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## ***ENERGY RISK MANAGEMENT***

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### **ENERGY MARKET REPORT FOR OCTOBER 18, 2007**

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Turkey's Justice Minister insisted on Turkey's right to stage a possible attack against Kurdish rebels, rebuffing US calls for restraint. Turkey's Parliament on Wednesday authorized the government to send troops into northern Iraq to root out Kurdish rebels. The parliamentary authorization lasts for one year. However there was no immediate plan to stage a cross border attack. US President George W. Bush said the US was making clear to Turkey that it should not stage a major military operation in northern Iraq. Turkey's Foreign Minister Ali Babacan traveled to both Egypt and Lebanon to explain its position to its Arab neighbors. Kurdistan's government said it was prepared to hold talks with Turkey on the PKK issue and stressed Turkish trade and investments were fundamental to the growth the Kurdish

#### **Market Watch**

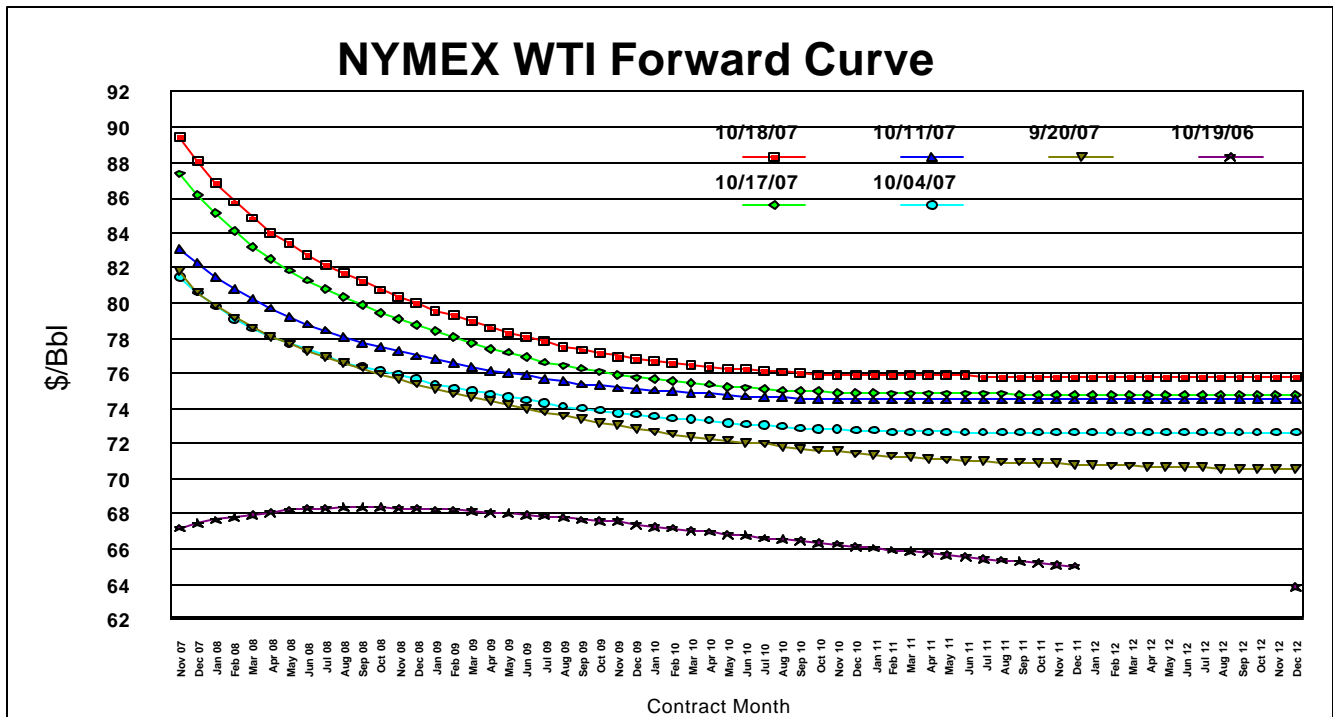
Traders and shipping sources stated that a wide price spread between Brent and WTI was encouraging shipments of Brent to the US. The high premium of WTI over Brent has opened the transatlantic arbitrage. Shell chartered a Suezmax crude tanker to ship 135,000 tons of crude from the North Sea to the US Atlantic Coast. Shell was also heard fixing a tanker for a November 13 voyage from Hound Point, Scotland to Portland, Maine in the US for a shipment of Forties crude.

