



## ***ENERGY RISK MANAGEMENT***

Howard Rennell, Pat Shigueta,  
Zachariah Yurch & Karen Palladino  
**(212) 624-1132 (888) 885-6100**

**[www.e-windham.com](http://www.e-windham.com)**

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### **ENERGY MARKET REPORT FOR NOVEMBER 2, 2007**

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The Pentagon said the US military did not carry out a missile strike on Friday that witnesses said killed at least five people near a religious school run by pro-al Qaeda mujahideen in Pakistan. Witnesses said a US drone aircraft launched a missile on the religious school founded by an old friend of Osama bin Laden.

US Secretary of State Condoleezza Rice met Turkish leaders Friday with offers of an effective strategy against Kurdish rebels in northern Iraq in exchange for Turkey holding off on its threat of cross border military action. She also said that Kurdish rebels based in northern Iraq were a common threat that the US would help Turkey confront.

According to a Reuters survey, OPEC increased its oil production in October, in advance of a formal deal to lift supply. It reported that the ten OPEC members, except Iraq and Angola, produced 26.98 million bpd, up 180,000 bpd from

#### **Market Watch**

The US Navy started a series of exercises in the Gulf and wider Gulf waters on Friday involving a US aircraft carrier and two expeditionary assault ships. The five day exercise involved amphibious, air and medical forces. The start of the exercises coincided with world powers agreeing during talks in London to push ahead with a third round of sanctions against Iran unless reports indicate Iran has tried to address their concerns about its nuclear program. The US Navy's Fifth Fleet spokesman Lieutenant John Gay said the exercises had been planned for months and were not related to specific events.

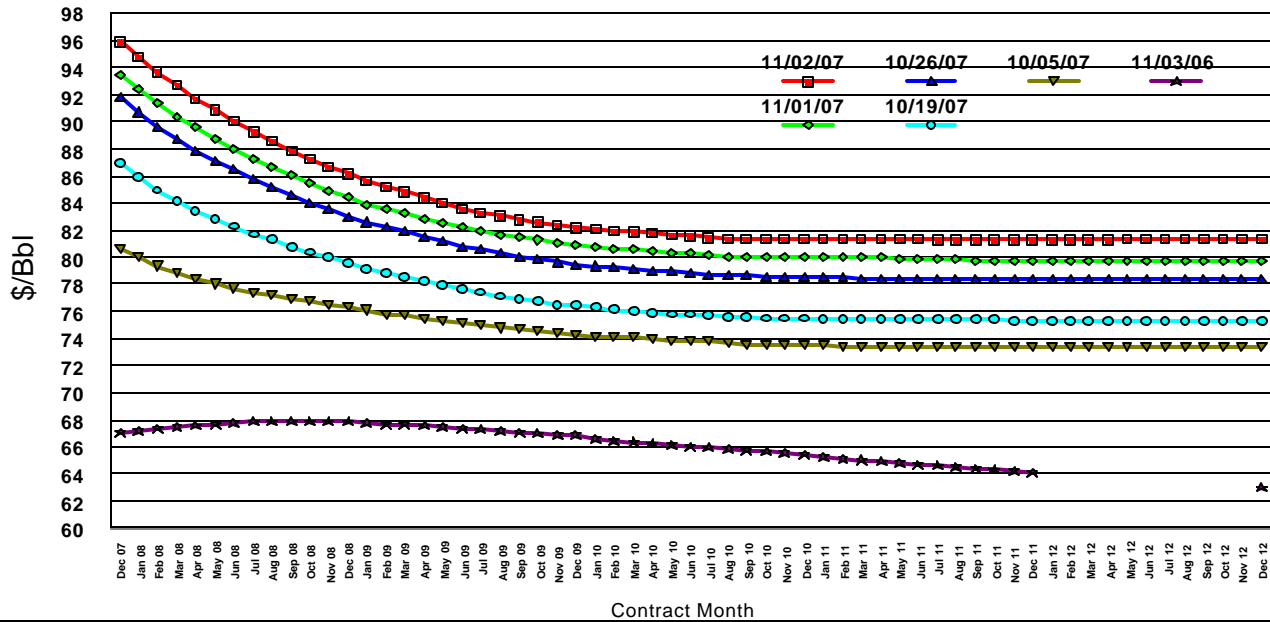
Britain's Ministry of Defense said a UK Royal Navy aircraft carrier would be deployed in the Gulf near Iran early next year. The presence may coincide with a crucial period in the West's confrontation with Iran. Observers believe that early next year is the last possible moment for US President George W. Bush to order military strikes against Iran's nuclear program.

