



## ENERGY RISK MANAGEMENT

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## **ENERGY MARKET REPORT FOR OCTOBER 31, 2008**

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### **Refinery News**

Chinese officials denied a news report that domestic fuel prices would be cut by 20%. Rumors circulating in the Chinese market had the cut being made by the middle of November.

Showa Shell said on Friday that it would cut its crude oil refining plan by an additional 1110,000 kilolitres in November and December due to slowing domestic demand. These reductions would come on the heels of reductions of 400,000 kl made in October. The company said it also expects to more than triple its oil product exports to 850,000 kl in October –December.

Japanese crude oil imports in September rose 13% from a year earlier the Ministry of Economy, Trade and Industry reported today. September domestic sales of oil productions fell 11.9% from the same month a year earlier, in part due to gasoline sales dropping 8.8%.

### **Production News**

Kuwait has notified at least two term customers in Asia that it would cut its crude oil supplies to them by 5% in November.

#### **October Calendar Averages**

**CL – \$76.72**

**HO –\$2.2413**

**RB – \$ 1.7876**

Russian oil  
ministry  
officials said

that the country may yet cut oil export duties for November, as a result of pressure from oil companies that they might have to cut

production to limit losses if no action is taken by governmental officials. The government was expected to review the situation Friday and Saturday. The Russian Prime Minister was proposing the government slash the November export duty by \$177.00 to \$195.20 per tonne, down from \$372.20 in

### **Market Watch**

Barclays Capital said today that oil prices may have swung wildly in tandem with financial markets but underlying fundamentals are stabilizing. They noted that OECD demand remains weak, but for the U.S. at least, first indications for October show that the pace of decline might have stabilized. The bank looks “for demand to stay at depressed levels this year and next, in line with the sharp slowdown in the economy.” But supply side restrictions will be sufficient to offset the decline in demand.

UBS slashed its 2009 commodity prices forecasts by an average 37%, in line with cutting expectations for global growth to slow to 1.3% next year, down from an earlier estimate of 2.2%. The bank looks for oil to average \$60 per barrel in 2009.

The Associated press reported today that Iran recently studied methods of recovering highly enriched uranium from spent reactor fuels. The news agency cited an intelligence assessment made available by a member of the International Atomic Energy Agency. Meanwhile Maretin Indyk, former U.S. ambassador to Israel, a member of Barak Obama’s Middle East team said today that U.S. intelligence now estimates that Iran will have between one and three nuclear bombs by the end of 2009.

