



## ***ENERGY RISK MANAGEMENT***

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### **ENERGY MARKET REPORT FOR SEPTEMBER 23, 2009**

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Iran's Foreign Minister Manouchehr Mottaki renewed Iran's refusal to discuss its nuclear program and urged the US to work for a compromise. His comments came in talks with his Japanese counterpart, Katsuya Okada, on the sidelines of this year's UN's General Assembly.

A senior Russian delegate said Russia is prepared to discuss further sanctions against Iran if UN nuclear inspectors declare

that Iran has not fulfilled its commitments. The White House welcomed Russia's assertion that Russia is not ruling out sanctions in the nuclear dispute with Iran.

#### Market Watch

The head of the Commodity Futures Trading Commission, Gary Gensler, took his case for imposing speculative trading limits on energy products to Europe, where he urged foreign regulators to use all of their existing powers to regulate the markets. He spoke about the benefits of position limits, saying that limits can enhance liquidity by promoting more market participants and help prevent a select few traders from dominating the market.

US Treasury Secretary Timothy Geithner said the US government does not need to ban credit default swaps. He said a ban on the derivatives products would be unnecessary and inappropriate. He said instead the Securities and Exchange Commission and the Commodity Futures Trading Commission should be given the power to enforce new rules aimed at deterring any market manipulation. He added that enacting such changes for the derivatives markets should be a centerpiece of legislative efforts to overhaul regulation of the financial markets.

A top White House adviser said the US is still working toward an agreement with G20 partners to phase out subsidies for fossil fuels. He said the US is hoping to reach an agreement about the issue at the Pittsburgh summit on Thursday and Friday. The proposal argues non-G20 members should end subsidies by 2020. He said lower consumption of fossil fuels that results from eliminating subsidies would help combat climate change, heighten energy security, improve health and the environment, increase economic growth and assist the poor.

US Federal Reserve officials held rates steady but also highlighted signs of economic recovery. The Federal Open Market Committee voted 10-0 to maintain the target federal funds rate for interbank lending at a record low range of zero to 0.25%. Additionally, the Fed's policy setting panel announced it would extend its \$1.25 trillion of purchases of mortgage backed securities into next year in order to help financial markets adjust.

#### DOE Stocks

**Crude** – up 2.855 million barrels  
**Distillate** – up 2.961 million barrels  
**Gasoline** – up 5.409 million barrels  
**Refinery runs** – down 1.3%, at 85.6%

The Financial Times reported that Chinese companies have started supplying Iran with gasoline in a move that could undermine US pressure on Iran to give up its nuclear program. Iran's Oil Minister said last week the country was ready for any fuel sanctions and had signed deals with other

countries to purchase more gasoline. It reported that 30,000-40,000 bpd of Chinese petrol is making its way from the Asian spot market to Iran via third parties. Meanwhile, French Foreign Minister Bernard Kouchner said he has serious concerns about blocking shipments of refined fuel to Iran, a sanction being considered by US President Barack Obama.

**September  
Calendar Averages**  
**CL – \$70.17**  
**HO – \$1.7751**  
**RB – \$1.7927**

The US Transportation Department said US highway travel in July was up 2.3% on the year or 5.8 billion miles at 263.4 billion miles.

**Refinery News**

ConocoPhillips reported a problem at its 139,000 bpd Wilmington, California refinery on Wednesday morning.

Royal Dutch Shell began restarting an upgrader at its 155,000 bpd Scotford oil sands upgrader in Alberta late Tuesday.

Venezuela said it has no restart date for the fluid catalytic cracking unit at its 320,000 bpd La Isla refinery after it was closed at the end of August. The catcraker was closed to expand output by 15% to 89,000 bpd of gasoline and diesel in a \$650 million upgrade over a year ago. PDVSA said its fluid catalytic cracking unit at its Cardon refinery will restart in less than a month.

