



## ENERGY RISK MANAGEMENT

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## ENERGY MARKET REPORT FOR OCTOBER 15, 2008

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Iran's Oil  
Minister  
Gholamhossein  
Nozari said low  
oil prices will  
impact  
investment in oil  
production  
capacity  
expansions. He  
added that  
OPEC should  
try to strike a  
balance  
between supply  
and demand in  
its extraordinary  
meeting in  
November.

Iraq's Oil  
Minister  
Hussein  
Shahristani said  
OPEC should  
cut production  
when members  
meet in  
November in  
response to  
declining oil  
demand.

An oil industry  
consultant, PFC  
Energy said

### Market Watch

JP Morgan cut its oil price forecast for the fourth quarter to \$79/barrel and cut its forecast for 2009 to \$74.75/barrel. It said the cut reflected weaker economics, more expensive credit, more refining capacity and recovering non-OPEC supply. JP Morgan said it expects prices to fall to \$70/barrel in the second quarter and added that volatility in the oil price could mean that US crude could fall to \$60/barrel at some stage.

According to a Dow Jones Newswires survey, analysts believe that the oil market's downside is limited. The average forecast for WTI in the fourth quarter is \$89.40/barrel, down from a previous estimate of \$110/barrel. WTI is estimated to average \$107/barrel in 2008, down from a previous estimate of \$113 and \$95/barrel in 2009, down from a previous estimate of \$103.50/barrel. The median forecast for Brent crude was cut to \$105.60/barrel from \$112/barrel for 2008 and to \$92.80/barrel from \$105/barrel for 2009.

According to the Labor Department, the producer price index for finished goods fell 0.4% on a seasonally adjusted basis in September after falling 0.9% in August. The core PPI advanced 0.4% in September after increasing by 0.2% in August. Separately, the Commerce Department said retail sales fell by 1.2% in September, the third consecutive monthly decline. It was the sharpest decline since August 2005.

Federal Reserve Chairman Ben Bernanke warned that the economy was facing a significant threat from credit market turmoil. He added that a recovery would not be quick even if aggressive government measures stabilized the markets.

The New York Fed's Empire State general business conditions index in October fell to minus 24.62, the lowest level since the launch of the index in July 2001. It is down from minus 7.41 in September.

The acting chairman of the US Commodity Futures Trading Commission, Walter Lukken called on Congress to enact new reforms for derivatives products on Wednesday, including a request to grant the CFTC the authority to regulate them.

Britain should slow the rate of increase in the use of biofuels to 0.5% a year, taking the level to 5% by 2013-14 rather than the current target of 2010-11. Slowing the increase in biofuels for transport is the government's response to concerns about the indirect environmental and social impacts of producing them.

Canada's EnCana Corp is delaying a plan to divide the company into separate oil and natural gas producers due to uncertainty and volatility in financial markets worldwide. It is postponing a shareholder vote on the plan that had been scheduled for December.

**October Calendar Averages****CL – \$86.53****HO – \$2.4648****RB – \$2.0376**

OPEC will likely announce a production cut of 1 million bpd at its November meeting.

In its October report, OPEC cut its world oil demand growth estimate by 330,000 bpd to 550,000 bpd in 2008 and by 100,000 bpd to 800,000 bpd in 2009. It estimated world oil demand at 86.5 million bpd for 2008 and 87.2 million bpd for 2009. OPEC also cut its forecast for world oil demand for its oil in 2009 by 190,000 bpd to 31.14 million bpd. It is down 870,000 bpd from its estimate for OPEC crude in 2008 of 32.01 million bpd. OPEC also reported that total OPEC production averaged 32.157 million bpd in September, down 308,600 bpd on the month. It stated that Venezuela produced 2.33 million bpd of crude in September, down 8,000 bpd on the month. OPEC also cut its 2008 estimate for non-OPEC production by 200,000 bpd to 49.74 million bpd. It forecast that non-OPEC production would increase by 970,000 bpd or 2% in 2009 to 50.7 million bpd.

MasterCard Advisors LLC said US gasoline demand increased by 1.6% to 8.762 million bpd in the week ending October 10. Demand is down 9.7% on the year. In the latest four weeks, demand fell by 7.9% on the year. On a nationwide average, retail prices for regular gasoline fell by 10 cents to \$3.61/gallon, the lowest level since May 2.

