



## ENERGY RISK MANAGEMENT

Howard Rennell, Pat Shigueta  
& Karen Palladino

(212) 624-1132 (888) 885-6100

www.e-windham.com

---

## ENERGY MARKET REPORT FOR DECEMBER 4, 2008

---

Iran's OPEC Governor said the oil market is clearly oversupplied and producers should cut output to balance fundamentals. In regards to Iran's oil production, he said Iran was producing about 3.8 million bpd and added that Iran had fully complied with its obligation to cut 199,000 bpd of its production.

Oil Movements reported that OPEC's oil exports, excluding Angola and Ecuador, are expected to fall to 24.11 million bpd in the four weeks ending December 20 from 24.09 million bpd reported for the previous four week period amid slowing demand. Last week, Oil Movement reported that OPEC exports are expected to average 24.04 million bpd in the four

### Market Watch

Merrill Lynch & Co said crude oil may fall below \$25/barrel next year if the recession spreads to China. It said world oil demand will contract in 2009 as economic growth slows to its weakest level since 1982. It reiterated that WTI crude will average \$50/barrel next year.

The US Labor Department said the number of US workers claiming unemployment benefits reached a 26 year high. The four week moving average of new weekly jobless claims increased to 524,500 last week, the highest level since December 18, 1982. Continuing claims increased to 4.087 million in the week ending November 22 from 3.998 million the prior week. US private employers cut 250,000 jobs in November, the largest amount of layoffs in seven years after eliminating 179,000 positions in October.

The US Commerce Department reported that its seasonally adjusted data on US factory orders fell by 5.1% in October after falling 3.1% in September.

According to a Business Roundtable survey, US chief executives' confidence in the economy fell in the fourth quarter to 16.5, the lowest level in the survey's six year history. The majority of US chief executives or 60% plan to cut jobs while 45% of them expect to cut capital spending over the next six months amid the global recession.

The European Central Bank cut its interest rate by a record level of 75 basis points to 2.5%, a level not seen in more than 2 years. ECB staff forecast the economy will contract in 2009 while inflation falls well below the central bank's 2% price stability ceiling. It predicted inflation was likely to average 1.4% in 2009. In 2010, inflation is seen between 1.5-2.1%. The rate cut was low compared with a 100 basis point cut made by the Bank of England, 150 basis point cut made by the Reserve Bank of New Zealand and a 175 basis point cut made by Sweden's central bank earlier in the day.

The Wall Street Journal reported that Citadel lost about 13% in November, bringing its losses for the year to 47%. It reported that Citadel's losses stemmed from declining values of convertible bonds and bank loans, especially during the last week of the month.

Enbridge Inc said oil sands producers are interested in exporting crude to Europe and the US East Coast by pipeline and tanker, potentially making up for slack demand elsewhere. With its Trailbreaker system, Enbridge would send oil from Alberta to Portland, Maine, where tankers could carry crude to Europe and the rest of the East Coast. The company will decide whether to proceed in the first quarter of 2009.

**December Calendar Averages****CL – \$46.68****HO –\$1.5729****RB – \$ 1.0451**

week ending December 13.

Gunmen in Nigeria attacked a vessel near an offshore oil facility and kidnapped two expatriates and a Nigerian in the Niger Delta.

The vessel was attacked at the Adanga crude oil flow station in the Akwa Ibom state. Meanwhile, Addax Petroleum Corp said crude production from its Nigerian operations was not disrupted by the incident. Separately, ExxonMobil said gunmen attacked an ExxonMobil convoy in the Akwa Ibom state. It said the convoy came under attack while traveling between the town of Eket and the Qua Iboe oil terminal in the Niger Delta.

The Iranian navy and air force started a six day exercise, which Tehran radio said would cover 50,000 square miles of the Persian Gulf, the Sea of Oman and the Strait of Hormuz. An Iranian official said the maneuver's aim is to increase the level of readiness of Iran's naval forces and test domestically made naval weaponry. DEBKAfile's Iranian sources said that exercise is part of Tehran's preparations for a US and or Israeli attack on its nuclear installations and Revolutionary Guards bases, which Iranian strategists believe is on the way ahead of President-elect Barack Obama's January 21 inauguration.

The Jerusalem Post reported that even through Israel's Defense Ministry's preference is to coordinate with the US, the IDF is drawing up options for a strike on Iranian nuclear facilities that do not include coordination with the US. Israeli officials said it would be difficult but not impossible to launch a strike against Iran without receiving codes from the US Air Force, which controls Iraqi airspace. US President George W. Bush has refused to give Israel its approval for an attack on Iranian facilities. Meanwhile, on Monday, Iran dismissed the possibility of an Israeli strike, saying it did not take Israel seriously.

