



## ENERGY RISK MANAGEMENT

Howard Rennell, Pat Shigueta  
& Karen Palladino

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

[www.e-windham.com](http://www.e-windham.com)

---

## ENERGY MARKET REPORT FOR OCTOBER 10, 2008

---

The IEA cut its oil demand growth forecast for 2008 to the lowest level in 15 years due to economic weakness and a liquidity crisis. It reduced its 2008 demand growth forecast by 250,000 bpd to 440,000 bpd. World oil demand is expected to average 86.5 million bpd in 2008. It also cut its growth forecast for 2009, cutting the forecast by 190,000 bpd to 690,000 bpd. The IEA cautioned against too much focus on demand and said the credit crisis was also impacting supply, which could at some stage support oil prices. It said 2008 non-OPEC output growth has been almost wiped out to an average of 150,000 bpd. The IEA also cut the supply forecast for 2009, predicting growth of 655,000

### Market Watch

Barclays Capital has cut its forecast for short-term demand and medium- and long-term supply of oil amid the world financial crisis. It expects year on year declines in world oil demand in both the third quarter and fourth quarter. It still expects positive demand growth this year but only up 150,000 bpd on the year.

BNP Paribas cut its 2008-2010 price forecast for oil in light of the world financial crisis. It cut its 2008, 2009 and 2010 WTI price forecast by \$6.10 to \$104.40, \$20.60 to \$95.20 and \$12.60 to \$105.60, respectively.

According to an analyst at JP Morgan, crude oil prices could fall to between \$60 and \$70/barrel if world economies fail to grow for some period of time.

US Energy Secretary Samuel Bodman said a study conducted by the DOE shows that cars can run on gasoline with a much higher ethanol component than the 10% blend or E10 now being sold across the country.

The US Department of Agriculture said US ethanol producers will reduce corn consumption by 100 million bushels in the 2008-09 marketing year. It said reduced gasoline consumption is expected to slow the expansion of blending modestly over the coming months. Ethanol producers are now expected to blend 4 billion bushels of corn into ethanol during the 2008-09 corn marketing year, which started September 1.

The ICE said physical delivery against the expired October gas oil futures contract was 901 lots or 90,100 tons, down from 143,700 tons in September.

The EIA and API announced that its weekly petroleum stock reports will be delayed one day to Thursday, October 16 at 11 am EDT due to the Columbus Day holiday.

The Economic Cycle Research Institute said its Weekly Leading Index fell to 120.6 in the week ending October 3, down from 122.2 in the previous week. It fell to the lowest level since April 18, 2003, when it stood at 120.3. Its annualized growth rate fell from minus 13.3% to negative 14.7%, its lowest level since February 14, 1975.

**October Calendar Averages**

CL – \$89.69

HO – \$2.5402

RB – \$2.1037

bpd. In regards to China, the IEA kept its forecast for China's oil demand largely unchanged. It estimated China's 2008 oil demand at 8 million bpd, up 6% on the year while China's 2009 oil demand level is forecasted to stand at 8.4 million bpd, up 5.2%, similar to its previous prediction. Meanwhile, OPEC has cut its output by 300,000

bpd to 32.3 million bpd last month. The IEA also stated that fourth quarter refining activity will come under further pressure from weaker demand, maintenance, hurricane related disruptions and credit difficulties. It forecast that world refinery runs would fall to 74.9 million bpd in the fourth quarter, down 800,000 bpd from its previous forecast. It said liquidity problems may reduce oil product trade as refiners find it more difficult to obtain letters of credit and the number of trading counterparties falls. The IEA also reported that disruptions to BP's Baku-Tbilisi-Ceyhan pipeline may cut oil supplies by nearly as much as Gulf of Mexico production stoppages following Hurricanes Gustav and Ike. Production from the fields which pump oil via the pipeline is currently about a third of normal output after a gas leak on September 17. The stoppages have cut 2008 crude supply by over 55 million barrels. The IEA also stated that Venezuela produced an average of 2.37 million bpd of crude in September, up from 2.31 million bpd in August. Venezuela's government claims the country produces more than 3 million bpd.

The head of the IEA, Nobuo Tanaka said that even though world crude demand is expected to continue to ease in the last months of 2008 into 2009, OPEC should maintain its current production levels. He also urged OPEC to invest in new production given forecasts for a tight market in the medium term to 2013.