Analysts stated oil prices have rallied to new records as funds seek alternatives to markets battered by the world credit crunch. The subprime crisis has also sent the dollar to record lows against other currencies, further pushing up commodity prices. This is in addition to the demand growth from emerging economies including China. A Reuters survey of funds found their allocation to alternative investments such as commodities increased from 1% in August to 3.2% in September.

The National Weather Service predicted the arrival of La Nina in November after conditions strengthened in recent months.

The Labor Department reported that the number of US workers filing new claims for unemployment insurance benefits increased by 28,000 last week, more than expected and the largest increase for any week since February. Initial claims for state unemployment insurance benefits totaled 337,000 in the week ending October 13 following an upwardly revised 309,000 in the prior week. The number of continuing claims increased to 2.53 million from 2.52 million in the week ending October 6.

An official at the National Development and Reform Commission said China's economy overall was not overheating but the pressures in that direction have not eased. The economy grew 11.9% in the second quarter from a year earlier. China's GDP growth in the third quarter was about 11.5%. Separately, an official at the NDRC signaled that China was unlikely to raise fuel prices this year even as world oil prices rallied to new highs amid strong inflationary pressures. The official also stated that record oil prices were aiding China in its quest to prompt companies to become more efficient by forcing them to save energy to increase their profit margins. He said the high prices may encourage companies that use a large amount of oil to adopt energy saving measures and reduce emissions to increase efficiency and economic returns. He said China was seeking to cut energy use per unit of GDP by 20% and pollution by 10% by 2010.



region's economy. Meanwhile, thousands of Kurds marched on the UN offices in the Kurdish capital of Arbil on Thursday to protest the Turkish parliament's authorization of military incursions into northern Iraq.

Iran's President Mahmoud Ahmadinejad disputed reports that Russian leader Vladimir Putin made proposals to resolve the standoff with the West over Iran's nuclear program during his visit. On Wednesday Iran's top nuclear negotiator Ali Larijani said Russia's President delivered a message that included the nuclear issue in talks with Iran's supreme leader, Ayatollah Ali Khamenei.

Saudi Arabia's Former Oil Minister Sheikh Ahmed Zaki Yamani said OPEC should increase its oil production to lower oil prices. He said OPEC's decision in September to increase supplies by 500,000 bpd from November was too little too late.

Total inventories of Iraqi Kirkuk crude available at the Turkish export terminal of Ceyhan stood at 7.98 million barrels. The total remained unchanged for the fourth consecutive day.