Iraq's Oil Ministry said South Korea's SK Energy expressed willingness to cancel a deal with the Kurdish Regional Government in hopes of resuming imports of Iraqi oil. It said if SK Energy announced a cancellation of its dealings with the Kurdish region, the government will resume oil sales to SK.

ExxonMobil Corp expects the rate of growth in world energy demand to fall slightly between 2005 and 2030 due to improved energy efficiency. It said global energy demand is expected to increase by an average of 1.2% per year between 2005 and 2030. World demand is expected to increase by 35% from 229 million bpd of oil equivalent in 2005 to 310 bpd of oil equivalent in 2030. Oil, gas and coal are expected to satisfy nearly 80% of world demand through 2030.

The breakaway enclave of Somaliland offered the use of ports along its coastline for foreign naval patrols against Somali pirates. The European Union is scheduled to begin an air and naval operation off Somalia next week while a Danish-led multilateral task force has eight ships and the NATO alliance has an additional four ships patrolling the waters off Somalia. Meanwhile, a Chinese military strategist said China should send naval ships to help fight Somali pirates and urged the country to take a high profile in such operations.

**Refinery News**

ExxonMobil Corp restarted units at its 150,000 bpd refinery in Torrance, California that were shut on Monday for emergency repairs. It said the units are ramping up to full production on Thursday.

Valero Energy Corp said the shutdown of a 36,000 bpd hydrocracking unit at its 340,000 bpd Corpus Christi, Texas refinery for seven days of unplanned repairs will likely affect its distillate production.

Meanwhile, Valero said a crude unit compressor snag on Wednesday did not impact production at its 295,000 bpd Port Arthur, Texas refinery.

Royal Dutch Shell Plc denied that its 420,000 bpd Pernis refinery was shut due to a pipeline fire. It said the refinery was not entirely shutdown. It said its fluid catalytic cracking unit will be shut for at least several days to investigate the cause of the fire.

China's Sinopec may further delay the start up of its 110,000 bpd Tianjin refinery until March 2009 despite having completed its maintenance in early November.

Japan's Nippon Oil Corp said it and Nippon Mining Holdings Inc will cut their crude refining capacity by a combined 400,000 bpd within two years after they announced on Thursday their planned merger.

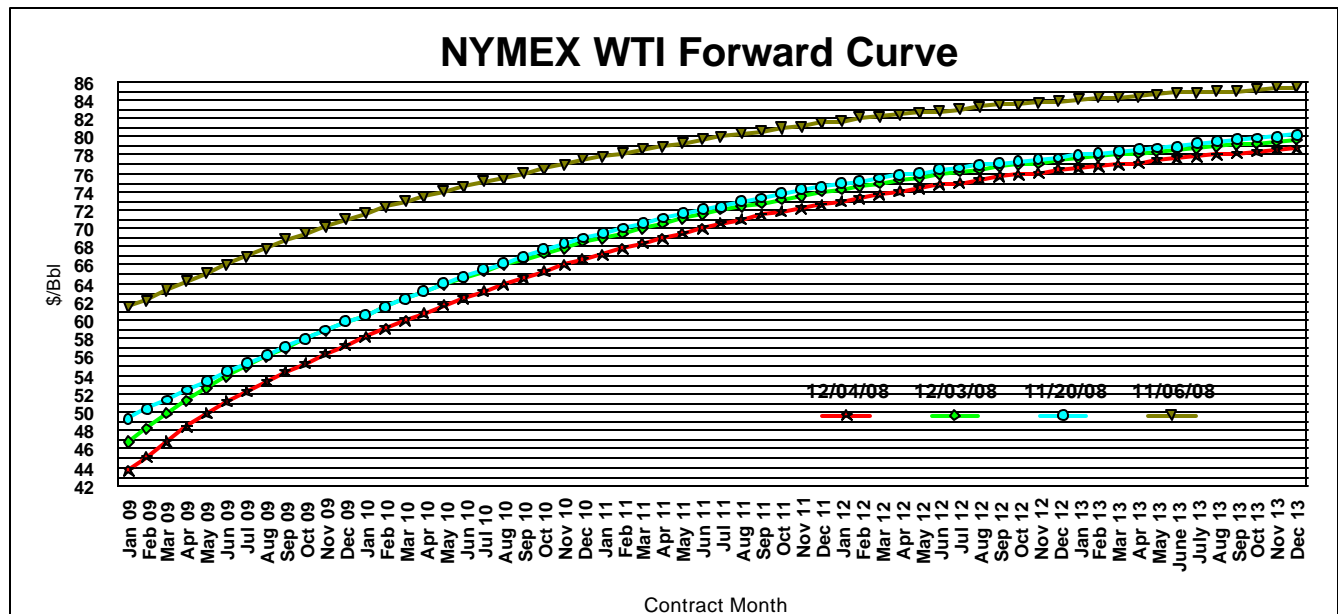
India's Ministry of Petroleum and Natural Gas reported that India's refiners processed 3.13 million bpd of crude in October, up 5% on the year. Crude output during the month was up 0.3% at 686,700 bpd.

