

**W** The  
Windham Group



## ***ENERGY RISK MANAGEMENT***

Howard Rennell, Pat Shigueta,  
& Karen Palladino  
**(212) 624-1132 (888) 885-6100**

**www.e-windham.com**

---

### **ENERGY MARKET REPORT FOR JANUARY 27, 2011**

---

The UAE's Oil Minister Mohammed al-Hamli said the market is well supplied and high prices were mainly driven by traders and cold weather. He said OPEC has enough spare capacity to meet increasing global demand if needed. He also stated that the UAE was still producing within its quota.

The head of the IEA, Nobuo Tanaka said Saudi Arabia is pumping more oil than it reports, despite OPEC officials' and customers' views that volumes were unchanged. Meanwhile, OPEC's Secretary

#### Market Watch

The US Labor Department reported that the number of US workers filing initial unemployment claims increased by 51,000 to 454,000 in the week ending January 22<sup>nd</sup>. It is at the highest level since October 2010. The previous week's level was revised to 403,000 from 404,000. The report showed that the number of continuing claims increased by 94,000 to 3,991,000 in the week ending January 15<sup>th</sup>. The unemployment rate for workers with unemployment insurance was 3.2% in the week ending January 15<sup>th</sup>, up 0.1% on the week.

The US Commerce Department reported that demand for durable goods unexpectedly fell in December as manufacturers' orders for durable goods fell by 2.5% to a seasonally adjusted \$191.04 billion. Durable goods orders in November were revised up slightly to a 0.1% decline compared with a previous estimate of a 0.3% decline.

The Institute for Supply Management said its index of national factory activity was 58.5 in December compared with the 57 level that was originally reported. The index's employment component was also revised higher to 58.9 from 55.7. Its December non-manufacturing index was unchanged at 57.1.

The Federal Reserve Bank of Kansas City's manufacturing index fell to 11 in January from 21 in December.

The National Association of Realtors' index for pending sales of existing homes increased by 2% to 93.7. The increase followed a downwardly revised monthly 3.1% increase in November. The pending sales index was 4.2% below its level of 97.8 in December 2009. It was the fifth increase in six months.

The European Commission stated that Euro zone economic sentiment fell slightly to 106.5 in January from 106.6 in December.

The IMF warned that heavily indebted advanced economies urgently need to establish deficit-cutting plans. It said that the pace of deficit reduction was set to slow this year, mainly because of delayed fiscal adjustments in the US and Japan. Its warns came as rating agency Standard & Poor's cut Japan's long term sovereign debt rating for the first time since 2002, saying Japan lacked a plan to deal with its debt load. It reduced the rating to AA minus.

China is expected to introduce its first property tax for home buyers throughout the country, in an effort to curb increasing home prices. China's Ministry of Finance, tax bureau and Housing Ministry said the size of the tax and date of introduction will be decided by local governments. Property prices are one of the two main drivers of China's inflation, along with food prices.

**January  
Calendar Averages**  
**CL – \$89.45**  
**HO – \$2.5972**  
**RB – \$2.4383**

General Abdullah al-Badri said Saudi Arabia has not increased its oil production adding that the group would only increase its output when it sees imbalances in the market.

Oil Movements reported that OPEC's oil exports, excluding Angola and Ecuador, are expected to increase by 330,000 bpd to 23.67 million bpd in the four weeks ending February 12<sup>th</sup>.

