



## ENERGY RISK MANAGEMENT

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## **ENERGY MARKET REPORT FOR OCTOBER 2, 2008**

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The US Minerals Management Service reported that the amount of oil production shut in the Gulf of Mexico fell by 49,794 bpd to 714,501 bpd as of Thursday. It said about 55% of the oil production in the Gulf is shut in. Meanwhile the amount of natural gas production shut in also fell by 119 mmcf/d to 3.413 bcf/d.

Iran's ambassador to the IAEA, Ali Asghar Soltanieh said the country will continue to enrich uranium while there is no legally binding international assurance of a nuclear fuel supply. When asked if Iran would end its uranium enrichment program if

### Market Watch

Merrill Lynch cut its forecast for WTI and Brent crude oil prices to \$90/barrel from a previous forecast of \$107/barrel. It said that as a result of the continuing economic slowdown it cut its world oil demand growth estimate for 2009 by 50% to 400,000 bpd. It said oil demand growth in China and India may slowdown in 2009. It also stated that several fields in Saudi Arabia, Qatar and elsewhere within OPEC is set to increase capacity with OPEC by about 3 million bpd in the next 18 months. In addition, refinery expansions and new projects will add about 900,000 bpd of distillate and 700,000 bpd of gasoline production capacity. Merrill Lynch also forecast that oil prices could fall to \$50/barrel next year, in the unlikely event of a global recession.

According to the IMF, the US economy is in considerable risk of falling into a recession when comparing the current financial crisis to past periods of financial issues. It said in the euro zone, the reaction to the turmoil has been more consistent with a slowdown than a recession.

According to the Commerce Department, new orders at US factories fell by an unexpected 4% in August, the sharpest contraction since October 2006. Orders were down due to a 10.6% decline in motor vehicle orders.

CME Group announced that September 2008 volume averaged 15.7 million contracts/day, up 44% on the month and up 18% on the year. Total NYMEX volume averaged 1.9 million contracts for September, up 17% on the year. It reported that total NYMEX volume averaged 1.8 million contracts in the third quarter, up 23% on the year.

According to Reuters, UBS AG will close its energy and soft commodity trading desks. Earlier this week, it was reported that UBS is expected to cut 1,900 investment banking and trading jobs.

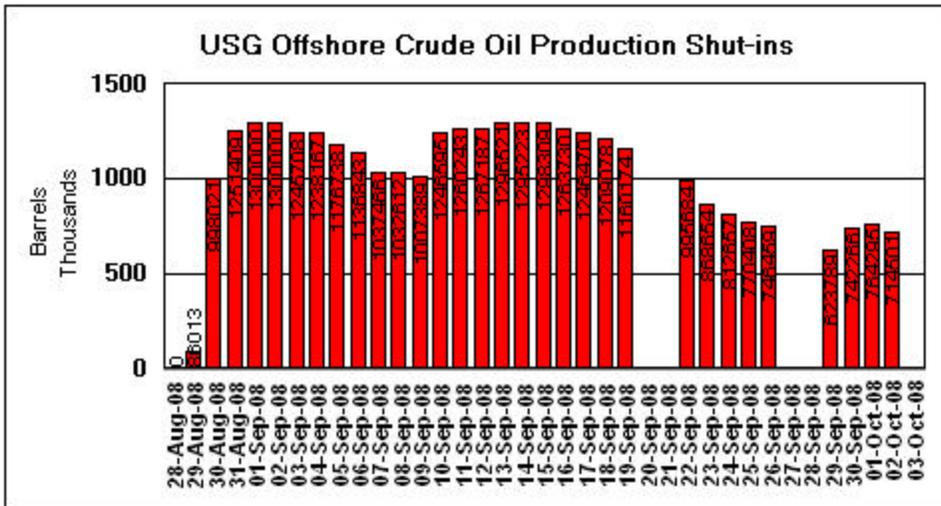
### **October Calendar Averages**

**CL – \$96.25**

**HO – \$2.7782**

**RB – \$2.3075**

such a guarantee were in place, he said it would first have to be shown to be effective. He said Iran will not be pushed into an unending road of dealings with the IAEA. He said Iran has cooperated with the IAEA and added that Iran had no ambition to build an atomic bomb.