Gasoline stocks held in independent oil storage in the Amsterdam-Rotterdam-Antwerp terminal in the week ending December 4<sup>th</sup> increased by 6.22% on the week but fell by 1.13% on the year to 700,000 tons. Gas oil stocks increased by 11.29% on the week and by 49.75% on the year to 1.833 million tons while fuel oil stocks fell by 17.31% on the week but increased by 3.44% on the year to 511,000 tons. Naphtha stocks increased by 53.66% on the week and by 180% on the year to 126,000 tons while jet fuel stocks fell by 9.29% on the week but increased by 257.5% on the year to 547,000 tons.

Singapore's International Enterprise reported that the country's residual fuel stocks fell by 867,000 barrels to 20.705 million barrels in the week ending December 3. It also reported that light distillate stocks built by 894,000 barrels to 9.051 million barrels while middle distillate stocks fell by 1.016 million barrels to 10.751 million barrels on the week.

Indonesia's Pertamina cut its oil product imports to 9.54 million barrels this month from 12.29 million barrels in November. Its diesel imports fell to 3.6 million barrels in December, the lowest level since February 2006. It cut its gasoline imports to 4.56 million barrels and its fuel oil purchases to 680,000 barrels while it increased its jet fuel imports to 700,000 barrels

**Production News**



Iraq is pumping Kirkuk crude through its northern pipeline to Turkey at a rate of about 430,000 bpd on Thursday after the flow restarted Wednesday. The flow restarted after a two day halt due to a technical fault on the section of pipeline in Iraq. Oil in storage stood at about 2.5 million barrels.

Georgia's Black Sea port of Batumi shipped 560,300 tons of crude oil and refined products in November. It is down from 669,200 tons shipped last year. The year on year decline came as some crude was rerouted to the Baku-Tbilisi-Ceyhan pipeline and as railway fees increased in Azerbaijan last year.

The official selling prices for January-loading Iranian, Iraqi and Kuwaiti crude bound for Asia are likely to increase after Saudi Arabia increased the prices of its crude to the region.

A senior official in the National Iranian Oil Co said Iran needs investments of \$160 billion in the next five years in its oil and gas industry. He did not give specific development targets but Iran is expanding oil output capacity to 4.5 million bpd by 2010 from the current level of 4.3 million bpd.

Norway's statistics agency cut its 2008 investment estimate in the country's oil and gas sector to 127.4 billion Norwegian crowns or \$17.81 billion from its previous estimate of 128.2 billion Norwegian crown or \$17.92 billion. It however raised its forecast for 2009 investment to 145.5 billion Norwegian crowns or \$20.34 billion.

Norway's StatoilHydro said it withdrew its application for regulatory approvals to build an upgrader for its Canadian oil sands holdings due to high costs, weak oil prices, economic turmoil and a lack of legislative clarity. It said it will proceed with plans to produce as much as 200,000 bpd of bitumen from its oil sands holdings but sell it on the open market instead of turning into more valuable synthetic oil.