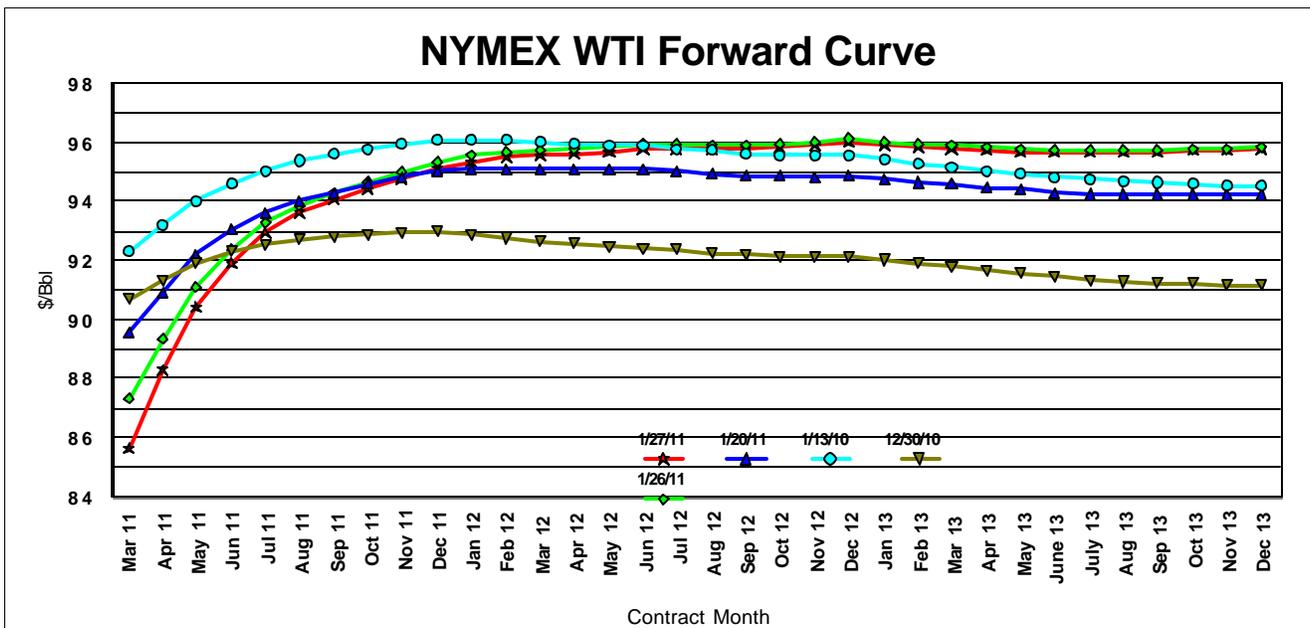
According to Genscape, US crude oil inventories at the Cushing, Oklahoma terminal fell by 493,531 barrels to 40.05 million barrels in the week ending January 25<sup>th</sup>. Crude tanks at Cushing are filled to 72% of capacity.

Kuwait Petroleum Corp is concerned that current high oil prices may contribute to the start of another global downturn as they did nearly three years ago.

ExxonMobil's chief executive Rex Tillerson said he believed oil prices would remain at current levels in the mid-term as OPEC can quickly compensate an increase in demand.

A member of the US CFTC, Bart Chilton said it may have to demand user fees from traders if Congress does not give the agency the money needed to regulate the market in the over-the-counter derivatives. He said imposing a fee would be a last resort to pay for staff and technology needed to prevent another financial crisis.

G-20 leader France will propose to regulate commodity derivatives markets. Its proposal is expected to include position limits, identifying commodity players as either speculative or commercial while also seeking a framework to record over-the-counter or non-exchange trades. France's President Nicolas Sarkozy reiterated the need for more transparency of global agricultural supplies in order to curb volatility in food prices.



Lipper data showed that monthly inflows into US commodity products and mutual funds fell by 30% in December to \$2.2 billion. Total net investment in the over 100 regulated US products and funds increased to \$144.4 billion. In November, inflows for commodity products and mutual funds totaled \$3.1 billion.

## **Refinery News**

ExxonMobil reported a unit malfunction at its 344,500 bpd refinery in Beaumont, Texas.

Tesoro Corp restarted a process unit at its 96,860 bpd refinery in Wilmington, California. It reported the unscheduled shutdown of the unit at the refinery in Tuesday. Meanwhile Tesoro Corp's 58,000 bpd refinery in Salt Lake City, Utah returned to full planned rates on Wednesday afternoon.

Valero Energy Corp said its 235,000 bpd refinery in Aruba was near planned rates as it approaches the end of a planned restart that began early this month.

Japan's Showa Denko will cut its runs at its 695,000 ton/year naphtha cracker to 80% of capacity in March due to planned partial maintenance. The 20% production loss would result in a naphtha demand loss of about 36,000 tons.

Gasoil stocks held in independent storage in the Amsterdam-Rotterdam-Antwerp area in the week ending January 27<sup>th</sup> fell by 5.64% on the week and by 4.23% on the year to 2.561 million tons. Gasoline stocks increased by 24.71% on the week but fell by 7.28% on the year to 853,000 tons while fuel oil stocks increased by 19.6% on the week and by 21.06% on the year to 891,000 tons. Naphtha stocks increased by 41.67% on the week and by 59.38% on the year to 51,000 tons while jet fuel stocks increased by 12.07% on the week but fell by 13.96% on the year to 715,000 tons.

Japan's Ministry of Finance said the country's crude oil and condensate imports in 2010 increased by 0.8% on the year to 214.6 million kiloliters or 3.7 million bpd. Japan's crude oil imports in December fell by 1.7% on the year to 4.14 million bpd.

