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## ***ENERGY RISK MANAGEMENT***

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### **ENERGY MARKET REPORT FOR NOVEMBER 1, 2007**

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Turkey's Prime Minister Tayyip Erdogan said planned economic sanctions against Kurdish militants would be targeted at groups providing support for the rebels. He said the measures were not yet in force and he denied a television report that Turkey had closed its airspace to flights to and from northern Iraq. Officials have declined to say what new measures would include but made clear they would not harm Turks and Iraqis not connected to the outlawed Kurdistan Workers Party. Diplomats said Turkey may hold on both sanctions and major military action for now to see whether talks in Turkey on Friday with US Secretary of State Condoleeza Rice and further discussions

between Turkey's President and US President George W. Bush next Monday yield any results. Turkey's Foreign Minister Ali Babacan said that any military action would be aimed at hitting terrorist bases and would not be an invasion. Meanwhile, Iraq's Foreign Minister Hoshyar Zebari said checkpoints along border with Turkey were being set up to cut off the PKK's supply lines.

US Undersecretary of State for Political Affairs, Nicholas Burns said Russia and China had been blocking tough UN sanctions against Iran for months and pledged a drive to impose them if Iran did not halt nuclear activity within two weeks. He said a clean report from the IAEA alone would not spare Iran

#### **Market Watch**

Gasoline prices in northwestern Europe advanced to the highest level in two years following a fire in a naphtha plant at its 172,000 bpd Coryton refinery in southeast England.

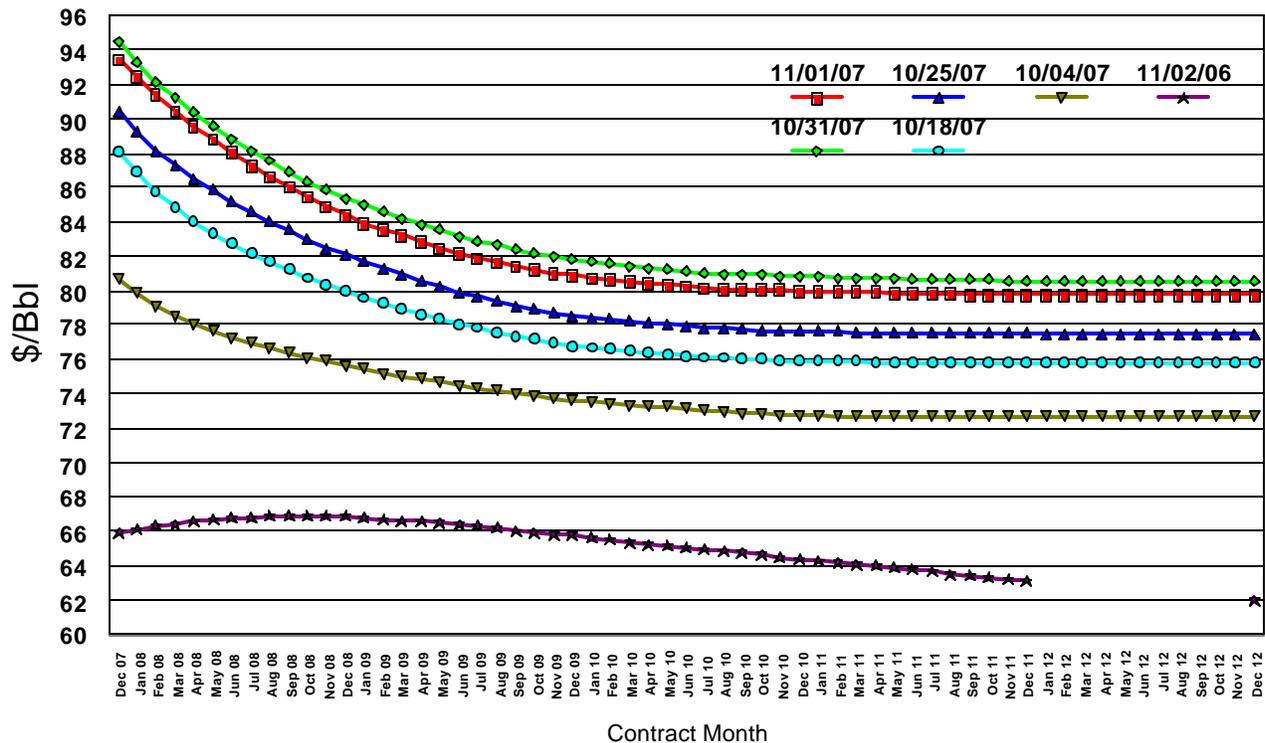
France has released 285,000 tons of crude oil from its strategic petroleum reserve. The French Finance Ministry said the country has taken action as a result of a short term shortage of crude oil and products. Oil product supplies in the country fell due to planned maintenance at the Feyzin and Gonfreville refineries.

