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## ***ENERGY RISK MANAGEMENT***

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### **ENERGY MARKET REPORT FOR OCTOBER 7, 2009**

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Iran's President Mahmoud Ahmadinejad said last week's talks in Geneva between Iran and the six world powers over Iran's controversial nuclear program was a step forward.

Algeria's Oil Minister Chakib Khelil said the US dollar will be reserve currency for a long time but will gradually give place for other currencies. He also said he did not expect OPEC to raise oil production at its December meeting. He said there is no consensus yet within OPEC to change quotas at its next

#### **Market Watch**

The US National Hurricane Center said Tropical Storm Henri strengthened a little in the western Atlantic Ocean but added that it would probably not reach hurricane strength before weakening into a remnant over the next two days. It does not expect the tropical storm to make landfall before becoming a remnant.

The head of the US Commodity Futures Trading Commission, Gary Gensler, expressed concerns about House Financial Services chairman Barney Frank's draft derivatives bill, saying it will allow too many companies to evade central clearing requirements. Although the bill does contain many similarities to the Obama administration's draft derivatives proposal, it deviates in a few key areas. It does not require all standard derivatives to be traded on regulated platforms and instead offers only incentives for trading. The bill also focuses more on regulating major big swap dealers like Goldman Sachs or Morgan Stanley and major traders who hold a significant number of positions and would allow many more companies to qualify for exemptions from the clearing requirements than Obama's proposal. The draft bill will allow the CFTC and Securities and Exchange Commission to ban certain kinds of transactions. The head of the CFTC said the lack of a trading mandate in Frank's bill could be problematic. Meanwhile, the director of the SEC's new division of risk, Henry T.C. Hu said House Financial Services chairman Barney Frank's draft may leave gaps in oversight and weaken the SEC's power to monitor fraud and manipulation. He said the bill's ambiguous definition of risk management may leave a large number of corporations unregulated.

The CME Group chief Terry Duffy said the US Commodity Futures Trading Commission risks driving trades out of regulated markets into unregulated platforms if it excessively controls speculation. The CFTC aims to rein in speculation in energy and commodity markets. The CFTC is reviewing rules on how many futures contracts that hedge funds, investments banks and other speculators can control. The CME warned that the CFTC's attempts to curb participation in a regulated marketplace could backfire.

Credit Suisse Group AG said more than half of investors surveyed by the company plan to hold an overweight position in commodities in the next 12 months. Of the 180 investors surveyed last month, 51% said they expected to hold an overweight position in the next year, 34% a neutral weighting and 13% underweight compared with 25% overweight now, 38% neutral and 30% underweight. The most likely route for commodity investment will likely be active indexes or funds, followed by exchange traded funds.

Societe Generale said crude oil remains in a downtrend and will face resistance before any approach toward a September high of more than \$73/barrel. It said oil prices will need to increase above the \$71/barrel selling level before the upswing can be extended. By surpassing \$71.85/barrel, oil will prompt a continued recovery to as much as \$74.40.

### DOE Stocks

**Crude** – down 1 million barrels  
**Distillate** – up 700,000 barrels  
**Gasoline** – up 2.9 million barrels  
**Refinery runs** – up 0.4%, at 85%

meeting. He said oil supply still exceeds demand. However he added that if the world economy recovers in 2010, oil prices could reach \$80/barrel.

According to an ABC News report, the US is stepping up preparations for a possible attack on Iran's nuclear facilities.

The Pentagon is shifting spending from other programs to speed up the development and procurement of the Massive Ordnance Penetrator. The Pentagon comptroller sent a request to shift the funds to the House and Senate Appropriations and Armed Services Committees over the summer. The comptroller said the Pentagon planned to spend \$19.1 million to procure four of the bombs, \$28.3 million to accelerate the bomb's development and testing and \$21 million to accelerate the integration of the bomb onto B-2 stealth bombers.

Nigeria's President Umaru Yar'Adua will meet Friday with militant leaders who accepted the government's amnesty and surrendered their arms. Among the militants expected at the meeting are Government Epekmupolo, also known as Tompolo, and Farah Dagogo, who were top commanders of the Movement for the Emancipation of the Niger Delta. Meanwhile, the Movement for the Emancipation of the Niger Delta said it will resume oil attacks in Nigeria. A ceasefire declared in July is due to expire at the end of next week. It said it will burn down all attacked installations and will no longer limit its attacks to the destruction of pipelines.

