



## ENERGY RISK MANAGEMENT

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## ENERGY MARKET REPORT FOR OCTOBER 29, 2008

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Kuwait's Oil  
Minister  
Mohammad al-  
Olaim said OPEC  
could cut  
production again if  
there was a  
surplus in the  
market with no  
buyers.

Separately,  
Kuwait's Finance  
Minister Mustafa  
al-Shamali said  
Kuwait will not cut  
spending even if  
the price of oil fell  
below \$50/barrel.  
He said it would  
not affect its  
investments.

Iran's Oil Minister  
Gholam Hossein  
Nozari said OPEC  
could hold an  
extraordinary  
meeting and  
consider cutting  
output again  
before the group's  
next meeting in  
Algeria.

### Market Watch

The Federal Reserve cut interest rates by 50 basis points to 1%, a four year low as the US confronts a severe financial crisis and almost certain recession. Fed officials left open the possibility of additional rate cuts to below levels not seen in a half-century. The Federal Reserve also cut the discount rate charged for direct loans to banks by 50 basis points to 1.25%.

US President George W. Bush is schedule to meet with Saudi Arabia's King Abdallah on November 13 in New York. It is unclear how prominently oil will be discussed during Bush and Abdallah's bilateral talks.

Merrill Lynch cut its price forecast for US crude oil for the fourth quarter of 2008 to \$78/barrel. It also said its 2009 forecast for US crude of \$90/barrel was at risk.

Platts has lifted its review on Goldman Sachs that had prevented the company to make a market in benchmark prices. Goldman Sachs was placed under review over two weeks ago, making it the last in a series of major banks to be restricted from trading in a half-hour price assessment window as Platts increased its monitoring of counterparty credit risk.

Saudi Aramco expect project financing conditions for its downstream joint ventures to become more difficult as world credit markets tighten. A senior official said it is too early to say if the fallout from the worsening world financial crisis would have an impact on Saudi Aramco's projects that include export-oriented refineries and integrated refining and petrochemical projects.

Former US Secretary of State Henry Kissinger said China and the US should work together on solving energy problems brought about by the economic crisis. He said better energy policies are part of a restructuring that must be accelerated as a result of the crisis, along with shifts in emphasis from speculation to industrialization in the US economy and from exports to consumption in China.

StatoilHydro ASA said the sharp decline in crude oil prices in recent months combined with the world financial crisis could increase merger and acquisition activity.

Venezuela's President Hugo Chavez said the country would support an additional OPEC production cut, possibly of 1 million bpd, if it were necessary to stabilize crude oil prices. Venezuela's Oil Minister Rafael Ramirez predicted OPEC will agree to a new cut at its planned meeting in December.