There are about 50,000 December call options with a strike price of \$100 open on the NYMEX, which could accelerate the market's move towards the \$100 level. The sellers of the calls that hedge their position by buying the underlying futures market create another layer of demand that has pushed prices higher. Analysts predict that the market could fall sharply once the NYMEX December futures contract expires. Hedge funds are expected to close out their positions.

ConocoPhillips said it would file a request for international arbitration on November 2 over compensation for oil operations seized by Venezuela.

Venezuelan troops used tear gas and water cannons on Thursday to disperse demonstrators who were protesting constitutional reforms that would permit President Hugo Chavez to run for re-election indefinitely.

## NYMEX WTI Forward Curve



from exposure to tougher UN sanctions. He said Iran faced increased isolation and heightened sanctions if it continued to defy the international community. The five permanent members of the UN Security Council and Germany are scheduled to meet on Friday to weigh boarder sanctions. Meanwhile, Iran's President Mahmoud Ahmadinejad said that Iran would respond to any hostile action against it. He suggested fresh bilateral US sanctions announced last week would mainly hurt European Union countries doing business with Iran. Late Thursday, Iranian officials said they were satisfied with the results of their latest talks with a UN atomic agency deputy director general.

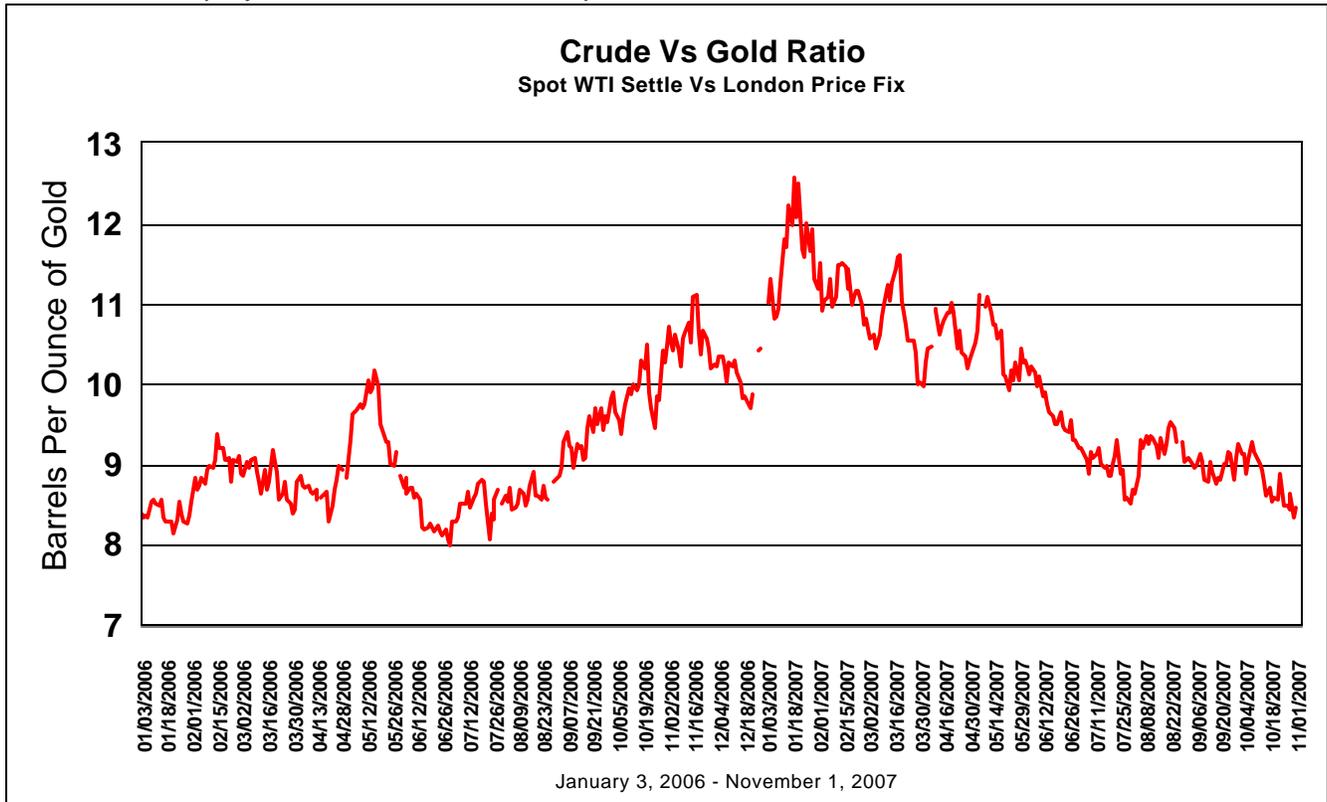
Saudi Arabia's Foreign Minister Prince Saud al-Faisal said US allied Gulf countries are willing to set up a body to provide enriched uranium to Iran to defuse Iran's standoff with the West over its nuclear plan. He said Iran was considering the offer, which envisages building a plant in a neutral country.

