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Windham Group



## ***ENERGY RISK MANAGEMENT***

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### **ENERGY MARKET REPORT FOR NOVEMBER 30, 2009**

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The managing director of the National Iranian Oil Co, Seifollah Jashnsaz said OPEC is unlikely to cut output at its meeting on December 22<sup>nd</sup>. He also said crude oil prices should be "a little bit more" than the current level. Separately, a senior Iranian official said demand for OPEC crude in the first quarter of 2010 is expected to fall below the group's current output. Demand in the last quarter of 2009 is about 29.3 million bpd and is expected to fall to 28.1 million bpd in the first quarter of next year. He said output by countries outside OPEC is expected to increase by 200,000 bpd during the same period.

#### **Market Watch**

Morgan Stanley & Co said the US EPA may allow the percentage of ethanol in gasoline to increase to 11%. The EPA is expected to decide by Tuesday on an ethanol industry request to allow the ratio of ethanol in gasoline to increase to 15% from 10%. Analysts said the EPA could allow refiners to sell gasoline that contains 11% ethanol until it determines the impact E-15 would have on engines.

The Institute for Supply Management-Chicago Inc said its business barometer increased to 56.1, the highest level since August 2008.

Somali pirates seized a supertanker carrying crude from Saudi Arabia to the US. The Greek-owned tanker, Maran Centaurus, which can carry 2 million barrels of oil, was captured off Somalia as attackers venture further offshore to hijack merchant ships. The vessel was bound for the LOOP.

Saudi Arabia said its forces have seized control of a strategic mountain along the border with Yemen in the country's ongoing fight against Yemen's Houthi rebels. Meanwhile, Yemeni military officials said they had also engaged in clashes with the Houthi rebels on the outskirts of the northern city of Saada. Saudi Arabia began attacking suspected Houthi positions earlier this month after they apparently crossed the border and seized control of a small area.

India's economy grew at a faster than expected rate of 7.9% in the three months to September. An increase in manufacturing and services helped the country expand at the fastest pace for 18 months. Some analysts said this could give the central bank room to increase interest rates as early as December to combat rising inflation. A government official however said he expected no change in stimulus policy for the current fiscal year.

Societe Generale said crude oil prices may fall toward \$70/barrel after breaching the bottom of a month long channel.

Angola's Oil Ministry said Russia would take part as an observer in OPEC's December 22<sup>nd</sup> meeting in Angola.

**November  
Calendar Averages**  
**CL** – 78.15  
**HO** – 2.0205  
**RB** – 1.9760

The White House said Iran's announcement of plans to build 10 new uranium enrichment plants would be a serious violation of its international obligations and further evidence of Iran's isolation. Iran announced plans earlier on Sunday to build ten new uranium enrichment plants in a major expansion of its nuclear program. Meanwhile, EU foreign policy chief Javier Solana said he regretted the Iranian governments "wrong decision" to build more uranium enrichment plants. Separately, German Foreign Minister Guido Westerwelle said Iran would face new international sanctions if it builds more uranium enrichment plants. French Foreign Minister Bernard Kouchner said Iran's intention to ignore international demands and construct new uranium enrichment plants is very dangerous.

Iran's Foreign Minister Manouchehr Mottaki said the UN's IAEA was imposing the "law of the jungle" by denouncing Iran over its uranium enrichment drive. He said the IAEA resolution against Iran is not logical. He reiterated that Iran would never give up its legitimate right to pursue nuclear technology.