Singapore's International Enterprise reported that the country's residual fuel stocks built by 523,000 barrels to 19.083 million barrels in the week ending January 26<sup>th</sup>. It also reported that its light distillate stocks fell by 643,000 barrels to 9.871 million barrels and its middle distillate stocks fell by 586,000 barrels to 12.266 million barrels on the week.

India's Oil & Natural Gas Corp issued a tender offering 700,000 barrels of Sokol crude for April 1-4 loading from Russia's DeKastri terminal.

Germany's inland navigation authority said shipping on the Rhine River will be blocked on Thursday to allow salvage work on a capsized tanker loaded with sulphuric acid. The vessel capsized on January 13<sup>th</sup>.

## **Production News**

Statoil said oil and gas production at the Oseberg South and East fields in the North Sea resumed while output at the Oseberg A, B and D platforms were still shut in following a gas leak on Monday. Oseberg South produces 39,000 bpd of oil and 370 million standard cubic meters/year of gas while Oseberg East produces 7,000 bpd of oil.

Separately, Statoil said its Canadian oil sands SAGD project produced its first oil in September of last year. It said it is approved to produce 10,000 bpd and it is expected to increase to 18,000 bpd within 24 months.

An Alberta government spokesman said there was no end in sight for the stop-work order at Canadian Natural Resources Ltd's Horizon oil sands project.

Mexico's Transport Ministry reported that it reopened its Dos Bocas and Cayo Arcas oil ports on Thursday morning after the ports were closed on Wednesday due to bad weather.

A tropical cyclone in the northwest coast of Australia forced additional oil fields to shut in production on Thursday. Woodside Petroleum shut oil production at its Enfield operations on Thursday after it shut its Cossack oil field earlier in the week. Apache Corporation halted production at its Stag oil field. Production was also halted at the BHP Billiton operated Pyrenees floating production, storage and offloading vessel due to Tropical Cyclone Bianca. On Wednesday, Chevron Australia halted production at its oil processing facilities on Barrow and Thevenard Islands and Santos said it halted production at its offshore Mutineer-Exeter field, moving its floating production, storage and offloading platform out of the path of the cyclone.

Crude producers including Hess Corp and distributors including Musket Corp are using railroads to ship oil from North Dakota as production from the Bakken Shale formation increases faster than pipelines can be built. Crude production in North Dakota increased by 83% to 329,000 bpd in August from two year earlier. There is capacity to ship about 125,000 bpd of oil out of the Williston Basin area. Hess Corp is building a rail station that would give it the ability to ship 130,000 bpd of crude from the Bakken Shale fields. The company plans to increase its Bakken crude production in the next five years to 80,000 bpd from the current 25,000 bpd. Pipeline operators including NuStar Energy LP and Kinder Morgan Energy Partners LP are also investing in railway infrastructure to ship crude from new production sites to trading hubs as terminal operators increase storage capacity.

ExxonMobil is expected to make a new investment in Russia for the first time in over a decade. Russia's Rosneft will develop over a billion tons of Black Sea oil using a \$1 billion investment by ExxonMobil.

Noble Corp said one of its deepwater rigs was leaving the Gulf of Mexico and it expected more to follow. It has a letter of intent with Royal Dutch Shell Plc to move the Clyde Boudreaux rig to Brazil for a year.

Nigerian National Petroleum Corp said the country's combined crude oil and condensate production is currently 2.4 million bpd but still remained within its OPEC quota. It also stated that the plants supply power to Nigeria were receiving more gas than they could generate.

Nigeria will export an average of about 1.91 million bpd of crude oil in March, down from about 2.01 million bpd in February. A total of 67 full or part cargoes of Nigerian crude are due to load in March compared with 61 cargoes scheduled in February.

China's Cnooc Ltd expects its crude oil and natural gas production this year to increase by 8-12% from 2010 as some new projects come on stream. It is targeting a production of 355 million-365 million barrels of oil equivalent, up from 327 million-329 million barrels in 2010.

Petroecuador exported 91.2 million barrels of petroleum in 2010, up 9.3% from 83.4 million barrels it sold overseas in 2009.

Vietnam's crude oil production in January increased by 3.5% on the year to an estimated 1.26 million tons or 298,600 bpd.

Libya's National Oil Co rolled over most of its official selling prices for February term supply of its crude. The benchmark Es Sider crude price for February was kept unchanged at a discount of 25 cents against Dated Brent.