Qatar's Oil Minister Abdullah al-Attiyah said that OPEC would discuss whether to cut oil production to balance supply and demand when it meets in mid-November. Meanwhile, Britain's Prime Minister Gordon Brown said it would be wrong for OPEC to cut its production as oil prices are declining.

Saudi Arabia's OPEC Governor Majid Al-Moneef said planned global investment in downstream oil and natural gas projects are exposed to the financial crisis and added that several projects could be impacted because of how much the financing come from debt. He however said that global investments in upstream projects are less exposed to the credit crisis because they are mostly equity financed.

The US Minerals Management Service continued to report a slight improvement in the amount of oil and natural gas production that is still shut in the Gulf of Mexico following hurricanes Gustav and Ike. It reported that 1,064 bpd of crude production returned to the market, leaving 562,916 bpd of production still shut in as of Friday. It also indicated that 2.827 bcf/d of natural gas production was still shut in, an increase of 26 mmcf/d on the day.

The EIA said it would likely revise its world and US economic growth forecasts downward, possibly to negative growth, given the current world financial crisis. The head of the EIA indicated that OPEC would need to cut production more than the 500,000 barrels that it has already factored in since OPEC's meeting in September.

According to the New York Times, the IAEA will investigate whether a Russian scientist helped Iran conduct experiments on how to detonate a nuclear weapon. The IAEA obtained documentation they say shows the scientist advised Iran on a personal basis and not on behalf of the Russian government.

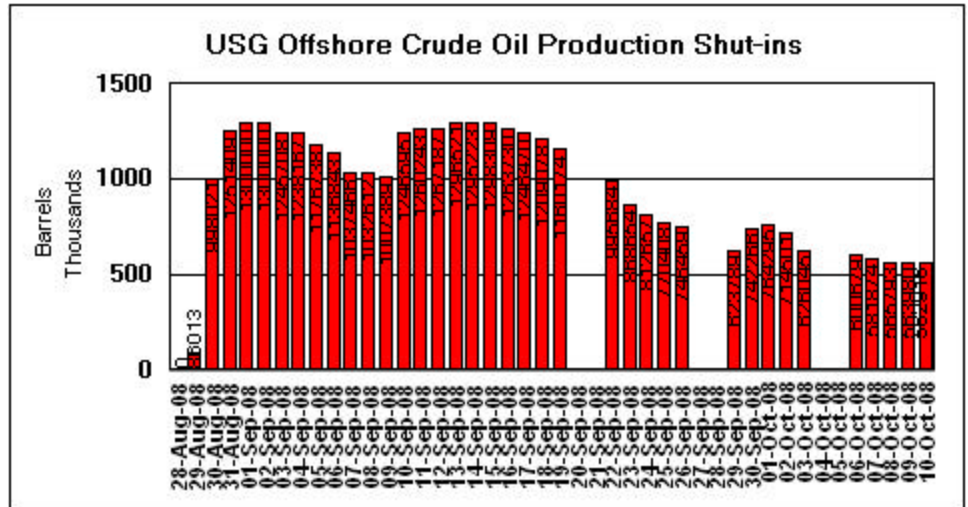
**Refinery News**

Valero Energy Corp restarted its 65,000 bpd fluid catalytic cracking unit at its Houston, Texas refinery. It is working to return the unit to planned rates. Valero also said that it expects the return of its

295,000 bpd refinery in Port Arthur, Texas to full capacity within days after it was shut ahead of the Hurricane Ike.

BP's 467,000 bpd refinery in Texas City, Texas resumed normal operations after shutting ahead of Hurricane Ike.

A sulfur recovery unit at Alon USA's 67,000 bpd Big Spring, Texas refinery was shut Thursday. Meanwhile Alon's 80,000 bpd refinery in Krotz Springs, Louisiana is still running at reduced rates as it waits to get emergency crude oil supply.



