



## ***ENERGY RISK MANAGEMENT***

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### **ENERGY MARKET REPORT FOR NOVEMBER 15, 2007**

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In its November Monthly Oil Market Report, OPEC said it saw a modest downturn in the US economy in the fourth quarter due to record high oil prices. However it stated that growth in China and the Middle East would keep world oil demand strong. OPEC said it lowered its world oil demand growth forecast for the fourth quarter by 100,000 bpd to 1.7 million bpd. Its first quarter growth projection was unchanged at 1.5 million bpd. It cut its 2008 world oil demand growth forecast by 30,000

bpd from last month to 1.3 million bpd. It said world oil stocks are expected to tighten slightly through the first quarter of next year, with days of forward demand cover falling to 51.3 days in the fourth quarter from 52.8 days in the previous three months. It raised the demand estimate for its oil in the

fourth quarter by 190,000 bpd to 31.62 million bpd and by 180,000 bpd in the first quarter of 2008 to 31.35 million bpd. It projected 2008 demand for its oil at 30.8 million bpd, down 200,000 bpd on the year.

**DOE Stocks**  
**Crude** – up 2.8 million barrels  
**Distillate** – down 2 million barrels  
**Gasoline** – up 700,000 barrels  
**Refinery runs** – up 1.5%, at 87.7%

#### Market Watch

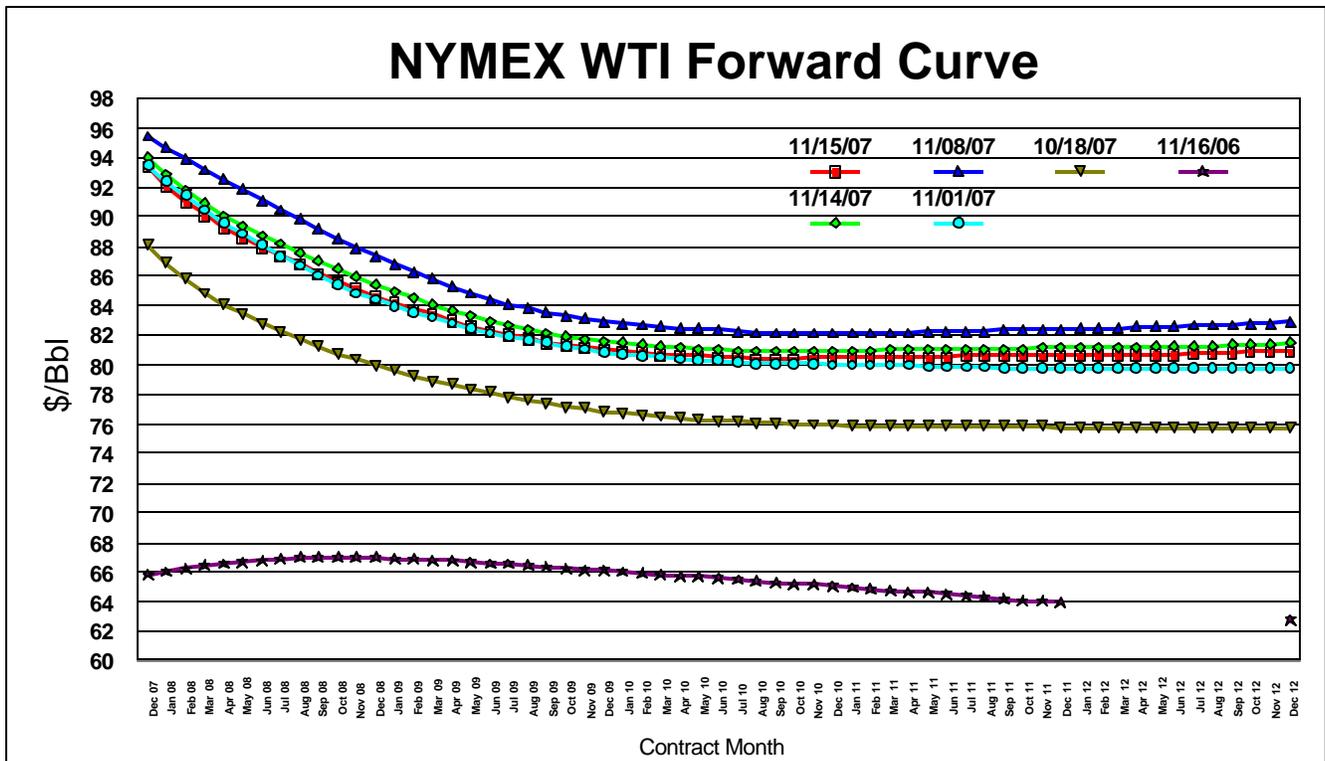
The EIA said the US crude production figure released by the US EIA did not reflect an outage at the Mars and Ursa oil platforms in the US Gulf of Mexico. It reported that US production averaged 5.134 million bpd in the week ending November 9 compared with 5.126 million bpd the week before. EIA officials attributed the stated increase to rising production in Alaska.

