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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 FEBRUARY 25, 2011**

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The Libyan leader's son Saif al-Islam said the government of Muammar Gaddafi would never resort to destroy Libya's oil wealth in its fight to put down an insurrection. He also said the Gaddafi family had no intention of fleeing Libya and added that the government was in control of the west, south and center of the country. Meanwhile, Libya's ambassador to France and another diplomat from Tripoli resigned on Friday in response to the revolt against leader Muammar Gaddafi.

The Libyan army and police in the eastern city of Ajabiya said they had withdrawn from their barracks and joined the opposition trying to topple Libyan leader

#### **Market Watch**

The US Commerce Department reported that the US economy grew slightly at the end of 2010 but the growth was lower than previously thought. GDP increased at an inflation adjusted annual rate of 2.8% in the fourth quarter. Economists expected GDP to be revised up to a 3.3% growth rate in the government's second estimate for the fourth quarter of 2010. The GDP report showed that the price index for personal consumption expenditures or PCE, excluding volatile food and energy items, increased an annualized rate of just 0.5% in the fourth quarter. The overall price index for PCE increased by 1.8% in the fourth quarter following a 0.8% increase in the third quarter.

The Thompson Reuters/University of Michigan survey's final February reading on the overall index on consumer sentiment came in at 77.5, up from 74.2 in January. It was at the highest level since January 2008.

The US Commerce Department said US building permits for January were revised to down 10.2% from December to a seasonally adjusted rate of 563,000. It was originally reported as declining by 10.4% to a seasonally adjusted rate of 562,000.

Richmond Federal Reserve President Jeffrey Lacker said he did not think oil at \$100/barrel or gasoline over \$3/gallon would derail the US economic recovery.

IntercontinentalExchange announced that ICE Futures Europe set an exchange wide daily volume record of 1,698,258 contracts on February 24<sup>th</sup>, surpassing the previous record of 1,626,277 set on February 23<sup>rd</sup>. Volume in Brent crude futures was 821,857 contracts, up from a previous record of 805,232 contracts which was set on February 23<sup>rd</sup>. Volume in Gasoil futures was 445,325 contracts, up from a previous record of 391,046 contracts which was set on November 10, 2010.

Venezuela's Finance Minister Jorge Giordani said the country is in talks with China to finance \$4 billion for a joint investment fund between the two countries.

Portugal's Prime Minister Jose Socrates said the Portuguese government does not yet see an impact on its budget policies from an increase in oil prices due to the unrest in the Middle East.

An Indian Finance Ministry report stated that a slowdown in industrial output, decline in imports and high inflation are factors that could slow down the country's growth momentum in the short run. India's Finance Ministry also stated that India's economy is expected to grow around 9% in the next fiscal year starting April 1<sup>st</sup>. It estimates that growth in the current fiscal year ending in March is 8.6%.

Bank of Japan Governor Masaaki Shirakawa said strong growth in emerging economies is basically behind the recent increase in commodity prices. However he stated that advanced economies' monetary easing was also accelerating the increase in commodity costs.

Kenya's main power producer KenGen plans to generate 80 Mw of power from thermal or diesel sources. Many parts of Kenya, which relies on hydro power for the majority of its electricity, have been hit by severe drought, forcing power producers to use diesel to generate power.

**February  
Calendar Averages**  
**CL – \$89.34**  
**HO – \$2.7689**  
**RB – \$2.5425**

Muammar Gaddafi. Meanwhile, Libyan security forces have not been able to enter Zawiyah, a town west of the capital and the scene of heavy fighting with government opponents. They attempted to seize back control of Zawiyah but were driven back by government opponents. In Tripoli, Libyan government forces shot dead protesters on Friday as unrest broke out across the city assumed to be the last stronghold of leader Muammar Gaddafi. Two people have been killed and several wounded in heavy shooting in several districts.

State television showed Libyan leader Muammar Gaddafi addressing tens of thousands of supporters in Tripoli. The eastern Libyan town of Brega and its oil terminal are under rebel control and soldiers who have defected are helping the rebels to secure the port.