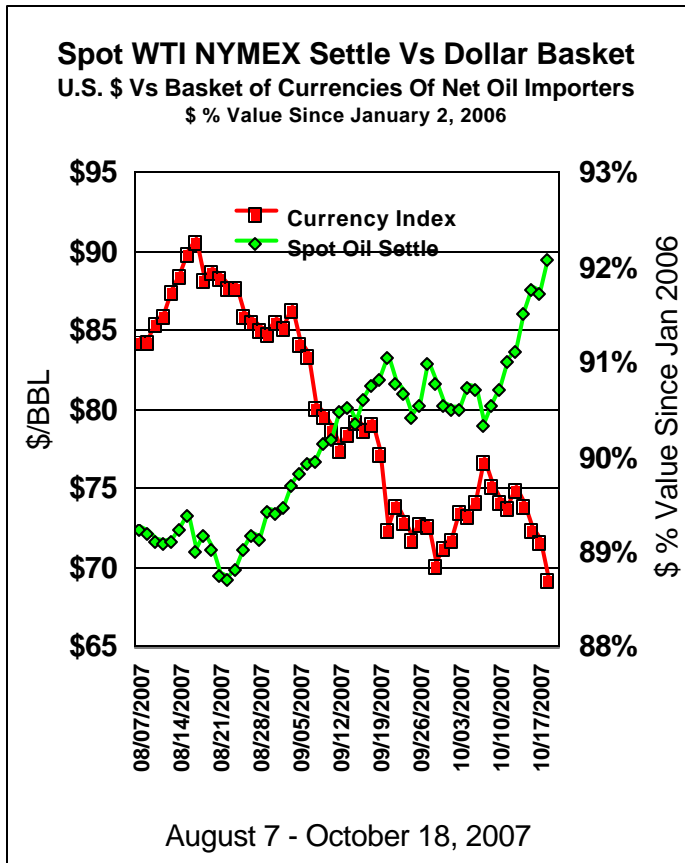
According to Oil Movements, OPEC's oil shipments are expected to increase by 310,000 bpd to 24.24 million bpd in the four weeks ending November 3. Exports from key OPEC Middle East countries are forecast to increase by 290,000 bpd to 17.34 million bpd in the four weeks ending November 3 compared to the previous one month period. It said OPEC was exporting about 390,000 bpd less than at this time last year.

#### **Refinery News**

ExxonMobil said the fire that occurred at its Billings, Montana hydrocracker unit was extinguished and added that a team was formed to investigate the cause of the fire and assess the damage. The 60,000 bpd refinery continued to operate but the operation of some units has been cut. Exxon said it expected to be able to meet its contractual customer needs.

ConocoPhillips cancelled maintenance work at its Borger, Texas refinery scheduled for this month.

Total's 328,000 bpd Gonfreville refinery is expected to fully restart following major maintenance on October 23. Its restart was delayed by a week.



Swedish Preem Petroleum AB said it was restarting its 210,000 bpd Lysekil refinery following a maintenance shutdown that started in early September. The plant was expected to reach full capacity by October 25.

Swedish Petroplus Holdings AG said its Ingolstadt refinery in Germany was partially shut for maintenance work starting October 12. The outage is expected to last two weeks until the end of the month.

India's Reliance Industries Ltd said it restarted a 330,000 bpd crude distillation unit at its Gujarat refinery on Thursday. The unit was shutdown for planned maintenance on October 11.

Saudi Arabian Oil Co said the scheduled shutdown of its 400,000 bpd refinery at Rabigh for maintenance is not expected to impact supply of crude oil products to the local market. It said domestic product supplies would be met from the country's other refineries during the planned one month turnaround at the refinery.

It said it was taking all necessary measures to meet domestic demand during the shutdown. The refinery produces fuel oil, naphtha and jet fuel.

Brazil's Petrobras said it would upgrade its Gabriel Passos refinery for \$1.1 billion. Petrobras has been upgrading its Brazilian refineries to process more heavy oil and produce fuels that are more environmentally friendly.

### Production News

According to a report from a climate change experts and scientists at seven Energy Department laboratories, global warming may produce stronger hurricanes that could disrupt US oil production in the Gulf of Mexico and damage ports and pipelines along the coast. It said that in addition to seasonal damage, rising sea levels due to global warming would permanently threaten many oil refineries, liquefied natural gas terminals and coal import and export facilities located along the US coasts.

Venezuela's Finance Minister Rodrigo Cabezas estimated Venezuela's oil production in 2008 at 3.6 million bpd. Venezuelan officials have recently stated that the country's current production is 3.3 million bpd.

Gas oil inventory in independent storage in the Amsterdam-Rotterdam-Antwerp area fell by 12% on the year to 1.769 million tons from 2.02 million tons. Gas oil stocks were also down from the previous week's 1.912 million ton level. Gasoline stocks also fell by 122,000 tons on the year but built by 28,000 tons on the week to 623,000 tons. Similarly, naphtha stocks fell by 34,000 tons on the year but

increased by 1,000 tons to 57,000 tons on the week. Fuel oil stocks built by 23,000 tons on the year and by 155,000 tons on the week to 548,000 tons while jet fuel stocks fell by 131,000 tons on the year and by 55,000 on the week to 272,000 tons.

