



## ***ENERGY RISK MANAGEMENT***

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### **ENERGY MARKET REPORT FOR NOVEMBER 12, 2007**

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Saudi Arabia's Oil Minister Ali al Naimi said that OPEC would discuss an increase in output at the OPEC heads of state meeting in Riyadh on November 17-18. However he said OPEC would not make a decision on output at their upcoming meeting. Meanwhile, Iran's OPEC governor, Hussein Kazempour Ardebili said OPEC members would not discuss increasing production during a meeting in Riyadh at the end of the week. However he said the issue would be raised at a December meeting in the UAE. Indonesia's OPEC governor Maizar Rahman also stated

#### Market Watch

The National Weather Service said US heating demand is expected to be about 24.6% below normal in the week ending November 17. Demand for heating oil is expected to average 4.6% below normal.

In a report, Goldman Sachs said it expects OPEC to increase its production sometime in the first three months of next year. It said oil prices may very well rally to \$100/barrel in the coming days.

Investor Jim Rogers said the US economy was in a recession or soon would be, and the US dollar would continue to have problems for years to come. He said the he was hoping to move all his assets out of the US dollar in the next few weeks or months and move into commodities.

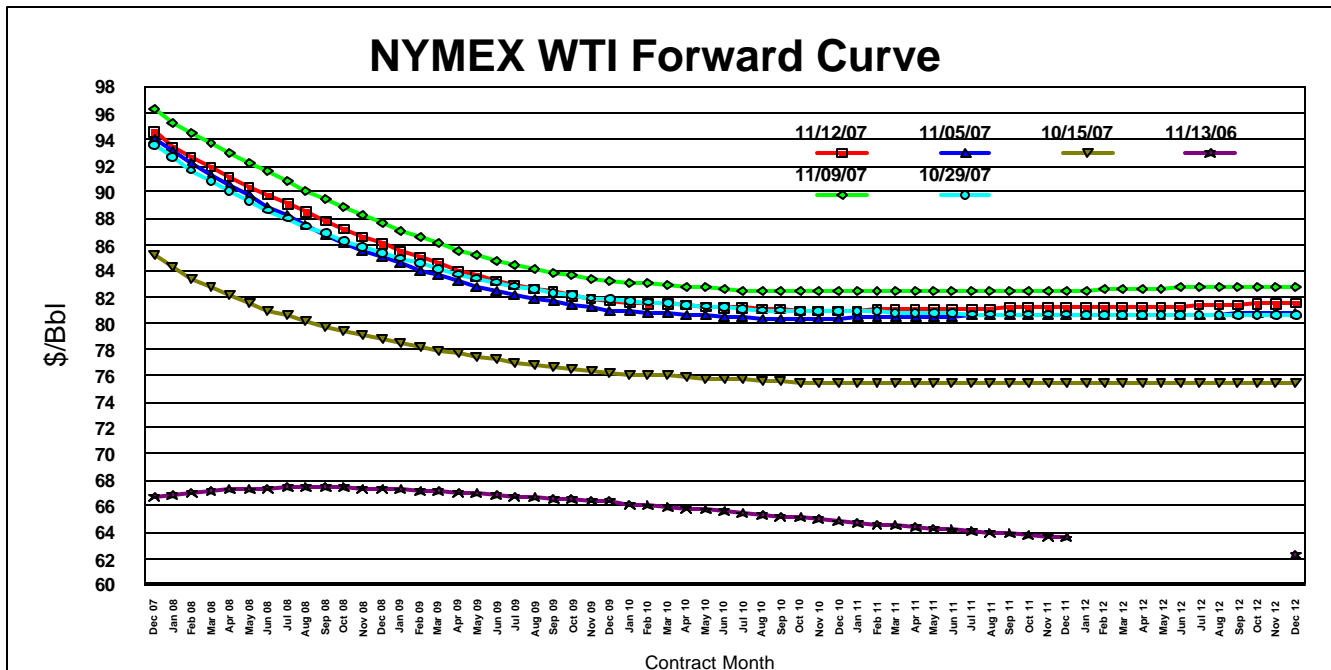
ICE said physical delivery against the expired November gas oil futures contract fell to 195 lots or 19,500 tons. It is down from 56,900 tons delivered in September.

Brazil's President Luiz Inacio Lula da Silva said the country's ultra deep pre-salt layer could contain 80 billion barrels in oil reserves.

Heavy rainstorms in south Germany over the weekend restored cargo shipping to normal on the Rhine and Danube Rivers in Germany after low water disrupted vessel sailings since mid-October. The low water surcharges charged to compensate ship owners for lost revenues when vessels can only sail partly loaded were removed throughout the Rhine and Danube.

that OPEC is not expected to consider an increase in oil production at a meeting this week. Algeria's Energy and Mines Minister Chakib Khelil said OPEC will likely ask consuming nations to help tackle high oil prices. He said non-OPEC supply was inadequate and would continue to be so in 2008, while OPEC countries would be obliged to invest more in refining capacity.

