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## ***ENERGY RISK MANAGEMENT***

Howard Rennell, Pat Shigueta,  
& Karen Palladino

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

**www.e-windham.com**

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### **ENERGY MARKET REPORT FOR DECEMBER 8, 2009**

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Algeria's Oil Minister Chakib Khelil said OPEC will most likely keep its output targets unchanged at its December 22<sup>nd</sup> meeting. He said the oil market is oversupplied. He also stated that the economic climate will see some improvement in 2010 and oil prices are expected to be between \$70 and \$80/barrel next year.

Iran's OPEC Governor, Mohammad Ali Khatibi said he sees a stronger economy in 2010 and added that the oil market is currently balanced between supply and demand.

#### **Market Watch**

Several cargoes of Russian gasoil are floating in the waters off the Atlantic Coast of North America, waiting for the arrival of cold weather to siphon off existing heating oil inventories before unloading. Shippers and traders estimate the number of cargoes of the New York Harbor at about two to three medium sized tankers, although some have estimated the number of cargoes as high as 10, with the possibility of about six more off the coast of Canada.

The IHS Cambridge Energy Research Associates said the fall in the costs of building and operating oil and gas facilities since the start of the economic downturn appears to be bottoming out. The IHS CERA Upstream Capital Costs Index, which measures the cost of constructing new oil and gas facilities, has fallen 4% over the last six months but now looks to be approaching its bottom. The Upstream Operating Costs Index has already rebounded by 1% in the last six months after falling 8% in the prior year.

Mexico has hedged the majority of its net oil exports for the second consecutive year. Mexico's Finance Minister Agustin Carstens said the country hedged 230 million barrels of oil exports for 2010 at an average price of \$57/barrel. The hedges use a similar put option strategy that proved successful in 2009. Mexico paid its unidentified counterparties \$1.172 billion for its 2010 hedge. It made over \$5 billion in 2009 from its oil hedging program.

Nigeria's special adviser to the president on energy matters, Emmanuel Egbogah, said the country's oil reform law should be enacted this month. He said the new law would not impact investments. He said the new law would offer many concessions and allowances for the industry and make operations transparent. Royal Dutch Shell, ExxonMobil, Total and Chevron have criticized the Petroleum Industry Bill, saying it could threaten billions of dollars of investment if it is approved its current form.

Russia's Oil Minister Sergei Shmatko said he is comfortable with oil at its current price. He said he is happy with oil prices at around \$75/barrel.

#### **API Stocks**

**Crude** – down 5.815 million barrels

**Distillate** – up 1.011 million barrels

**Gasoline** – down 753,000 barrels

**Refinery runs** – up 1.3%, at 81.4%

According to the EIA's latest Short Term Energy Outlook, world oil demand in 2009 will average 84.12 million bpd, down 20,000 bpd from its previous forecast while oil demand in 2010 will increase 1.1 million bpd to 85.22 million bpd, down