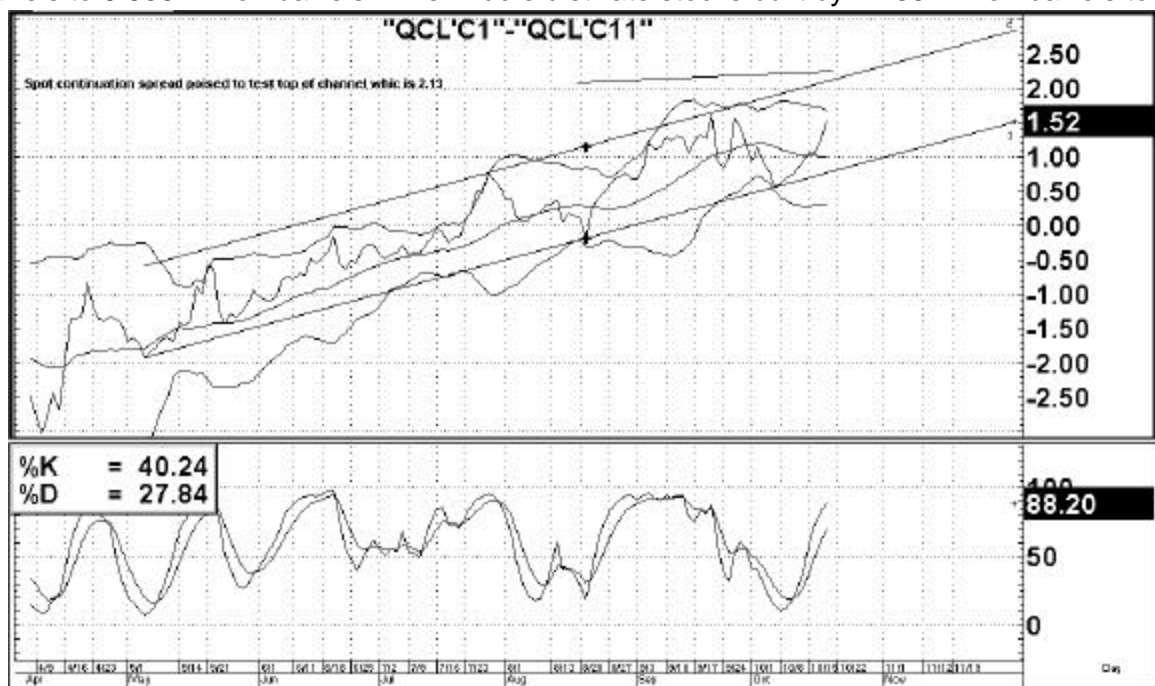
Traders said Asian demand for West African crude in November increased by 100,000 bpd on the month as China increased its purchases. Asian refiners bought 1.17 million bpd of mainly Nigerian and Angolan crude, up from 1.07 million bpd in October. China bought 760,000 bpd of West African crude, up from 552,000 bpd in October.

Royal Dutch Shell said it has put out the last of six fires that started in June on a major oil export pipeline in Nigeria. The fires, started after holes were drilled into a section of the pipeline in the Ogoni area of the southern state of Rivers between June 18 and 27, were extinguished on Tuesday. It took months to douse the fires because the communities had initially denied the company access, until the Rivers state government and the local council intervened.

Ecuador's government stated that protests in the country's Amazon region cut crude oil production this week by 26,227 barrels. The protests cut production in the Shushufindi field and Block 15. Local residents started their protests on Monday demanding jobs and other benefits.

Singapore's International Enterprise said the country's residual fuel stocks fell by 907,000 barrels to 11.876 million barrels in the week ending October 18. It also reported that its light distillate stocks fell by 251,000 barrels to 6.835 million barrels while middle distillate stocks built by 1.133 million barrels to 7.745 million barrels.