The Nigerian Labor Ministry has intervened in a dispute between a local branch of the National Union of Petroleum and Natural Gas Workers Union or Nupeng and Chevron Nigeria Ltd in an effort to avert a strike. A 21 day ultimatum given to Chevron to resolve a labor issue over union contract workers ended on Wednesday. Nupeng opposes the employment of its members as

contractors working at Chevron facilities without pension and other benefits. A Nupeng official said a new ultimatum would not be given to Chevron and it would start a strike if there was no agreement between the union and the company. He added that there was no firm date set to hold talks with the Labor Ministry and Chevron over the labor issues.

According to Oil Movements, OPEC's crude oil exports, excluding those from Angola and Ecuador, are expected to increase by 190,000 bpd to 24.49 million bpd in the four weeks ending October 18, possibly due to an OPEC cut and weak US demand. Exports from Middle East OPEC producers are forecast to fall by 230,000 bpd to 17.51 million bpd in the four week period. It said shipments were increasing ahead of peak winter demand for crude as refiner capacity builds to refine heating oil.

### Refinery News

Valero Energy Corp expects its 60,000 bpd fluid catalytic cracking unit at its Houston, Texas refinery to resume operations by about October 17. The unit was shut for unplanned maintenance on September 26 as operating problems arose during the post hurricane restart. It estimates a loss of about 60,000 bpd in gasoline production and 30,000 bpd in distillate production during the outage.

Royal Dutch Shell will defer planned maintenance at the Motiva refinery in Norco, Louisiana to recover from a shutdown caused by hurricanes. The delay will help rebuild its finished product inventories. Separately, Shell's platformer no. 2 unit at its Deer Park, Texas refinery is expected to resume normal rates on Thursday following a brief fire on Tuesday.

ConocoPhillips reported a brief problem with a fluid catalytic cracking unit at its Borger, Texas refinery that caused an emissions even on Wednesday afternoon.

ExxonMobil shut its 248,000 bpd Trecate refinery in Italy on September 29 for a month of planned maintenance.

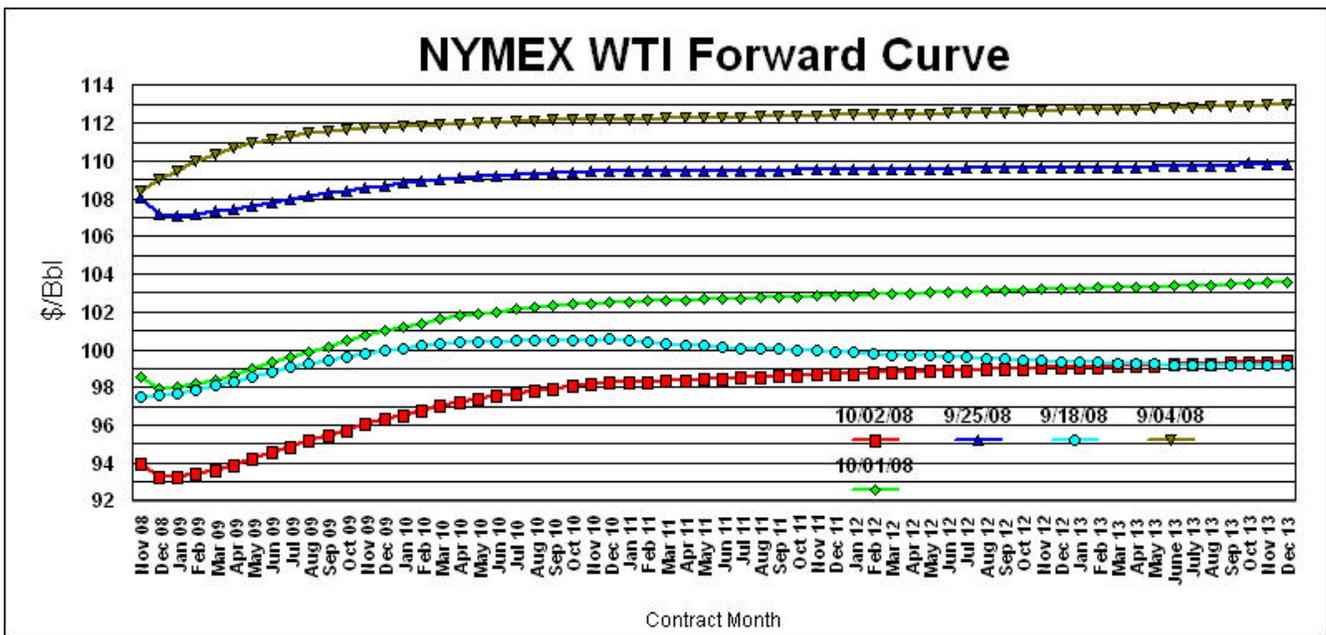
Nigeria's 125,000 bpd Warri oil refinery may be forced to shut down within days after a feeder pipeline ruptured on Wednesday. Unconfirmed reports suggested that militants may again be responsible for the latest rupture on the Chanomi Creek pipeline, which supplies crude from the main oil hub of Port Harcourt to the Warri and Kaduna refineries. A Nigerian newspaper said the refinery's current stock of crude could only last for three days.