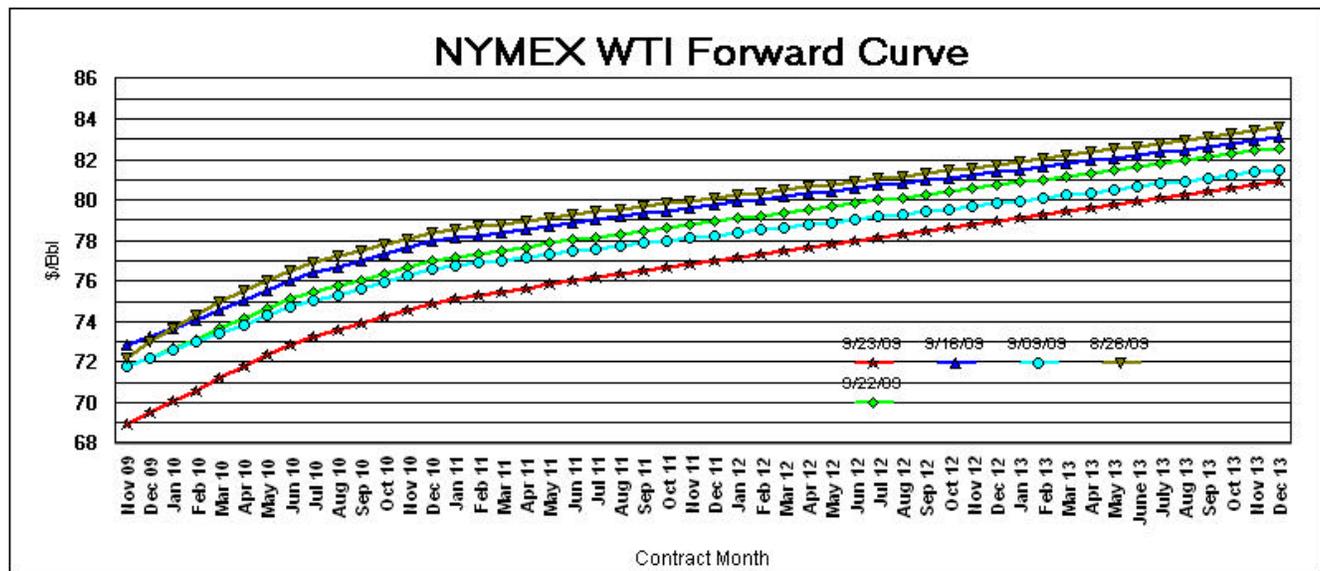
Indian refiners processed 3.268 million bpd of crude in August, up 3% on the year. India's crude oil production fell by 2.6% in August to 655,900 bpd. Output at India's Oil and Natural Gas Corp fell by 2.9% to 497,000 bpd.

China expects to receive 10 million tons of crude via the Kazakh-China pipeline next year, up about 40% from this year to feed a new refinery. At 10 million tons or 200,000 bpd, the pipeline will be pumping at full rates after it started operations three years ago. It will mostly feed China's Dushanzi refinery.

Russia's oil exports to China are forecast to total 210,000 tons in October-December.

**Production News**

BP America said it will keep its focus on deepwater plays in the Gulf of Mexico and improving the efficiencies of its refineries. BP recently announced a discovery analysts believe could hold 1 billion barrels in recoverable reserves of oil at its Tiber prospect.



Nigeria intends to continue increasing its crude oil exports month to month. Its November export plan indicates Nigeria will export five full cargoes containing 950,000 barrels each of Escravos crude in addition to three of Yoho crude and one of Oso condensate. This is in addition to 12 cargoes of Qua Iboe and seven cargos of Agbami crude.

Total is considering signing a joint venture deal with PDVSA to develop an oil block in the extra-heavy crude Orinoco belt. Total said the deal would be for the Junin 10 block. Meanwhile, PDVSA said it is also studying the possibility of instead signing the joint venture deal for Junin 10 with Norway's StatoilHydro ASA or signing the deal with both StatoilHydro and Total. The Junin 10 block could produce between 200,00 and 300,000 bpd of extra heavy crude according to estimates.

According to a study by research firm HIS Herold Inc and upstream consultant Harrison Lovegrove & Co Ltd, world oil and natural gas reserve replacement fell to 88% of production in 2008, despite a 23% increase in development spending in that year. It was the first year since 2004 when world production was not replaced. Oil reserve fell about 3% in 2008 mostly due to a 5.2 billion decline in revisions on a steep drop in commodity prices. Natural gas reserves maintained a 3% annual increase seen in the previous five years while production increased nearly 5% to 44.2 trillion cubic feet.

India's Oil and Natural Gas Corp expects local oil production to increase by 14% and gas output to increase by 16% by the year ending March 2013 from March 2009 as it starts new fields. Crude production at ONGC's locally operated fields will likely increase by 72,000 bpd to 580,000 bpd by March 2013. Its natural gas production will likely increase by 10 million standard cubic meters/day to 72 million standard cubic meters/day.

KazMunaiTeniz said oil production at the Pearls or Zhemchuznoye block in the Caspian Sea could begin in 2016.

OPEC's news agency reported that OPEC's basket of crudes increased marginally to \$68.59/barrel on Tuesday from \$68.42/barrel on Monday.

