



## ***ENERGY RISK MANAGEMENT***

Howard Rennell, Pat Shigueta,  
& Karen Palladino

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

**www.e-windham.com**

---

### **ENERGY MARKET REPORT FOR SEPTEMBER 9, 2009**

---

Saudi Arabia's Oil Minister Ali al-Naimi expects OPEC to leave oil production levels unchanged at its meeting on Wednesday. Saudi Arabia's Al-Hayat newspaper quoted the Oil Minister as saying that the country's oil output is currently at 8.1 million bpd. He said world oil inventories are high, equivalent to 60 days of

forward supply but are expected to decline soon as demand picks up with an improving global economy. Saudi Arabia's Oil Minister also said he favored oil market regulation to cut speculation and reduce price volatility. Kuwait's Oil Minister Sheik Ahmad al-Abdullah al-Sabah said Oil Ministers from OPEC's Gulf Arab countries, including Saudi Arabia, Qatar and the UAE, agree that the group should not alter its output targets. The UAE's Oil Minister Mohammed al-Hamli said compliance with existing OPEC output cuts could be better. He said he is comfortable with the oil market as it stands. Algeria's Oil Minister Chakib Khelil said OPEC is likely to leave its output unchanged when it meets later on Wednesday and oil prices are set to rise further into next year as demand and the economy recovers. However he said he does not expect \$100/barrel soon.

Venezuela's Energy Minister Rafael Ramirez said OPEC should keep its production steady. Venezuela's President Hugo Chavez said the right price for a barrel of oil is between \$80 and \$100/barrel. Ecuador's Energy Minister Germanico Pinto said OPEC does not need to change its oil output targets at its Wednesday meeting. Iraqi Oil Minister

#### Market Watch

The US National Hurricane Center said Hurricane Fred strengthened over the eastern Atlantic to a category 2 hurricane early Wednesday but was forecast to steer clear of any land. It is located west-southwest of the southernmost Cape Verde Islands off the west coast of Africa. It is expected to turn northwest and then north, remaining thousands of miles east of the US East Coast.

Federal Reserve Bank of Dallas President Richard Fisher said the US economy will grow 2% or more for the rest of 2009 as it stabilizes. He however does not expect to see a dramatic increase in consumption.

US Interior Secretary Ken Salazar said the Obama administration is considering charging oil companies variable royalty rates for drilling on federal lands that would reflect the difficulty in finding oil and natural gas supplies. To ensure oil companies pay reasonable rates as oil prices increase, the Interior Department plans to issue proposals to update royalty rates by the end of the year. Companies currently pay a royalty rate ranging from 12.5% for onshore drilling to 18.75% of the value of the oil and gas they drill on leased offshore tracts.

Gazprom chief executive Alexei Miller said that the price of oil could reach \$100/barrel next year and expressed hope further problems with Ukraine over gas transit could be avoided.

