations that the API/DOE numbers will reflect significant draws in products. On average, crude oil stocks are expected to build by 0.7, gasoline stocks to draw by 2.2 and distillate stocks to increase by 0.5. We are starting to see a shift from gasoline stocks to distillate stocks, as refiners may be doing some early ramping up for the winter, prior to turnarounds. Imports, which fell last week, should recover this week after the Loop reopened once hurricane Eduoard came to pass. Demand should continue to suffer due to the economic situation. The shape of the forward curve is relatively unchanged, with backwardation from the second quarter of 2009 accelerating. It appears as if the crude oil market is trading within a period of consolidation between the range of \$117.40 and \$111.50. Typically, periods of consolidation take place in the market prior to a continuation of the previous move. Technical indicators, although inching higher, have not yet indicated a shift in market direction. Barring any major surprises in tomorrow's API/DOE numbers, we

would look for crude oil to work sideways to lower, with a possible test of the \$109.55 support level. Gasoline experienced an outside trading session today, settling .0487 higher on the day. This higher move is in



anticipation of a draw in stock levels. Technical indicators are supportive of this move higher and are indicating further strength. Although we do expect demand to remain weak, gasoline may see a last run up prior to refiners changing over to distillate. Based on this and the supportive technicals, this market may test the top of the channel, which is set at \$2.9232 and \$2.7463. For the first time since making a move to the downside, heating oil has traded above and settled above the upper trendline on a spot continuation chart. This is the first time since slow stochastics have trended below the 20.00-oversold parameter, that one of them trended back above it. Percent K, the leading indicator, is currently set at 25.44. With the September contract breaking and settling above this trendline, the projected upside objective is \$3.2690. We would not discount a retracement to this level, or for a test up to the \$3.3100 resistance number. We would however like to see much more support stock level numbers before we would concede to a change in market direction. Open interest for crude oil is 1,222,420 down 4,312, September 08 65,036 down 20,036, October 08 293,411 up 16,297, November 08 101,348, up 3,605 and December 08 175,326 down 476. Total open interest for heating oil is 221,995 up 741, September 08, 34,482 down 2,093 and October 08 43,564 up 234. Total open interest for gasoline is, 224,399 up 2,833, September 08, 45,363 down 398 and October 08 63,944 up 2,758.

<b>Crude Support</b>	<b>Crude Resistance</b>
109.55, 108.00, 105.18, <b>85.40</b>	117.40, 128.60, 132.05, 139.30, 144.00, 147.90,
<b>Heat support</b>	<b>Heat resistance</b>
3.0285	3.2315, 3.3075, 3.3798, 3.6135, 3.8215, 4.0210,
<b>Gasoline support</b>	<b>Gasoline resistance</b>
2.8190, 2.7285, 2.5920	3.0300, 3.1050, 3.1460, 3.1970, 3.2620