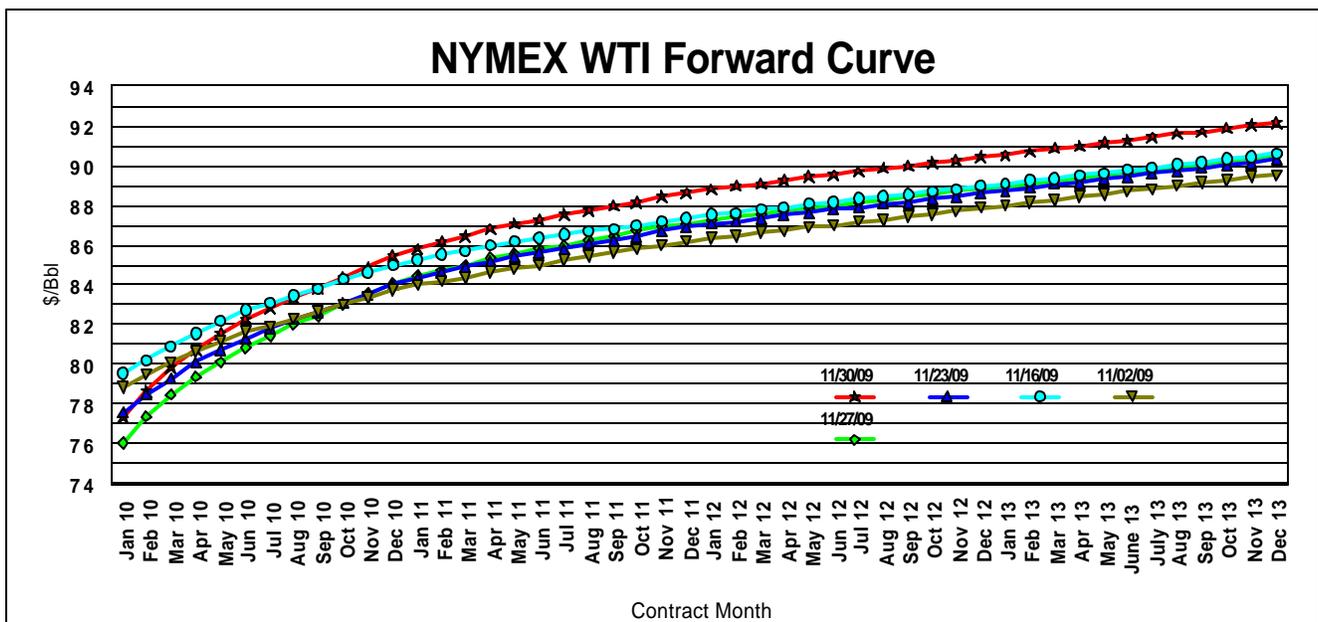
Russia intends to complete and launch the 1,000 Mw Bushehr nuclear reactor in Iran without any further delay. It plans to start up the nuclear power station in March 2010.

The EIA reported that US oil demand in September was revised down by 2.7% or more than 500,000 bpd from earlier estimates to 18.362 million bpd. Demand increased by 2.9% or 523,000 bpd on the year. Gasoline demand was revised down by 1.8% or 166,000 bpd to 8.897 million bpd. It is up 400,000 bpd or 4.7% on the year. The national average retail price of gasoline in September was \$2.554/gallon, down 31% on the year. Distillate demand increased by 1.6% or 56,000 bpd to 3.459 million bpd. The national average retail price of diesel in September was \$2.626/gallon, down 34.7% on the year.

The EIA said the US average retail price of diesel fell by 1.2 cents/gallon to \$2.775/gallon in the week ending November 30<sup>th</sup>. The price of diesel is 16 cents or 6.1% higher on the year. The EIA also reported that the US average retail price of gasoline fell by 1 cent to \$2.629/gallon on the week.

**Refinery News**

Credit Suisse said US refinery margins were mixed last week. Margins in the Northeast region fell by 42 cents to \$4.97/barrel while margins in the West Coast fell by 10 cents to \$11.09/barrel. Gulf Coast margins increased by \$1.61 to \$5.57/barrel while Midwest margins increased by \$1 to \$4.27/barrel



and margins in the Rockies region increased by 89 cents to \$12.57/barrel.

Valero Energy Corp started a planned three week turnaround at its 195,000 bpd Paulsboro, New Jersey refinery over the weekend. The refinery's 55,000 bpd fluid catalytic cracking unit however will be shut until mid-January. It also said repairs are complete on the third coker module at its 325,000 bpd Port Arthur, Texas refinery but there is no timeline for when the 105,000 bpd coker will return to planned rates.

BP Plc's hydrotreater at its 265,000 bpd Carson, California refinery resumed normal operations after undergoing a planned turnaround.

Sunoco Inc said its 178,000 bpd refinery in Marcus Hook, Pennsylvania returned to normal operations on Saturday following a release of cooling water from an unnamed unit.

ConocoPhillips reported emissions could have exceeded permitted levels and opacity at its 190,000 bpd refinery in Trainer, Pennsylvania last week. Its fluid catalytic cracking unit has been in planned turnaround since the end of October and is due to resume operations immediately.

Japan's Nippon Oil Corp plans to refine 5.33 million kiloliters or 1.08 million bpd of crude in December, down 1% on the year.