Saudi Arabia announced that it would keep supplies of term crude to Asian and European refiners for December steady at November levels. Saudi Arabia is expected to supply full term volumes to Asia for



the second consecutive month. Full shipments in November and December to Asia could equate to as much as a 350,000 bpd increase in Saudi exports from October levels.

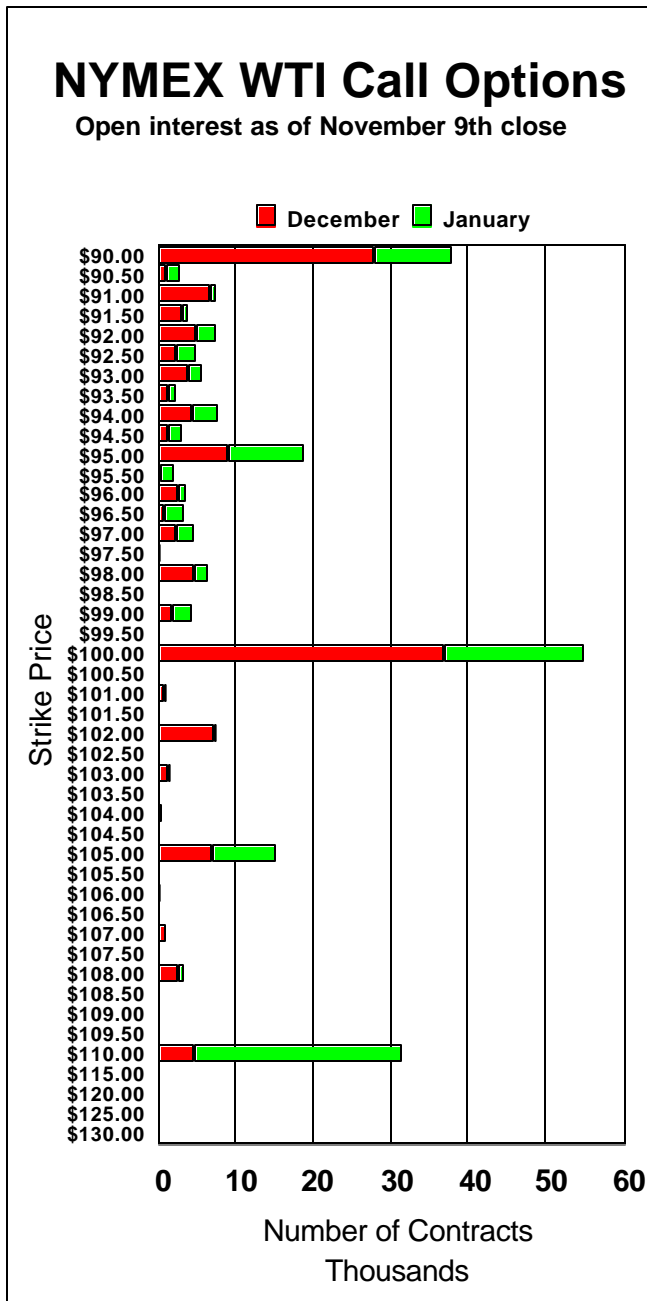
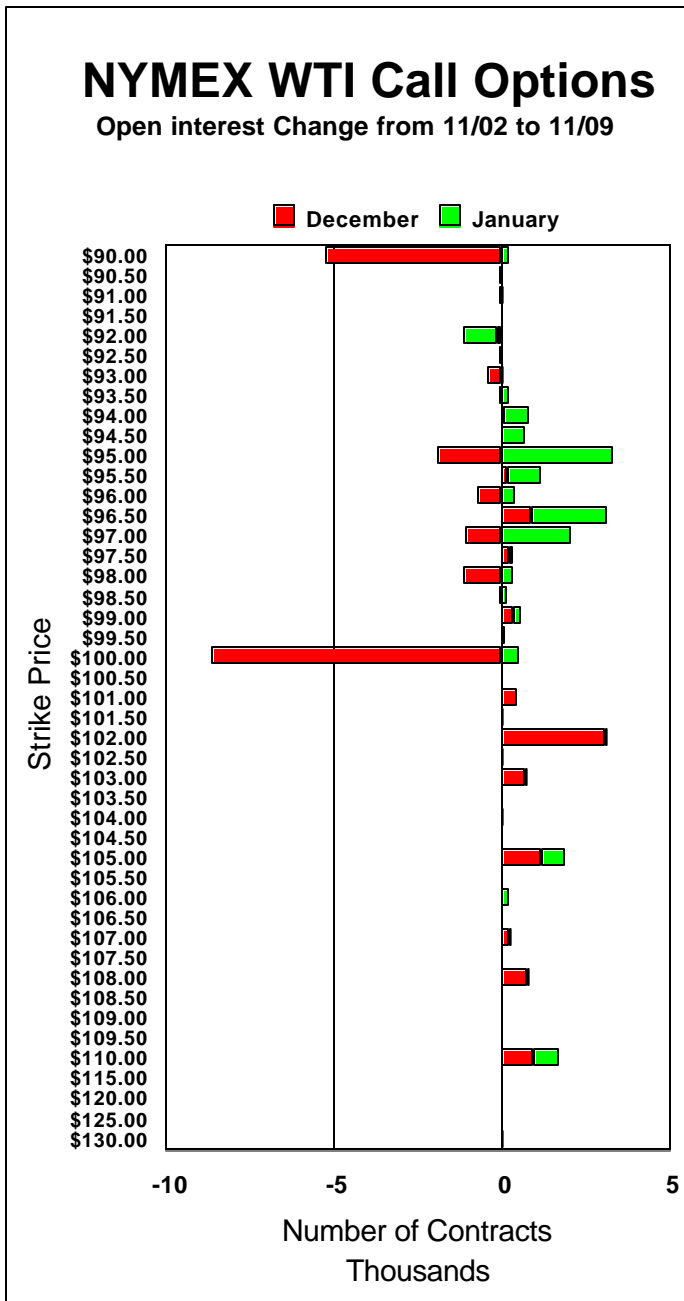
The US Department of Energy's assistant secretary, Karen Harbert said despite calls for OPEC to increase its production quotas at its next meeting, the US has not received any commitment from the group. Separately, the head of the EIA, Guy Caruso said high crude oil prices were due to strong oil demand and tight supplies. He said oil supplies from non-OPEC countries have not been sufficient to counter inadequate supplies from OPEC. The head of the EIA also stated that US gasoline prices are expected to increase another 20 cents over the next two to three weeks. He said no all of the recent increase in crude oil prices has been reflected in gasoline costs which now top \$3/gallon in many parts of the country. He also warned that if OPEC did not increase its oil production levels, crude oil prices may stay well above \$80/barrel and push gasoline costs higher during next spring's driving season.

