



## ENERGY RISK MANAGEMENT

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## ENERGY MARKET REPORT FOR NOVEMBER 3, 2008

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OPEC President Chakib Khelil said OPEC members have no choice but to implement agreed output cuts and inform customers of the reductions if they want a stable oil price between \$70-\$90/barrel. He said Saudi Arabia was key to the success of the reductions.

Iran's Oil Minister Gholamhossein Nozari said OPEC will cut its production further if needed to achieve stability in the oil market. He said Iran would cut its production by 199,000 bpd in line with OPEC's decision to cut production by 1.5 million bpd.

An official at the National Iranian Oil Co, Ali Ashgar

### Market Watch

The Institute for Supply Management said its index of national factory activity fell to 38.9 in October from 43.5 in September.

The JP Morgan Global Manufacturing PMI fell to 41 in October, its lowest level since the survey began in January 1998, from 44.7 in September.

A record decline in commodities may signal the US is headed for the longest recession since 1981, when the economy saw a 16 month decline. Industrial raw materials measured by the Journal of Commerce fell at an annual rate of as much as 56% last week, the most since 1949 and worse than the declines before every recession since then.

The National Weather Service forecast in its weekly report that US heating demand will be about 35% above normal this week. Demand for heating oil is expected to be 25% below normal this week while heating demand for natural gas is expected to be 37% below normal.

A top Royal Dutch Shell Plc executive said he hoped US energy policy under a new administration would be stable and encourage new upstream investments, including exploration in Alaska.

The European Commission said that the region's economy probably entered a recession this year and will stagnate in 2009.

Societe Generale cut its forecast for the average price of US crude next year to \$72.50/barrel, down from its previous forecast of \$114.17/barrel. It also lowered its Brent forecast to \$71/barrel from \$113.67/barrel.

Iran's deputy central bank governor for economic affairs, Ramin Pashaei said Iran needs oil to average \$60.60/barrel until March, the end of the Iranian year, to avoid big problems in its economy. He did not state what the problems would be but economists say falling crude prices could put pressure on government spending plans and push the current account into deficit.

Brazil's Petrobras' investment plans are viable with crude oil prices as low as \$35/barrel.

The NYMEX announced that the margin requirement for the spot RBOB contract, RBOB financial contract, RBOB calendar swap would fall to \$11,475 from \$13,500 as the close of business Monday, November 3<sup>rd</sup>. The margin requirement for the second through fourth month would fall to \$10,800 from \$12,150. It also announced that its margin on its spot Heating Oil contract, Heating Oil financial contract and Heating Oil calendar swap would fall to \$12,488 from \$14,175. The margin on the second month would fall to \$12,150 from \$13,838.

**November Calendar Averages****CL – \$63.91****HO –\$1.9828****RB – \$ 1.3625**

Arshi said Iran is maintaining diversity in its markets for oil sales and is not switching from Europe to Asia. On Saturday, Iran said it had reduced sales of crude to Total by 70,000 bpd in line with a decision by OPEC to cut output by 1.5 million bpd. Iran's share of the OPEC cut is 199,000 bpd. He also stated that Iran was not storing any crude in floating storage in the Gulf.

The UAE's Oil Minister Mohammed al-Hamli said the country has met its pledge to cut oil supplies in line with its OPEC commitments.

Kuwait has notified its customers that it will cut crude production in line with an OPEC decision. Industry sources said Kuwait had notified term customers in Asia it would reduce their crude oil supplies by 5%.

BP's Chief Executive Tony Hayward said US oil demand has declined sharply from levels reported a year ago due to the credit crisis and slowing economy. He said preliminary data showed that US demand was down 2 million bpd on the year over the last four weeks. He said that increased oil supply from OPEC earlier in the year, as well as falling demand from developed countries, has led to the oil market's fall from its record high reached in July of \$147.27/barrel. He added that non-OPEC supply was likely to fall by 200,000 bpd, reversing BP's expectations at the start of the year that producers outside OPEC would increase production by 800,000 bpd. However he stated that a fall in oil prices would spur a recovery in demand for crude.

According to DEBKAfile, Syrian tanks, artillery and commando units have taken up battle positions in four villages around Hasbaya opposite Mt. Hermon and northern Israel. While insisting that a farm was attacked and the 8 people killed were all civilians, the Syrians are taking advantage of the Bush administration's silence to argue that Damascus has the same right as Washington to carry out cross border attacks against terrorist targets, including Lebanon and Israel.

The EIA reported that the US average retail price of diesel fell by 20 cents/gallon to \$3.088/gallon in the week ending November 3. Diesel prices are down 21.5 cents on the year. It also reported that the US average retail price of gasoline fell by 25.6 cents/gallon to \$2.40/gallon on the week.

The US CFTC said it has agreed to increase cooperation with two Japanese agencies to enhance oversight of futures markets. The arrangement between the CFTC, Japan's Ministry of Economy, Trade and Industry and Japan's Ministry of Agriculture, Forestry and Fisheries will allow the regulators to identify mutual concerns in derivatives markets.