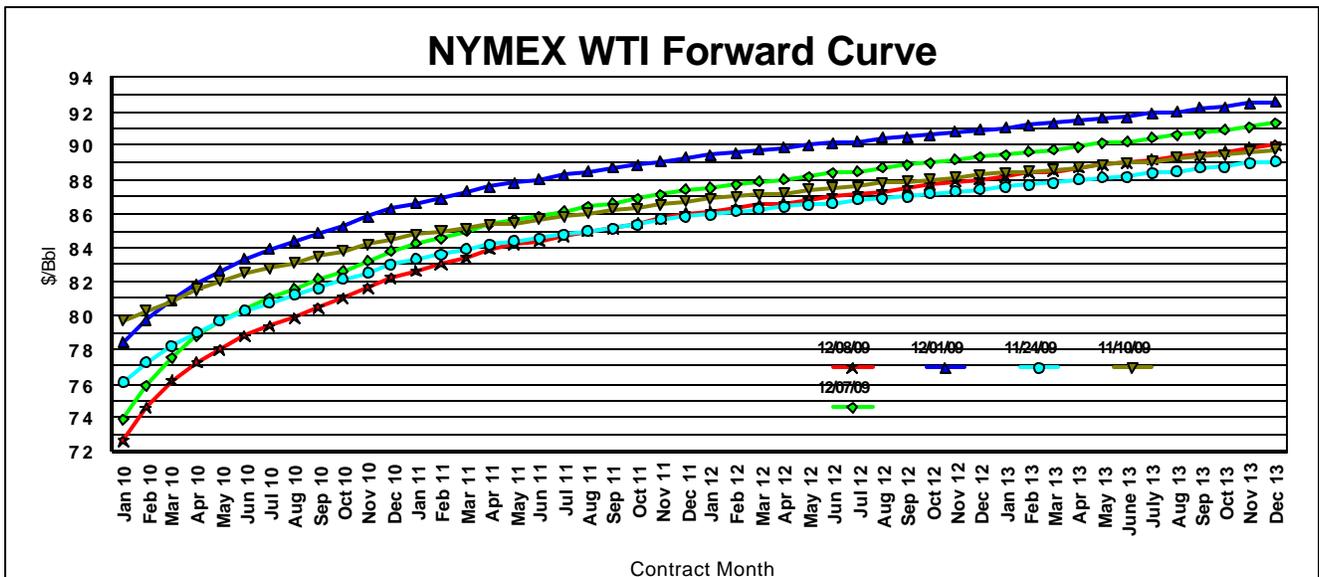
180,000 bpd from its previous forecast. Countries outside of the Organization for Economic Cooperation and Development are likely to account for almost all of the growth. The EIA expects non-OPEC oil production to average 50.3 million bpd in 2009, up 600,000 bpd on the year. Projected non-OPEC supply growth will slow to 200,000 bpd in 2010, largely the result of lower growth in the US and FSU. OPEC crude oil production is expected to average 29.1 million bpd in 2009, down more than 2 million on the year. OPEC crude oil production is forecast to increase to an average of 29.6 million bpd in 2010 due to an anticipated rebound in world oil demand. OECD commercial oil inventories stood at 2.77 billion barrels at the end of the third quarter of 2009, 115 million barrels above a 5 year average. Inventories are projected to be at 58 days of forward supply at the end of 2009, 5 days above the 5 year average for that time of the year. The EIA estimated total US oil and oil product demand at 18.7 million bpd, down 800,000 bpd on the year. It is down 20,000 bpd from its previous estimate. Total demand in 2010 is estimated to increase by 270,000 bpd to 18.97 million bpd, down 40,000 bpd from its previous estimate. Gasoline demand in 2009 is estimated to increase by 10,000 bpd to 9 million bpd, down 10,000 bpd from its previous estimate while demand in 2010 is estimated at 9.04 million bpd, down 30,000 bpd from its previous estimate. Distillate demand in 2009 is expected to fall by 340,000 bpd to 3.61 million bpd, unchanged from its previous estimate while demand in 2010 is expected to increase by 80,000 bpd to 3.69 million bpd, down 30,000 bpd from its previous estimate. In regards to prices, the EIA stated that the price of WTI will average about \$76/barrel this winter. Its forecast for the monthly average WTI price falls to \$75/barrel early next year than increases to \$82/barrel by December 2010. It estimates the annual average retail price of gasoline at \$2.35/gallon in 2009 and \$2.83/gallon in 2010. Projected annual average diesel retail prices are \$2.46/gallon and \$2.96/gallon in 2009 and 2010, respectively. Average household expenditures on heating oil this winter are expected to increase to \$1,911 from \$1,864 last winter.

<p align="center"><b>December Calendar Average</b></p> <p><b>CL – \$75.58</b></p> <p><b>HO – \$2.0319</b></p> <p><b>RB – \$1.9781</b></p>
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The IEA's chief economist Fatih Birol said oil prices may increase in 2010 as encouraging economic data signal a global recovery.