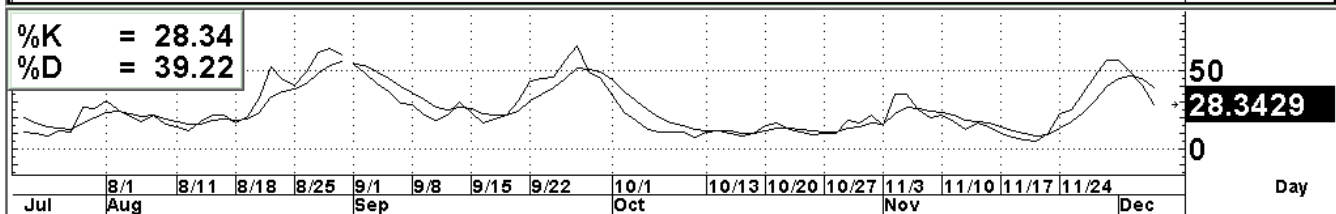
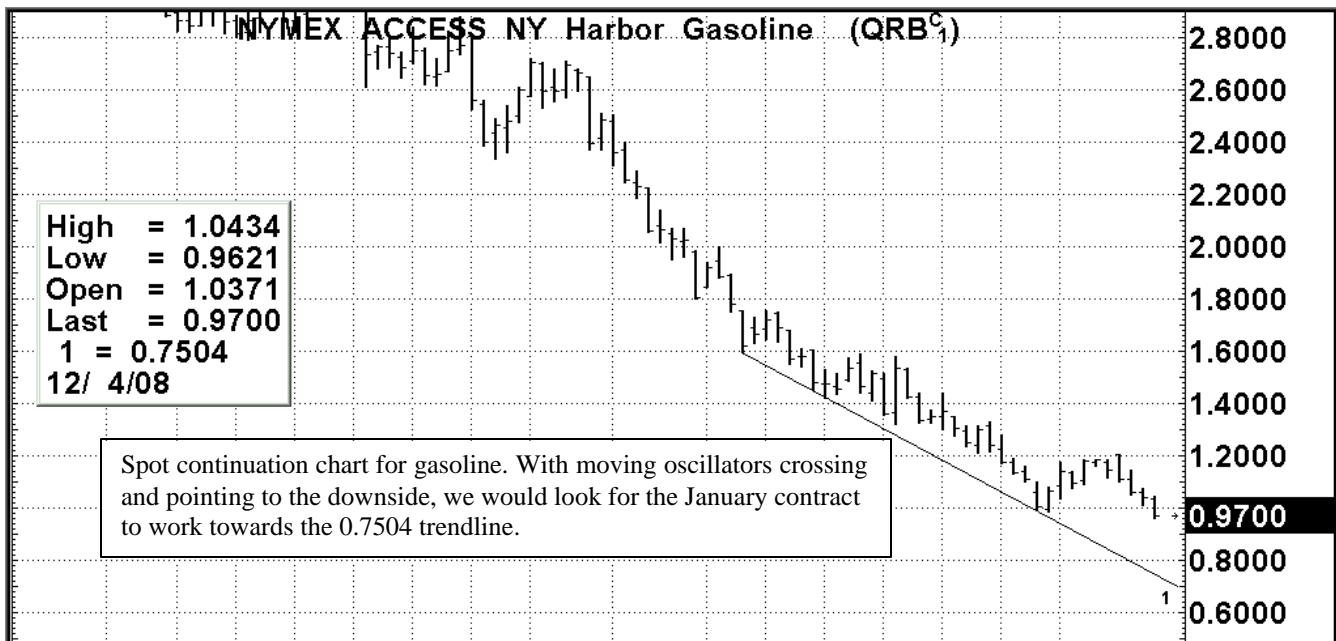
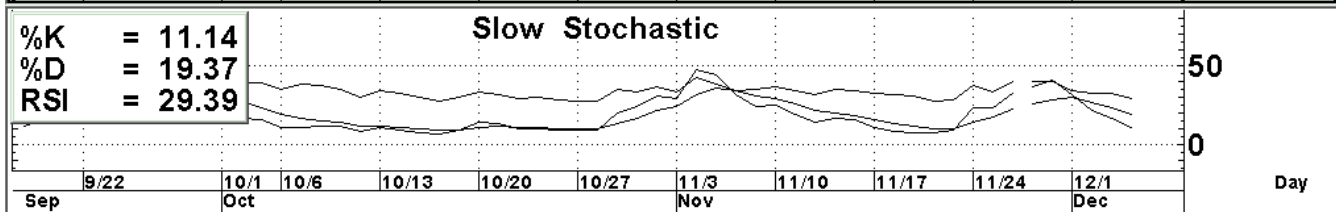
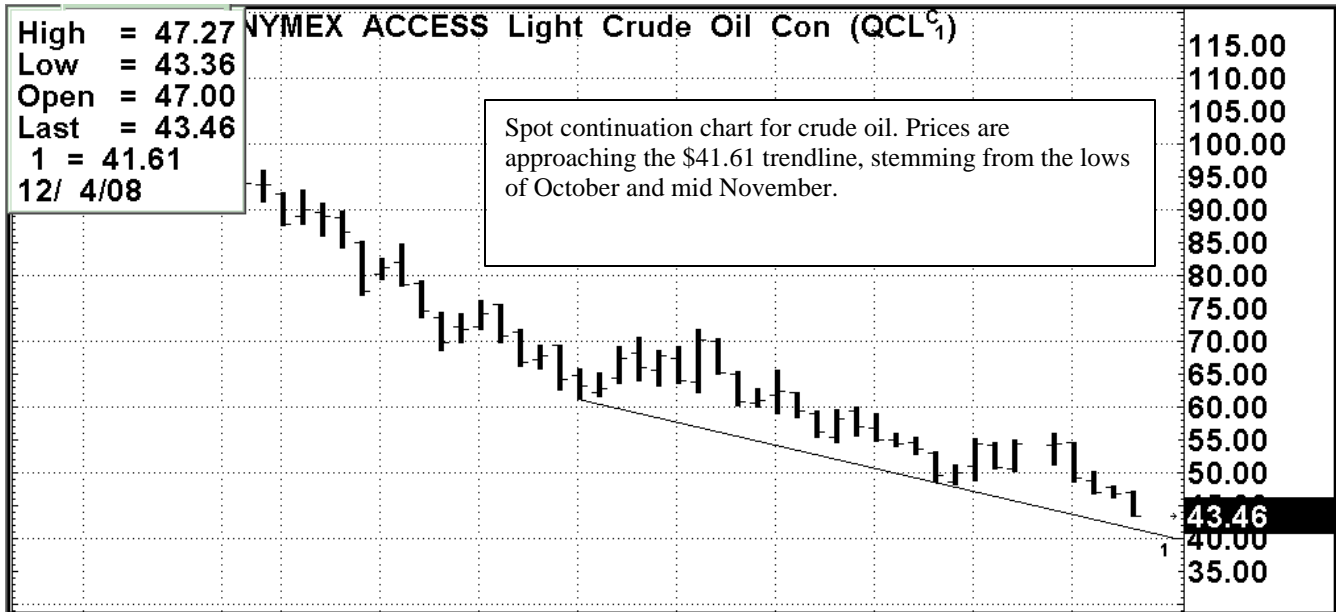
OPEC's news agency reported that OPEC's basket of crudes fell further to \$40.75/barrel on Wednesday, down from \$41.60/barrel on Tuesday.