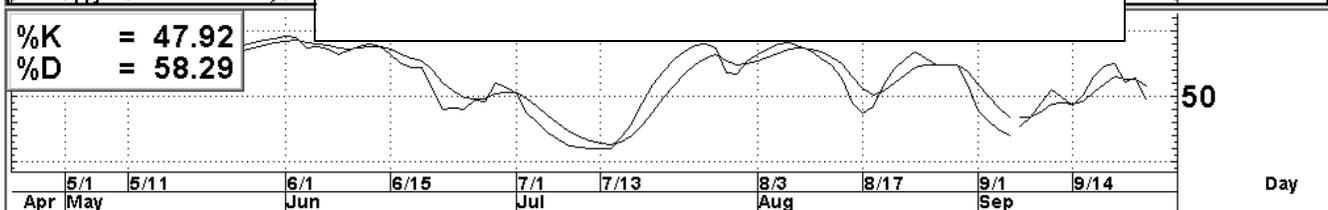
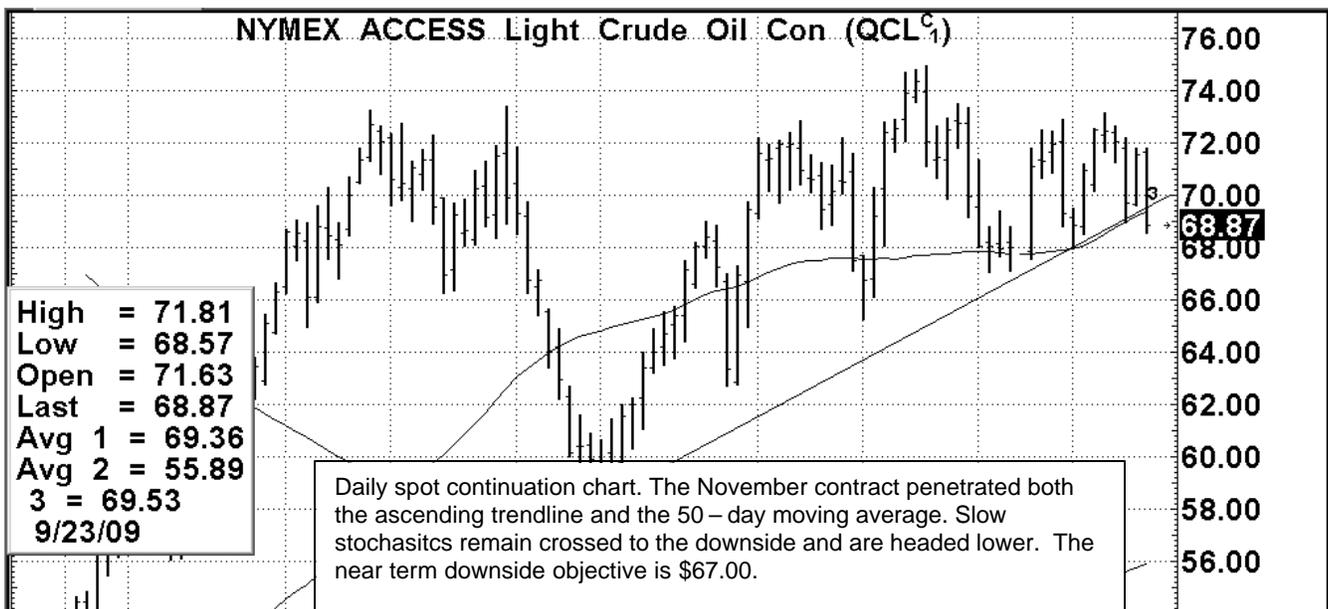
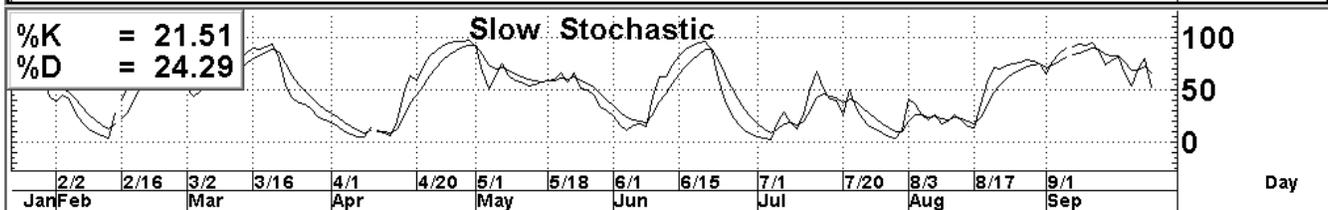
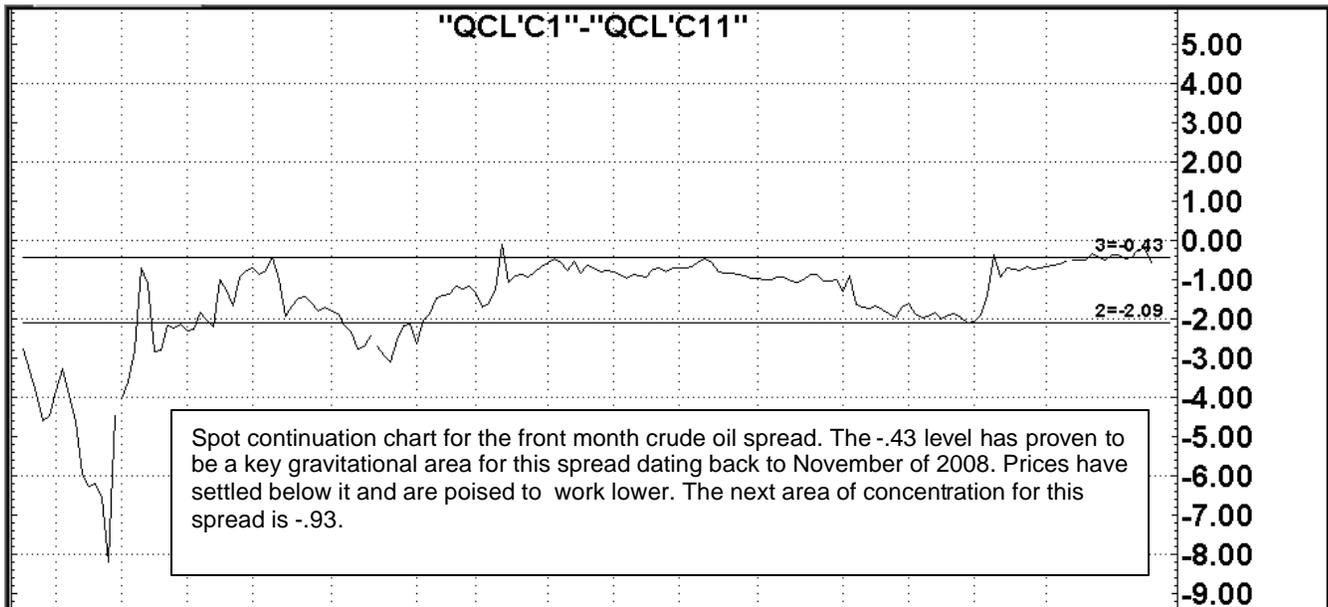
Saudi Arabia's central bank reported that the average price of Saudi Arabian light crude stood at \$61.30/barrel in July, down from \$66.70/barrel in June but still above the level at which the country's budget breaks even. The average price of Arab Light crude was \$95/barrel for all of 2008 when Saudi Arabia posted a budget surplus of 590 billion riyals or \$157.3 billion and \$67.60/barrel in 2007.