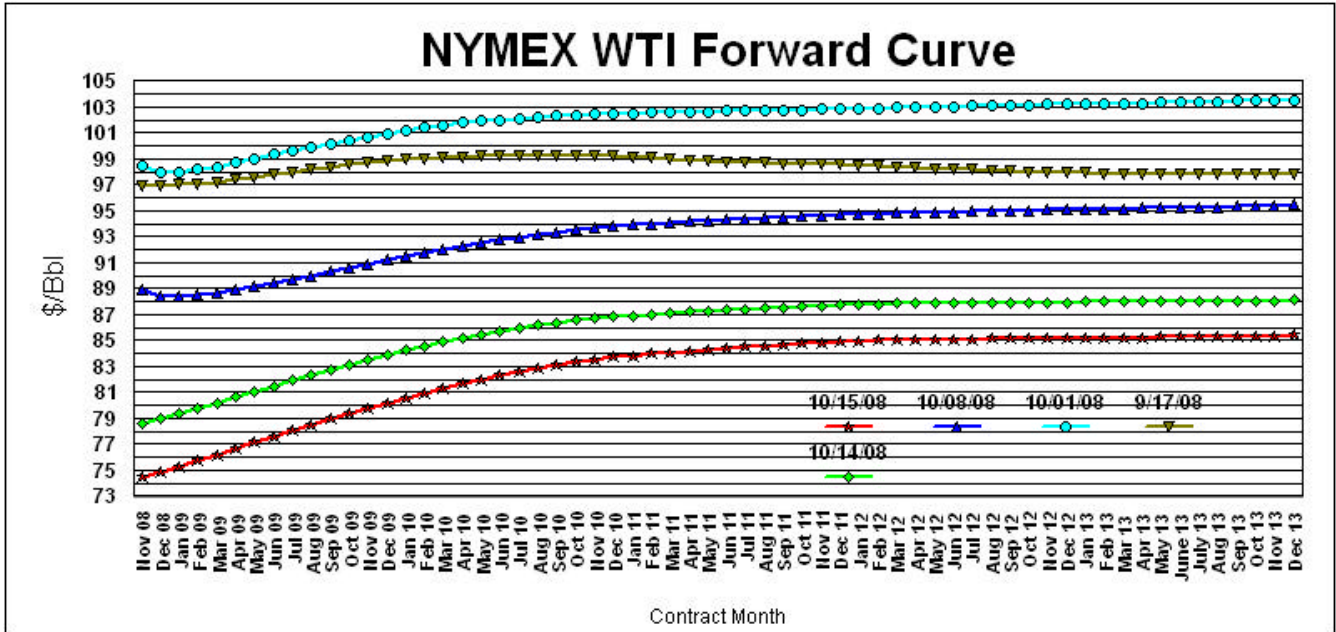
The API reported that US oil and oil product demand in September fell by 6.2% on the year to 19.151 million bpd as hurricanes in the Gulf Coast cut into offshore production and refinery output. During the first nine months of the year, total petroleum demand fell by 4.7% to 19.739 million bpd. Gasoline demand in September fell by 355,000 bpd or 3.8% to 8.899 million bpd while distillate demand fell by 491,000 bpd or 11.8% to 3.67 million bpd. In regards to supply, crude oil and petroleum product imports averaged 12.031 million bpd, down 11.8% and the lowest since January 2004. As a result, total imports in September accounted for 62.8% of US oil demand, down from 66.8% a year earlier.

The EIA stated that US crude oil imports in August averaged 10.284 million bpd, the highest level since September 2007. Imports increased by 1.8% or 183,000 bpd on the month but were down 32,000 bpd on the year. Canada was the top source of crude, with 1.833 million bpd while Saudi Arabia maintained its role as the second largest supplier to the US, 1.533 million bpd. The US imported 1.292 million bpd of crude from Mexico in August, up 7.7% on the month but down 6.4% on the year. The US imported 1.146 million bpd from Venezuela, down 3.4% on the month while imports from Nigeria increased by 39.8% on the month to 1.035 million bpd.

According to Merrill Lynch, investors believe the world is heading for a recession, monetary policy is too tight and cash is the best place to put money. A poll of fund managers showed an increase in respondents believing the world is set to get worse and will likely fall into recession. It showed that 76% of those surveyed said the world economy will weaken over the next 12 months compared with 62% in September. Fund managers are more underweight equities and more overweight bonds than at any time since Merrill started publishing its survey in 1998.

Georgia accused Russian forces of firing grenades at a police post and entering its airspace in violation of its ceasefire. Its accusations came as international talks on the Georgia-Russia conflict in Geneva were suspended. Georgia blamed Russia for the suspension of peace talks in Geneva, saying Russia had refused to meet Georgian officials.