Japan's Idemitsu Kosan Co shut a 120,000 bpd crude distillation unit at its Tokuyama refinery on Thursday for scheduled maintenance. The maintenance is expected to last until November 22.

South Korea's GS Caltex will keep its crude runs in October steady at 630,000 bpd from September. Separately, SK Energy has increased its crude refining rates in October to 850,000 bpd, up 13% on the month due to improved margins. Hyundai Oilbank also increased its runs to 340,000 bpd in October, up from 310,000 bpd in September while S-Oil also increased its October crude refining rates by 8% on the month to 570,000 bpd.

An analyst reported that gasoline stocks in the Amsterdam-Rotterdam-Antwerp hub increased by 4.79% on the week but fell by 19.8% on the year to 481,000 tons in the week ending October 2. Gas oil stocks built by 4.99% on the week to 8.54% on the year to 2.084 million tons while fuel oil stocks fell by 3.98% on the week but increased by 15% on the year to 483,000 tons. Naphtha stocks built by 5.05% on the week and by 76.27% on the year to 104,000 tons while jet fuel stocks increased by 12.07% on the week and by 53.75% on the year to 492,000 tons.

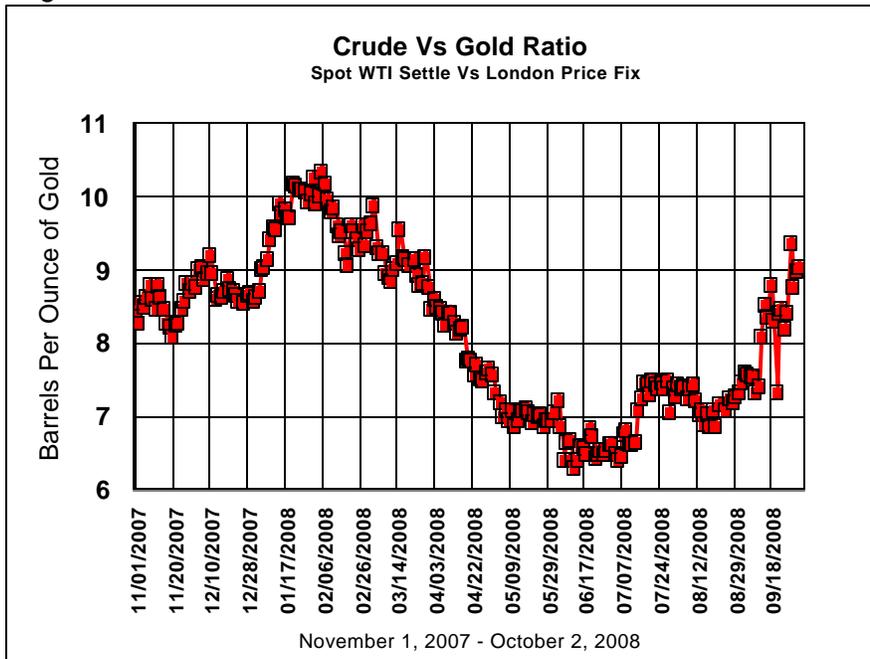
Singapore's International Enterprise reported that the country's residual fuel stocks fell by 2.669 million barrels to 14.51 million barrels in the week ending October 1. It also reported that the country's light distillate stocks built by 296,000 barrels to 8.094 million barrels while middle distillate stocks built by 754,000 barrels to 12.424 million barrels on the week.