#### API Stocks

**Crude** – down 7.216 million barrels

**Distillate** – up 3.282 million barrels

**Gasoline** – up 571,000 barrels

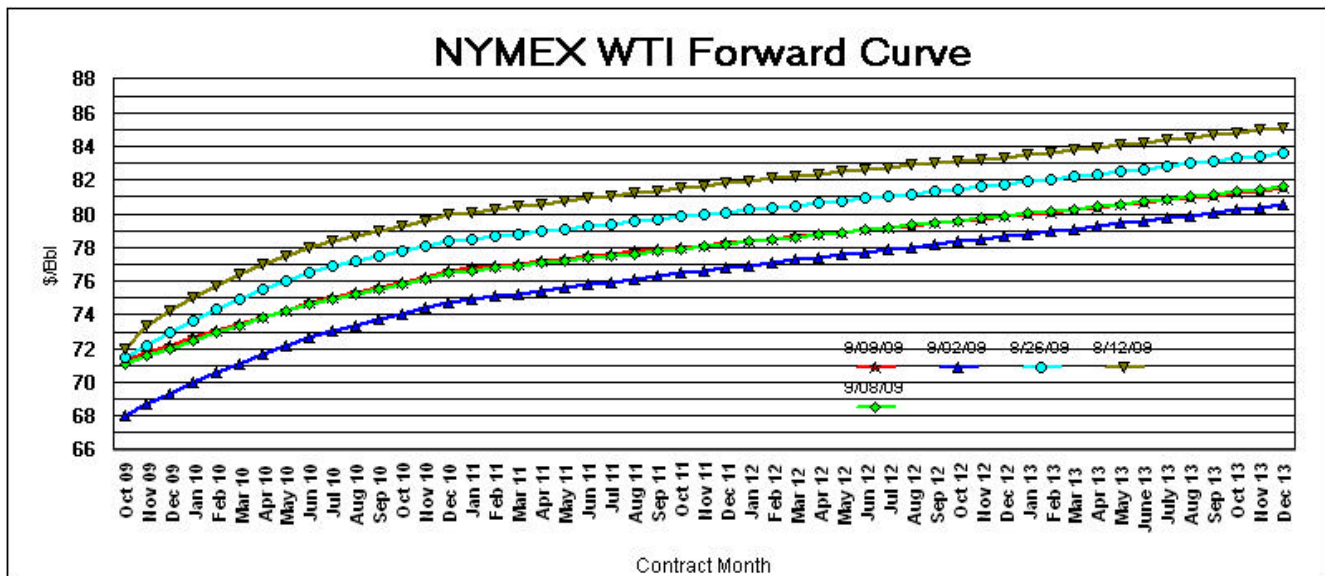
**Refinery runs** – up 1.1%, at 85.6%

Hussain al-Shahristani said there is no need to change oil output at Wednesday's OPEC meeting and that he is satisfied with the current oil price.

**September  
Calendar Averages**  
**CL – \$69.08**  
**HO – \$1.7570**  
**RB – \$1.8028**

OPEC's President, Jose Botelho de Vasconcelos, who is also Angola's Oil Minister, said OPEC is still concerned about high oil inventories and price fundamentals. He said OPEC's goal is to keep oil prices stable and indicated that prices at about \$70-\$75/barrel would satisfy both consumers and producers. He said the group remained committed to supplying increased demand if the world economy entered a period of strong and sustained growth. Meanwhile, OPEC's Secretary General Abdullah al-Badri said the fluctuation of the US dollar is a big issue for member countries.