The Financial Times reported that Iraqi oil pipelines are in such dire condition they could stop operating at any time. It said the pipelines that connect storage tanks near the southern Basra oil terminal to offshore tanker fueling terminals need urgent replacement or repair. The pipelines are 10-20 years past their useful life and are operating at about 25% of their designed capacity.



### Refinery News

Valero Energy Corp's fluid catalytic cracking unit at its 170,000 bpd McKee, Texas refinery was operating at minimum safe and stable throughput limits following a power cable failure.

ExxonMobil's Joliet, Illinois refinery has restarted after it was shut down for planned maintenance.

Venezuela's Puerto La Cruz oil refinery operations have returned to normal after several units were shut on Tuesday due to a blackout caused by Tropical Storm Omar.

Hovensa is shutting down all process and ancillary equipment, except those units necessary to maintain power at its 525,000 bpd refinery in St. Croix due to Hurricane Omar. Hurricane Omar is expected to pass very near or directly over the island in the next 24 hours. A Hovensa spokesman said once it is safe, the company will inspect the refinery and if no damage is found, then its start up will proceed in sequential order. The refinery's closure prompted Hess to buy ultra low sulfur diesel and gasoline in the US Gulf Coast market.

Workers at Kuwait National Petroleum Co are threatening to shut down the country's three oil refineries, with a combined capacity of 936,000 bpd, starting October 19 in protest over equal rights. The KNPC Labor Syndicate is calling on 3,000 workers to join the strike. It stated that distillation and exports will be affected, along with local marketing and 40 KNPC gas stations. The strike would last until the workers' demands are met.

ExxonMobil Corp plans to shut a 28,000 bpd fluid catalytic cracking unit at its Fos refinery in France for repairs early next year. It is scheduled to close in January for four weeks. Associated units will also be taken offline.

Oil Refineries Ltd said its board has approved the construction of a \$670 million hydro-cracking unit at its refining facility in Haifa in order to produce more diesel and kerosene fuels. The project is expected to be completed in 2011 and will produce 25,000 bpd of kerosene and diesel.

Low water levels on the Rhine River are affecting gasoil loading operations in the Northwest Europe oil terminal of Amsterdam-Rotterdam-Antwerp, increasing loading times and pushing up both Rhine freight rates and gasoil prices. Low water levels have been preventing barges from traveling with full cargoes. Rhine freight rates have increased sharply in the past three months, rising by an average of 60%.

**Production News**

Shell operated production in Gulf of Mexico is at about 325,000 bpd of oil equivalent, down from a normal rate of 500,000 bpd of oil equivalent after it shut down its production in mid-September ahead of Hurricane Ike.

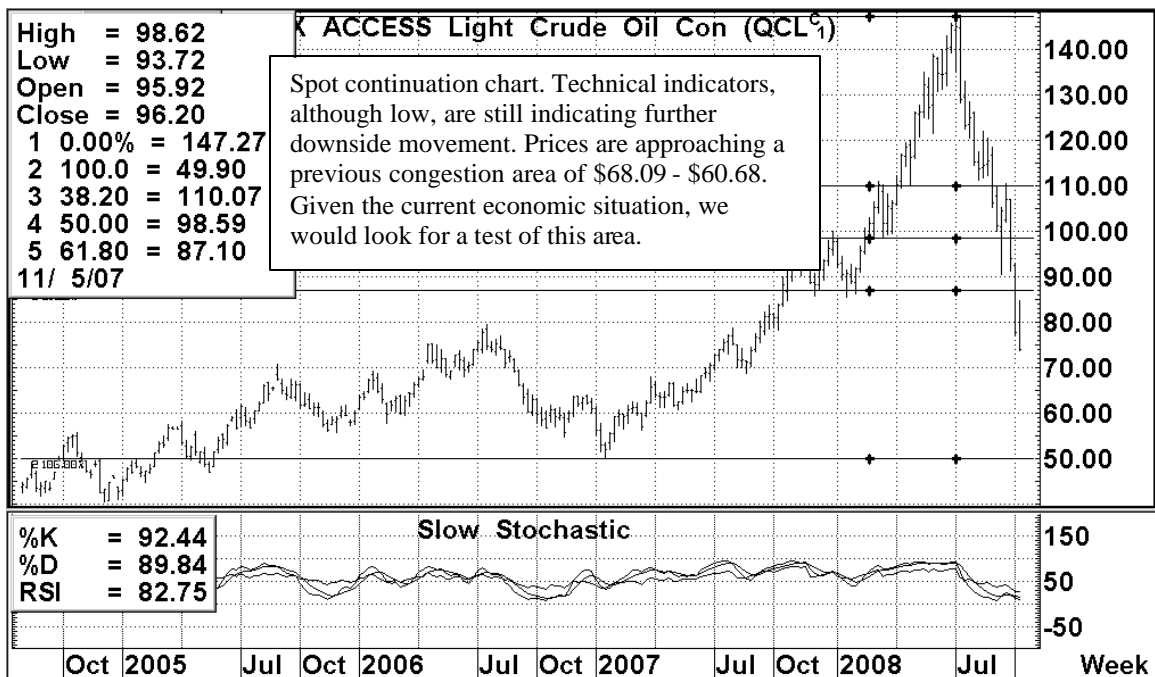
According to Nigerian National Petroleum Corp, Nigeria's oil production is gradually increasing to pre-2006 levels of 2.3 million bpd this month. Production has increased from 2.2 million bpd last month and is expected to reach 2.4 million bpd by the end of the year as Shell makes efforts to restore shut in production and Chevron increases its Agbami output.