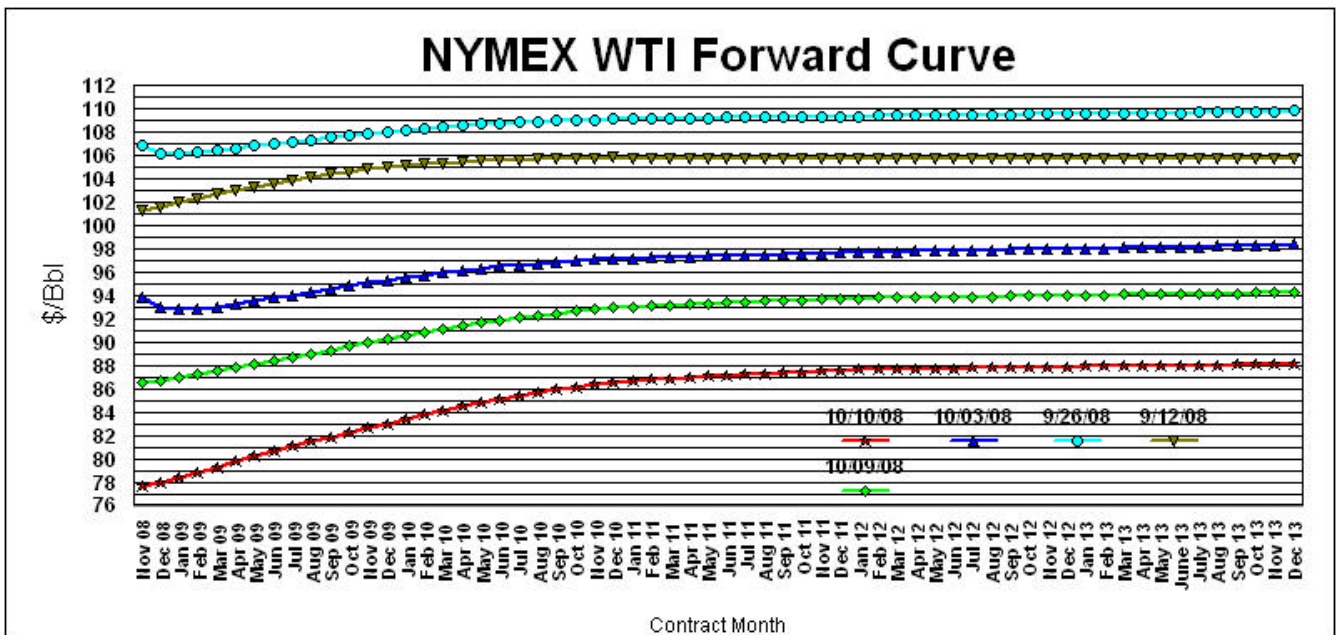
Motiva Enterprise's 285,000 bpd Port Arthur, Texas refinery was almost at planned rates after it shut down ahead of Hurricane Ike. The refinery should reach full rates sometime early next week.

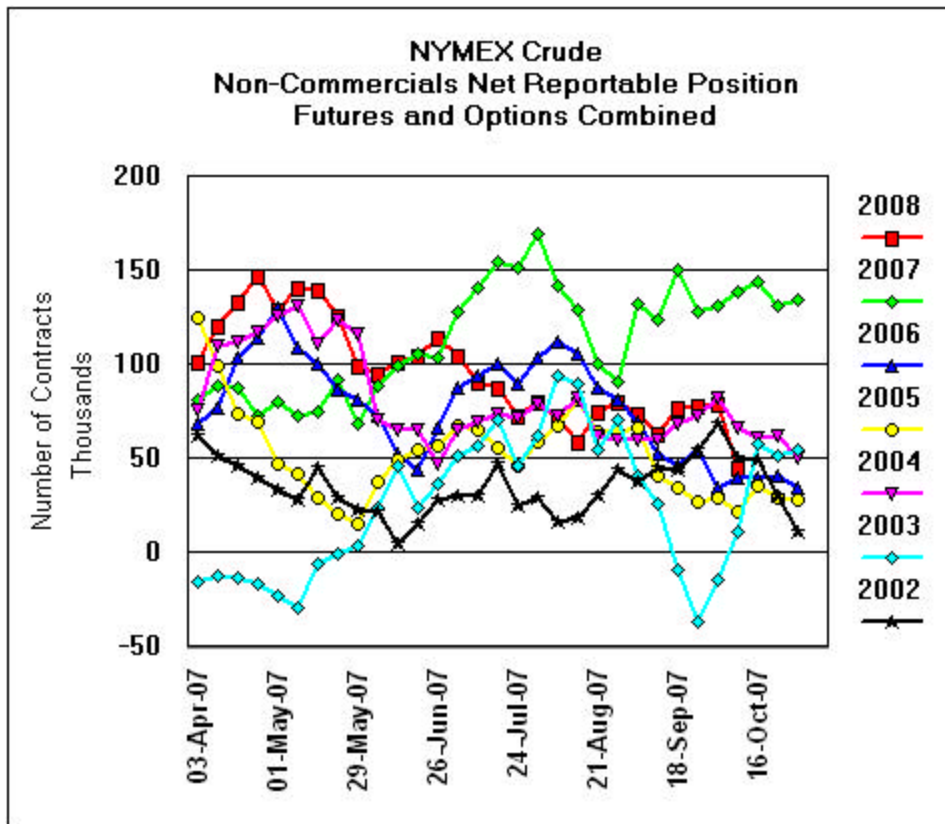
Shell Oil's 330,000 bpd refinery in Deer Park, Texas returned to normal operations after it was shut ahead of Hurricane Ike. The refinery began restarting its operations about two weeks ago.