The DOE announced that deliveries of crude into the US SPR would total 1.4 million barrels or 47,000 bpd in November after a 600,000 barrel delivery was delayed from October. A crude vessel arrived at the SPR transfer site and began discharging its cargo on October 31 but did not complete the delivery until November 1. As a result, the October delivered volume into the SPR was 1.3 million barrels, or about 42,000 bpd, down from the scheduled 1.9 million barrels. The DOE has scheduled 3 million barrels of crude to be delivered in December and 300,000 barrels in January.

The S&P said the S&P GSCI commodities index was increasing the weighting of RBOB contracts it tracks to 4.55% of the total index in 2008, up from 1.37% in 2007. The index was also cutting its weighting of heating oil contracts on the NYMEX from 5.76% to 4.68%. The weighting of oil would increase from 35.12% to 35.32% in 2008.

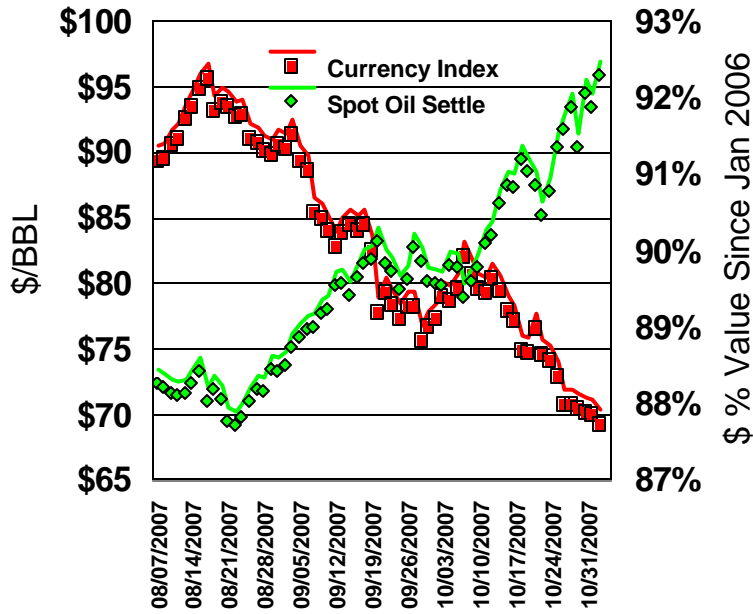
The Economic Cycle Research Institute said its Weekly Leading Index fell to 139.4 in the week ending October 26 from 139.7 in the prior week.

## NYMEX WTI Forward Curve



September. Total OPEC production increased to 31.02 million bpd from 30.66 million bpd in September. Saudi Arabia increased its production to 8.8 million bpd from 8.7 million bpd in September. Iraq's output increased to 2.29 million bpd, up 120,000 bpd on the month. Angola's production increased to 1.75 million bpd from 1.69 million bpd as BP's new Plutonio field started output.

### Spot WTI NYMEX Settle Vs Dollar Basket U.S. \$ Vs Basket of Currencies Of Net Oil Importers \$ % Value Since January 2, 2006



August 7 - November 2, 2007

Two militia leaders fighting for autonomy in Nigeria have traded insults in a public dispute that has exposed deep divisions ahead of peace talks with the government. The dispute between the two militants is apparently over money, weapons and strategy however analysts said it is a power struggle that would strengthen the government's hand by isolating militants who want to continue the violence.

#### Refinery News

ExxonMobil said it was restarting a fluid catalytic cracking unit at its 394,000 bpd refinery in Beaumont, Texas. The company reported an air start up event caused by the start up of the FCC unit following unplanned maintenance activities. The unit was shutdown on October 13 for unplanned work and was expected to be out of service for three weeks.

BP's 260,000 bpd refinery in Carson, California is expected to begin the restart process by the end of the week. The refinery was returning to full rates after planned maintenance of the crude unit, the reformer and a coking unit which started the first week of October.