Iraq warned foreign oil companies that signed deals with the Kurdish regional government that they would be barred from doing business in the country and from exporting oil. Last week, the Kurdish regional government signed seven production sharing contracts with a number of foreign oil companies in defiance of the Iraqi central government and before approving a controversial federal oil law. Meanwhile, Iraq's Oil Minister Hussain al-Shahristani said final approval of a long awaited Iraqi oil law is months away.

The National Weather Service said most of the US, including the Northeast, would see above normal temperatures from December through February. It said the above normal temperatures are due to the strengthening of La Nina conditions.

The AAA reported that about 38.7 million Americans are expected to travel 50 miles or more from home on the Thanksgiving holiday, up 1.5% on the year. It said some 31.2 million people would travel by car, up 1.3% on the year and another 4.7 million would travel by air, up 2.2%. It reported that the US average retail price of gasoline was \$3.11/gallon, up 90 cents on the year.

Iran's Oil Minister Gholamhossein Nozari said the world oil market had sufficient crude supply and added that



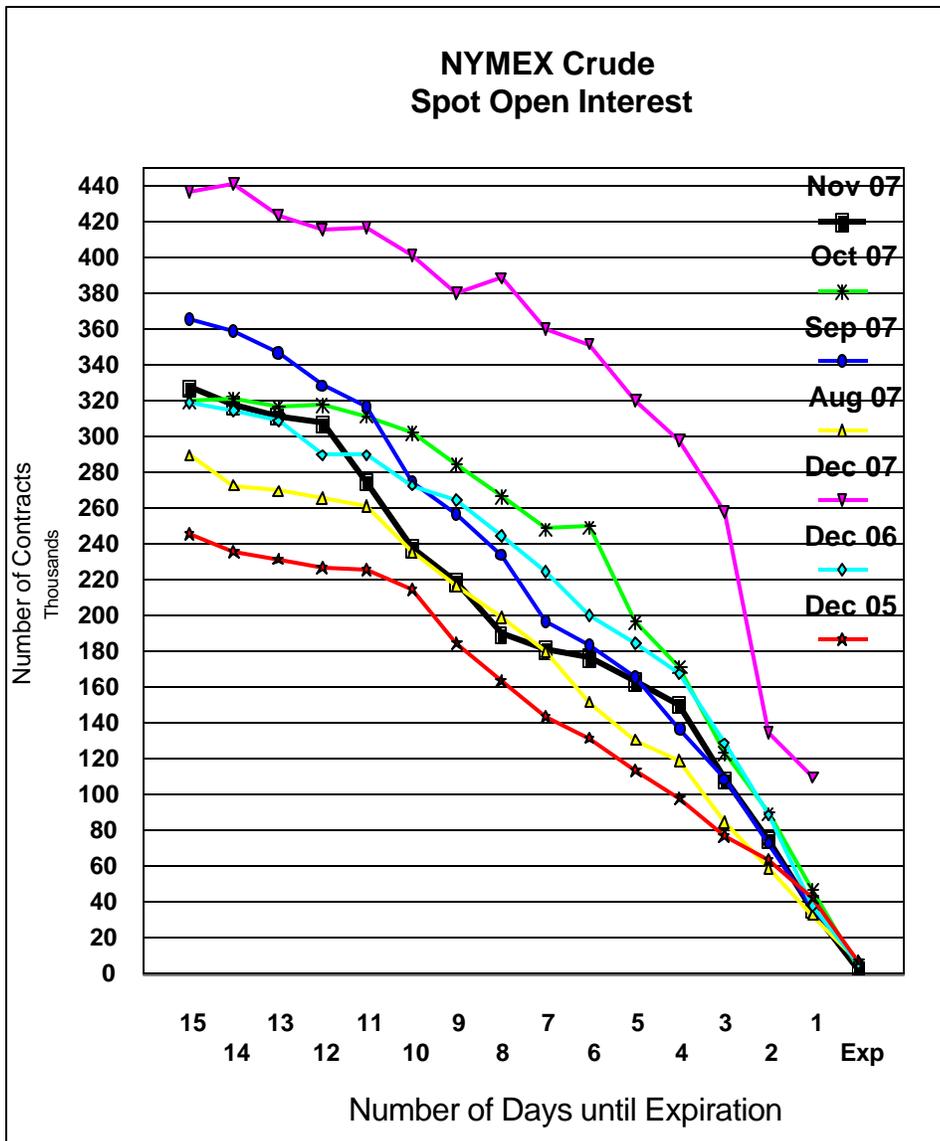
increasing OPEC's output would not lower oil prices. He said a weak dollar was partly to blame for high oil price levels. He also stated that Iran aimed to increase its oil output capacity to 4.5 million bpd in two years from 4.3 million bpd. He said production stood at 4.15 million bpd.