Calcasieu Refining's 78,000 bpd refinery in Lake Charles, Louisiana resumed normal rates after it cut its operations following Hurricane Ike. The refinery has been operating at 50-70% of capacity due to curtailment of crude supplies after Hurricane Ike shut in oil production in the Gulf of Mexico.

German residential heating oil stocks increased to 60% of capacity on October 1, up from 55% of capacity on September 1 and unchanged on the year.

PetroChina is likely to delay the commissioning of a new unit that would double the capacity of its Dushanzi refinery, the third project that would be delayed into next year. A 100,000 bpd crude distillation unit was originally scheduled to begin operations early this year. Its 1 million ton/year





ethylene project has also been postponed until next year. Also, PetroChina's CNOOC has already postponed its 240,000 bpd Huizhou refinery until next year. While the delays threaten to constrain China's refining capacity in the short term, traders said there appears to be little risk of a shortage of domestic fuel as inventories remain high following China's pre-Olympics stockpiling and smaller-scale teapot refineries are filling the gap now that prices have fallen.

#### **Production News**

According to the API's 2008 Quarterly Well Completion Report, an estimated 16,379 oil wells, natural gas wells and dry holes were completed in the third quarter of 2008, up 16% on the year. An estimated 6,244 oil wells were completed in the third quarter, up 34% on the year. Meanwhile an estimated 8,467 natural gas wells were completed in the third quarter, up 6% on the year.

Suncor Energy said production at its oil sands facility during September averaged 235,000 bpd. Its year to date oil sands production averaged 223,000 bpd. It is targeting an average oil sands production level of 240,000-250,000 bpd in 2008.

According to the Norwegian Petroleum Directorate, Norway's oil production averaged 1.99 million bpd in September, unchanged on the month.

Britain's North Sea Brent crude oil stream is scheduled to load about 144,000 bpd in November, down from 157,000 bpd in October.

Norway's Oseberg crude oil system is scheduled to load about 245,000 bpd in November, up from 213,000 bpd in October. The North Sea Forties crude oil stream is set to load about 640,000 bpd in November, up just 1,000 bpd on the month. The North Sea Ekofisk crude oil stream is scheduled to load 408,000 bpd in November. It is scheduled to load 12.25 million barrels in November, down from 13.45 million barrels in October.

Norwegian energy officials said StatoilHydro's Dagny discovery in the North Sea holds more resources than previously estimated. Its size of the Dagny discovery is now being adjusted up to 21-27 million standard cubic meters of recoverable oil equivalents.

BP Azerbaijan resumed oil production at one of its two Azeri offshore platforms shut following a gas leak in September. It restarted oil production at the 300,000 bpd West Azeri oil platform on Azerbaijan's Azeri-Chirag-Gunashli field. The 350,000 bpd Central Azeri platform remains shut.

Chevron will start Kazakh oil flow to the Baku-Tbilisi-Ceyhan pipeline in October.