Colombia's Mines and Energy Minister Hernan Martinez said Ecopetrol SA is expected to take over the operation of the Cupiagua oil and gas field when the contract expires in 2010. The field is currently operated by Ecopetrol, which owns 50% of the venture, BP Plc, which owns 31% and Total SA, which owns 19%. The field yields about 90,000 bpd of crude and a significant amount of natural gas.



OPEC's news agency reported that OPEC's basket of crudes reached a high of \$81.09/barrel on Wednesday, up 27 cents from the previous record of \$80.82/barrel set on Tuesday.

## Market Commentary

Plagued by economic woes, the crude oil market rallied yet again, marking the eighth day that prices made new record highs. With news that Bank of America Corp. was posting third quarter losses of 4 billion dollars, the U.S. dollar weakened, deepening concern over the housing sector and other economically tied markets. Because crude oil is quoted in dollars, those selling the actual commodity need to make up for the weakness that the dollar will bring. In order to do so, the price of crude oil is raised. In U.S. dollars, the price of crude oil is up 46 percent so far this year. Oil is up 35 percent in euros, 40 percent in British pounds and 42 percent in yen. There are expectations for another rate cut by the Federal Reserve and if this happens it should spark a bit of profit taking, however the rate has been cut already and prices sold off only momentarily. We cannot buck the trend line but continue to go with it and would be happy to buy and sell the listed support and resistance number. The front month spot continuation spread depicted below, is poised to test the top of a channel, which is tested at 2.13. Total open interest in crude oil is 1,471,819 down 17,474, November 108,745 down 41,894, December 402,679 up 14,448 and January 144,638 up 4,734. Support for December, comes in at 87.35, 85.70, 85.08, 83.60, 83.00, 82.00, 80.80 and 79.00. Resistance is set 89.00, 90.47. The product markets, which traded lower in the overnight market, bounced off their lows and settled sharply higher. The RBOB market continued to trade lower early in the morning and posted a low of 214.45. However the market bounced off that level and retraced Wednesday's losses as it rallied to 217.86, where it held some resistance. The market later extended its gains to over 4.3 cents as it rallied to 219.03 ahead of the close. It settled up 3.85 cents at 218.51. The heating oil market also settled up 3.04 cents at 234.93 after the market rallied off an overnight low of 230.88. The market traded to 234.75 and held some resistance at that level before further buying ahead of the close pushed the market to 235.50 on the close. The market later continued to trend higher and posted a high of 236.09 on the day. The product markets, which failed to retrace much of their recent gains following Wednesday's losses, will continue to trend higher ahead of the weekend amid the strength in the oil market. The RBOB market is seen finding support at 218.00, 215.35, 213.75, 210.51, 208.22 followed by 207.52, 204.78 and 204.53. Meanwhile resistance is seen at 219.03, 220.19 and 222.00.

		Explanation	
<b>CL</b>	<b>Resistance</b>	89.00, 90.47	
	89.47, up \$2.07	88.50	
	<b>Support</b>	87.95, 87.35, 85.84	Thursday's low (Dec)
		85.70, 85.08, 83.50, 83.00, 82.00, 80.80	Previous lows
<b>HO</b>	<b>Resistance</b>	236.34, 240.00	Basis trendline
	234.93, up 3.04 cents	236.09	Thursday's high
	<b>Support</b>	234.00, 232.50, 231.10, 230.88	Thursday's low
		230.54, 229.24, 224.40, 223.22, 221.72	Previous lows
<b>RB</b>	<b>Resistance</b>	220.19, 222.00	Previous highs
	218.51, up 3.85 cents	219.03	Thursday's high
	<b>Support</b>	218.00, 215.35, 213.75	Thursday's low
		210.51, 208.22, 207.52, 204.78, 204.53	38% (194.85 and 220.19), previous low, 50%, previous low, 62%