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ENERGY RISK MANAGEMENT

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ENERGY MARKET REPORT FOR FEBRUARY 21, 2011

The situation in Libya was the focus of the oil markets today. The situation there appeared to be spiraling out of control and possibly headed toward a civil war. In Benghazi, the city where the demonstrations began, it appeared that protesters to be largely in control after clashes with the police and troops there over the weekend left dozens killed. There were reports on Al Jazeera that there were no security forces anywhere in that city. There were additional

reports that least nine other towns in the east were under the control of protesters loyal to tribal groups and not the government. Anti-government protests have reportedly broken out in the Libyan oil refinery town of Ras Lanuf along violent demonstrations in the capital of Tripoli. Last night Gaddafi's son in a televised speech warned that the Libyan armed forces would enforce security at any price to put down the revolt. There were unconfirmed reports that Libyan jets and helicopters were directly firing on civilians demonstrating in Tripoli today. This news appeared to be supported by two Libyan jet pilots attempting to defect as they landed their jets in Malta this afternoon seeking asylum, as they had refused to fire on civilians earlier in the day. By the end of the day state TV said Muammar Gaddafi was preparing to make a statement across national media shortly. This comes as late in the day a group of Libyan army officials have issued a statement supposedly urging fellow soldiers to "join the people" and help remove Gaddafi. Diplomats at Libya's mission to the United Nations said Monday afternoon they were calling on the Libyan army to help overthrow "the tyrant Muammar Gaddafi". Libya is Africa's fourth largest oil exporter, producing 1.6 mbd. Given the near total news blackout from Libya, the market was extremely sensitive to rumor. One such rumor earlier in the day had been a report from the British foreign ministry that had reported unconfirmed reports that Gaddafi, which has not been seen publically in recent days, was headed toward Venezuela. This report though was denied later in the day by the Venezuelan government. There were reports that at least 100,000 b/d of crude oil production had been shut in today, as output from Libya's Nafoora oilfield was halted as a result of oilfield workers striking. The Nafoora oilfield is situated in the Sirte basin, which is responsible for the bulk of the country's oil output. Wintershall said it was prepared to shut down its output in Libya and evacuate its staff. Italian oil company, Eni reported this morning that it was

Market Watch

Markit's Flash Eurozone Manufacturing PMI leapt to a near 11-year high of 59 from 57.3 in January, much better than market expectations of 57.3.

Chinese commercial crude oil inventories rose 2.5% at the end of January from the end of December according to the official Chinese news agency. Inventories of refined oil products at the end of January jumped 11% from a month earlier, with diesel stocks growing by 25% while gasoline stocks declined 1.4%.

HSBC flash manufacturing purchasing managers index for February was revised lower for February, from 54.5 to 51.5. The bank noted that China's industrial sector was expanding at its slowest pace in several months, due in part to the recent steady ratcheting up of monetary tightening along with the Lunar New Year holiday period.

It appears that two Iranian warships are now scheduled to pass through the Suez canal on Tuesday as they head into the eastern Mediterranean.

repatriating its non-essential staff from Libya but as of this morning no problems were reported at its plants and operational facilities. The company though said it was reinforcing security measures. Other companies such as Shell, OMV, Statoil, and Repsol were evacuating staff but did not report any impact on production as of today.

Qatar's Energy Ministry said today that the world oil market is well supplied and that high crude oil prices were due to geopolitical factors and speculation rather than shortage. The Angolan energy minister said there was no need for OPEC to add more oil to a well supplied market and that he favored an oil price of \$80-\$90 per barrels.

The head of the IEA's Oil and Markets Division said on Monday that strong international demand was pulling Brent futures higher, while the overhang of oil stocks in the U.S. Midwest was helping to depress U.S. crude oil futures. He said he expects WTI will remain relatively weak compared to Brent and other international markets at least until 2013, at which time more pipelines would be constructed to allow oil from the Midwest to flow further south to the U.S. Gulf Coast.

Refinery News

Euroilstock reported this morning that European refinery output fell in January from the previous month by 0.39% as a result of an early start to the refinery maintenance season in countries like France, Spain and Greece. Refinery production of fuel oil, fell the most on a monthly basis by 3.3% to 1.287 million b/d. Production of gasoline and middle distillates, were lower by 0.2% and 1.8% respectively from December, while naphtha production increased by 3.5%. Versus a year ago, overall oil product production is some 5.7% higher, with gasoline production 3.1% higher with middle distillate and naphtha production up 3.9% and 4.8% respectively. Fuel oil production is off 3.2%.

Japanese refiner Cosmo Oil said Monday that it has resumed normal operations of a 24,000 b/d FCC unit at its 100,000 b/d Sakai refinery on Sunday after completion of repair work. The unit had been shut on February 10th.

The Russian Energy Ministry reported that Russian gasoline, gasoil and fuel oil exports rose in the first 26 days of January when compared to the first 29 days of December. Gas oil exports appeared to be up 15.2% in January from December.

Production News

The head of the National Oil and Gas Authority in Bahrain said today that there has been no disruption in the Bahrain oil sector due to the recent unrest in the country. He also said that the situation is stable and that foreign investors in the energy sector have not been impacted.

Saudi Aramco reported today that its Khurais oilfield is pumping around 1 million b/d. The project is the biggest in Saudi history and the largest ever single addition to global oil supplies. The facilities have a design capacity of 1.2 mbd but could be increased to 1.4 mbd. The field is expected to produce at a minimum of 30 years of sustainable output.

China's crude oil output in January reached 17.48 million tones, up 6.2% from the same month a year ago.

Shell Oil said today that it will carry out maintenance on its Nigerian Bonga offshore facility this month reducing its oil production. February exports are expected to fall from January's levels of 184,000 b/d to just 107,000 b/d and then in March just to 32,000 b/d.

BP and Reliance announced that they had reached agreement in forming a joint venture that will source and market natural gas. BP reportedly will take a 30% stake in 23 oil and gas blocks in India and will pay Reliance \$7.2 billion.

Chevron announced today that it has shut its oil and gas production at Barrow and Thevenard Island facilities due to the approach of Tropical Cyclone Carlos off the coast of Western Australia. Meanwhile Apache Corporation said it has halted production at its Stag and Van Gogh oil fields off the coast as well as Woodside Petroleum shutting operations at its Cossack Pioneer floating, production storage and offloading unit on the NorthWest Shelf.

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