European Commission President Jose Manuel Barroso said the EU was willing to work with OPEC to seek ways to make the oil market more transparent. However he added that the EU believed in markets as a means to reveal prices, whereas OPEC has called for tighter regulation to help lower prices.

DEBKAffile reported that US President George W. Bush is developing a new strategy for tackling Iran's determined pursuit of a nuclear weapons program. The President's plan is to put before the public new findings on Iran's nuclear secrets, drawn from data gathered by the US, Russia, France, Germany and Israel and use the publicity to push for tough international sanctions. The White House hopes to compel Iran to level on its military nuclear program, whose existence has so far denied. DEBKAffile also reported that US naval, air and marine forces are beginning to pile up around Iran's Gulf shores while Iran has threatened to unleash suicide fighters against aggressors. It said the USS Enterprise was joined by the USS Nimitz Strike Group. On November 5, a third nuclear carrier, the USS Harry S. Truman set out quietly from its base for the Gulf with 7,500 sailors and marines aboard.

UK's Prime Minister Gordon Brown said the country would seek a global ban on investment in Iran's oil, gas and financial sectors unless Iran agrees to halt its uranium enrichment activities. He said

further sanctions were conditional on the conclusion of two reports by Europe's foreign policy chief Javier Solana and the UN's IAEA, both of which are due out later this month.