### Refinery News

BP Plc is shutting down a boiler in a power station at its Texas City, Texas refinery for seven days. Separately, Deutsche BP declared force majeure at a unit of its Gelsenkirchen petrochemical plant in western Germany. It said one of two ethylene and propylene production units is currently shut down. It is working to resume normal operations as quickly as possible. It said it did not affect refinery output.

Valero Energy Corp briefly shut a steam methane reforming unit and hydrocracker at its 340,000 bpd refinery in Corpus Christi, Texas due to a small fire. It is making necessary repairs to the processing unit and will restore normal operation as quickly as possible.

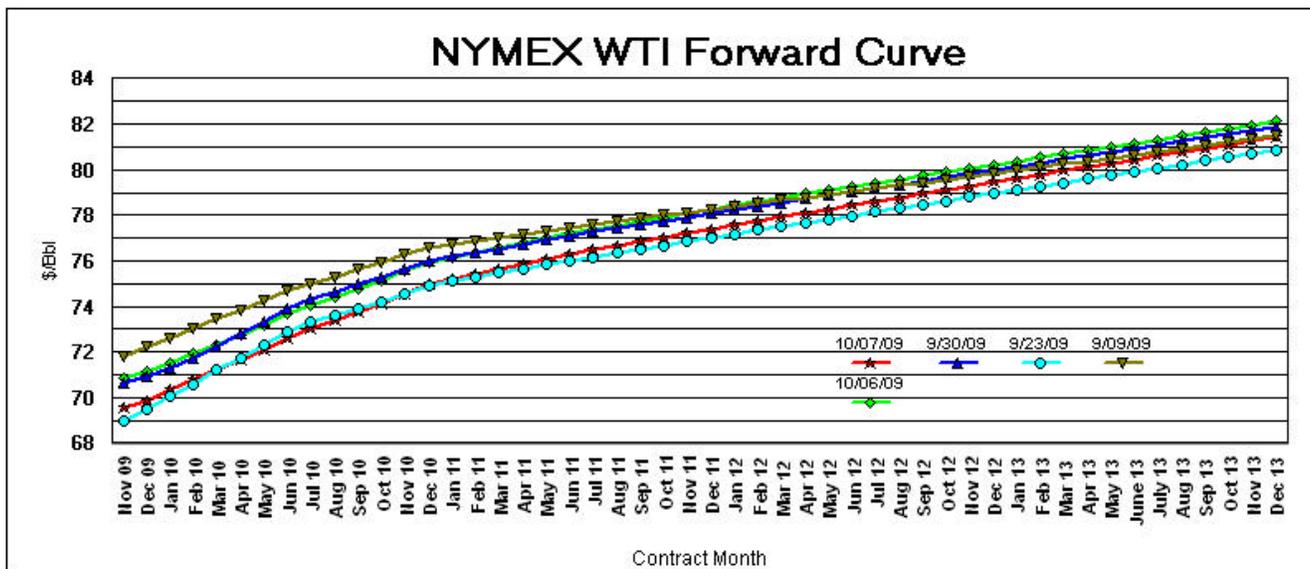
Japan's Nippon Oil Corp is likely to restart a 26,000 bpd residue fluid catalytic cracking unit at its Oita refinery next week, later than initially expected. The unit has been shut since September 22 for repairs to a pipeline system but an approaching typhoon has halted the repair work.

Total reaffirmed its ambition to invest in Asia's refining sector to take advantage of strong demand for fuel products in the region. It said it is looking to buy stakes but was not interested in building new refineries in the region. Total also said it aims to produce more diesel at its European refineries through technical modification in its gasoline production units.

The head of Russia's Lukoil is expected to meet Ukrainian Prime Minister Yulia Tymoshenko in an attempt to restore crude supplies to its Odessa refinery. Crude supplies to the 2 million ton/year refinery were halted last week as Ukraine's oil pipeline monopoly reversed flows along an oil route to feed a domestic refinery. Separately, Lukoil has postponed planned maintenance of its Russian refineries until November in order to avoid a deficit of refined products on the domestic market. Maintenance was originally planned for September.