The head of the EIA, Guy Caruso said oil markets would be short of supply early next year without more output from OPEC, resulting in a sharp fall in tight stocks. He said if OPEC does not increase its production, there would be a shortage of supply in the first quarter of 2008. Meanwhile, European Energy Commissioner Andris Peibalgs also urged OPEC to increase its production to send a signal that is has the reserve capacity to deal with any shortages. He said he was concerned about the rise in the price of oil.

Iran's Oil Minister Gholamhossein Nozari said OPEC is not expected to discuss increasing its production at informal talks in Saudi Arabia in mid-November. Meanwhile Venezuela's Oil Minister said there was no need for OPEC to hold an emergency meeting on record high oil prices because the price on world markets was due to speculation and not production levels.

### Refinery News

Tesoro Corp said its 166,000 bpd Golden Eagle refinery in Martinez, California is expected to finish a coker overhaul project at the end of the first quarter of 2008.



The Texas Natural Resource Conservation Commission said Shell Oil was performing maintenance on a solvents unit at its Deer Park, Texas refinery.

South Korea's S-Oil is expected to restart its No. 2 240,000 bpd crude distillation unit at its Ulsan plant following a brief shutdown due to a fire.

Construction of a new \$4.5 billion refinery in Angola's southern port of Lobito is expected to start next year and be completed in 2012 when production would start. The refinery would have a production capacity of 200,000 bpd and would be the government's largest project yet.

India's Essar Group has backed away from development of a new oil refinery in Iran that would violate US sanctions on Iran.

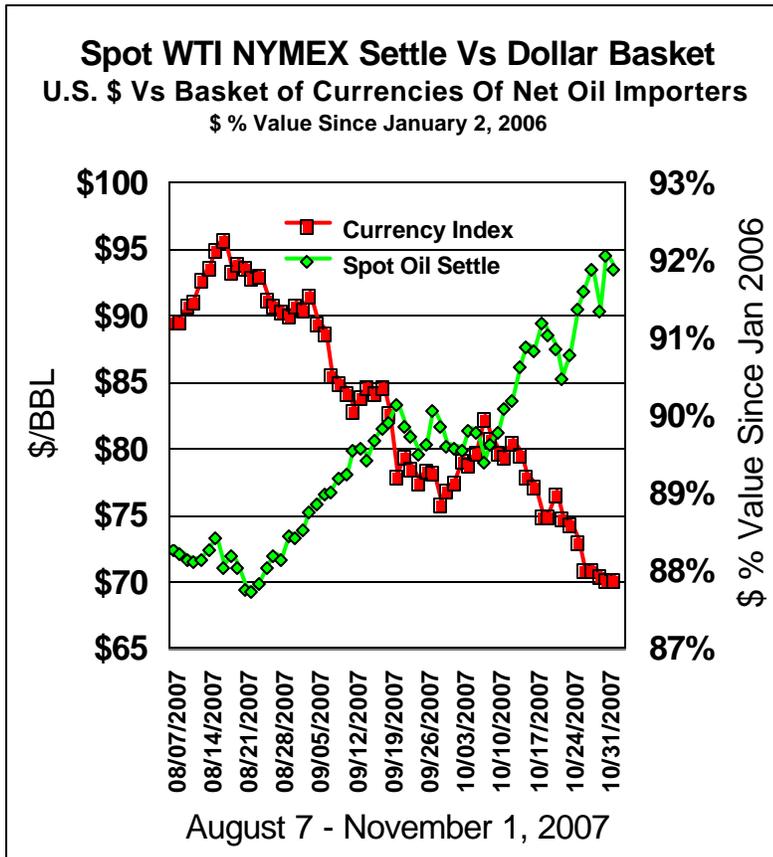
Brazil's Foreign Trade Ministry said the country exported 328.4 million liters of ethanol to world markets in October, down from 336.6 million liters shipped in September and 351.6 million liters exported in August.

### **Production News**

Mexico's Transport Ministry stated that the oil port of Coatzacoalcos or Pajaritos remained closed on Thursday due to bad weather.

Gas oil inventories in independent storage in the Amsterdam-Rotterdam-Antwerp area fell by 102,000 tons on the year but increased by 91,000 tons to 1.733 million barrels in the week ending November 1. Gasoline stocks in the ARA area fell by 20,000 ton on the year and by 6,000 tons on the week to 670,000 tons while fuel oil stocks fell by 298,000 tons on the year and by 59,000 tons on the week to

413,000 tons. Naphtha stocks however built by 32,000 tons on the year and by 26,000 tons on the week to 109,000 tons while jet fuel stocks fell by 112,000 tons on the year and by 16,000 ton on the week to 256,000 tons.