### **Production News**

Royal Dutch Shell reported that with production ramping up at some of its Gulf of Mexico platforms, crude began flowing through a network of pipelines on Thursday. It said the Mars pipeline is making deliveries again and its Delta pipeline is delivering crude at nearly normal rates. Its Ursa pipeline is expected to begin making crude deliveries in the next couple of days while its Amberjack pipeline continues to deliver crude oil from a limited number of connecting pipelines. Meanwhile it is developing plans to reroute the Auger pipeline around the damaged Eugene Island 331 platform. The Boxer pipeline remains shut pending the start up of the Eugene Island pipeline and the closure of a subsea valve to isolate a damaged producer platform. Onshore the Houma-to-Houston system is delivering crude to customers at requested rates and the Capline is operating normally.

Russia's oil production increased to 9.83 million bpd in September, up 0.1% from 9.82 million bpd in August. However Russia's production was down 0.4% on the year. Russia's Energy Ministry reported that the country's total exports fell by 10% on the year to 5.14 million bpd. Its crude exports via Transneft increased to 4.13 million bpd from 3.96 million bpd in August. Its seaborne crude oil exports supplied to ports by Transneft increased to 2.69 million bpd in September from 2.59 million bpd in August.



Mexico's oil export port of Coatzacoalcos or Pajaritos was reopened on Thursday after it was shut for most of the past week due to bad weather conditions.

Royal Dutch Shell has been in talks with Urals Energy to purchase at least 50% of its Taas Yuriakh oil production unit, which owns a license for the Mid-Botuobinsky deposit with reserves of 98 million tons of oil.

Traders said a new program for Angolan Dalia crude was release late last week with an additional two new cargoes for

November loading.

Libya has set the October official selling price of Essider crude oil at dated BFOE minus 65 cents/barrel, up 20 cents on the month.

OPEC's news agency reported that OPEC's basket of crudes fell to \$89.99/barrel on Wednesday from Tuesday's \$90.32/barrel level.