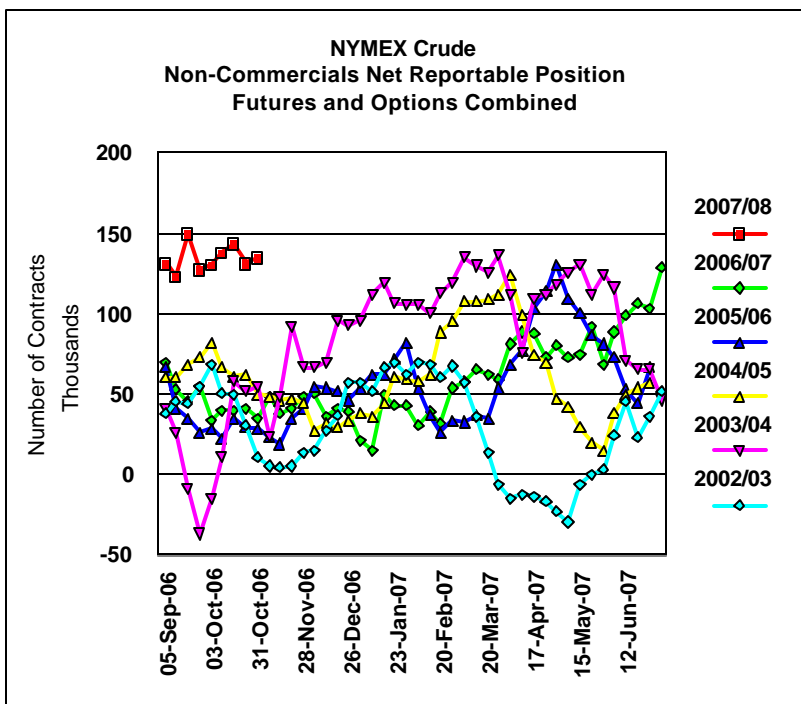
ConocoPhillips said fluid catalytic cracking unit No. 3 at its Sweeny, Texas refinery was due to begin start up by the end of next week. The unit went down on October 3 for planned maintenance.

Chevron Corp said it expected its Pascagoula, Mississippi refinery to continue operating at reduced rates until the first quarter of 2008. The refinery was damaged by a fire in mid-August.

Petroplus said output had fallen to nearly half its usual level at its 220,000 bpd refinery at Coryton in southern England, which was hit by a fire two days ago. The company said it would take up to a month to resume full operations at the refinery.

Japan's Idemitsu Kosan Co Ltd shut its 50,000 bpd residue fluid catalytic cracking unit at its Aichi refinery on Thursday afternoon for unplanned checks. It is expected to take two weeks before the company can restart the unit. The company said the shutdown had no impact on the operations of the 160,000 bpd crude distillation unit or product shipments.

Enterprise Products Partners LP said a propane pipeline continued to burn in Clarke County, Mississippi for a second day on Friday but the size of the blaze was reduced. It said crews were able to begin inspecting the line, which has a capacity of 35,000 bpd. The line runs from Mont Belvieu, Texas to Apex, North Carolina.



**Production News**

Mexico's oil port of Coatzacoalcos opened on Friday after closing earlier in the week due to bad weather.

Shipping sources said Iraq's oil exports increased in October to 1.84 million bpd, up from 1.67 million bpd in September.