Royal Dutch Shell Plc said a Nigerian court has ordered the company to hand over land around its Bonny oil terminal to the local population, a key demand of armed rebels. A Shell spokesman did not say whether oil lifting and export activities at the terminal would be affected by the ruling.

Kuwait Oil Co is proceeding with plans to increase its production capacity to 4 million bpd of crude and 1 bcf/d of natural gas by 2020. It increased its production capacity by 439,000 bpd of crude to 2.377 million barrels in the current fiscal year.

Angola's Oil Minister Jose Vasconcelos said the country's oil production has declined to 1.6-1.7 million bpd from about 2 million bpd earlier in the year. He said output at a 200,000 bpd oilfield in the country's deepwater Block 18 had suffered an accident in August. However the problem has been resolved and production resumed two days ago. He said production should return to about 2 million bpd soon. He also added that the government is interested in developing the country's natural gas sector.

Crude oil shipments through BP's Baku-Tbilisi-Ceyhan pipeline will average about 44% more than previously expected over the next month after one of two platforms resumed production. Shipments



from October 18 to November 21 will average 548,571 bpd, up from 380,587 bpd previously scheduled.

BP Plc and Angola's Sonangol said they discovered oil in deep water offshore Angola in the Dione well. Tests determined the capacity of the reservoir to flow in excess of 5,000 bpd under production conditions.

**Market Commentary**

With the stock market falling two consecutive days, concerns regarding demand for fuel, put additional pressure on energy markets. Crude oil prices fell to their lowest level in a year, in response to the grim economic outlook. We would continue to look for pressure to spill over from the equities markets, as signs of the U.S. slipping into a recession grow ever stronger. Crude oil prices are quickly approaching a previous congestion range of \$68.09-\$60.68 basis a weekly spot continuation chart. Given the current economic outlook, we would look for prices to work into this range. The November/December spread struggled to regain strength, but failed to do so. Tomorrow's DOE/API numbers are calling for a build of 2.2 million barrels, which should add further pressure on this spread. As mentioned in our wire of yesterday, there is an area that the front crude oil spread has been gravitating to on and off since June 17<sup>th</sup>. This area is between -.47 and -.61. We would buy and sell against this range, buying failures to weaken below -.61 and selling failures to strengthen above -.47. We would also look to buy breaks above -.47 and sell breaks below -.61. Product demand will continue to suffer along with this weakened economy, adding to the existing pressure on prices. Heating oil, which had enjoyed unseasonable strength this past spring and summer, appears to be succumbing to unseasonable pressure. Prices are now at their lowest level since October of 2007. If the current economic situation cannot be relieved, demand for products will surely suffer, weighing on prices.

Open interest for crude oil, NOV.08 106,920 -10,710, DEC.08 311,106 +6,401. Totals: 1,090,251 - 1,636. Open interest for heating oil; is NOV.08 29,391 -1,550, DEC.08 46,618 +1,190. Totals: 212,748 +236. Open interest for gasoline is, NOV.08 34,281 -1,734, DEC.08 55,741 +4,575, Totals: 162,328 +2,799.

<b>Crude Support</b>	<b>Crude Resistance</b>
68.63, 60.68, 49.90	85.40, 87.10, 98.58, 110.07
<b>Heat support</b>	<b>Heat resistance</b>
2.1450, 2.1270, 1.9730	2.4200, 2.5324, 2.6400, 2.6880, 2.7475 3.0184
<b>Gasoline support</b>	<b>Gasoline resistance</b>
1.8800, 1.8070, 1.7980, 1.6075, 1.4700, 1.3351	192.85, 2.0270, 2.0690, 2.1400, 2.1980, 2.2865