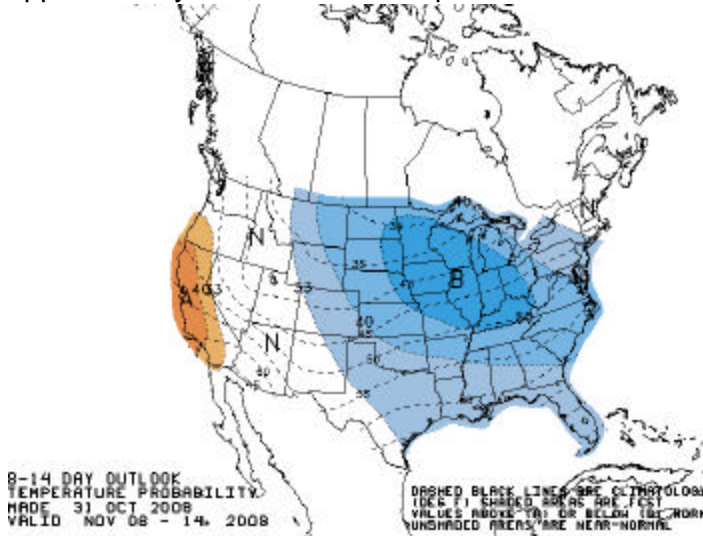
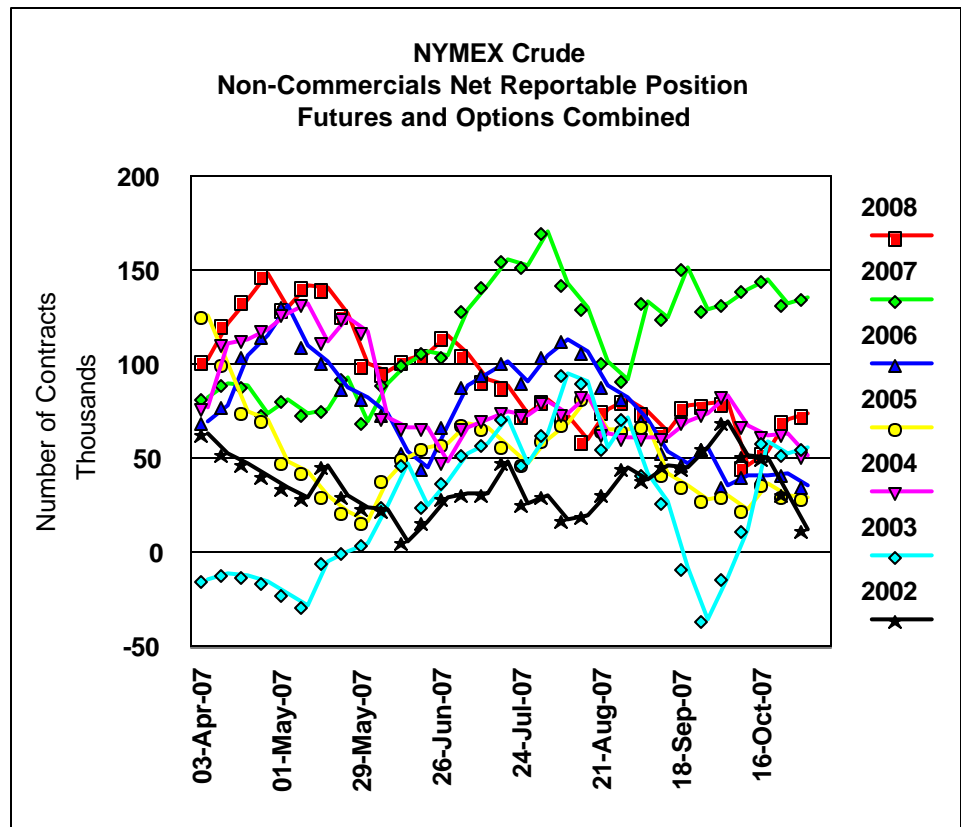
October. One other proposal being floated was no duty cut in November but a significant cut would be made in December to \$55.00 per tonne.

The OPEC reference crude oil basket price on Thursday rose to \$59.92 per barrel up from 58.13.

The U.K. Maritime and Coast Guard Agency confirmed that 57 workers had been evacuated from Heather Alpha oil platform in the North Sea after an oil leak was discovered. Some 10-20 metric tons of crude leaked on Friday morning. The Heather Alpha oil field produced 2715 cubic meters of crude in May 2008, the latest month that public data was available.

Chevron Corp. Friday said that about half of its Gulf of

Mexico production will be restored by the fourth quarter of 2009 and that about 10,000 bode would be permanently shut-in owing to hurricane effects. About half or 90,000 b/d of Chevron's production remains shut in at the end of October. The company said the storms this year caused a decline of approximately 150,000 boe in September.