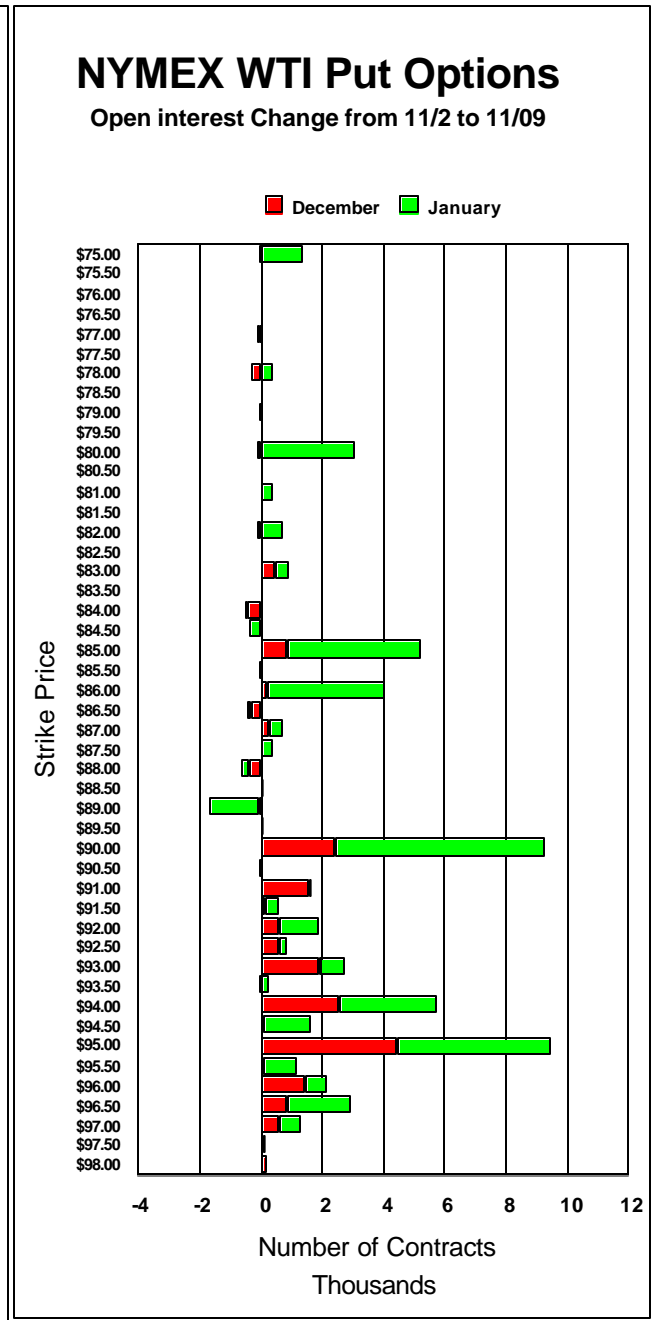
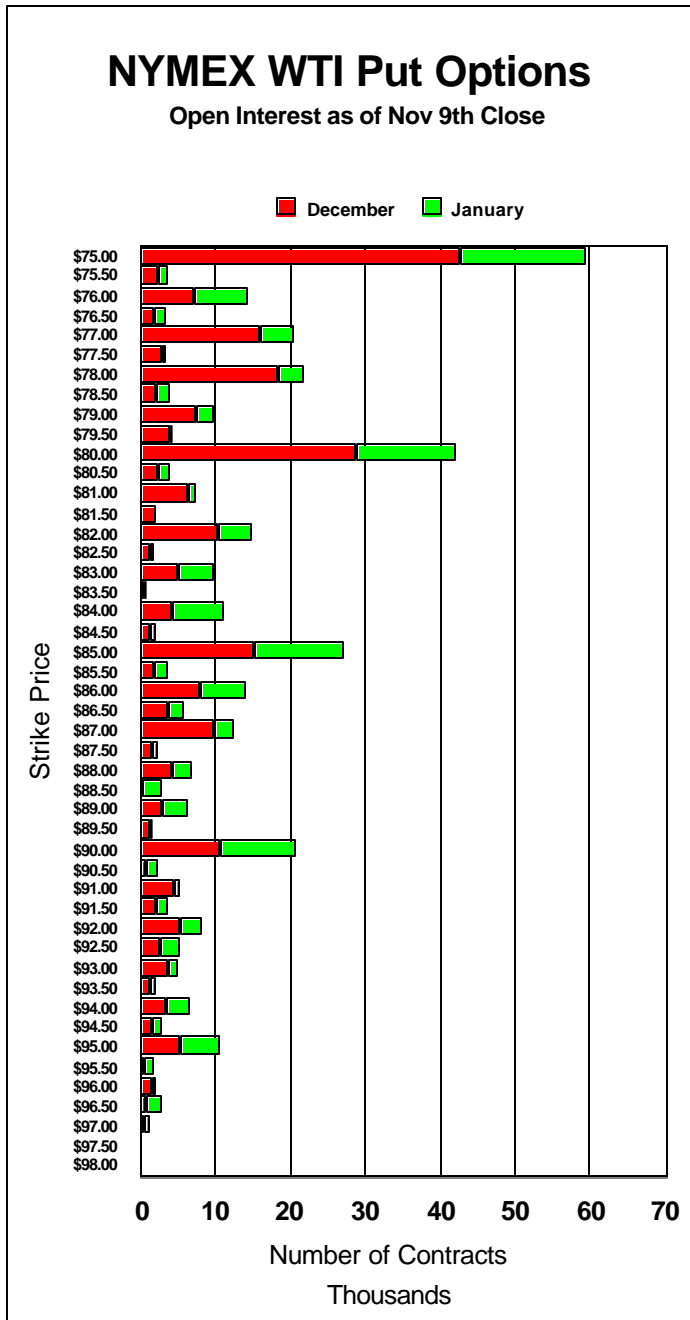


Iran's President Mahmoud Ahmadinejad labeled his critics "traitors" and accused them of spying and collaborating with Iran's enemies. His critics have stepped up warnings in recent months that the president's hardline policies and defiance against international demands to roll back Iran's nuclear program were turning more countries against Iran.

Nigerian troops repelled an armed attack on ExxonMobil's 400,000 bpd Qua Iboe terminal on Monday. Exports from the terminal were not affected. Industry sources said militants had pulled back but could still launch further assaults later in the day. The military has deployed reinforcements to the area.