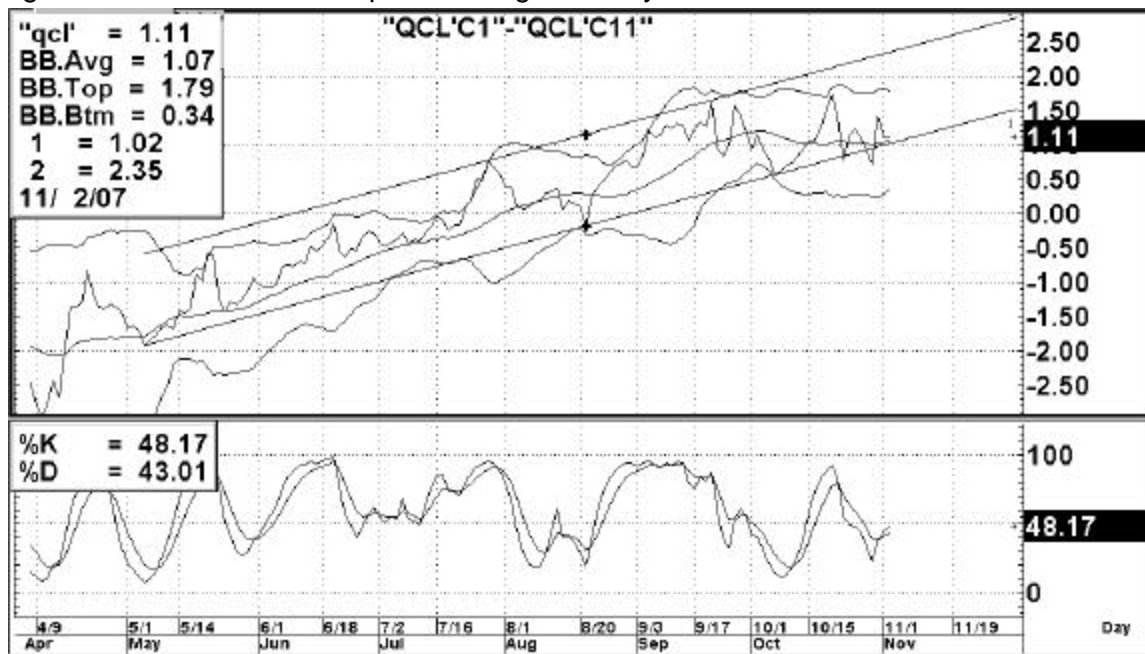
OPEC's news agency reported that OPEC's basket of crudes increased \$2.77/barrel to \$87.61/barrel on Thursday.

Chevron Corp reported net income of \$3.7 billion for the third quarter of 2007, compared with \$5 billion last year. It said its net income declined due mainly to weak refining and marketing conditions in the US. It reported that worldwide oil equivalent production was about 2.6 million bpd in the third quarter 2007, down 100,000 bpd on the year, due mainly to the effect of the conversion of operating service

agreements in Venezuela to joint stock companies. It reported net oil equivalent production of 741,000 bpd in the US, down 4% from the 2006 quarter while net oil equivalent production internationally fell by 4% to 1.85 million bpd.

**Market Commentary**

Surging higher today, crude oil traded towards \$96.00 reacting to somewhat positive unemployment figures and news that Petroplus Holdings' refinery would be down for a month due to a fire earlier this