The Petroleum Association of Japan reported that the country's crude oil inventories in the week ending October 3<sup>rd</sup> increased by 9.2% to 15.07 million kiloliters or 94.77 million barrels. The stock build came as domestic refiners ran their facilities at an average 70.9% rate of total capacity last

**October  
Calendar Averages  
CL – \$70.33  
HO – \$1.8022  
RB – \$1.7491**



week, down 2.9% on the week. It also reported that gasoline stocks increased by 810,000 barrels on the week and by 480,000 barrels on the year to 13.15 million barrels while kerosene stocks built by 300,000 barrels on the week but fell by 3.38 million barrels on the year to 20.52 million barrels. Naphtha stocks fell by 160,000 barrels to 11.4 million barrels on the week. The PAJ also reported that total oil product sales increased by 8.1% on the week but fell by 15.6% on the year to 2.57 million bpd. Gasoline sales fell by 22.5% on the week and by 14.2% on the year to 800,000 bpd while gas oil sales increased by 57.7% on the week and by 1.6% on the year to 650,000 bpd and kerosene sales increased by 71.3% on the week and fell by 16.8% on the year to 230,000 bpd.

### **Production News**

Baker Hughes reported that the number of oil and natural gas rigs in operation in the US increased by 3% to 1,009. However it was down 50% from 2,014 a year earlier. The worldwide rig count increased by 4.7% to 2,203 in September from 2,105 in August and was down 38% on the year.

Nigeria's Minister of state for petroleum, Odein Ajumogobia said the country's oil production has increased to 1.6 million bpd due to the decline in violence in the Niger Delta.

Royal Dutch Shell Plc reduced production to a minimum at its Brent platform in the North Sea for repairs following a health and safety inspection on Friday. It received a prohibition notice from the UK government's Health and Safety Executive regarding a heating ventilation air conditioning system on the platform, which is not removing gas as it is designed to do. The Brent Charlie platform typically produces 26,000 bpd of oil equivalent.

The head of Iraq's State Oil Marketing Organization, Falah Alamri said Iraq's crude oil exports in September averaged 2 million bpd, relatively unchanged from the previous month. Iraq exported 1.5 million bpd from its southern oil terminals while the remaining 500,000 bpd were exported from northern Iraq.

Kuwait's Oil Minister Sheikh Ahmad Abdullah al-Sabah said the country remain on track to increase its oil output capacity to 4 million bpd by 2020, retracting statements that the plan has been delayed by 10 years. He said this capacity level will be maintained until 2030.

Ecuador's central bank reported that the country's oil export revenue totaled \$722 million in August, down 31% from \$1.05 billion in August 2008. In terms of volume, Ecuador exported 11.35 million barrels in August, up 7.6% on the year.

Kazakhstan's KazMunaiGas said development of the initial stage of the Kashagan oil field in the Caspian Sea will cost \$38 billion. The Kashagan consortium, which includes KazMunaiGas, ExxonMobil Corp, ConocoPhillips, Eni SpA, and Total SA is on track to start commercial production at the field by the end of 2012. It will produce 450,000 bpd at the initial stage and will increase its production to 1.5 million bpd when it reaches the third and final stage of its development.