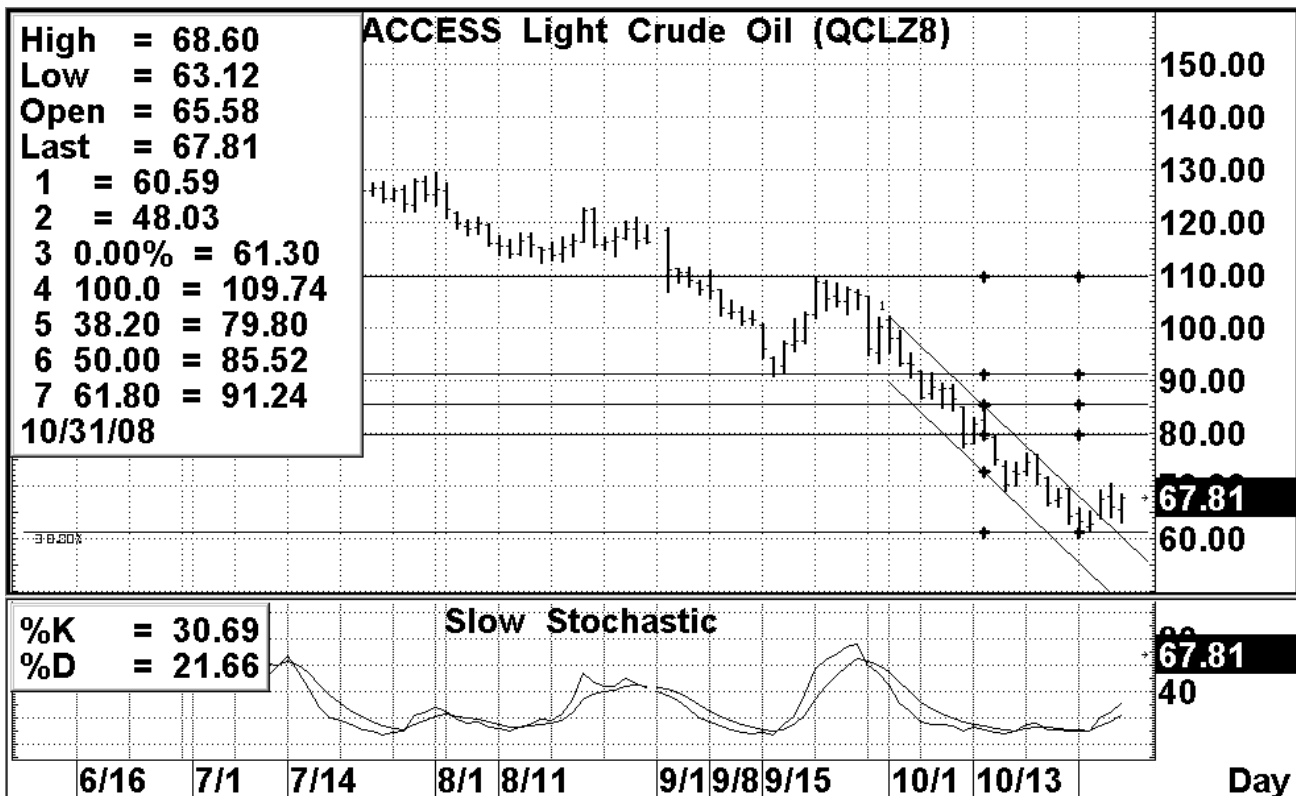


The consortium led by Eni that is developing Kashagan oil field confirmed today that the project in Kazakhstan would reach a maximum daily output of 1.5 million b/d by the end of the next decade, following its signature on an agreement with the government ending their dispute. As part of the final agreement the group will hand over operating control of Kashagan to a new joint operating company in January 2009. The new company will be owned on a pro-rata basis by members making up the consortium.

**Market Commentary**

What was setting up to be a quite session, was quickly overshadowed by a short covering frenzy on the close as the November heating oil and gasoline contracts expired. While there is no concrete reason why this market took off the way it did, there are several scenarios one can put in place. With gasoline hitting a 21 - month low and demand being weighed down by global economics, shorts entered the market and were forced to cover as the

November contract expired. It is the end of the month and index traders had to settle their books. Cold weather is expected towards the end of next week, leading to the belief that demand for heating fuels will pick up. Then there is always OPEC, who has promised further cuts, need be. One would think that



with the way gasoline took off in the last 30 minutes, that there is the possibility of refining problems, but was no known news of any problems at the time of this writing. Stronger equity markets most surely gave some strength to the energy markets. From a technical perspective, it appears that the December crude oil is trying to build a base and start to retrace some of its losses. Although we would not look for a total retracement, it is quite possible for prices to make a play for the \$85.50 50% retracement between the range of \$109.74 and \$61.30.

Open interest for crude oil, DEC08 310,825, -14,284, January 09 100,841 +3,831. Totals: 1,066,205 – 6,954. Open interest for heating oil; is DEC.08 59,205 +1,027. Jan09 35,113 +774 Totals:222,307 +695. Open interest for gasoline is, DEC.08 68,860 +1,598, Jan09 27,774 +908 Totals: 158,188 – 1,105.

<b>Crude Support</b>	<b>Crude Resistance</b>
62.03, 60.68, 52.73, 49.90	72.53, 74.30, 76.24, 85.50,
<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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