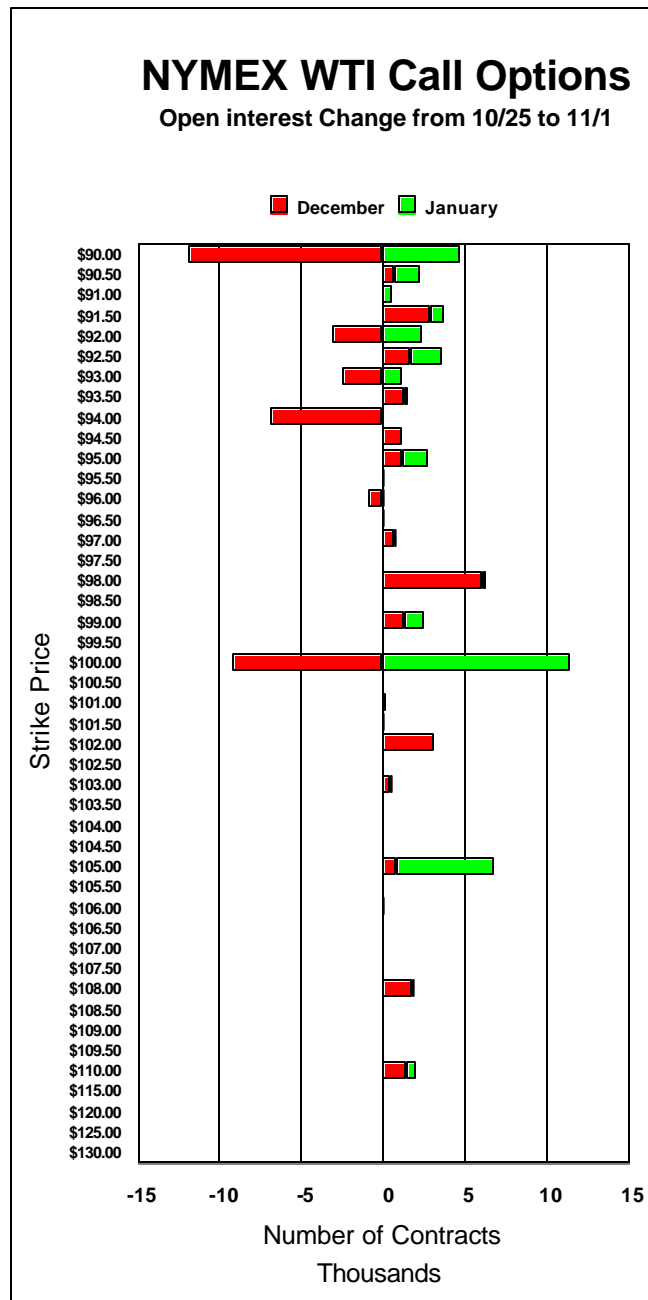
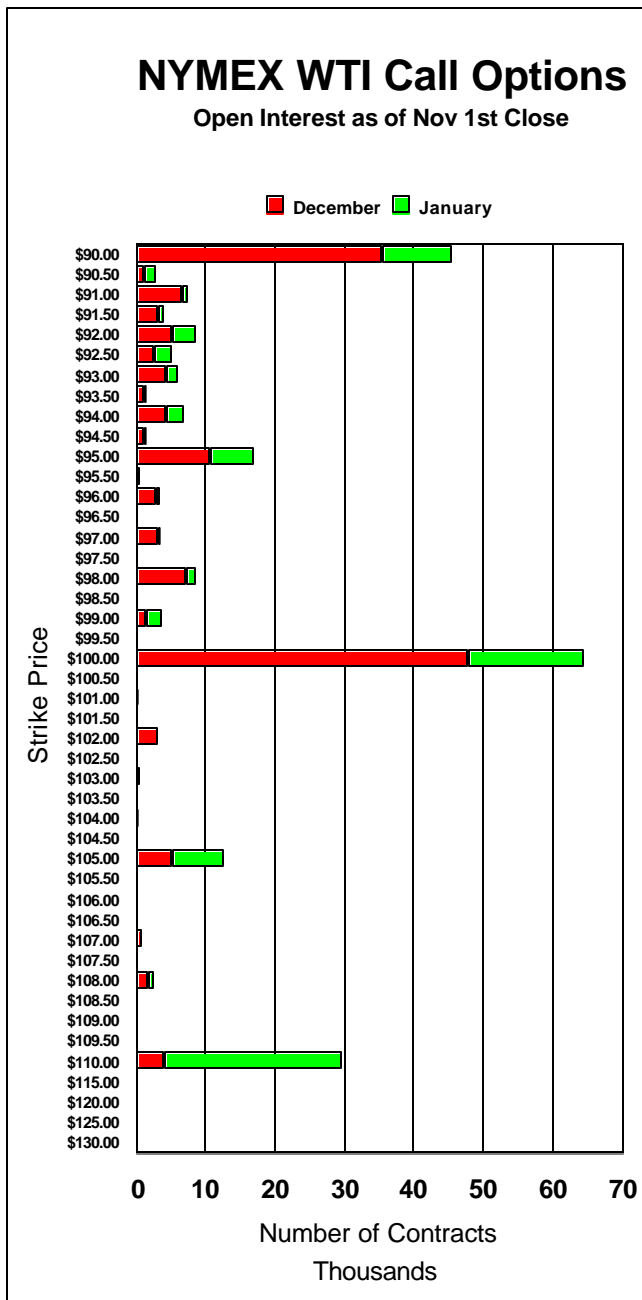
week. Although our overall bias is still to the upside, we would continue to look for a period of consolidation, with dips down around \$93.00. The December/January spread is under pressure

again and should test the 1.04 support area. Should this level get penetrated, we would look for dips to .80 and then would re-evaluate it. Total open interest in crude oil is 1,481,699 up 12,741, December 401,141 down 15,289 and January 196,166 up 14,366. Support for December, comes in 93.00, 92.65, 91.00, 90.55, 87.55 and 84.68. Resistance is set 96.10 and 100.33. The product markets also surged higher following Thursday's losses. The market posted a low of 234.42 in overnight trading and bounced off that level as it retraced its previous losses. The market continued to rally throughout the session and posted a high of 244.17 ahead of the close. It settled up 9.63 cents at 243.95. The market was well supported amid the renewed strength in the crude market ahead of the weekend. The markets were supported by reports of the military exercises in the Persian Gulf. The heating oil market