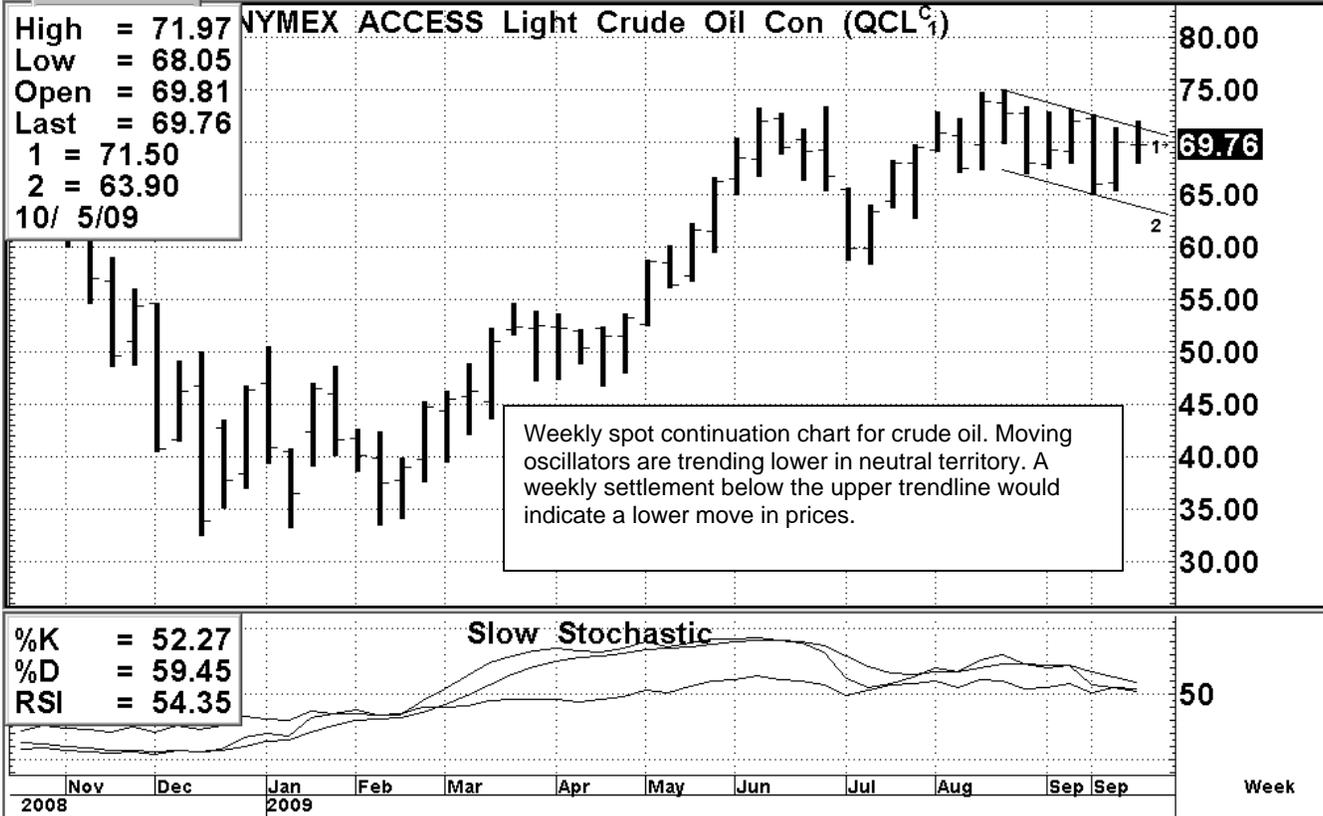
Kazakhstan's Tengizchevroil plans to raise oil output to 36-42 million tons by 2016. Tengizchevroil is expected to increase its output by carrying out new seismic studies to find better locations for additional wells and by injecting more sour gas into the reservoir. It produced 10.2 million tons of oil in the first half of this year and is forecast to produce 22.5 million tons in all of 2009.

OPEC's news agency reported that OPEC's basket of crudes increased to \$68.14/barrel on Tuesday from \$66.81/barrel on Monday.

### **Market Commentary**

A product driven market brought prices lower today as the U.S. Energy Department indicated that inventories for gasoline and distillate fuel increased during the week ending October 2. Gasoline supplies were three times higher than expected and distillate inventories are now at their highest level since 1983. A stronger dollar also helped to push prices lower. The underlying fundamentals of this market remain bearish and will continue to stymie any move higher. The shape of the forward curve has indicated that there is pressure on the front end, thereby deepening the contango, backs trading at a premium to the front. This scenario makes it appealing to buy and store crude oil to sell at a later date. The current economic situation does not seem strong enough to warrant additional supply and will remain an unreliable support near term for this market. We expect that crude oil will continue to trade between the range of \$65.00 to \$75.00.

Crude NOV.09 290,444 -7,946 DEC.09 222,951 +11,350 JAN.10 88,405 +583 FEB.10 39,251 +4,374  
MAR.10 33,386 + 921 APR.10 19,680 +1,153 Totals: 1,248,517 +26,483 Heating NOV.09 62,640 -  
1,888 DEC.09 61,501 +3,010 JAN.10 39,936 +1,303 FEB.10 18,868 +303 MAR.10 16,330 +43  
Totals: 308,327 +3544 Gasoline NOV.09 82,805 -328 DEC.09 35,225 +1,800 JAN.10 24,251 -304  
FEB.10 8,558 +96 MAR.10 14,075 +616 Totals: 195,796 +2,167



<b>Crude Support</b> 64.70, 63.38, 62.70, 61.61, 60.95,	<b>Crude Resistance</b> 73.24, 73.85, 75.00, 76.13
<b>Heat Support</b> 1.6585, 1.4870, 1.4220, 1.4130, 1.3720	<b>Heat resistance</b> 1.8500, 1.9440, 2.0420, 204.65
<b>Gasoline support</b> 1.6010, 1.5887, 1.5370, 1.5260, 1.3520, 1.3400,	<b>Gasoline resistance</b> 1.9551, 2.0210, 2.0400 20.567, 2.1100, 2.1600, 2.3350

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