MasterCard Advisors LLC said US gasoline demand increased by 0.9% or 84,000 bpd to 9.442 million bpd in the week ending December 4<sup>th</sup>. It is at its highest level since August 14<sup>th</sup>. On a four week basis, demand increased by 0.7% on the year. It also reported that the US average retail price of gasoline was unchanged for the third consecutive week at \$2.62/gallon.

ExxonMobil Corp expects world energy demand to be about 35% higher in 2030 than it was in 2005, due to growth in developing countries like China and India. BP said rapid economic growth in



developing countries will increase their energy demand by about 65% through 2030 compared with 2005. By contrast, in developed countries, energy demand is expected to be essentially flat over the period to 2030, even though their economies will be more than 50% larger on average.

European Union Foreign Ministers agreed that Iran's persistent blockage of international talks on its nuclear program requires a clear response, including new appropriate measures.

### **Refinery News**

Alon USA Energy Inc said there is no overall production impact at its 70,000 bpd Big Spring, Texas refinery following a brief power interruption on Monday.

ConocoPhillips restarted a crude unit and reformer unit at its 195,000 bpd Ponca City, Oklahoma refinery the following the completion of maintenance that started in October.

A hydrogen plant operated by Praxair Inc at Motiva Enterprises' 285,000 bpd Port Arthur, Texas refinery was shut on Tuesday following an explosion.

The Louisiana Offshore Oil Port is studying the construction of additional storage at its Clovelly, Louisiana onshore terminal, as efforts to establish a new US Gulf Coast price benchmark intensifies. Companies using LOOP want more ability to segregate different types of crude. Analysts have said the CME Group's start of new contracts, both physically and financially deliverable, based on US Gulf Coast sour crudes could lead to more storage as a way of increasing market liquidity in the new contracts. The LOOP currently has 53 million barrels of underground storage with space to add more. It has 10 above ground tanks totaling 6 million barrels with two more 600,000 barrel tanks scheduled to be completed by February.

The official IRNA news agency reported that Iran will reduce its subsidized gasoline quota for private motorists to 80 liters, down from the current quota of 100 liters, starting December 22<sup>nd</sup>. Iran lacks sufficient refining capacity and import 40% of its gasoline, a burden for its annual budget.

### **Production News**

The Iraqi Oil Ministry said it will not delay the auction this week of 10 oilfield contracts after three bombs attacks. An Oil Ministry official said the auction will occur on Friday and Saturday as scheduled. Executives from international oil companies are due in Baghdad on December 11-12 to attend the auction, at which the government is offering 20-year service contracts for 10 untapped oilfields.

Oil exports from Iraq's southern Basra offshore oil export terminals fell more than 50% to 792,000 bpd from 1.848 million bpd on Tuesday due to bad weather conditions.

The Baku-Tbilisi-Ceyhan oil pipeline is expected to pump 22.6 million barrels or 729,032 bpd of crude oil in January, down 4.75 million barrels from November.

Trade sources said one Nigerian Qua Iboe cargo for loading in January will be delayed, while some December cargoes may be reduced in size following production problems. Exxon has moved the planned loading date of one of its cargoes by four weeks to January 30-31 from January 1-2.

Russia's Lukoil has cut its long term oil and gas output targets, mainly because of weak demand in Europe. It said the main output revisions would come in the gas segment in the Caspian Sea and Yamal peninsula regions, allowing it to save \$15 billion to 2019 versus the previous program.