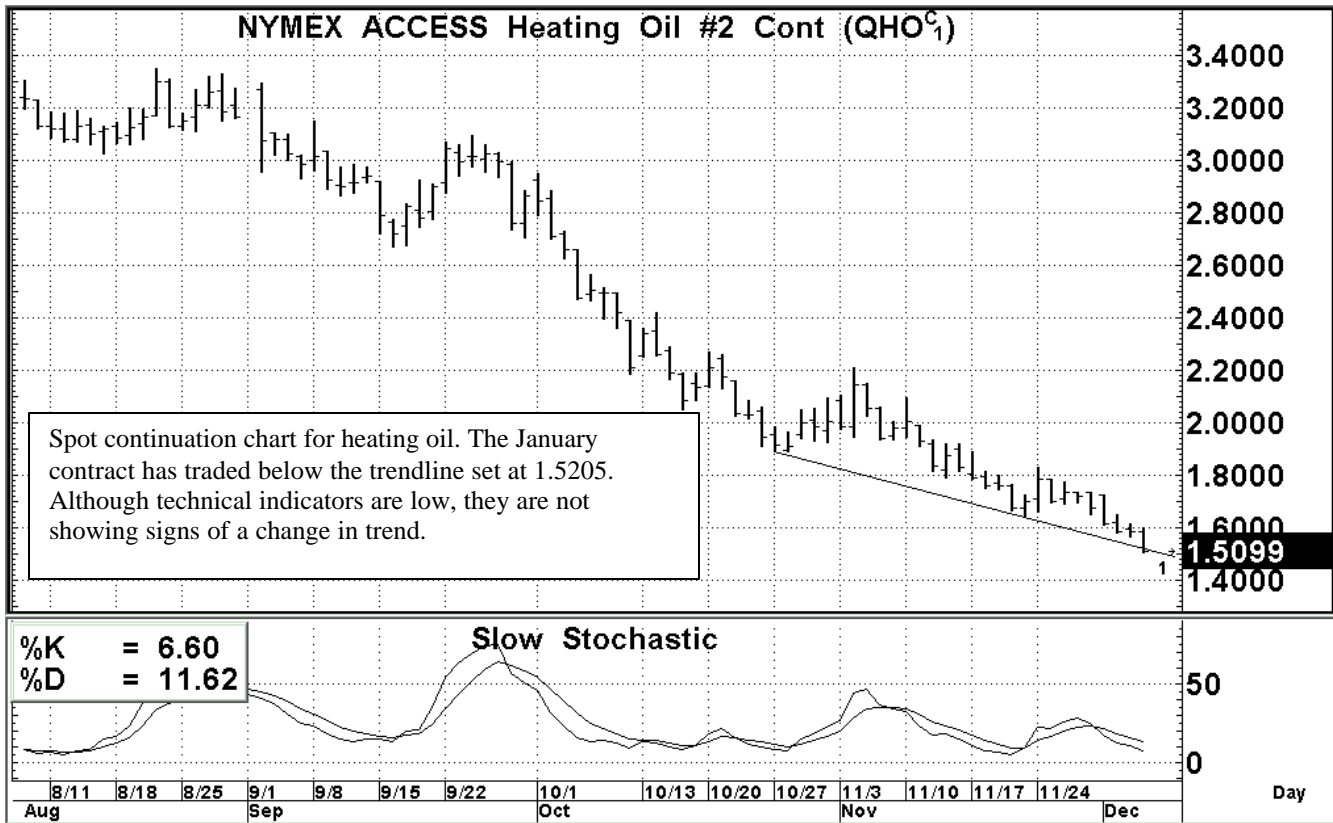
### **Market Commentary**

With unemployment in the U.S. expected to reach its highest level in 26 years and U.S. factory orders declining 5.1%, the price of crude oil fell to its lowest level since January, 2005. Gasoline fell below \$1.00 a gallon to its lowest level since February of 2004. U.S. fuel consumption is down 6.2% on the year, as signs of the economy slipping further into a recession stymies demand. One Merrill Lynch analyst has predicted that the price of crude oil could dip below \$25.00 per barrel if the economic situation worsens. The steepness of the forward curve for crude oil continues to indicate oversupply of product in response to slackening demand. The January crude oil contract is approaching support set at \$41.61. Technical indicators, although low, are supporting further downside potential. We would look for a test at the aforementioned trendline and for prices to possibly head lower. Gasoline fell for the fifth straight day, dipping below \$1.00 basis the January contract. Slow stochastics, having crossed to the downside are indicating that the January contract should sustain further weakness. Based on this, we would look for a test at the \$.7504 trendline. Although the margin for turning crude oil into gasoline gained .28 cents on the cash market, the January gasoline crack fell further into negative territory, The weakness in the January gasoline crack spread may be indicative of waning demand, as expectations for the economy look grim. The front month gasoline crack spread has been trading in negative territory since October 7<sup>th</sup> and technical indicators are calling for further weakness. Heating oil, which was influenced by the natural gas market, also headed lower today. The January contract traded below the \$1.5205 trendline indicating further downside movement.

Open interest: Crude oil (CL) JAN.09 308,710 +11,091 FEB.09 102,853 +7,351 MAR.09 69,488 +2,597 Totals: 1,173,188 +25,713, Heating oil (HO) JAN.09 65,799 -550 FEB.09 24,503 +2,837

MAR.09 22,689 -398 Totals: 222,718 +4,601 NEW YORK HARBOR RBOB GASOLINE (RB) JAN.09  
 77,673 -694 FEB.09 24,252 +3,171 MAR.09 16,535 +112 Totals: 180,710 +5,036





<b>Crude Support</b>	<b>Crude Resistance</b>
41.61, 40.45, 38.20, 36.75	52.75, 53.75, 57.23, 60.01, 62.79, 65.56, 67.00, 72.53, 74.30,
<b>Heat Support</b>	<b>Heat resistance</b>
1.4530, 1.3450	167.15, 171.85, 176.70, 2.2796, 2.3720
<b>Gasoline support</b>	<b>Gasoline resistance</b>
94.10, 7760, .6840	115.75, 119.90, 121.90, 136.14, 1.8240, 192.85, 2.0270, 2.0690, 2.1400, 2.1980, 2.2865

The information contained in this letter is taken from sources, which we believe to be reliable, but is not guaranteed by us as to accuracy or completeness and is sent to you for information purposes only. The Windham Group bases its market recommendations solely on the judgment of its personnel. Reproduction in whole or part or other use without written permission is prohibited.