**Refinery News**

Colonial Pipeline has extended allocations on its gasoline line north of Collins, Mississippi to cycle 63.

Credit Suisse said US refining margins were lower, pressured by weaker product prices compared to crude prices. Gulf Coast refinery margins had the steepest decline in the week ending October 31, down 69.1% or \$3.26/barrel to \$1.46/barrel. West Coast margins fell by 40.2%, down \$6.91/barrel to \$10.30/barrel while Northeast margins fell by 29.8% or \$3.51 to \$8.27/barrel. Midwest margins fell by 25% or \$7.12 to \$20.88/barrel.

ConocoPhillips' 76,000 bpd Rodeo, California refinery reported flaring in report filed with the California Office of Emergency Services.

Normal operations have resumed at Delek US Holdings Inc's 55,000 bpd Tyler, Texas refinery after a boiler snag in its fluid catalytic cracking unit over the weekend. The FCC's boiler tripped on Saturday for an undetermined reason.

PetroCanada began restarting its 135,000 bpd refinery at Edmonton, Alberta following a 60 day turnaround to tie in new equipment to let it use crude from the oil sands as feedstock.

Imperial Oil Ltd said it had completed maintenance at its 187,000 bpd Strathcona refinery in Edmonton, Alberta, another development that should ease a diesel fuel shortage in Western Canada.

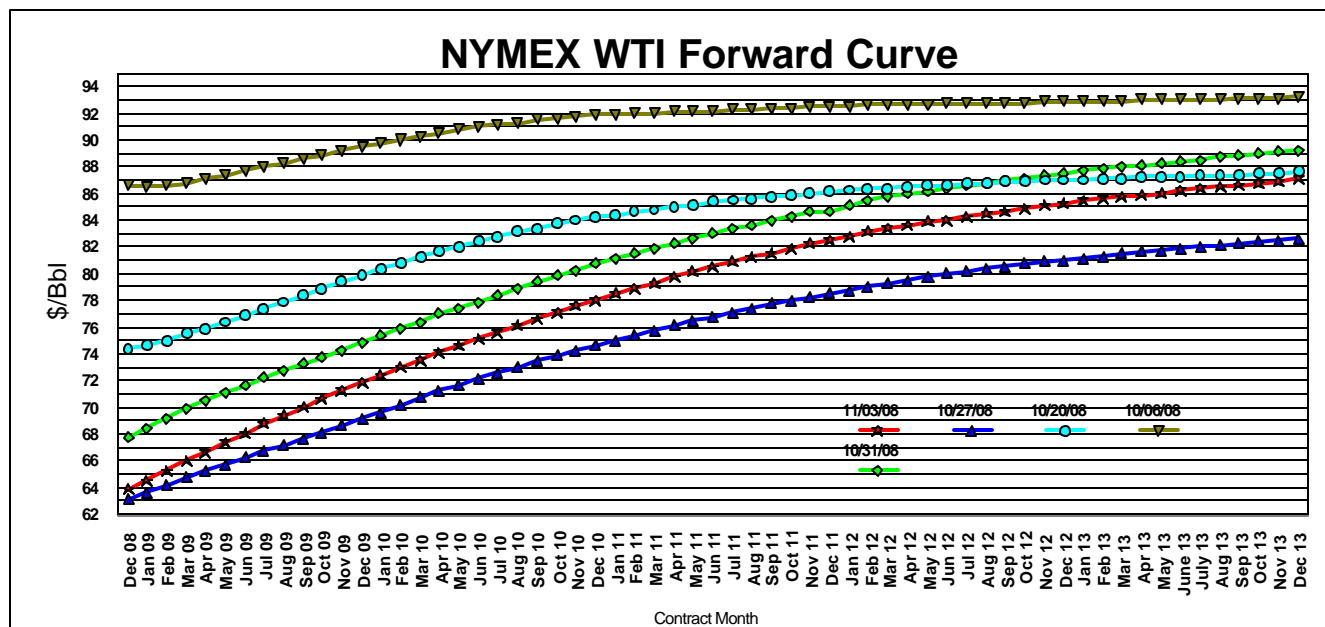
Royal Dutch Shell has delayed the restart of units at its 412,000 bpd Pernis refinery in the Netherlands by about two weeks. It shut three refining units, including a crude distillation unit, in mid-September for planned maintenance. The crude distillation unit, which can process about 200,000 bpd of crude is now expected to start on November 17.

Chevron Corp said maintenance on a fluid catalytic cracking unit at its 220,000 bpd Pembroke refinery was nearly completed. The unit was shut in mid-September for planned maintenance.

Total may cut back its gasoline production capacity in Europe amid an irreversible decline in demand from the US.

China Petroleum & Chemical Corp will process less oil at units due to declining demand.

Indonesia's Pertamina is importing 12.29 million barrels of oil products for November, up 7.2% on the month.



court approval to prime existing lenders of up to \$190 million in debtor-in-possession financing. The company said it could not obtain financing in the form of unsecured credit or unsecured debt with administrative priority. Without approval of the funds, VeraSun said it would be forced to discontinue operations and shut down.