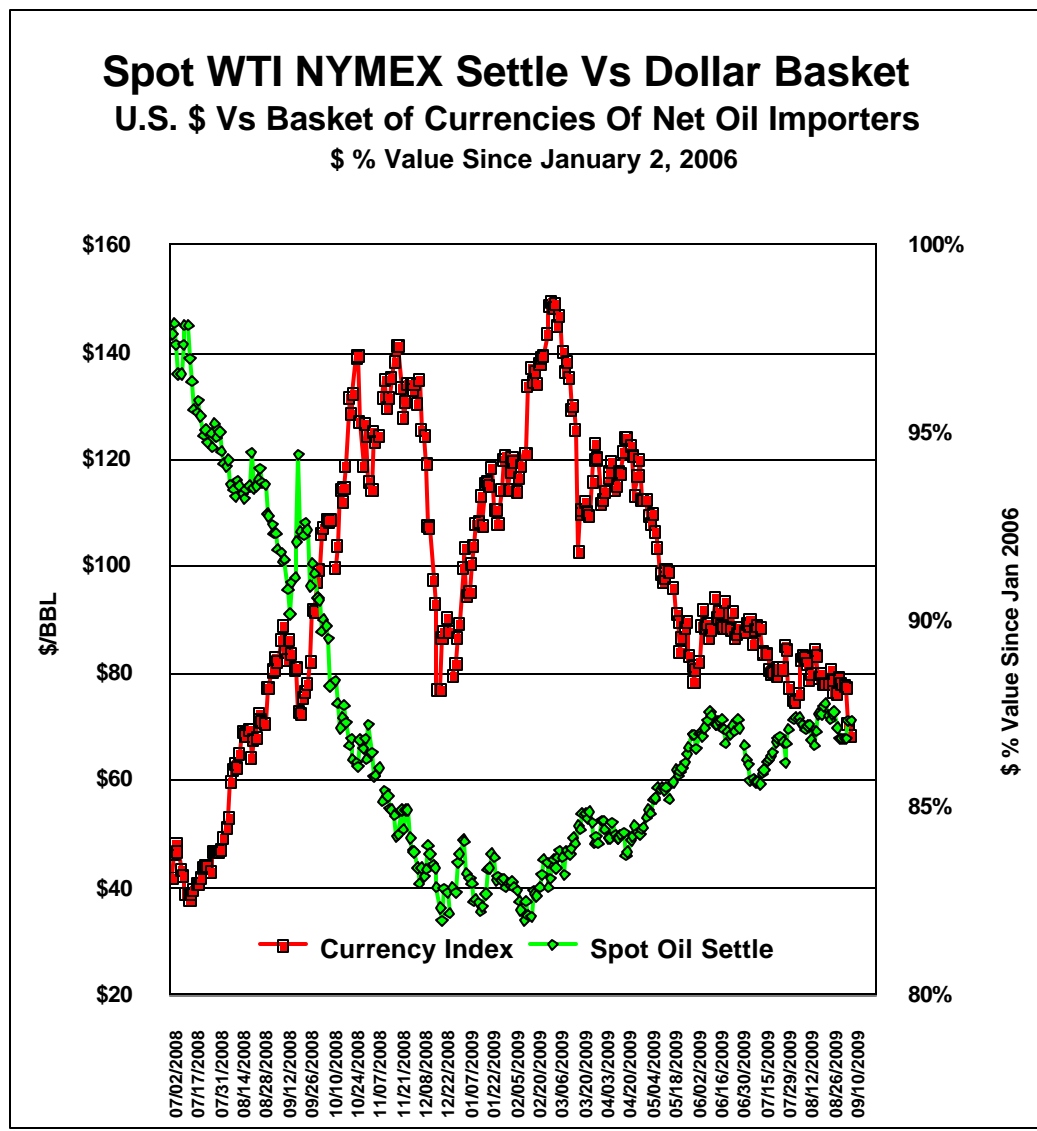
The EIA said in its latest Short Term Energy Outlook that world oil demand fell by 3 million bpd to 82.89 million bpd in the second quarter of 2009 compared with a year earlier level. Demand is expected to increase by 1.66% or 1.38 million bpd in the third quarter and increase by 0.25% or 210,000 bpd to 84.48 million bpd. Demand in 2009 is expected to fall by 1.78 million bpd or 2.08% on the year to 83.67 million bpd, which down 90,000 bpd or 0.11% from its previous estimate. Demand in 2010 is expected to increase by 910,000 bpd or 1.09% on the year to 84.58 million bpd, which is down 120,000 bpd or 0.14% from its previous estimate. OECD commercial oil inventories stood at 2.74 billion barrels at the end of the second quarter of 2009. At 61 days of forward supply, OECD commercial inventories were well above average levels for that period of time. It expects OECD inventories to remain at above average levels throughout the forecast period because of weakness in world oil consumption and continuing contango in the futures market. The EIA also reported that US petroleum demand in 2009 is expected to fall by 780,000 bpd or 4% to 18.72 million bpd, which is up 10,000 bpd from its previous estimate. Demand in 2010 is expected to increase by 260,000 bpd or 1.39% to 18.98 million bpd, which is down 10,000 bpd from its previous estimate. Gasoline demand in 2009 is expected to increase by 10,000 bpd or 0.11% on the year to 9 million bpd, which up 20,000 bpd from its previous estimate. Gasoline demand in 2010 is expected to increase by 60,000 bpd or 0.67% to 9.06 million bpd, up 30,000 bpd from its previous forecast. Distillate demand in 2009 is estimated to fall by 330,000 bpd or 8.35% to 3.62 million bpd, unchanged from its previous forecast while demand in 2010 is expected to increase by 110,000 bpd or 3.04% to 3.73 million bpd, down 10,000 bpd from its previous forecast. In regards to prices, the EIA expects the price of WTI to average about \$70/barrel in the fourth quarter of 2009 and average \$60.12/barrel for all of 2009. The EIA expects the monthly average regular gasoline price to fall from \$2.62/gallon in August and September to an average of \$2.56/gallon over the fourth quarter of 2009. The price of gasoline is



estimated to average \$2.34/gallon for all of 2009 and increase to \$2.70/gallon in 2010. The price of diesel is estimated to average \$2.47/gallon in 2009 and increase to \$2.88/gallon in 2010.