OPEC's Secretary General Abdullah Salem el-Badri said oil prices rallied on speculation in the world oil markets. He said OPEC was ready to increase its oil production if that would lower oil prices. However he warned that even if production is increased, there are not enough refineries to refine the extra production.

Nigerian oil official Rilwanu said the world economy is coping with crude oil prices which came close to \$100/barrel.

The Movement for the Emancipation of the Niger Delta claimed responsibility for an attack on a major oil pipeline which feeds into Royal Dutch Shell's Forcados export terminal. The pipeline was attacked and ruptured early Thursday. Royal Dutch Shell said it was investigating the impact on exports and output of an incident at the Forcados oil pipeline in Nigeria. Shell had been producing 70,000 bpd before this latest incident. Industry sources said Shell's production was cut by 20,000 to 50,000 bpd.

The UN's IAEA report said that Iran has made some progress in revealing the nature and extent of its disputed nuclear program but needs to be more proactive in providing information. It said Iran has 3,000 centrifuges, all enriching uranium. The IAEA remained unable to ascertain that Iran did not have a secret, parallel military enrichment program since Iran was still denying inspector visits to anything but its few declared nuclear facilities. Iran's President Mahmoud Ahmadinejad said the IAEA report showed Iran had been telling the truth about its nuclear plans and was right to resist Western pressure. Iran's chief nuclear negotiator Saeed Jalili welcomed the UN's IAEA report on Iran's nuclear program. He said the agency had shown that claims that the program had military aims were lies and warned against more UN sanctions. He warned that the cooperation with the IAEA would be affected if the Security Council imposed a new sanctions resolution against Iran. Meanwhile the US said Iran



continued to provide partial answers on its nuclear program and to defy the international community. The US vowed to seek further UN sanctions on Iran.

Iran said it arrested more suspects in a nuclear espionage case, a day after a former nuclear official was accused of handing over atomic secrets to the UK.

Turkish General Ilker Basbug said Turkey was in the process of implementing a cross border operation against Kurdish rebels in northern Iraq.

Oil shipments through a pipeline from Iraq's Kirkuk oilfields to Turkey's export terminal of Ceyhan have resumed after shipments were halted when gunmen attacked the pipeline earlier in the week.

Iraq's Oil Minister Hussain al-Shahristani said Iraq's

oil exports have increased to 1.9 million bpd and would reach 2 million bpd by the end of the year. He also stated that Iraq's oil production would increase to 3 million bpd in early 2009, up from a current level of 2.4 million bpd.

According to Oil Movements, OPEC oil exports are expected to increase to 24.44 million bpd in the four weeks ending December 1, up 380,000 bpd from 24.06 million bpd in the four weeks ending November 3.

The EIA reported that the average price of heating oil increased 9.7 cents/gallon to \$3.21/gallon over the last week. The national heating oil price is up 84 cents from a year ago.

### **Refinery News**

Motiva Enterprises said it restarted the smaller of the two crude distillate units at its 285,000 bpd refinery in Convent, Louisiana after it was shut on November 6 due to a small fire. Late Wednesday, Motiva shut the larger crude unit at the refinery for unplanned minor repairs.