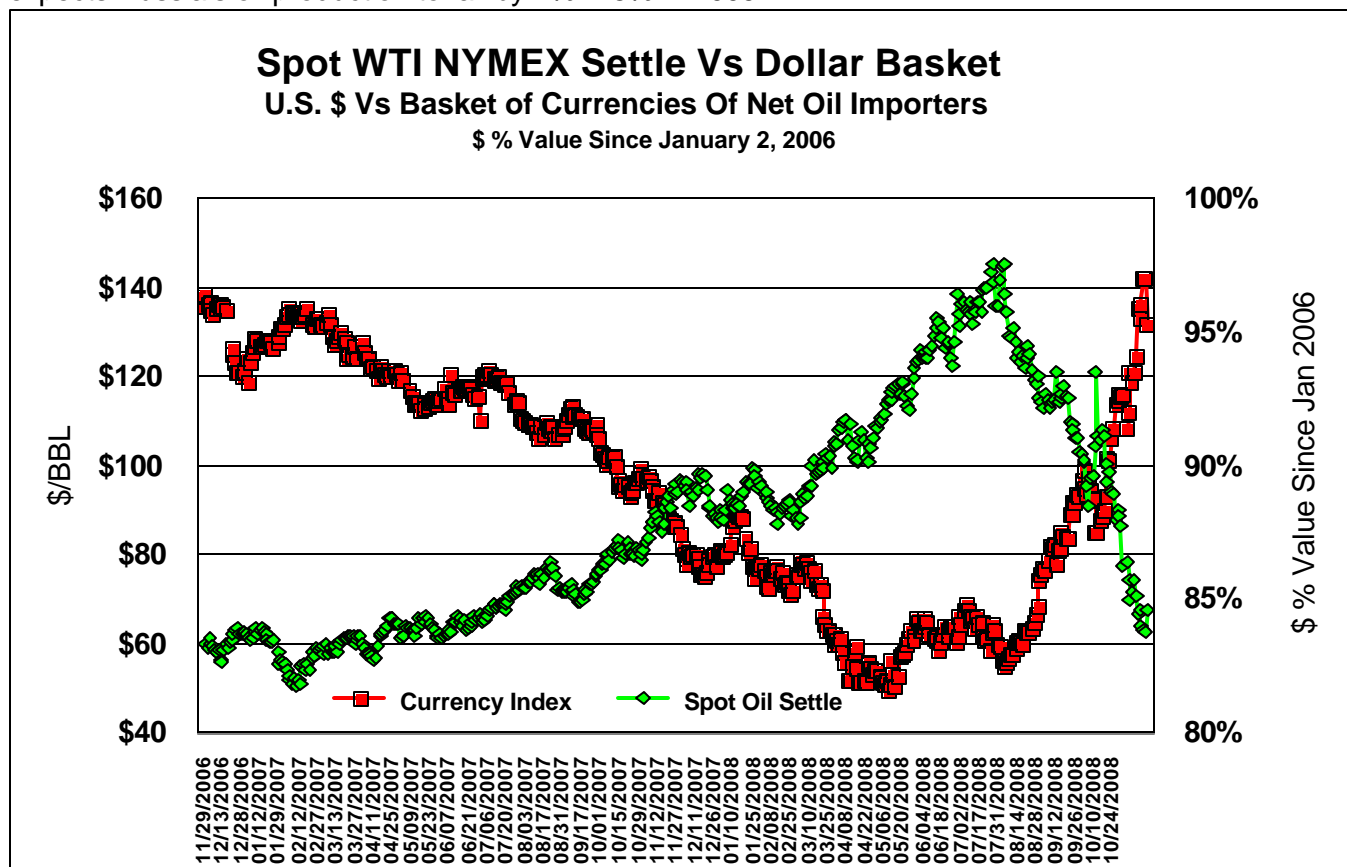
**October Calendar Averages**  
**CL – \$77.66**  
**HO – \$2.2647**  
**RB – \$1.8193**

According to Petrologistics, OPEC's oil production in October is expected to increase by 200,000 bpd to 31.9 million bpd due to higher supplies from Iraq. Output from the 12 OPEC members bound by quotas, except Iraq, is expected to increase by 30,000 bpd on the month to 29.59 million bpd. It is down from its target of 29.67 million bpd. Saudi Arabia is expected to produce 9.05 million bpd in October, down from 9.2 million bpd in September. Kuwait is expected to cut its supply by 120,000 bpd in October while the UAE is expected to cut its production by 130,000 bpd. Iran's supply is forecast to increase to 3.85 million bpd from 3.7 million bpd in September. Iraq's production is expected to increase to 2.31 million bpd, up from 2.14 million bpd in September. OPEC's oil production is expected to fall further in November following its decision to cut its output by 1.5 million bpd to 27.3 million bpd.

**DOE Stocks**  
**Crude** – up 500,000 barrels  
**Distillate** – up 2.3 million barrels  
**Gasoline** – down 1.5 million barrels  
**Refinery runs** – up 0.5%, at 85.3%

Russia's Lukoil believes Russia could cut its oil production by 300,000-400,000 bpd if it decides to follow OPEC's move

to cut production. A senior Lukoil official said it would be a positive step for Russia to join OPEC. He said a large Russian delegation expects to attend OPEC's meeting in December. He said Lukoil expects Russia's oil production to fall by 1%-1.5% in 2009.



The IEA has denied it believes output from the world's oil fields is declining at a faster than expected rate. The Financial Times reported the IEA's outlook report as saying that without extra investment to increase production, the natural annual rate of output decline is 9.1%.

Iran's Supreme Leader, Ayatollah Ali Khamenei said Iran's hatred of the US was deep-seated. He was quoted as saying that "this conflict goes far beyond having differences over a few political issues."