Separately, the EIA said the US government will expand its energy and financial markets data collection and analysis. The EIA said it will gather more information about the energy markets and conduct deeper assessments of price factors. It said the EIA must also assess other influences such as speculation, hedging, investment and exchange rates.

Iran handed over new proposals to the major powers Wednesday to resolve the standoff over its atomic program. Iran's Foreign Minister Manouchehr Mottaki presented the offer to representatives of



the six powers involved in the negotiations at the Foreign Ministry. The six powers seeking a halt to Iran's disputed nuclear program will hold a conference call after receiving the new proposals from Tehran. Meanwhile, Iran's ambassador in Brussels, Ali Asghar Khaji, delivered the proposals to EU foreign affairs chief Javier Solana. Separately, the IAEA's chief executive Mohammed ElBaradei said Iran must not refuse the US' offer of talks to resolve the nuclear standoff with the international community.

According to MasterCard Advisors LLC, US gasoline demand

fell for the third consecutive week by 1.4% in the week ending September 4<sup>th</sup> to 8.974 million bpd. Demand was down 2.4% on the year. The average retail price of gasoline fell by 2 cents on the week to \$2.58/gallon. It is down 29.5% on the year.

**Refinery News**

Shell Oil Co restarted a crude unit at its 156,400 bpd refinery in Martinez, California over the weekend. A flexicoker unit at the refinery remains shut.

A small fire at Exxon Mobil Corp's 503,000 bpd Baton Rouge, Louisiana refinery early Wednesday had no impact on production.

Valero Energy Corp said US gasoline fundamentals are improving. However Valero's CEO Bill Klesse said domestic refineries may have to cut operations even further to preserve margins. He said the refining industry could see utilization fall to 70% from the low 80% range currently in order to increase margins amid lower demand. He also stated that a climate bill in the US Senate would cost the company between \$6 billion and \$7 billion per year in its current form.

Suncor Energy Inc started routine maintenance work at its 135,000 bpd refinery at Edmonton, Alberta. It said work will continue for several days but did not indicate if output would be affected.

Separately, Suncor Energy Inc has scrapped plans for a heavy oil processing unit at its Montreal refinery after determining other investments offer higher returns. The plant's former owner, Petro-Canada, had already delayed making a decision on proceeding with the coker project. Petro-Canada's plan called for construction of a 25,000 bpd coker.

Total SA will shutdown its 137,000 bpd Dunkirk refinery in northern France for maintenance next year. The shutdown is expected to start in March and is expected to last between five to six weeks.

Japan's Kyokuto Petroleum Industries shut its 175,000 bpd crude distillation unit at its refinery in Chiba earlier on Wednesday following a fire. A source said the fire was extinguished and that only the CDU was shut, with no impact to the product shipments.

Japan Energy Corp said it will restart a 60,000 bpd condensate splitter at its Kashima plant on October 17<sup>th</sup>, two days later than scheduled. The splitter was shut since September 5<sup>th</sup> for maintenance.

China's Zhenhua Oil is starting a new 100,000 bpd refinery in northeast China, ahead of schedule. An industry official estimated crude throughput for the refinery at 1 million tons by the end of the year or 80,000 bpd, a fraction of China's total crude imports. The refinery will secure almost all of its crude needs from imports. Zhenhua Oil will also start up a 650,000 ton/year ethylene cracker around October.