India's Bharat Petroleum Corp Ltd is likely to process 15.5% less crude in November following the closure of some units at its Mumbai refinery for maintenance. It has closed its 37,000 bpd diesel hydrodesulphuriser, a catalytic reformer and a 125,000 bpd ton/year aromatic unit at the refinery for 25 days.

Indonesia's Pertamina purchased 1.2 million bpd of Asia-Pacific crude for January, down from 1.8 million barrels for December.

PetroChina said it expects total crude processing to reach 120 million tons in 2007, although the recent 10% increase in prices was still not enough to bring refining plants back into profit.

According to Singapore's International Enterprise, the country's residual fuel stocks built by 168,000 barrels to 12.644 million barrels in the week ending November 13. It also reported that light distillate stocks fell by 532,000 barrels to 6.572 million barrels while middle distillate stocks fell by 628,000 barrels to 7.432 million barrels on the week.

Gas oil inventories in independent storage in the Amsterdam-Rotterdam-Antwerp area fell by 17% on the year to 1.497 million tons in the week ending November 15. Gasoline stocks fell by 30,000 tons on the year but increased by 23,000 tons on the week to 698,000 tons. Naphtha increased by 6,000 tons on the year but fell by 21,000 tons on the week to 69,000 tons. Fuel oil stocks fell by 94,000 tons on the year and increased by 48,000 tons on the week to 541,000 tons. It reported that jet fuel stocks fell by 174,000 tons on the year and increased by 28,000 tons on the week to 226,000 tons.

### **Production News**

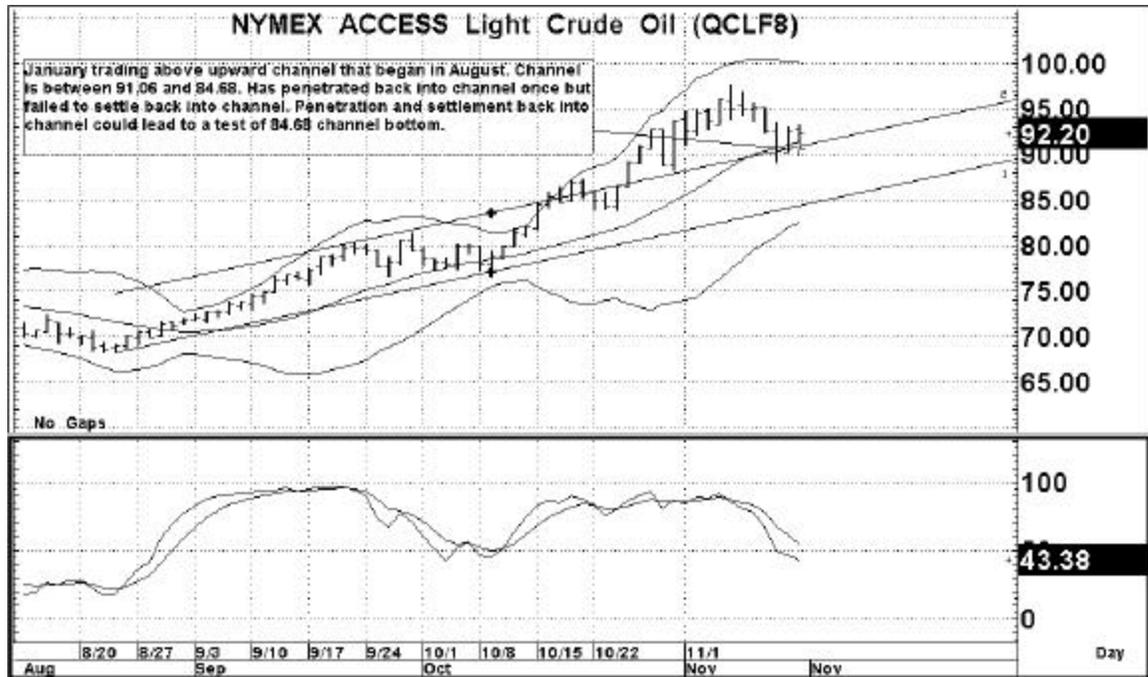
China's National Bureau of Statistics reported that China's crude throughput in the January-October period increased by 6.6% on the year to 269.927 million tons while crude throughput in October increased by 6% on the year to 27.615 million tons or 6.5 million bpd. Crude production in January-October increased by 1.4% on the year to 155.731 million tons while production in October alone increased by 1.9% to 15.806 million tons. It reported that gasoline production increased by 7.7% to 49.572 million tons in January-October while gasoline production in October increased by 4.7% to 5.003 million tons. It reported that diesel production in January-October increased by 5.8% to 101.961 million tons while diesel production in October increased by 4.7% to 10.353 million tons. Separately, preliminary data showed that China's diesel imports increased to 150,000 tons in October, the highest level of shipments since December 2006. It also imported 30.032 million tons of gasoline while imports of fuel oil fell to 1.33 million tons.