Japan's Ministry of Economy, Trade and Industry said the country's overall oil product output in October fell by 5.5% on the year to 15.79 million kiloliters. Japan's total oil product sales in October increased by 1.8% on the year to 16.17 million kiloliters or 101.71 million barrels. Japan's gasoline sales increased by 3.8% to 4.86 million kl while demand for gas oil or diesel increased by 3.1%. Crude oil imports fell by 6.1% on the year to 17.76 million kl or 3.603 million bpd in October, the 13<sup>th</sup> consecutive month of year on year declines. Japan's crude oil inventories at the end of October fell by 17.4% on the year to 91.465 million barrels while product inventories fell by 16.3% on the year to 78.585 million barrels.

Iran's Deputy Oil Minister Nouredin Shahnazizadeh said Iran will increase its imports of gasoline and diesel fuel by 27% to 31 million liters by March. It will increase its imports of gasoline to 22 million liters/day and its imports of diesel to 9 million liters/day. Iran is currently importing gasoline from Indian companies, including Reliance Industries Ltd.

Seaborne crude supplies via Russia's Transneft's export terminals in December will increase by 3.2% from November to 11.73 million tons. Exports from Novorossiisk will reach 3.72 million tons in December, down 6.3% on the month. Exports from Primorsk will reach 6.3 million tons or 1.49 million bpd compared with 1.44 million bpd in November. Urals exports via the Polish port of Gdansk will total 477,000 tons or 112,800 bpd, up 109% on the month.

Western fuel oil cargoes arriving in Asia in December are seen increasing by 9-10% on the month. Western arbitrage arrivals next month are expected to reach about 3.6-3.7 million tons, up from this month's estimated 3.3-3.4 million tons.

China's CNPC has teamed up with a local firm in eastern China's Shandong province for an oil pipeline that could potentially supply its proposed 200,000 bpd refinery in central Henan province. The pipeline has planned shipping capacity of 200,000 bpd in its first phase.

Royal Dutch Shell and Essar Oil Ltd have extended their talks for the Indian firm to buy three European refineries as part of its plan to increase refining capacity to 1 million bpd.

Turkey's Bosphorus Strait reopened on Monday morning after it was closed overnight due to dense fog. Heavy fog has caused repeated closures to the Bosphorus and Dardanelle Straits over the last two weeks.

Indian Oil Corp bought 2 million barrels of January loading Nigerian Qua Iboe crude via its latest import tender. IOC has purchased 4 million barrels each of Angolan and Nigerian crude oil for January loading.

### **Production News**

According to a Reuters survey, OPEC's oil production, excluding Iraq, increased by 90,000 bpd to 26.52 million bpd in November. Output from all 12 OPEC members increased by 10,000 bpd to 28.91 million bpd. It reported that Saudi Arabia's oil production increased by 30,000 bpd to 8.13 million bpd. Iraq's oil production fell by 80,000 bpd to 2.39 million bpd in November.