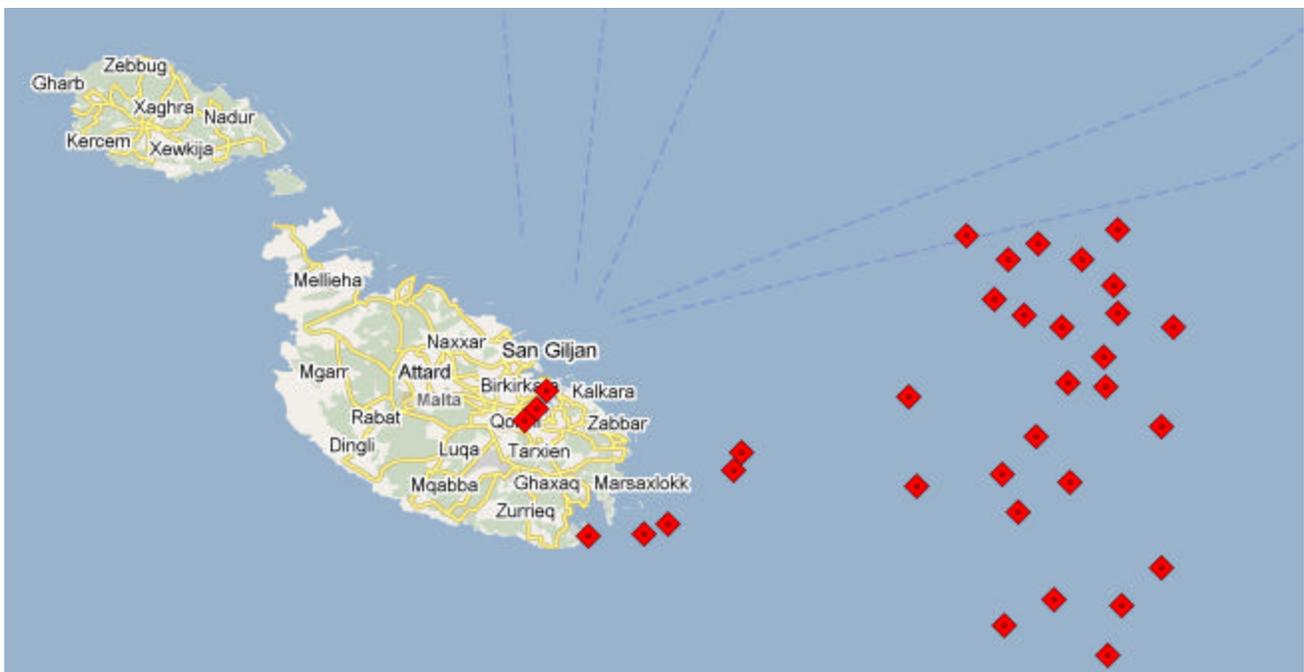
China has offered to invest \$50 billion for acquiring 6 billion barrels of oil reserves in Nigeria in a proposal made in June.

China National Petroleum Corp said it aims to increase oil and gas production capacity from domestic blocks in cooperation with foreign partners to over 15 million metric tons/day of oil equivalent by 2015. The targeted production capacity by PetroChina Co will be more than double the 6.57 million tons/day of oil equivalent produced from 23 joint oil and gas projects in 2008.