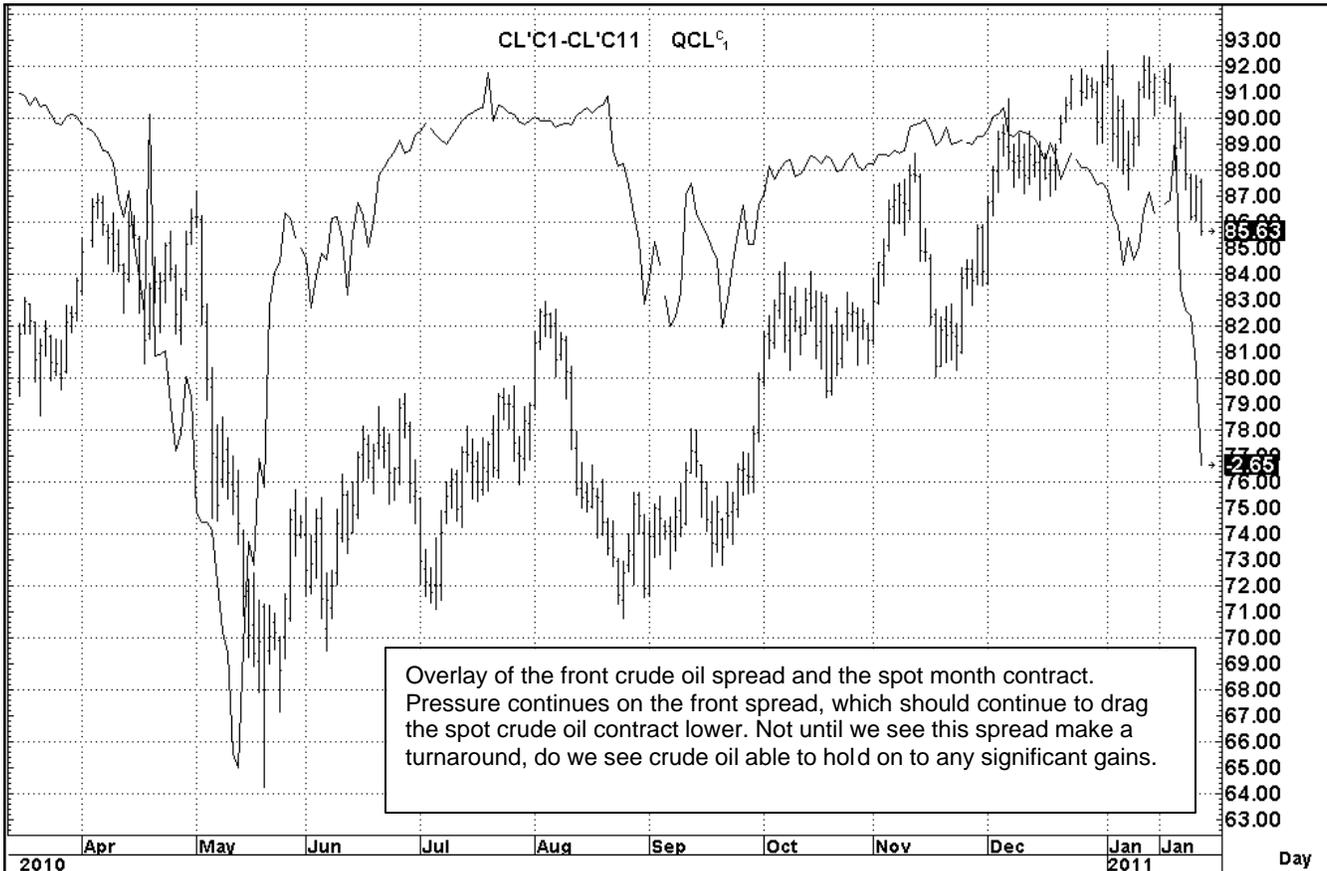
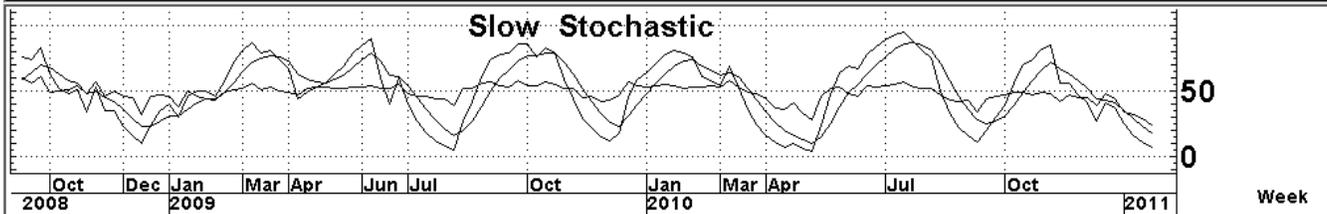
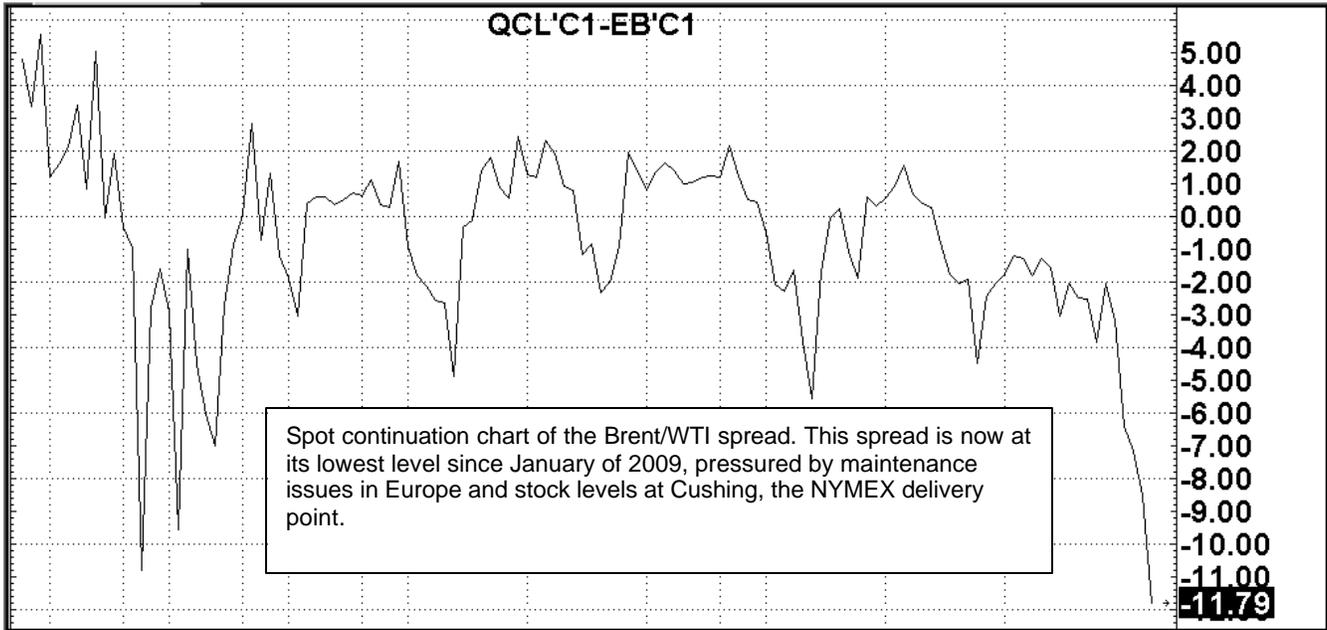
OPEC's news agency reported that OPEC's basket of crudes increased by 78 cents to \$92.58/barrel on Wednesday from \$91.80/barrel on Tuesday.