According to the Aberdeen Petroleum Report, UK oil production in August fell by 12.5% on the month to 1.28 million bpd.

Nigeria's Department of Petroleum Resources said political stability in Nigeria's Niger Delta was declining and added that hostage taking would come to an end. It also stated that Nigeria wants to favor smaller independents in future auctions for oil drilling rights rather than major companies like Royal Dutch Shell and ExxonMobil. Western multinationals have boycotted three auctions since 2005 due to toughening terms, concerns over the fairness of the process and uncertain exploration prospects in Nigeria.

Angola's Sonangol said the country is expected to produce about 2 million bpd by the end of 2008, up from the current level of 1.65 million bpd.

Angola's Vice Minister of Petroleum Jose Inacio said the country's offshore Rosa oilfield has started production at a rate of 90,000 bpd and is expected to increase to its maximum capacity of about 145,000 bpd. He said the government hoped the field would help increase the country's daily output to 2 million bpd in the near future.

China's Sinopec and PetroChina were seeking to more than double its diesel imports in November after the government unexpectedly raised domestic fuel prices by up to 10%.

Singapore's International Enterprise reported that the country's residual fuel stocks built by 1.718 million barrels to 12.947 million barrels in the week ending November 1. It also reported that Singapore's light distillate stocks built by 595,000 barrels to 7.251 million barrels while middle distillate stocks fell by 53,000 barrels to 7.666 million barrels on the week.

**Market Commentary**

The market sold off today due to several reasons. The Commerce Department released its consumer spending report, indicating a rise of 0.3%, which was less than the 0.4% expectations. This seemed to confirm, at least to some, that the economy is slowing, thereby leading to a depression in the demand for crude oil. With this sell off came length lightening by longs looking to take some early profits. The sellers of December 90.00, 95.00 and 100.00 calls perhaps covered previously and were not active in the market today. All of these factors coupled together put pressure on price, bringing the December contract to a low of 92.06. We could indeed be at the start of a period of consolidation prior to this market moving higher. So far, this market has settled higher nine straight weeks and appears to be

setting up to test last week's 91.87 settlement. Should we get a settlement below that number, we would look for more of a shake out from longs. Although the forward curve as a whole came under pressure,

the backwardation is still strong, and is not indicating a turn any time soon. The December/January spread experienced a wide

		<b>Explanation</b>	
<b>CL</b>	<b>Resistance</b>	100.33	Thursday's high
	93.49, down \$1.04	95.49, 96.10, 96.24	
	<b>Support</b>	93.35, 92.65, 92.06	Thursday's low
		91.00, 90.55, 87.55, 84.68	
<b>HO</b>	<b>Resistance</b>	257.18	Basis trendline
	251.23, down 1.7 cents	252.40, 255.67	Thursday's high
	<b>Support</b>	250.00, 248.02	Thursday's low
		246.09, 243.13, 241.53, 240.16, 236.65	38% (230.58 and 255.67), 50%, Previous low, 62%, Previous low
<b>RB</b>	<b>Resistance</b>	238.36, 242.25	Previous highs
	234.32, up 62 points	234.75, 237.35	Thursday's high
	<b>Support</b>	232.80, 230.70	Thursday's low
		227.16, 224.02, 222.21, 220.87	38% (210.68 and 237.35), 50%, Previous low, 62%

range again today, settling below the top of the upward channel and is poised to test the bottom trend line, which is set at .73. Total open interest in crude oil is 1,468,958 up 20,844, December 416,430 up 127 and January 181,800 up 6,360. Support for December, comes in 93.35, 92.65, 91.00, 90.55, 87.55 and 84.68. Resistance is set 95.49, 96.10 and 100.33. Following Wednesday's sharp gains, the RBOB market also sold off early in the session as traders took profits. The market, which posted a high of 237.35 in overnight trading, sold off to a low of 230.70 early in the morning. The market later settled in a sideways trading pattern for much of the day. It settled up 62 points at 234.32. The heating oil market also continued to trade higher overnight and posted a high of 255.67. Similar to the rest of the complex, the heating oil market retraced its gains and sold off to a low of 248.02. The market later bounced off its low and settled in a sideways range ahead of the close. It settled down 1.7 cents at 251.23. While the market continues to retrace some more of its previous gains, its losses will likely be limited ahead of the weekend. In the RBOB market, support is seen at 232.80, 230.70 followed by 227.16, 224.02, 222.21 and 220.87. Meanwhile resistance is seen at 234.75, 237.35, 238.36 and 242.25.