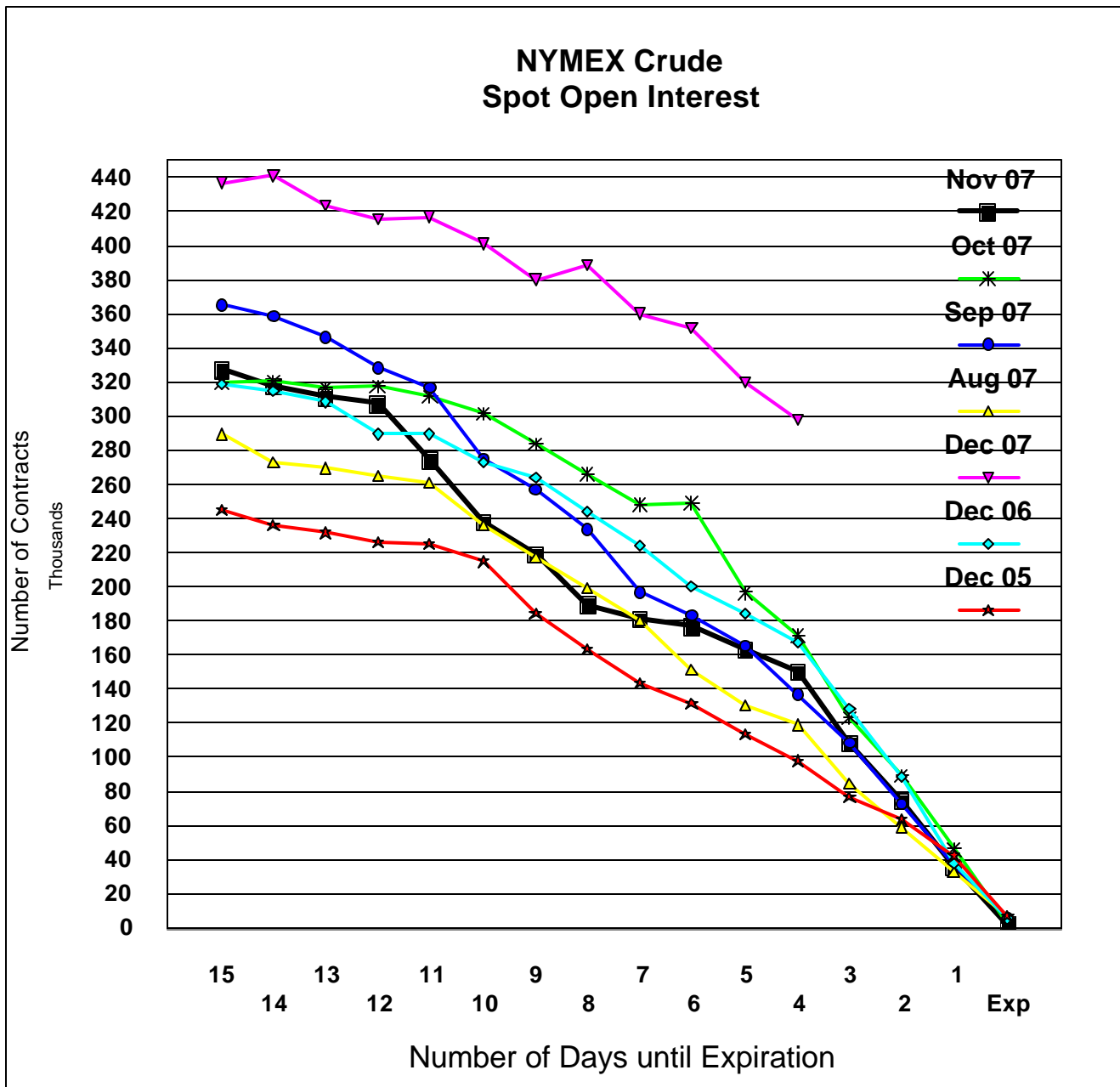
The chief executive of ExxonMobil Corp Rex Tillerson said prices were high due to market tightness, strong demand and a weak dollar. He said the oil market was going to be much the same in 2008 but added that supply would catch up with demand in two to three years.

Iraq has signed a term contract with Turkey's Tupras to lift 60,000 bpd from its Kirkuk oil fields via Turkey's Ceyhan port. The deal would run from now until the end of the year.



The Kurdistan regional government in Iraq announced on Monday it had awarded five new petroleum contracts to TNK-BP, Korea National Oil Corp, Hillwood, Sterling Energy and Aspect Energy.

Kurdish rebels kidnapped seven people after stopping them at a roadblock near the Iranian border. Meanwhile Turkish troops shelled areas on the Turkish-Iraqi border early Monday after seeing a group



of Kurdish rebels trying to cross into Turkey.

A group of militants with suspected links to al-Qaeda in northern Nigeria has been arrested. A State Security Service said men in three states were detained and explosive making devices were found.