China's Liaoning Huajin Chemicals Ltd will delay the trial operation of its 100,400 bpd refinery to mid-October from September as originally planned. The refinery will be able to come fully online only around November 1<sup>st</sup> after technical problems occurred during facility testing. The refinery will operate at full capacity when brought online, processing about 420,000 tons of crude a month. It will produce about 2.1 million tons/year of diesel.

Venezuela's PDVSA said work continues on a plan to maintain and expand the country's refineries to meet increasing demand for gasoline. One plan is to expand a fluid catalytic cracking unit at the 305,000 bpd Cardon refinery. PDVSA also plans to increase overall processing capacity at its 480,000 bpd Amuay refinery by 100,000 bpd. Gasoline demand in Venezuela is 285,000 bpd following several years of strong economic growth.

Brazil's Petrobras will adapt plans for two planned premium fuel refineries to include processing from recently discovered offshore oilfields. The larger of the two refineries will have processing capacity of 600,000 bpd while the second refinery will have installed refining capacity of 300,000 bpd. Petrobras plans to build four refineries as part of its effort to increase capacity to 3.6 million bpd.

Stocks of gasoline, diesel and kerosene combined held by China's CNPC and Sinopec Group in August fell by 7.4% on the month as domestic sales increased by 8.1%. The decline in refined fuel inventory, which stood at about 12.5 million tons at the end of August, reversed three straight months of stock builds. Gasoline stocks fell by 9.7% in August while diesel stocks fell by 5.9%.

According to the Petroleum Association of Japan, the country's crude oil inventories in the week ending September 5<sup>th</sup> fell by 5.28 million barrels on the week and by 9.68 million barrels on the year to 93.76 million barrels. Japan's gasoline stocks fell by 330,000 barrels on the week and by 430,000 barrels on the year to 12.34 million barrels while kerosene stocks fell by 30,000 barrels and by 3.4 million barrels to 18.77 million barrels. It also reported that Japan's naphtha stocks fell by 160,000 barrels to 11.11 million barrels. Japan's crude runs increased by 70,000 bpd on the week but fell by 50,000 bpd to 3.74 million bpd. The PAJ also reported that Japan's total oil product sales increased by 11.8% on the week but fell by 10.1% on the year to 2.66 million bpd. Its gasoline sales increased by 12.8% on the week but fell by 9.8% on the year to 1.03 million bpd while its kerosene sales increased by 42.9% on the week and by 28.7% on the year to 210,000 bpd and its gas oil sales increased by 7.4% on the week but fell by 19.6% on the year to 580,000 bpd.

Saudi Arabia and the UAE accounted for 55% of Japan's crude imports in July, making the two Gulf countries the country's top oil suppliers. Saudi Arabia remained the largest crude supplier to Japan in July, exporting 34.85 million barrels, accounting for 31.8% of total oil imports. Japanese oil imports from the UAE stood at 22.9 million barrels during the same period, accounting for 20.9% of Japan's oil imports.

German residential heating oil stocks stood at 66% of capacity on September 1<sup>st</sup>, unchanged on the month. On average between 2003 and 2008, German residential heating oil tanks were 58% full in September.

### **Production News**

Saudi Arabia will keep crude oil supplies to Asian customers mostly steady in October, adding to evidence that OPEC will maintain its official output target when it meets later on Wednesday. Saudi Arabia notified six term buyers in Asia it will keep cuts on contracted volumes of crude in October at 6% to 15%.

Britain's North Sea Brent crude oil stream is scheduled to load about 155,000 bpd or 4.8 million barrels in October, up from 123,000 bpd or 3.698 million barrels in September.

The North Sea Oseberg crude system is set to load about 215,000 bpd in October, up from about 182,000 bpd in September. The Ekofisk crude system is set to load about 355,000 bpd in October, up from 333,000 bpd in September. The North Sea Forties crude oil system is set to load about 658,000 bpd or 20.4 million barrels in October, up from 520,000 bpd or 15.6 million barrels in September.

StatoilHydro said weather may impact North Sea production during autumn and winter.

Mexico's Finance Minister Agustin Carstens said the country's oil production is expected to fall to 2.5 million bpd next year. Mexico's oil production has averaged 2.619 million bpd over the first seven months of 2009.