**Market Commentary**

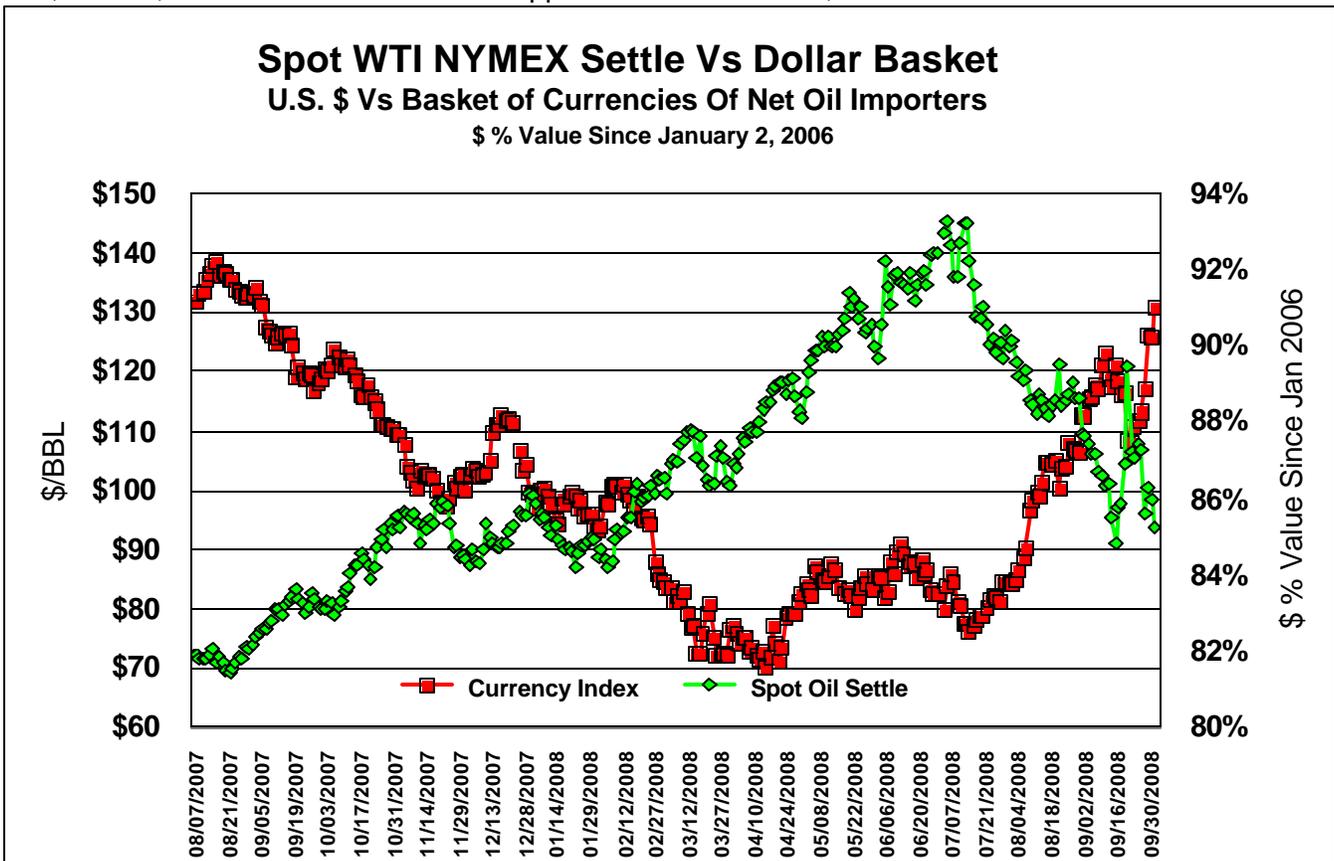
The oil market continued to trade lower on further evidence that the US economy is weakening, causing concern of lower demand. In the latest of a series of negative economic indicators, US government data showed rising unemployment numbers and weakening new factory orders. The strength in the dollar also pressured the market as the dollar reached a one year high against the euro, amid signs that Europe's economy is also slowing. The crude market, which traded within Monday's trading range, posted a high just above the 100 level in overnight trading. However as it was unable to sustain its gains amid the selling pressure, the market sold off more than \$4.80 and posted a low of 93.56. It settled down \$4.56 at 93.97. The market will remain headline driven as it awaits further developments on the government's \$700 billion rescue plan after the Senate passed the package loaded with incentives for the House to approve the legislation. Technically, the crude market is seen holding its resistance at the \$100.00 level followed by 102.84. Initial support is seen at its double bottom just above the \$93.00 level. The product markets also settled down sharply, with the heating oil market settling down 13.74 cents at 270.95 and the RBOB market settling down 10.5 cents at 225.50. The heating oil market continued to trend lower and breached its previous low of 272.95 as it posted a low of 270.07 late in the session. The heating oil is seen finding resistance at 288.50,

295.00, and 301.84 followed by more distant resistance at 311.08 while support is seen at 270.07, 268.80 and 267.12. Meanwhile, the RBOB market held resistance just above the 240.00 level and

sold off more than 11 cents as it breached its previous lows and posted a low of 224.35 late in the session. The RBOB crack spread was little changed at

			Explanation
CL	Resistance	102.84, 106.91, 110.45, 111.60	Previous highs, 200 day moving average
		93.97, down \$4.56	Thursday's high
	Support	93.56	Thursday's low
HO	Resistance	295.00, 301.84, 311.08	Previous highs
		270.95, down 13.74 cents	Thursday's high
	Support	270.07	Thursday's low
RB	Resistance	250.40, 261.19	Previous highs
		225.50, down 10.5 cents	Thursday's high
	Support	224.35	Thursday's low
		222.65, 217.20	Previous lows

its settled at 74 cents, up from Wednesday's 59 cents. The RBOB market is seen finding resistance at 235, 240.10, 250.40 and 261.19 while support is seen at 224.35, 222.65 and 217.20.



Open interest for crude oil, NOV.08 250,208 -11,823, DEC.08 203,402 +4,715. Totals: 1,089,736 - 2,675. Open interest for heating oil; is NOV.08 54,880 -1,807 DEC.08 27,231 -106 Totals: 201,916 - 1,101. Open interest for gasoline is, NOV.08 71,031 -3,134, DEC.08 29,865 +973, Totals: 168,780 - 1,921.