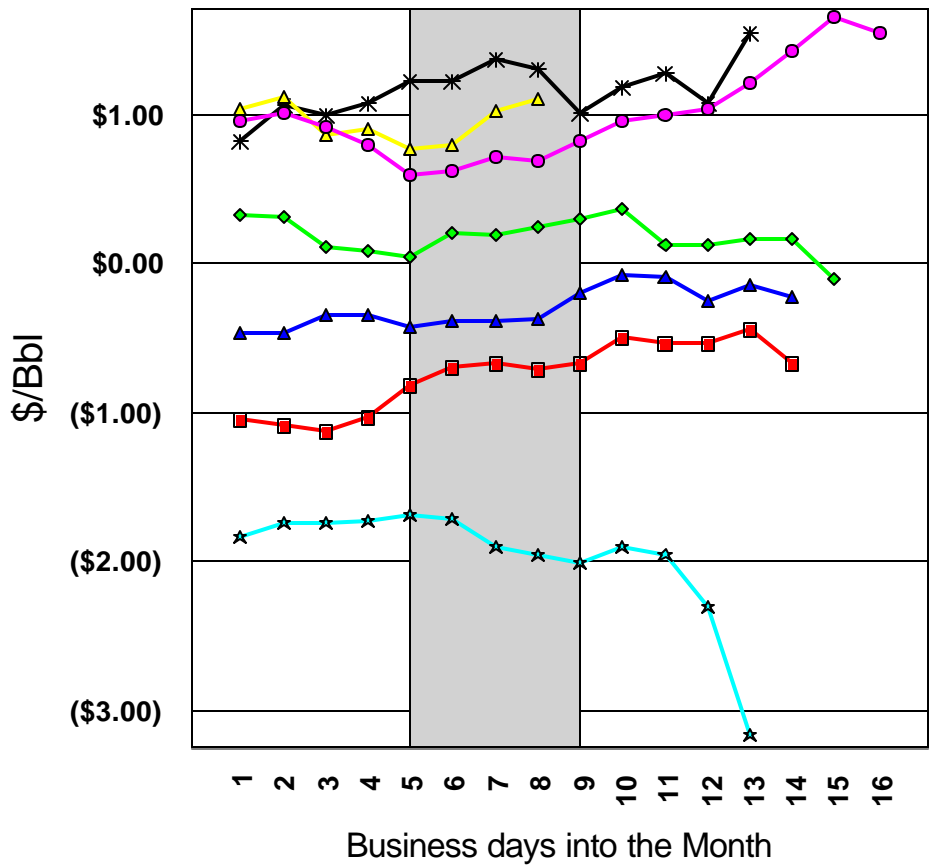
#### **Refinery News**

Credit Suisse said US refining margins increased last week as prices of gasoline and heating oil rose. Margins in the Gulf Coast increased by 30% or \$2.08/barrel to \$9.15/barrel while margins in the Midwest, Northeast and West Coast increased an average of 15%. In the Midwest, margins increased

# NYMEX WTI Front Month Spread

Basis Settlement

- \* Oct-Nov 07
- ◆ Sep-Oct 07
- ▲ Aug-Sep 07
- Jly-Aug 07
- ▲ Dec 07-Jan 08
- ◆ Nov-Dec 07
- ★ Dec 06- Jan 07
- Goldman Roll Period



\$1.30 to \$9.63/barrel in the week ending November 9 while margins in the Northeast increased by \$2.06 to \$14.41/barrel. Margins in the West Coast increased by \$2.32 to \$20.75/barrel.

Valero said its crude distillation unit at its Paulsboro, NJ refinery resumed operations following the completion of planned work.

A fire at Galp's 90,000 bpd oil refinery in Porto was extinguished a little over an hour after it started and production was not interrupted. The fire started at the refinery's water treatment plant.

Saudi Arabian Oil Co is scheduled to start up its 400,000 bpd refinery in Ribigh on Monday following the completion of two weeks of turnaround.

Kuwait National Petroleum Corp said companies have until

December 16 to submit their proposals for a 615,000 bpd refinery to be located at Al Zour. The refinery is due to start operating in 2011. It is expected to produce low sulfur fuel oil for the country's power plants.

China's top oil refiners have increased their operating rates by 3% on the month in November to 2.43 million bpd.

China's state refiners were rationing diesel again at petrol stations on the east coast a week after shortages prompted the government to increase fuel prices by 10%. The shortage stoked fresh speculation that China's government may need to further lift its regulated prices to appease loss making refineries and increase imports to increase stocks.

Japan's Cosmo Oil Co Ltd began the start up of its 110,000 bpd crude distillation unit at its Chiba refinery on Monday as scheduled after completing its maintenance.

### **Production News**

ConocoPhillips confirmed that oil production at seven North Sea Ekofisk platforms it shutdown last week ahead of a storm was restored. Crude oil production at all platforms resumed by Friday evening after inspections of the facilities found no weather damage. ConocoPhillips shut in about 140,000 bpd of oil production.

Production at the Mars oil platform in the Gulf of Mexico is about 170,000 bpd of oil equivalent and is expected to return to its normal 190,000 bpd over the next couple of days.

The North Sea Statfjord crude system is scheduled to load 8.55 million barrels, unchanged from the scheduled loading for November.

The BP led Baku-Ceyhan pipeline is expected to pump slightly less Azeri crude in December. Crude shipments in December are expected to total about 20 million barrels of crude or 645,000 bpd, down from 21.2 million barrels in November.

Russia's port of Novorossiisk is not loading any oil shipments due to stormy weather. Traders scheduled 3.42 million tons of crude shipments from Novorossiisk in November prior to the storms.

Russia's Energy Ministry said the country's gas oil and fuel oil exports fell in October by 17.4% to 81,900 tons/day and by 11.9% to 105,050 tons/day, respectively. It reported that gasoline exports increased by 5.2% to 10,240 tons/day.