OPEC's news agency reported that OPEC's basket of crudes fell slightly to \$86.57/barrel on Wednesday from \$86.84/barrel on Tuesday.

### **Market Commentary**

An unexpected build of 2.81 million barrels in crude oil stocks sent prices tumbling, but was unable to take out the lows of yesterday. Stock levels were bolstered by an 8.6% rise in imports, which are now set at 2.9% above the five-year average. The recent draws in stocks can perhaps now be viewed as a reflection of inventory management rather than a shortage in supply. Total gasoline stocks built by 700,000 barrels, with demand set at 9.3 million barrels per day or 0.6% higher than the same period last year. Total gasoline stocks are at the lower end of the average range. Distillate stocks fell by 2 million barrels but remain at the upper half of the average range for this time of year. Demand for distillate averaged 4.3 million barrels per day over the past four weeks or 0.2% above last year.

Although it appears that the December contract will expire tomorrow without reaching its \$100.00 expectations, the January contract could very well do so. Currently, January is trading above the



upward channel created back in August and needs to fall below and settle through \$91.09, for a chance to trade back towards the 84.62 channel low. Prices for this contract have been trading above the channel since October 25<sup>th</sup>, penetrated it once, but were unable to settle back in the channel. Our view of this market is for the January contract to trade between \$100.00 and \$85.00. Therefore we would like to put on an option position. We like the January \$105.00/\$77.00 call/put ratio spread. We would like to buy the \$105.00 calls and sell the \$77.00 puts on a 1 by 3 ratio. Currently the January \$105.00 calls settled at .49 cents and the \$77.00 puts settled at .22 cents. This would provide a 17-cent credit. Should the January break through \$105.00, and continue to rise, the calls could be exercised and the \$77.00 puts would expire worthless. Total open interest in crude oil is 1,450,749 up 5,587, DEC.07 109,417 down 25,539 JAN.08 374,767 up 12,223, FEB.08 94,8102 up 808. Support for January, comes in 88.20, 86.90, 85.65, 83.91 and 81.75. Resistance is set 94.67, 95.20, 96.90 and 97.65. Meanwhile the product markets settled in negative territory following the mostly bearish inventory reports. The RBOB market, which traded to a high of 237.60 in overnight trading, sold off in light of the unexpected build in gasoline stocks. The market extended its losses to over 6 cents as it sold off to a low of 231.04. The market settled in a sideways trading pattern before it retraced some of its losses ahead of the close and settled down 3.42 cents at 233.62. The product markets are seen holding support as the complex is likely to trade higher ahead of the December crude contract's expiration on Friday. In the RBOB market, support is seen at 231.04, 230.40, 229.75, 225.25 and 222.21 while

resistance is seen at 234.75, 236.05, 237.60, 237.81, 241.29, 245.00 and 246.20.

		Explanation
CL	<b>Resistance</b>	93.55, 94.67, 95.20, 96.90, 97.65
	<b>Support</b>	93.30
HO	<b>Resistance</b>	91.40, 90.50
	<b>Support</b>	90.20, 89.13, 88.20, 86.90, 85.65
RB	<b>Resistance</b>	262.20, 263.64, 266.00
	<b>Support</b>	259.47
RB	<b>Resistance</b>	254.10, 253.35
	<b>Support</b>	250.40, 249.02, 248.29, 248.02, 244.11
RB	<b>Resistance</b>	237.81, 241.29, 245.00, 246.20, 248.81
	<b>Support</b>	234.75, 236.05, 237.60
RB	<b>Resistance</b>	231.04
	<b>Support</b>	230.40, 229.75, 225.25, 222.21