Latvia's Ventspils Nafta said it shipped more than 9 million tons of crude and oil products in the first nine months of the year, down 1 million tons on the year. Shipments were mainly down due to repairs on the Polotsk-Ventspils oil products pipeline on a section in Belarus. It shipped 7 million tons of diesel fuel, 1.3 million tons of gasoline and other oil products and 800,000 tons of crude.

Kuwait has lowered the official selling price for its crude bound for Asia in November by 50 cents/barrel to \$3.05/barrel below the Oman/Dubai average.

Brazil's Energy Minister Edison Lobao reiterated that Brazil will not change its current oil contracts with foreign and local oil companies that have discovered reserves in the subsalt cluster. The Tupi discovery has an estimated recoverable reserves of 8 billion barrels. Brazil was previously considering changes to its oil law and other rules for oil exploration and production, seeking more taxes and royalties as well as changing the way it offers new concessions to leave high potential blocks in state hands. Separately, Brazil's Petrobras and Portugal's Galp Energia signed an agreement to form a biofuels joint venture. The joint venture is expected to produce 600,000 tons of vegetable oil in Brazil, with oil used a raw material to produce 500,000 tons of second generation biodiesel. Petrobras expects to have an installed production capacity of 170 million liters of biodiesel a year by early 2009, with output increasing to 940 million liters of biodiesel a year by 2012.

OPEC's news agency reported that OPEC's basket of crudes increased to \$78.25/barrel on Thursday from \$77.38/barrel on Wednesday.

### **Market Commentary**

Experiencing its lowest level since September 11, 2007, crude oil prices sold off to settle \$8.89 lower on the day. Global economic woes continue to hover over the market like a dark cloud without a silver lining. Meanwhile the International Energy Agency, citing financial turmoil and rapidly weakening economic conditions, slashed global demand growth forecasts for 2008 and 2009 to 0.5% and 0.8%, respectively. This emotionally charged market is struggling to find a bottom in the face of panic selling. The November crude oil contract settled below a previous congestion low of \$84.26 and is now on pace to test the \$73.52 projected downside target. All eyes and ears will be on the G-7 meeting scheduled for this weekend. Hopes are for all to come together in agreement for a solution to the global financial woes. We would expect for this market to continue to trade basis the demand and emotional factors and barring any concrete solution, look for a test at the aforementioned support number. As expected, the November/December spread suffered further weakness, falling .07 cents shy of reaching the congestion range of -.47 to -.61. Gasoline, hammered once again today, surpassed a previous congestion low of \$1.9285. As with the crude oil, we would look for further downside movement in gasoline as it reacts to the demand and global economic meltdown. The next level to the downside is 1.3351. Heating oil, no different than crude oil and gasoline succumbed to financial pressure as well, achieving its lowest level since October of 2007. Again we would look for this market to follow the rest of the complex lower and would keep our eyes on the stock market for further indication of market direction. The next level of support for heating oil is \$2.1270.

Open interest for crude oil, NOV.08 159,320 -28,857, DEC.08 276,214 +15,171. Totals: 1,083,880 - 8,292,726 Open interest for heating oil; is NOV.08 39,366 -6,612, DEC.08 38,095 +3,756. Totals:

207,603 -93. Open interest for gasoline is, NOV.08 47,125 -6,840, DEC.08 42,366 +5,335, Totals: 159,382 -1,579.

The latest Commitment of Trades report showed that non-commercials in the crude market cut their net long position by 36,403 contracts to 3,690 contracts in the week ending October 7 as crude prices fell 11% on the week. The combined futures and options report also showed that non-commercials cut their net long positions by 33,109 contracts to 45,684 contracts on the week. It is the lowest level since February 20, 2007, when non-commercials were net long 32,199 contracts. Non-commercials have continued to cut their net long positions as some have been liquidating their positions amid the sell off in the market. The combined futures and options report also showed that non-commercials in the heating oil market increased their net long position slightly by 636 lots to 6,534 contracts while non-commercials in the RB market cut their net long position by 96 contracts to 21,017 contracts on the week.

<b>Crude Support</b>	<b>Crude Resistance</b>
68.63, 49.90	79.30,85.40
<b>Heat support</b>	<b>Heat resistance</b>
2.1270, 1.9730	2.6590, 3.0184
<b>Gasoline support</b>	<b>Gasoline resistance</b>
160.75, 1.4700, 1.3351	192.85, 1.9050, 1.85 60,1.8452