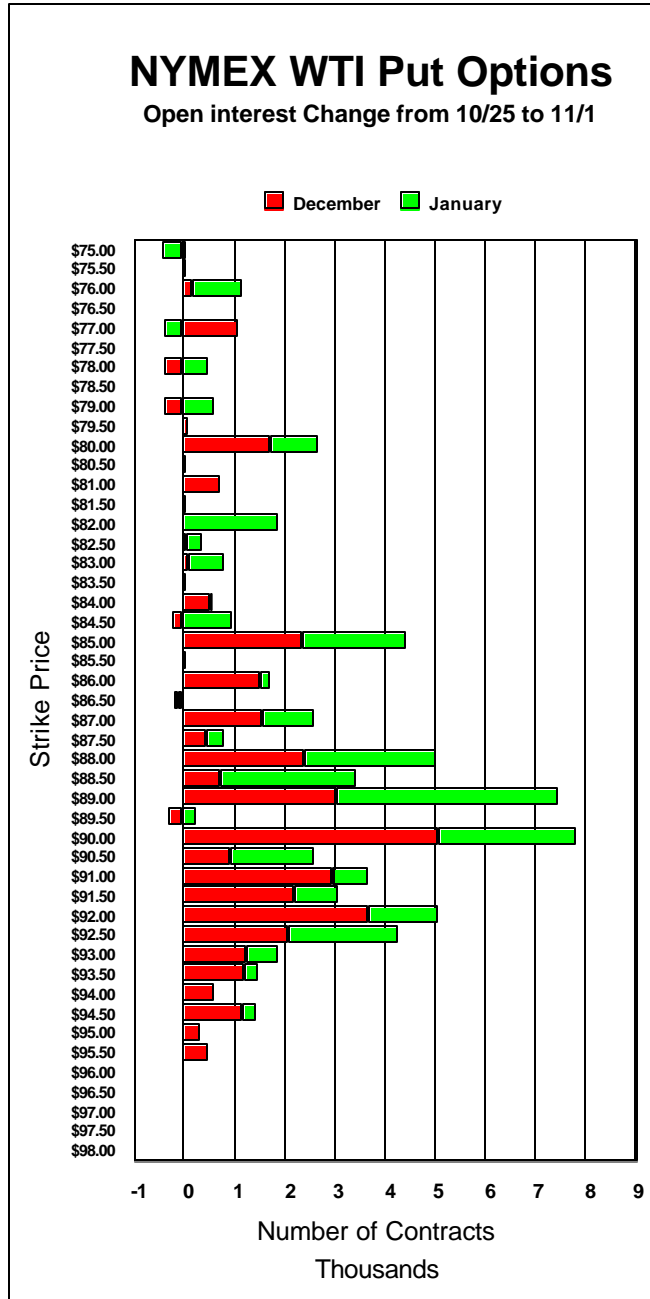
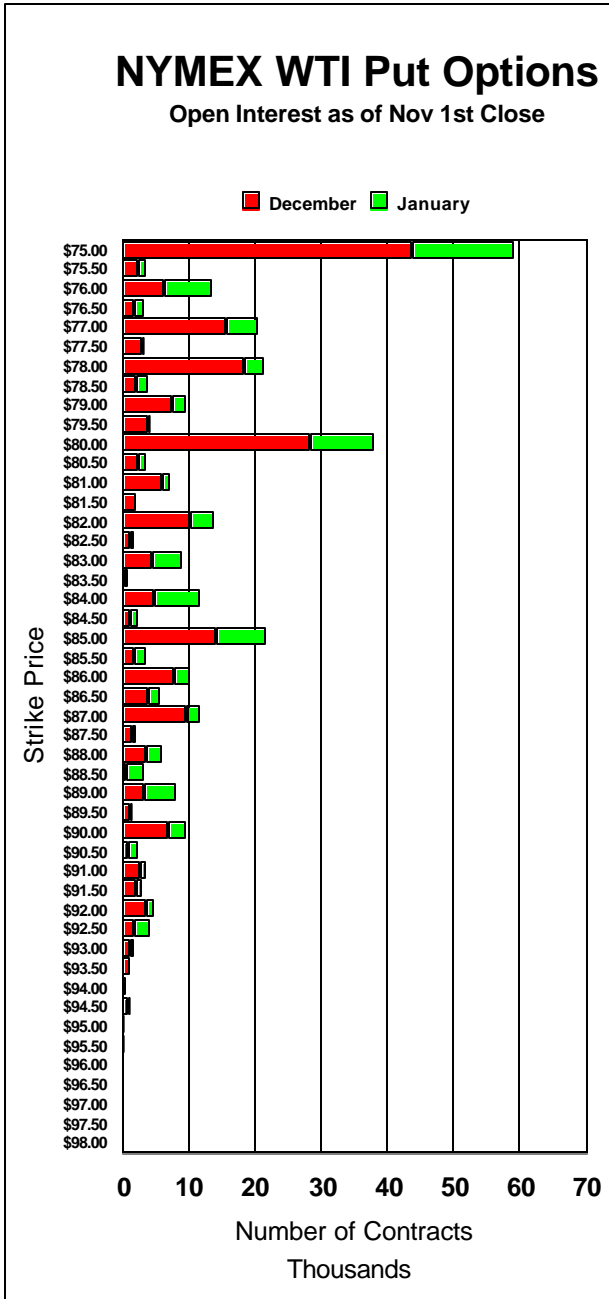
also settled up 6.14 cents at 257.37 after it rallied to a high of 257.62 late in the session. The product markets, which continue to follow in the crude market's footsteps, are seen trending higher as the crude market aims for the \$100 level. In the