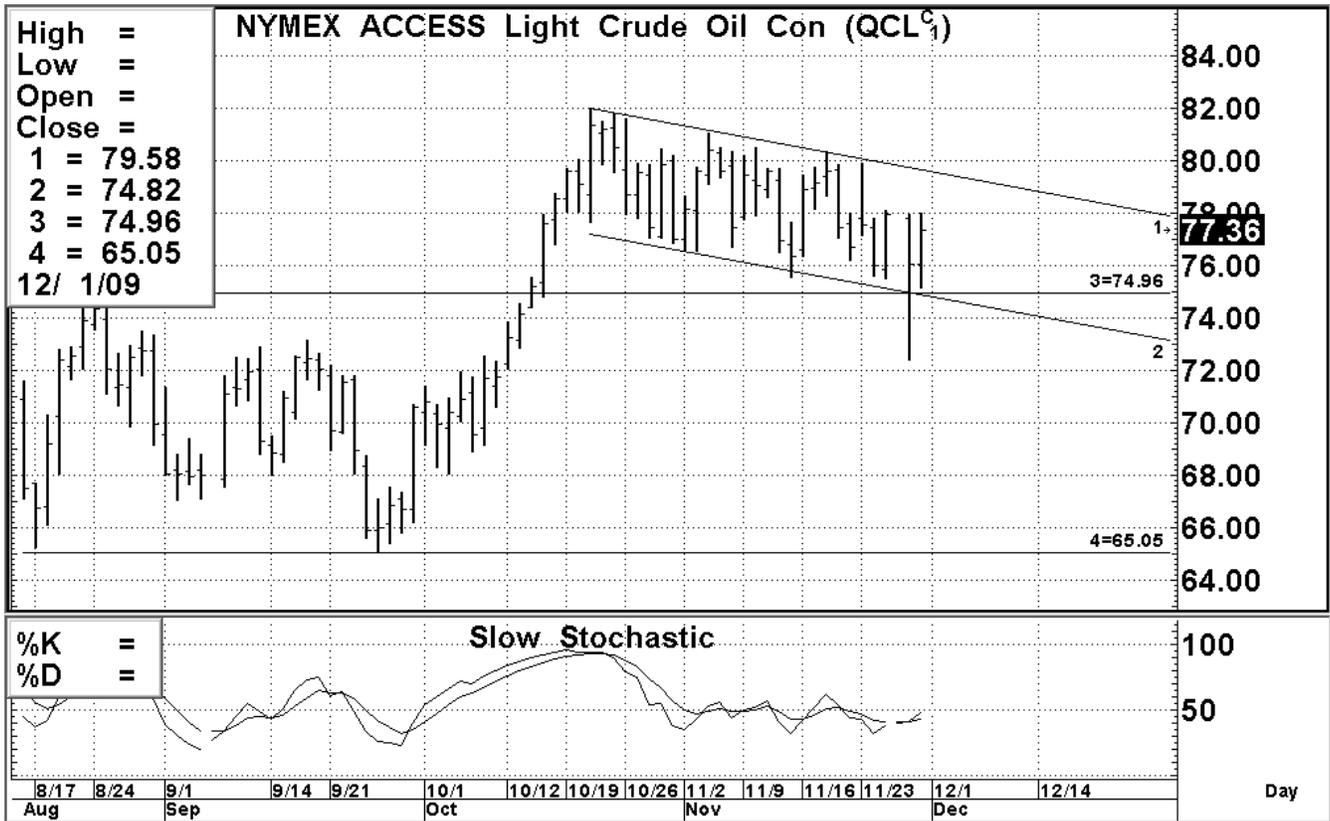
An official at Iraq's North Oil Co said Iraq resumed full crude oil exports through its northern pipeline to Turkey on Monday after reported sabotage of the pipeline halted flows last week. A Turkish shipping agent said one ship was now loading at the Turkish port of Ceyhan and three others were waiting. An Iraqi police official said the latest interruption in the flow of oil through the northern pipeline was not caused by sabotage but was the result of a rupture. Separately, the export pumping rate from Iraq's southern Basra terminals returned to a normal level of 1.702 million bpd on Sunday. Bad weather conditions had cut flows to 624,000 bpd earlier.

BP Plc discovered an oil and gas spill on a pipeline that serves the Prudhoe Bay oilfields in Alaska over the weekend. BP is assessing damages after it found the leak early Sunday. The spill occurred on a BP operated line carrying a mixture of crude, water and natural gas. The company may be forced to shut in some oil production as it repairs the leaking line or idle others that share a T-shaped pipe support infrastructure.

### **Market Commentary**

Crude oil traded in a choppy fashion as it responded to news concerning Dubai and its credit situation. Less than optimistic early holiday shopping left investors shaky over the economy, which put pressure on the equities and energy markets, while the seizure of a Greek-owned super tanker, reportedly headed to the U.S., lent support. The shape of the forward curve indicates the comfort ability to go long this market remains in the middle to back end of the curve. The January/February spread remains under pressure, with the \$1.60 the next level of support. The January crude oil contract tested support down around the \$75.00 level, only to trade almost \$3.00 higher. The inability for this market to trade below the downward channel sparked off technical buying, helping to bring prices to the \$78.00 level. This channel has proven itself time and time again as prices continue to bounce off of the bottom trend line and retreat from the upper one. Slow stochastics have crossed to the upside in neutral territory, which typically means higher prices. We would continue to trade this market by buying and selling at the listed support and resistance levels.

Crude Jan. 10 354,436 +9,941 FEB.10 101,149 +5,201 MAR.10 91,840 +3,165 Totals: 1,216,923 +33,719 Heating oil Jan.10 92,442 -560. FEB 10 40,746 -125 MAR.10 38,063 +682 Totals: 320,962 – 6,030 Gasoline JAN.10 102,731 -396 FEB.10 32,052 +694 MAR. 10 32,190 +324 Totals: 254,844 – 670.



<b>Crude Support</b> 74.96, 73.52, 71.52, 65.05, 64.70, 63.38, 62.70, 61.61, 60.95	<b>Crude Resistance</b> 78.10, 80.50, 84.83, 85.40, 86.60, 88.80
<b>Heat Support</b> , 1.9500, 1.9175, 1.8570, 1.7670	<b>Heat resistance</b> 2.1580, 2.2110, 2.2575, 2.4200
<b>Gasoline support</b> 1.9060, 1.8840, 1.8480, 1.7900	<b>Gasoline resistance</b> 2.1100, 2.1600, 2.3350

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