China National Petroleum Corp said more than 25% of China's oil and gas production is expected to come from overseas fields by 2010. Annual crude oil processing capacity at refineries in the country with foreign partners will also exceed 50 million metric tons/year by 2010.

Chevron Corp announced the start of Angola's Tombua-Landana offshore oil project, as companies turn their focus from Nigeria to Angola. Chevron said the project is expected to achieve peak output of 100,000 bpd in 2011. Recoverable resources for the two fields comprised in the project are estimated at 350 million barrels.

Venezuela's Oil Ministry reported that the country's oil exports in August increased by 151,350 bpd to 2.558 million bpd, the highest level since May.

The head of Iranian Oil Products Exporters Union, Seyyed Hamid Hoseyni, said the value of Iran's oil product exports fell by 51% to \$1.586 billion in the first half of the current Iranian year due to the world economic downturn.

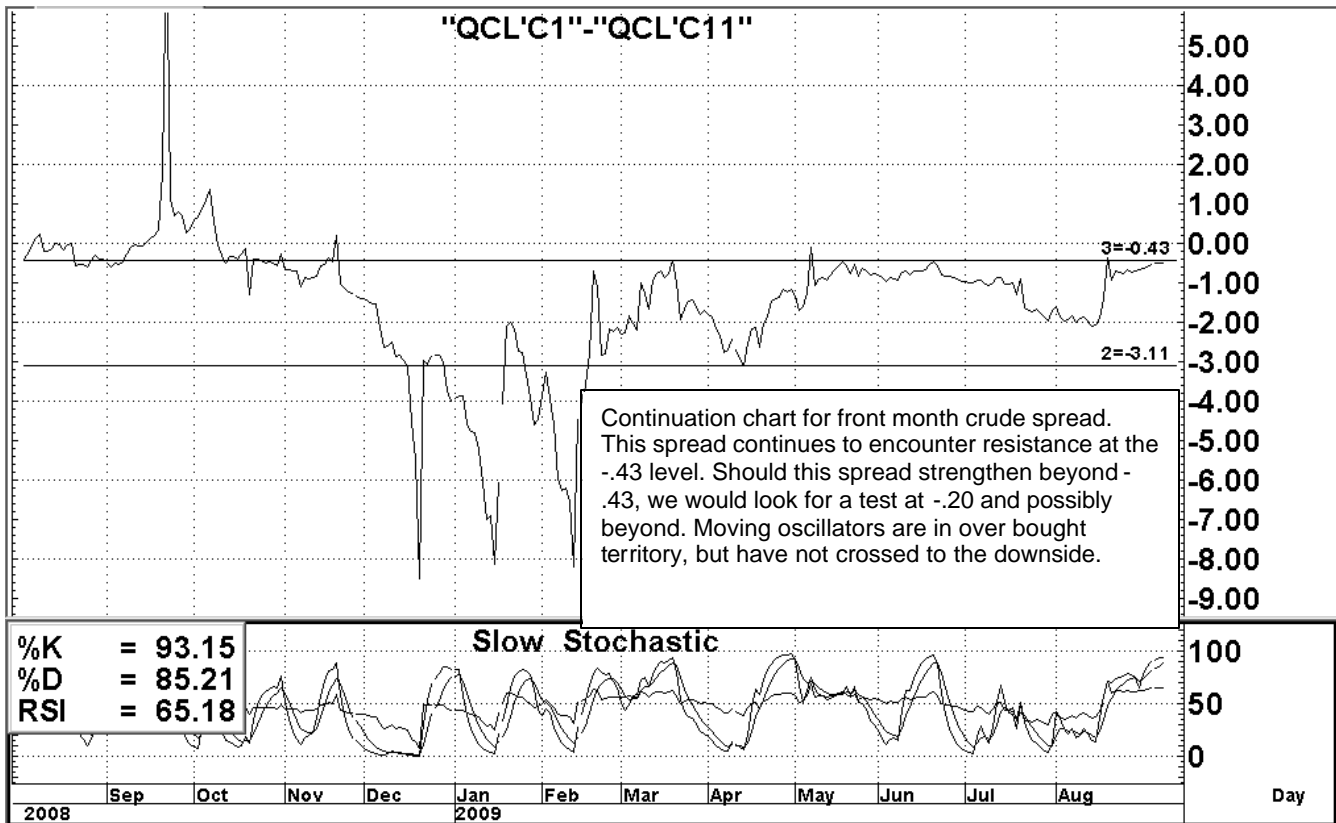
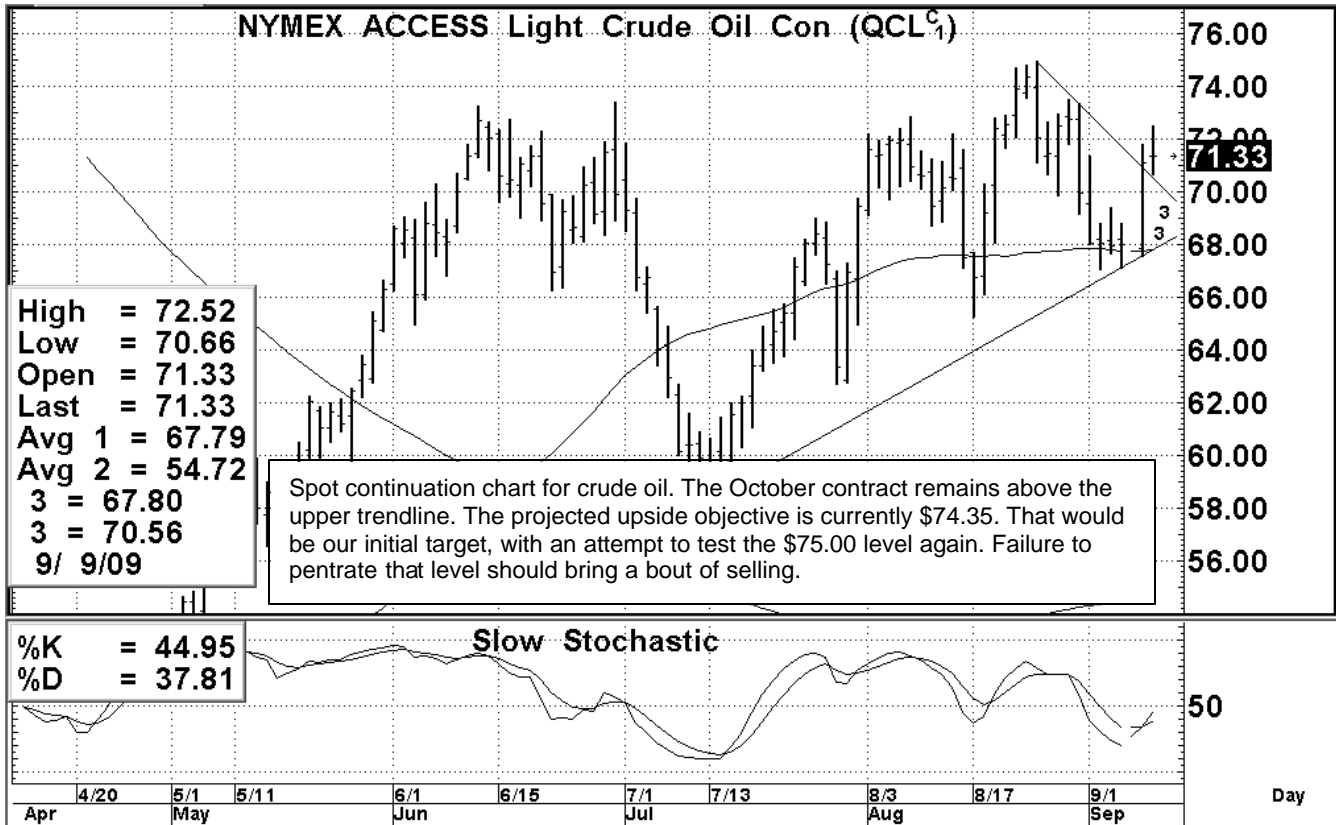
OPEC's news agency reported that OPEC's basket of crudes increased to \$67.83/barrel on Tuesday from a revised \$66.20/barrel level on Monday.