### **Refinery News**

Hess Corp said it does not have plans to build a \$5 billion refinery in St. Lucia amid its decision to cut the company's capital expenditure program for next year. Hess said it planned to cut its 2009 capital program as the world financial crisis has impacted the economy and led to a significant decline in commodity prices.

Neste said a small fire broke out at its Porvoo refinery on Wednesday morning. It said the fire impacted gasoline production but added that its deliveries were not impacted.

Nigeria's 125,000 bpd Warri refinery is expected to resume operations next month when repairs of a ruptured feeder pipeline is completed. The pipeline supplies crude from Chevron's Escravos oilfields to the Warri refinery and the 110,000 Kaduna refinery, which is also closed due to the pipeline damage.

BP Plc shutdown its 138,000 bpd Kwinana refinery in Western Australia for planned maintenance work. The refinery is expected to resume operations in December. The shutdown, overlapping with Royal Dutch Shell's planned shut in of its 85,000 bpd Clyde refinery in Sydney is expected to increase Australia's fuel imports.

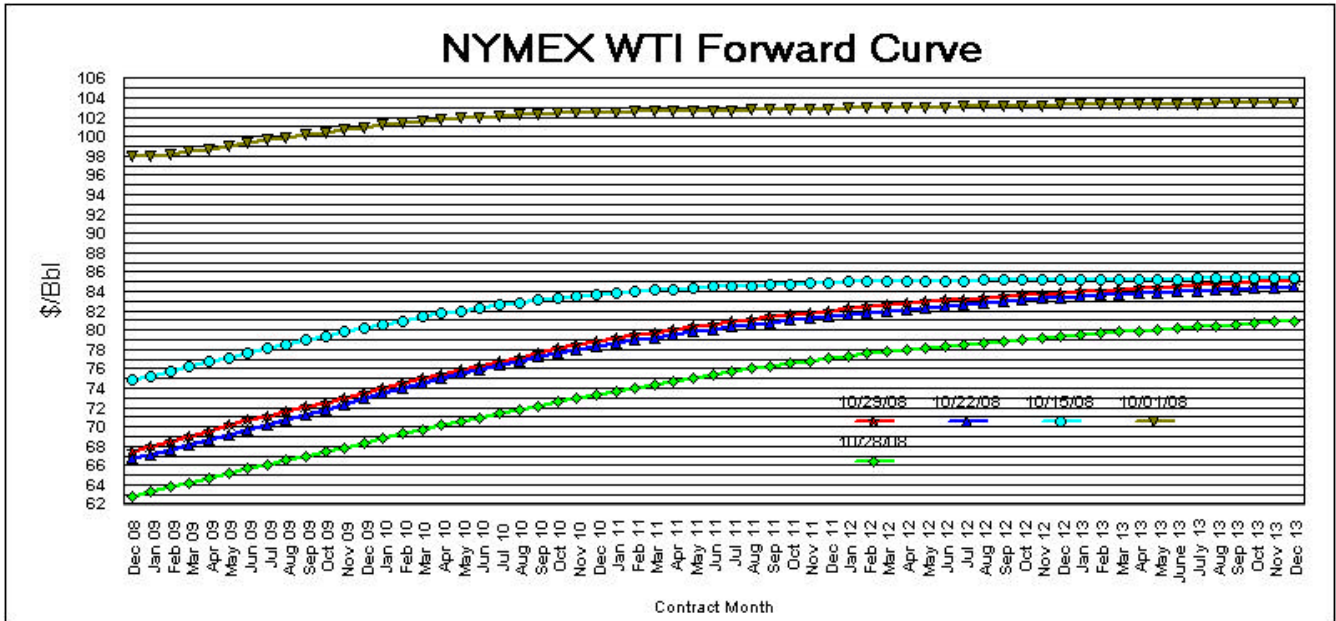
Indonesia's Pertamina's Balongan refinery suffered a small explosion on Tuesday during a scheduled maintenance shutdown. Its atmospheric residue hydro demetalizing unit is part of the 125,000 bpd Balongan refinery which is undergoing scheduled maintenance from October 18 for 57 days.

The Petroleum Association of Japan reported that the country's crude oil stocks fell by 6.39 million barrels on the week and increased by 8.17 million barrels on the year to 108.66 million barrels in the week ending October 25. It also reported that gasoline stocks built by 40,000 barrels on the week and by 580,000 barrels on the year to 13.27 million barrels while kerosene stocks built by 710,000 barrels on the week but fell by 1.71 million barrels on the year to 25.37 million barrels. Oil refiners increased their runs by 0.1% on the week but cut runs by 7.5% on the year to 72.8%.