		Explanation	
CL	Resistance	96.24, 100.33	Previous high, Basis trendline
	Support	96.03	Friday's high
HO	Resistance	94.80, 94.45, 93.05	Friday's low
	Support	92.65, 91.00, 90.55, 87.55, 84.68	
RB	Resistance	260.80	Basis trendline
	Support	257.62	Friday's high
RB	Resistance	255.30, 254.35, 252.60, 251.00	Friday's low
	Support	248.02, 247.29, 244.10, 241.53, 240.91	Previous low, 38% (230.58 and 257.62), 50%, previous low, 62%
RB	Resistance	244.22, 245.04	Previous highs
	Support	244.17	Friday's high
RB	Resistance	241.50, 239.65, 235.50, 234.42	Friday's low
	Support	231.38, 230.70, 227.43, 223.47, 222.21	38% (210.68 and 244.17), Previous low, 50%, 62%, Previous low

RBOB market, support is seen at 241.05, 239.65, 235.50, 234.42 followed by 231.38 and 230.70. More distant support is seen at 227.43, 223.41 and 222.21. Meanwhile resistance is seen at 244.17, 244.22 and 245.04.



It is interesting to note that the option market activity this week has seen strong interest in the front month call options especially the \$100 call strike, as it appears traders were scrambling to cover their shorts on options that were written long ago when the \$100 price barrier seemed to be a distant fantasy. As of the close on Thursday open interest in this strike has contracted by over 9100 lots. Yet on Thursday while this strike saw over 11,000 lots traded open interest in the strike, open interest reported by the exchange actually saw a 7 lot gain from Wednesday, which causes us to question the accuracy of this report, at least for the day. In addition while prices have continued to charge higher



over the last week in the underlying futures market, it appears sellers of this market have moved to the options market, as total put open interest over the past week has increased by 229,649 contracts for puts while call open interest across the crude contract months has grown by only 73,791 lots. While we have been reluctant to pick a place to sell calls we think today showed an interesting opportunity that showed be sold if it presents itself again Monday. Today saw 2600 lots booked as a new position in the March 2008 \$175 calls as it traded at 20 cents. While it appears locals sold them, as it was settled at 12 cents after the close, it is mind boggling to us that someone would pay such a high premium for this option strike.