### **Production News**

According to Reuters, OPEC's oil production fell for the second consecutive month in October by 110,000 bpd on the month to 32.23 million bpd. The decline was due to lower shipments from Saudi Arabia and Iran and a fall in supply in the UAE due to maintenance work. OPEC's 12 member bound by quotas, excluding Iraq, produced 29.98 million bpd, above their target of 29.67 million bpd.

An Indian Oil Corp source said Iran and other OPEC members have noticed IOC that they will cut crude supplies by about 5% in November. IOC buys about 180,000 bpd of crude from Kuwait, 30,000 bpd from Iran and about 40,000 bpd from the UAE.

Russia's Energy Ministry reported that Russian oil production in October increased to 9.86 million bpd, up from 9.83 million bpd in September. Oil exports from Russia via Transneft stood at 4.21 million bpd.

A senior Iraqi oil official said Iraq's crude oil exports in October increased by 3.6% to 1.703 million bpd from 1.644 million bpd in September. The country exported 1.385 million bpd from southern oil fields through the Basra oil terminal. About 309,000 bpd were exported from northern oil fields through the Turkish Mediterranean port of Ceyhan.

Brazil's Petrobras set a monthly record for oil exports in October, with exports of 574,000 bpd during the month. The US was the leading export market, accounting for 65.2% of all exports.

Russia's government cut its oil export duties on Saturday, responding to the concerns of top producers who feared making losses on overseas shipments. The duty was set at \$287/ton starting November 1, down from \$372.20/ton. However the cut was less than oil companies had wanted and it remained unclear whether they would proceed with November export plans or redirect their oil to the domestic market to avoid the duty.

Abu Dhabi National Oil Co cut the October retroactive selling price of its Murban crude by \$28.80/barrel to \$69.25/barrel. It cut its Lower Zakum crude price by \$28.90 to \$69.15, its Umm Shaif by \$28.90 to \$68.25 and its Upper Zakum price by \$28.60 to \$65.75.

OPEC's news agency reported that OPEC's basket price fell to \$57.65/barrel on Friday from \$59.92/barrel on Thursday. It also reported that OPEC's basket of crudes fell by \$3.85/barrel to \$57.68/barrel in the week ending October 31.

### **Market Commentary**

The oil complex retraced Friday's gains in light of a report showing that manufacturing in the US contracted in October at the fastest rate in 26 years. The Institute for Supply Management's factory index fell to 38.9. There were also reports stating that OPEC members were cutting their output in line with their recent decision to cut production by 1.5 million bpd. The oil markets were also pressured as the dollar regained some strength. The crude market settled down \$3.96 at \$63.85. The market sold off from an overnight high of \$6.19 to a low of \$63.63 in afternoon trading amid the signal that fuel consumption will decline. Technically, the crude market will likely retrace some of its losses early in the session before it continues to test its previous lows. The market is seen finding support at \$63.63, \$63.12, \$62.03, \$61.30, \$60.68 followed by \$56.19 and \$52.73. The RBOB market posted an outside

trading day after the market posted an overnight high of \$1.5175 and sold off to a low of \$1.3535, a level not seen since mid-January 2007. The market was pressured

		<b>Explanation</b>	
<b>CL</b>	<b>Resistance</b> 63.91, down \$3.90	70.64, 71.80, 72.53, 74.30, 76.04, 76.24 64.90, 69.19	Previous highs Monday's high
	<b>Support</b>	63.63 63.12, 62.03, 61.30, 60.68, 56.19, 52.73, 49.90	Monday's low
<b>HO</b>	<b>Resistance</b> 1.9828, down 2.35 cents	2.1074, 2.11, 2.19 2.0185, 2.0610, 2.1059	Previous highs Monday's high
	<b>Support</b>	1.9772 1.9396, 1.9089	Monday's low Previous low
<b>RB</b>	<b>Resistance</b> 1.3625, down 7.88 cents	1.5672, 1.582, 1.6373, 1.7240, 1.7334 1.4140, 1.4515, 1.4925, 1.5175	Previous highs Monday's high
	<b>Support</b>	1.3535 1.3351	Monday's low Previous low

amid the concerns over fuel demand. It settled down 7.88 cents at \$1.3625. Meanwhile, the heating oil market posted an inside trading day as it failed to test its previous high amid the weather forecasts calling for the return of milder temperatures. The National Weather Service reported that demand for heating oil is expected to be 25% below normal this week. The heating oil market sold off to a low of \$1.9772 late in the session before settling down 2.35 cents at \$1.9828. The energy complex will continue to be driven by the economic news. In RBOB market, support is seen at its lows of \$1.3535 and \$1.3351 while support in the heating oil market is seen at \$1.9772, \$1.9396 and \$1.9089.

Open interest for crude oil, DEC08 293,226 -14,872, January 09 108,536 -476. Totals: 1,108,362 – 1,444. Open interest for heating oil; is DEC.08 57,235 –1,970, Jan09 36,098+985. Totals:220,465 – 1,842. Open interest for gasoline is, DEC.08 69,636 +776, Jan09 29,077 +1,303. Totals: 156,860 – 1,328.