Japan's Oil Information Center reported that the country's retail regular gasoline prices reached a six month low, falling for the 12<sup>th</sup> consecutive week to 151.3 yen or \$1.53/liter or \$5.79/gallon in the week ending October 27.

Japan's Nippon Oil Corp increased its oil products export target for the fiscal year ending in March to 5.95 million kiloliters or 103,000 bpd from 5.68 million kl due to lower domestic demand.

India's crude oil imports in September increased by 17.6% on the year to 10.26 million tons mainly due to higher purchases by Essar Oil, which is operating its unit at a higher capacity and Reliance Petroleum that is scheduled to commission its 580,000 bpd refinery. Imports of refined products fell by 41.4% to 3.74 million tons. India's total domestic sales of refined products increased by 7.8% on the year to 10.51 million tons in September.



South Korea's Korea National Oil Corp said it considered loaning crude reserves to local refiners to cushion the impact of the world financial crisis but had not made an offer. However documents show the KNOC had offered lot loan local refiners as much as a tenth of its reserves or 9.6 million barrels to soften the impact of the economic crisis.

China is expected to keep its November gasoline exports unchanged at 200,000 tons.

**Production News**

Mexico has reopened two of the country's three main oil exporting Gulf ports, Cayo Arcas and Coatzacoalcos. The port of Dos Bocas remained shut due to bad weather.

Mexico's Energy Ministry Georgina Kessel said energy reforms passed by Mexico's Congress this week will allow the country to maintain crude output. Congress passed a package of energy bills on Tuesday that was a scaled back version of President Felipe Calderon's original proposal.

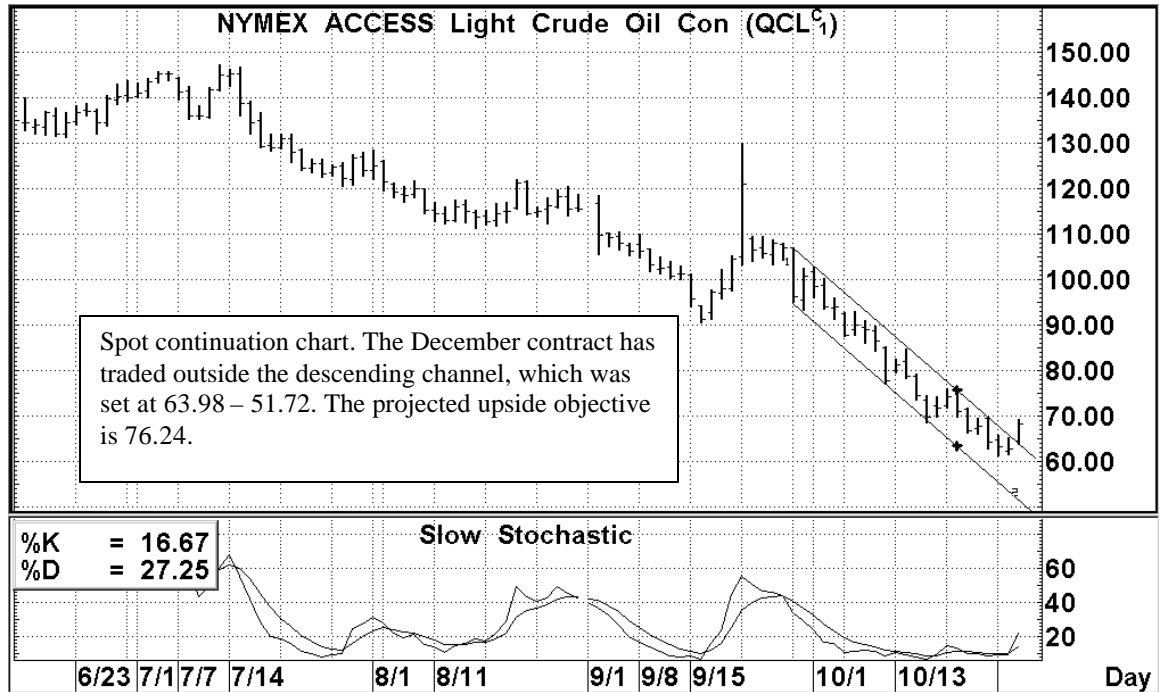
Venezuela said it was adding 10.251 billion barrels of crude oil to its national reserves as part of an ongoing review of its hydrocarbon reserves. The country's total reserves now amount to 152.561 billion barrels.