### **Market Commentary**

Crude oil experienced its largest drop in five weeks as it reacted to the 2.86 million barrel rise in inventories. Slower refinery runs and decreased fuel demand aided in the increase in stockpiles. Although this market has reacted to the stock market and the dollar, one cannot discount the underlying fundamentals, which are bearish for prices. It is those fundamental that have contained prices within the trading range of \$67.00 and \$75.00. The November contract penetrated the ascending trendline that can be depicted on a spot continuation chart and also settled below the 50-day moving average of \$69.31, adding to the bearish scenario. The November/December spread has traded back below the long time gravitational area of -.43 and weakened to a settlement of -.54. This is indicative of a market still suffering from the effects of poor demand and bursting supply.

Crude OCT.09 4,080 -15,691 NOV.09 299,921 -12,192 DEC.09 172,215 +661 JAN.10 61,113 +1,618  
FEB.10 27,508 -254 MAR.10 31,341 -285 Totals: 1,124,865 -26,109 Heating OCT.09 29,861 -3,092  
NOV.09 62,655 +2,874 DEC.09 57,143 +897 JAN.10 31,101 -149 FEB.10 16,773 -346 MAR.10

15,392 -Totals: 316,481 + 936 GASOLINE (OCT.09 33,354 -5,190 NOV.09 74,217 +3,916 DEC.09 33,410 +553 JAN.10 20,517 -169 FEB.10 6,090 +151 MAR.10 10,929 +45 Totals: 206,372 - 541



<b>Crude Support</b>	<b>Crude Resistance</b>
67.00, 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	1.8430, 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

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