### **Market Commentary**

Crude oil extended its gains today as the dollar fell to its lowest yearly level against the euro. Commodities that are priced in dollars once again attracted the attention of investors looking to hedge against inflation. OPEC members are of the opinion that prices at their current level are "balanced," in other words, they are at a comfortable level for investors, producers and consumers. A roll over of output is expected. Both gasoline and heating oil also moved higher today in reaction to the weak dollar. Inventory expectations for gasoline are calling for a draw, which is expected just before the Labor Day holiday. Consumption has continued to climb ever so slightly and should it continue to improve, this will help to support prices. We would look for the energy markets to continue to react to economic stimuli and the movement of the dollar and the equities markets.

Crude Oil OCT.09 207,719 -15,055 NOV.09 180,880 +14,662 DEC.09 167,543 +943 JAN.10 47,867 +3,396 FEB.10 28,166 +1,033 MAR.10 29,944 +5 Totals: 1,178,263 +8,399 Heating OCT.09 57,571 -3,906 NOV.09 45,564 +4,008 DEC.09 51,750 +1,850 JAN.10 26,390 +177 FEB.10 16,302 +89 MAR.10 14,323 +358 Totals: 306,603 +4,814 GASOLINE (RB) OCT.09 75,180 -1,280 NOV.09 44,301 +3,369 DEC.09 32,293 +2 JAN.10 17,939 +117 FEB.10 4,460 -56 MAR.10 7,449 +287 Totals: 206,685 +2,999

The API reported a larger than expected draw in crude stocks of over 7.2 million barrels on the week, with a large draw of 4.298 million barrels in Padd 3 alone. It reported that crude stocks are up 15.9% on the year. The API showed the large draw in crude stocks as imports fell by 124,000 bpd to 9.64 million bpd. It also reported the draw in crude stocks as crude runs increased by 84,000 bpd to 14.881 million bpd on the week. Meanwhile it reported a larger than expected build in distillate stocks of 3.282 million barrels on the week. Total distillate stocks are now 24.2% higher on the year. It reported a large build of 2.949 million barrels in Padd 1. The API reported a build in distillate stocks as apparent demand fell by 4% to 4.062 million barrels on the week while apparent demand basis its three week moving average increased by 0.8% on the week increased by 0.8% to 4.192 million bpd. Distillate stock also posted a build as distillate production increased by 82,000 bpd or 2% to 4.273 million bpd and imports increased by 84,000 bpd or 48.3% to 258,000 bpd. The API reported an unexpected build in gasoline stocks of 571,000 barrels on the week, leaving stocks up 5.8% on the year. It reported a build as apparent gasoline demand fell by 5.4% on the week to 9.205 million bpd and apparent demand basis its three week moving average fell by 0.7% to 9.598 million bpd. It also showed that gasoline production increased by 127,000 bpd or 1.4% to 9.211 million bpd on the week.



<b>Crude Support</b>	<b>Crude Resistance</b>
66.23, 64.70, 63.38, 62.70, 61.61, 60.95	73.24, 73.85, 75.00, 76.13
<b>Heat Support</b>	<b>Heat resistance</b>
1.6600, 1.4870, 1.4220, 1.4130, 1.3720	1.8480, 1.9440, 2.0420, 2.0465
<b>Gasoline support</b>	<b>Gasoline resistance</b>
1.6010, 1.5887, 1.5370, 1.5260, 1.3520, 1.3400,	1.9551, 2.0210, 2.0400 2.0567, 2.1100, 2.1600, 2.3350

The information contained in this letter is taken from sources, which we believe to be reliable, but is not guaranteed by us as to accuracy or completeness and is sent to you for information purposes only. The Windham Group bases its market recommendations solely on the judgment of its personnel. Reproduction in whole or part or other use without written permission is prohibited.