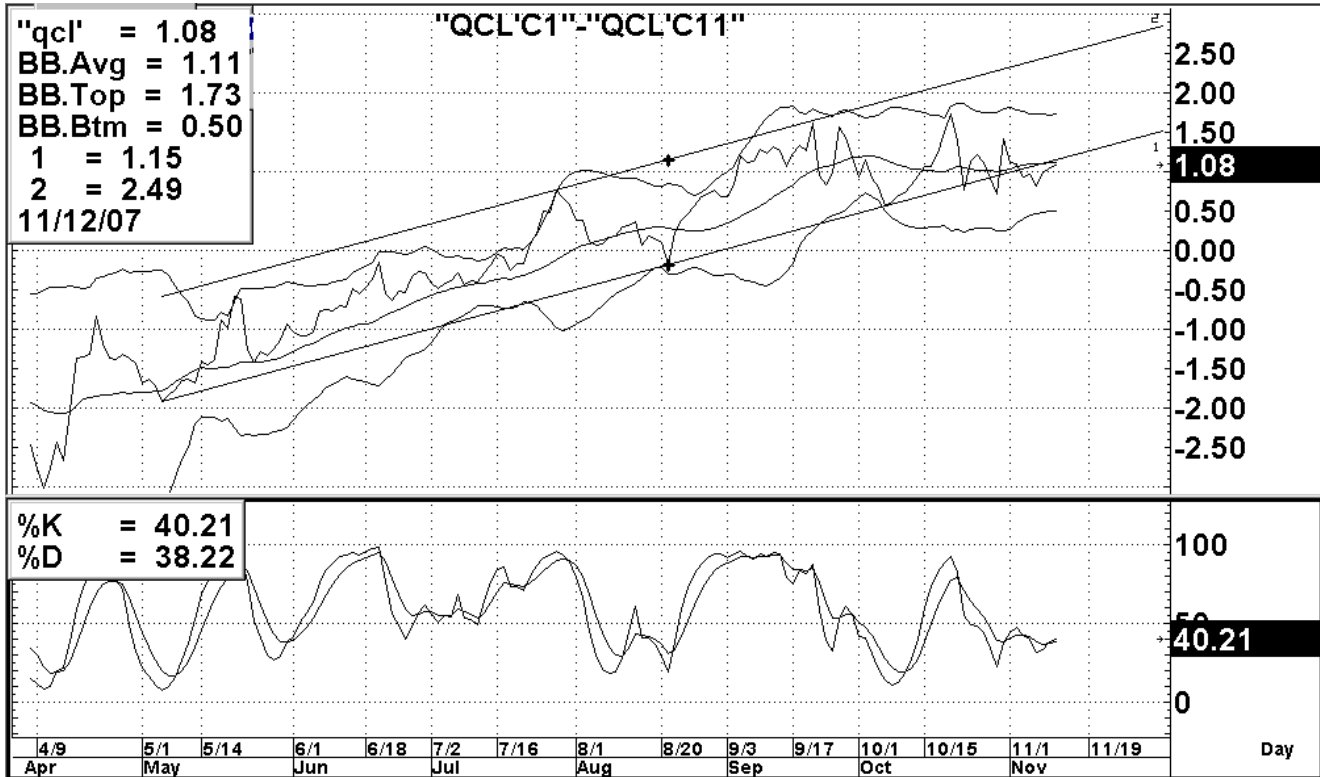
China's General Administration of Customs said the country's crude oil imports in October totaled 12.61 million tons or 2.97 million bpd, up 16.5% on the year. China's crude oil imports in the first ten months of the year increased by 13.8% to 136.68 million tons. China also imported 2.19 million tons of oil products excluding liquefied natural gas while imports of products in the January to October period fell by 8.9% on the year to 29.02 million tons.

OPEC's news agency reported that OPEC's basket of crudes fell to \$89.71/barrel on Friday from \$90.71/barrel on Thursday. It said OPEC's basket of crudes increased by \$3.33/barrel to a record high of \$89.68/barrel in the week ending November 11.

Ecuador's central bank reported that the country's oil export revenues totaled \$5.108 billion between January and September, down 5% from the \$5.388 billion reported last year. In terms of volume, Ecuador exported 93.56 million barrels in the first nine months of 2007, down 8% from 102.21 million barrels shipped last year.

### **Market Commentary**

Weakened by a stronger dollar, crude oil sold off today dipping as low as 93.54. Signs of a reduction in U.S. consumer spending, a decrease in imports of crude oil to China and word from the Saudi oil minister that OPEC may discuss further output increases helped to bring prices below the 94.00 mark. December options go off the board tomorrow and at this point, reaching the 100.00 target level will be quiet difficult prior to expiration. As can be seen on the chart depicted below, the December/January spread has closed below the upward channel for the sixth straight day. Based on this front month continuation spread, we would look for continued weakness in December as it approaches expiration. Should the dollar continue its strength, we would look for funds to take profits on their length and for this market to test at least the 88.50 support area, which is the top of the upward channel that began



back in January of this year. Total open interest in crude oil is 1,556,901 up 23,646, December 298,553 down 23,646, January 316,281 up 26,241 and February 90,773 up 6,267. Support for December, comes in 93.10, 92.25, 91.50, 88.50, 87.55 and 84.68. Resistance is set 96.70, 97.75, 98.62, 99.80 and 100.33. The product markets also sold off amid the weakness in the crude market as traders took profits. The RBOB market, which posted an inside trading day on Friday, breached its support and sold off to a low of 238.75 early in the session. The market retraced some of its losses

before it sold off once again ahead of the close. It settled down 3.95 cents at 241.65. The heating oil market also sold off to a low