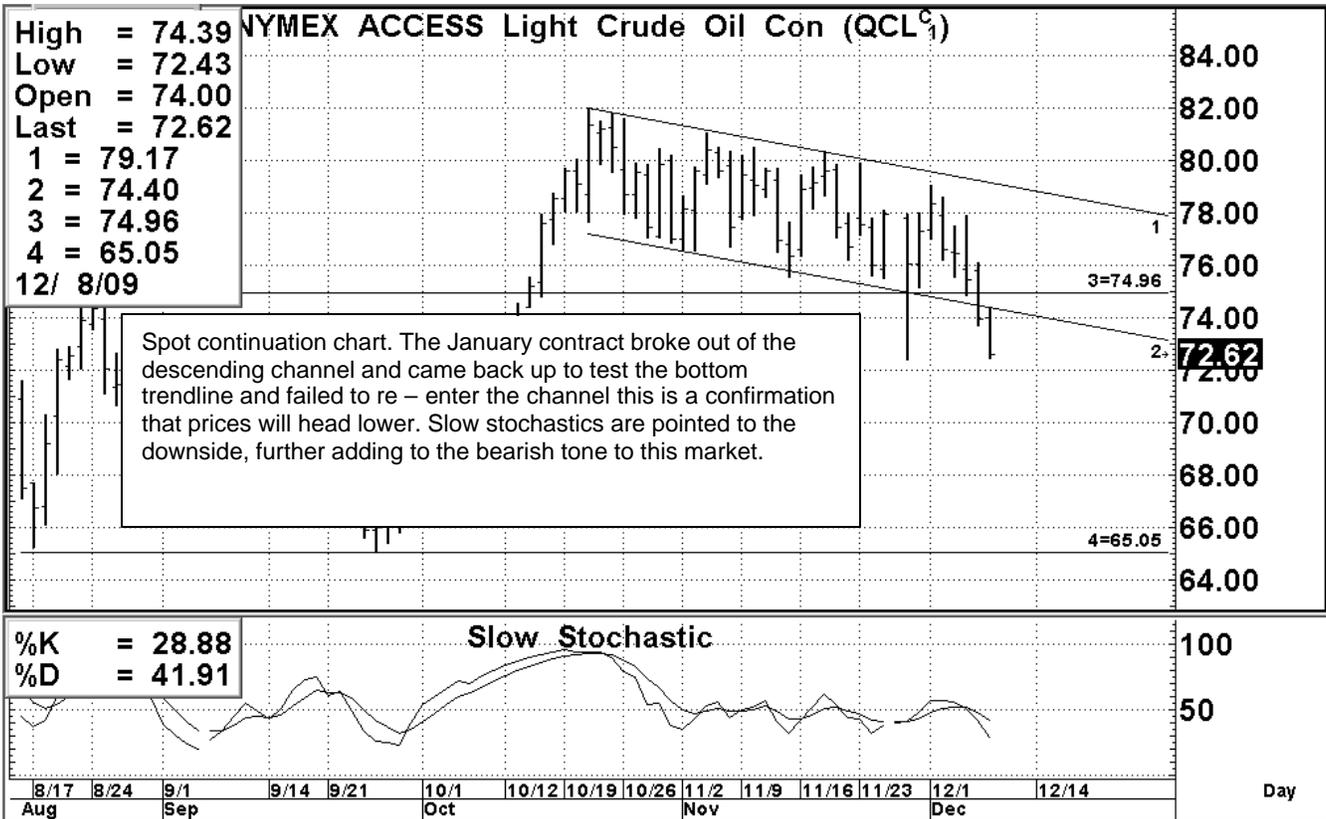
### **Market Commentary**

Crude oil fell to its lowest level in eight-weeks on expected increases in U.S. inventory levels for the week ending December 4<sup>th</sup> and as the dollar gained against the euro. This market continues to lack economic support at a time when supplies are abundant for both crude oil and distillate. Stock levels at Cushing continue to mount as the contango condition in this market deepens. Contango market conditions, where the deferred trades at a premium to the nearby, allows a profitable margin for buyers to store inventory to sell at a later date. There are currently 33 tankers docked at or moored off of the Island of Malta that are being held as offshore storage. From a technical perspective, this is the second time that the January crude oil contract settled below the descending channel on a spot continuation chart. Today prices came back and tested the bottom trendline but failed to re-enter it. This failure can be taken as a confirmation that the trend remains to the downside and that the projected initial downside objective of \$69.73 should be met. We believe that additional downside movement to the \$65.00 level is very possible.

Crude Jan. 10 307,952 -12,475 FEB.10 141,942 +19,097 MAR.10 122,637 +15,959 Totals: 1,264,080 Heating oil Jan.10 79,993 -4,619 FEB 10 50,344 +3,389 MAR.10 38,485 +514 Totals: 315,127 +1,093 Gasoline JAN.10 85,586 -5,926 FEB.10 39,170 208 MAR. 10 35,356 +2,125 Totals: 245,700 -1,678.



This is a snap shot of the Island of Malta. The red squares represent tankers that are moored off shore or docked at Malta. These tankers have been sitting offshore for quite sometime and are being utilized as off – shore storage. There are currently 33 tankers in this region.



<b>Crude Support</b> 74.49, 73.52, 71.52, 65.05, 64.70, 63.38, 62.70, 61.61, 60.95	<b>Crude Resistance</b> 75.85, 76.15, 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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