**Market Commentary**

Crude oil fell as much as 2 percent in response to a rise in U.S. jobless claims, a decrease in U.S. durable goods and a statement by the IEA that Saudi Arabia may be producing more oil than they claim to be. Today's bearish economic news helped to push the Brent/WTI spread to its widest level ever, trading as wide as \$11.68, based upon closing prices. Stock levels at Cushing continue to weigh on the front month spread, bringing it to its lowest level since May. The last time the front spread traded this weak, the price of the front month crude oil contract was \$68.01. Not until barrels start to move out of Cushing do we see this spread having the ability to gain significant strength and therefore we would look for the front end of the curve to remain under pressure as well. Our initial target is \$83.85 and below that the \$80.00 level.

Crude oil: Mar 11 410,630 +2,238 April 11 119,137 +4,990 May 11 96,077 +1,960 Totals 1,508,343 +8,744 Heating oil: Feb 11 22,251 -5,857 Mar 11 111,148 +2,987 Apr 11 46,850 +542 Totals 317,008 +2,513 Rbob: Feb 11 17,470 -5 628 Mar 11 103,590 +5,186 Apr 11 39,333 -2,055 Totals 282,862 - 72

Crude Oil		Heating Oil		Rbob	
Support	Resistance	Support	Resistance	Support	Resistance
	8612	23685	26712		24880
	8800	22960	27070	22560	27085
	9385	22013	29500	22050	
8387	103.85	21860	30955	21600	
8161	111.65	21140		20300	
7945		20702		20130	
7900					



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. 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.