		Explanation
CL	<b>Resistance</b>	96.70, 97.69, 97.75, 98.62, 99.80, 100.33 Previous highs, Basis trendline
	<b>Support</b>	93.10, 92.25, 91.50, 88.50, 87.55, 84.68 Monday's high Monday's low
HO	<b>Resistance</b>	263.64, 266.00 Previous highs
	<b>Support</b>	256.10 Monday's high Monday's low Previous lows, 38% (230.58 and 266.00), Previous low, 50%
RB	<b>Resistance</b>	246.20, 248.81 Monday's high
	<b>Support</b>	238.75 Monday's low Previous lows, 38% (210.68 and 248.81), Previous low, 50%

of 256.10 early in the session as it continued to retrace its previous gains. The market bounced off that level and traded back towards the 260.00 level. However the market later sold off once again and settled down 3.67 cents at 258.21 ahead of the close. The product markets will likely continue to take profits following the oil market's failure to test the \$100 level. In the RBOB, support is seen at 238.75, 238.30, 234.42, 234.24, 230.70 and 229.75. Resistance is seen at 243.35, 245.00, 246.20 and 248.81.



**NYMEX Petroleum Options Most Active Strikes for November 12, 2007**

Symbol	Month	Year	Call/Put	Strike	Exp Date	Settle	Volume	IV
LO	1	8	P	85	12/13/2007	0.95	13,471	36.52
LO	1	8	C	100	12/13/2007	1.65	10,829	36.61
LO	12	7	P	90	11/13/2007	0.01	6,546	43.34
LO	6	8	P	90	05/15/2008	6.44	6,484	25.87
LO	12	7	C	95	11/13/2007	0.7	6,319	44.30
LO	6	8	P	85	05/15/2008	3.98	4,904	25.20
LO	12	7	C	96	11/13/2007	0.36	4,257	44.42
LO	1	8	P	90	12/13/2007	2.28	3,922	35.63
LO	12	7	C	80	11/13/2007	14.62	3,677	112.28
LO	12	7	P	92	11/13/2007	0.11	3,411	43.35
LO	3	8	P	81	02/14/2008	1.54	3,320	30.62
LO	6	8	P	80	05/15/2008	2.5	3,250	26.31
LO	12	7	C	100	11/13/2007	0.01	3,152	46.91
LO	2	8	P	85	01/16/2008	1.82	3,050	31.62
LO	12	7	C	87	11/13/2007	7.62	3,026	55.99
LO	1	8	C	95	12/13/2007	3.21	2,961	35.86
LO	6	8	C	90	05/15/2008	6.23	2,529	25.88
LO	2	8	P	80	01/16/2008	0.88	2,360	32.96
LO	6	8	C	89.5	05/15/2008	6.46	2,350	25.91
LO	6	8	P	89.5	05/15/2008	6.18	2,350	25.86
LO	12	7	P	94	11/13/2007	0.59	2,285	43.93
LO	12	7	P	93	11/13/2007	0.28	2,247	43.77
LO	6	8	P	74	05/15/2008	1.38	2,230	28.06
LO	12	7	P	92.5	11/13/2007	0.18	2,226	43.58
LO	12	7	C	94	11/13/2007	1.21	2,142	43.93
LO	1	8	P	80	12/13/2007	0.42	2,083	40.04
LO	2	8	C	87	01/16/2008	8.04	2,029	31.75
LO	6	8	P	82	05/15/2008	3	2,000	25.71
LO	12	7	C	90	11/13/2007	4.63	1,998	43.91
LO	3	8	P	92	02/14/2008	5.52	1,885	30.05
LO	6	8	C	100	05/15/2008	2.9	1,660	25.93
LO	12	7	C	98	11/13/2007	0.07	1,613	45.31
LO	1	8	C	105	12/13/2007	0.89	1,539	38.88
LO	2	8	P	90	01/16/2008	3.56	1,518	31.43
OB	12	7	C	2.07	11/27/2007	0.3467	225	37.53
OB	1	8	C	2.2	12/26/2007	0.2357	225	32.84
OB	3	8	C	2.82	02/26/2008	0.0638	214	36.07
OB	3	8	C	2.75	02/26/2008	0.0764	214	35.63
OB	1	8	P	2.33	12/26/2007	0.0722	200	32.47
OB	1	8	C	2.5	12/26/2007	0.0707	150	33.11
OB	2	8	P	2.2	01/28/2008	0.0542	150	32.34
OH	1	8	P	2.2	12/26/2007	0.0076	400	31.61
OH	1	8	P	2.1	12/26/2007	0.0026	400	31.68
OH	12	7	C	2.29	11/27/2007	0.2954	200	37.07
OH	1	8	P	2.52	12/26/2007	0.0785	200	31.72