The Commitment of Traders report showed that non-commercials increased their net long position by 23,094 contracts to 83,120 contracts in the week ending October 30<sup>th</sup>. The combined futures and options report showed that non-commercials increased their net long position by 2,958 contracts to 134,809 contracts on the week. The non-commercials, which took some profits earlier in the week, have likely added to their net long position amid the market's drive towards the \$100 level as open interest has continued to increase. The non-commercials in the product markets cut their net long positions, with non-commercials in the RBOB market cutting their net long position by 2,193 contracts and funds in the heating oil market cutting their net long position by 4,753 contracts to 30,445 contracts.

NYMEX Petroleum Options Most Active Strikes for November 2, 2007								
Symbol	Month	Year	Call/Put	Strike	Exp Date	Settle	Volume	IV
LO	6	8	C	89	05/15/2008	7.07	9,525	26.12
LO	12	7	C	100	11/13/2007	1.28	7,225	42.33
LO	6	8	C	92	05/15/2008	5.78	6,150	26.17
LO	6	8	P	89	05/15/2008	5.98	5,625	26.01
LO	2	8	P	80	01/16/2008	0.98	5,403	33.37
LO	6	8	P	75	05/15/2008	1.46	5,100	26.91
LO	12	7	C	90	11/13/2007	6.59	4,956	41.18
LO	6	8	P	82	05/15/2008	3.1	4,300	25.97
LO	12	7	C	60	11/13/2007	35.93	3,780	124.55
LO	5	8	P	75	04/17/2008	1.23	3,100	28.13
LO	12	7	C	98	11/13/2007	1.83	3,043	40.90
LO	1	8	P	85	12/13/2007	1.23	3,037	38.03
LO	5	8	P	80	04/17/2008	2.21	2,950	27.43
LO	6	8	C	110	05/15/2008	2.15	2,875	30.51
LO	12	7	C	50	11/13/2007	45.93	2,805	173.25
LO	3	8	C	175	02/14/2008	0.12	2,600	51.46
LO	12	9	P	55	11/17/2009	1.23	2,400	24.45
LO	2	8	C	95	01/16/2008	4.86	2,058	32.60
LO	2	8	P	85	01/16/2008	1.96	2,032	32.47
LO	6	8	P	70	05/15/2008	0.78	2,000	27.69
LO	3	8	P	80	02/14/2008	1.43	1,855	31.12
LO	5	8	P	70	04/17/2008	0.63	1,750	28.92
LO	12	7	P	90	11/13/2007	0.67	1,733	41.08
LO	12	7	C	95	11/13/2007	3.11	1,729	39.73
LO	1	8	C	100	12/13/2007	2.86	1,620	38.91
LO	12	7	P	92	11/13/2007	1.1	1,619	40.13
LO	3	8	P	92	02/14/2008	5.5	1,425	30.46
LO	12	7	C	110	11/13/2007	0.21	1,413	49.59
LO	12	7	C	105	11/13/2007	0.51	1,353	45.86
LO	1	8	P	86.5	12/13/2007	1.55	1,350	37.72
LO	2	8	P	93	01/16/2008	5.04	1,350	32.46
LO	12	9	P	70	11/17/2009	4.19	1,350	22.85
OB	12	7	C	2.9	11/27/2007	0.0057	1,209	39.99
OB	6	8	C	3	05/27/2008	0.092	1,040	31.33
OB	1	8	P	2	12/26/2007	0.0075	720	33.84
OB	3	8	C	2.22	02/26/2008	0.3279	575	34.66
OB	3	8	C	2.4	02/26/2008	0.2203	575	34.20
OB	5	8	C	2.46	04/25/2008	0.2589	550	29.92
OB	12	7	C	2.43	11/27/2007	0.0978	500	36.80
OB	1	8	P	1.86	12/26/2007	0.0017	410	33.84
OB	5	8	C	2.64	04/25/2008	0.1776	310	30.10
OH	12	7	C	2.9	11/27/2007	0.0189	630	40.61
OH	2	8	P	2.44	01/28/2008	0.097	400	32.38
OH	12	7	C	2.57	11/27/2007	0.1015	400	37.34
OH	12	7	C	2.8	11/27/2007	0.0325	318	39.61