The Chevron-led Tengiz project in Kazakhstan has started 10,000 tons of crude to the Baku-Tbilisi-Ceyhan pipeline. It has also resumed low volume railroad deliveries to the Georgian Black Sea port of Supsa via Baku after halting them in 2001 when BTC started operations. Tengiz railroad and pipeline exports via Baku may reach some 400,000-500,000 tons in 2008.

Russia's TNK-BP stated that Russia's oil production peaked in August and is expected to next year.

Russian oil firms are expected to cut seaborne exports by at least 9% from the earlier approved November plan after the government decided against lowering oil export duties. Russia's Rosneft, Lukoil, TNK-BP, Surgut and Gazprom Neft may reduce their exports by at least 1 million tons from a previous plan of 11.5 million tons.

Indonesia's BPMIGAS said the country's crude oil production is expected to fall to 846,300 bpd in October, down from 862,200 bpd in September. Its condensate production is expected to increase to 124,000 bpd in October from 122,000 bpd in September.



OPEC's news agency reported that OPEC's basket price fell further to \$55.90/barrel on Tuesday from \$56.80/barrel on Monday.

### Market Commentary

Today's release of stock levels by the DOE was the initial catalyst that pushed prices higher today. Stock levels for crude oil, which were expected to rise by 1.6 million barrels, increased by 500,000. Gasoline stock levels, which were expected to increase by 1.3 million barrels, actually drew by 1.5 million barrels, the first decrease in four weeks. Despite this decrease, demand for gasoline based on a four week average, fell by 3.4%. Distillates, which were expected to build by 2.3 million barrels, increased by 700,000, with the four-week average for demand down by 5.2%. Overshadowing the fundamentals of this market was a weaker U.S. dollar versus the euro and a stronger equities market. Today's market activity can be viewed as a technical correction. Prices for crude oil have broken out of the descending channel based on a spot continuation chart. Based upon this penetration the upside objective for tomorrow is set at \$76.24, with the channel set between \$62.03 and \$49.77. The outlook for the December/January spread remains the same. We would look for continued trading between the -.47 to -.61 range, buying breaks above -.47, selling drops below it, looking to exit any shorts with failed attempts to trade below -.61 and adding to short positions upon any breaks below this level. Gasoline, based on a spot continuation chart, is also experiencing a correction in price movement. The November contract, which expires on Friday, appears to be making this correction prior to expiration. The upside objective based on today's market activity is set at \$1.8240. We would view this correction as technical in nature and not until the fundamentals of this market take on a bullish tinge, would we look aggressive advances. A recent cold snap that brought snow to some areas of the northeastern part of the U.S. is beginning to subside, with warmer temperatures on the way. This unusual seasonal weather has proven to be a reminder that winter is on its way. Although this occurrence, has led to thoughts of heating oil use, we view today's market activity as an adherence to the economic factors. As with the gasoline, we would look for the November contract to work a little higher prior to expiration. The upside objective for heating oil is set at \$2.2767.

Open interest for crude oil, DEC08 325,109, -999, January 09 97,010 +436. Totals: 1,073,159 +9,115.  
 Open interest for heating oil; is NOV.08 10,273 -3,370, DEC.08 57,065 +812. Totals: 218,603 +59.  
 Open interest for gasoline is, NOV.08 13,731 -3,501, DEC.08 68,371 +1,109, Totals: 161,599, -960.

<b>Crude Support</b>	<b>Crude Resistance</b>
62.03, 60.68, 52.73, 49.90	72.53, 74.30, 76.24, 85.40,
<b>Heat support</b>	<b>Heat resistance</b>
1.7880, 1.7638, 1.6055, 1.4530	2.1844, 2.4500, 2.5732, 2.6400, 2.6880, 2.6965, 2.7475 3.0184
<b>Gasoline support</b>	<b>Gasoline resistance</b>
1.4200, 1.3351	1.8240, 192.85, 2.0270, 2.0690, 2.1400, 2.1980, 2.2865

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