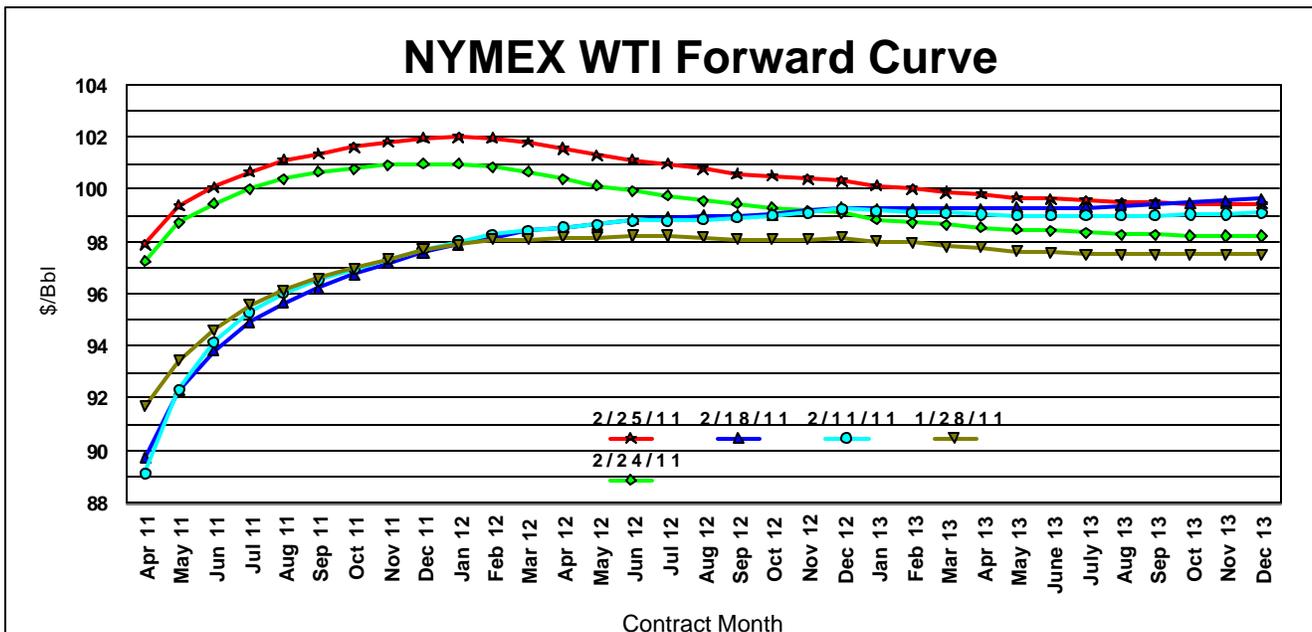
Crude oil exports from Libya have almost stopped because of reduced production, a lack of staff at ports and security concerns. Libya's deputy ambassador to the UN said the country will probably stop exporting oil soon due to security reasons. A member of the coalition that says it is ruling the eastern city of Benghazi on an interim basis said oil deals that are legal and in the interest of Libyan's citizens will be honored.

A senior IEA analyst said the turmoil in Libya will not disrupt the comfortable supply situation in world oil markets in the first half of the year. The IEA estimates that 500,000 to 750,000 have been removed from the market due to the crisis in Libya. It said it would continue to closely monitor the situation and could tap strategic stocks when deemed necessary. The head of the IEA's oil industry and markets division, David Fyfe said the world oil market is comparatively well supplied at the present time. The IEA said European refiners threatened by a Libyan crude supply shortage still have about one month worth of crude stocks. The IEA also stated that it was premature to talk of domino effect in the Arab world. It said there were signs of stronger political structures in the region.

A senior industry source familiar with Saudi production said the country had quietly increased its production to more than 9 million bpd, an increase of more than 700,000 bpd.

Iran's semi-official Mehr news agency reported that Iran will continue to comply with OPEC oil quotas despite an increase of demand following unrest in the Arab world. Iran's Deputy Oil Minister Ahmad Ghalebani said there is no need for an emergency OPEC meeting.

European Union governments reached an agreement on Friday imposing an arms embargo, asset



freezes and a travel ban on Libya. However a formal decision is not expected until early next week. Meanwhile, France and the UK have asked the UN to pass a resolution that would include a total arms embargo and sanctions on Libya as well as a probe from the International Criminal Court. The call for the sanctions was supported by Germany and the EU.

The US State Department said a US chartered ferry carrying hundreds of Americans and other evacuees left Tripoli for Malta after being delayed by high winds and rough seas. The ferry was originally scheduled to leave Tripoli on Wednesday. Separately, UK Prime Minister David Cameron said Britain is sending a Royal Navy destroyer to the coast of Libya and is drawing up plans to pull out British oil workers stranded in desert camps in the country. He said six flights left Libya in the past 24 hours carrying Britons and a Navy frigate, HMS Cumberland, had evacuated Britons and other foreigners from the port of Benghazi. He also asked a Navy destroyer, HMS York, to go in the area to help out as necessary. Relatives of Britons in Libya and opposition politicians have accused Cameron's government of being slow to organize evacuations from Libya.

Thousands of Iraqis on Friday protested against corruption and a lack of basic services in an organized nationwide "Day of Rage" inspired by uprisings around the Arab world. Protestors demonstrated throughout Iraq, from the northern city of Kirkuk to the southern oil hub of Basra.

Tens of thousands of supporters and opponents of Yemen's President Ali Abdullah Saleh held demonstrations in the capital on Friday. Seventeen people have been killed in the past nine days.

The UN's IAEA has received new information regarding allegations that Iran may be seeking to develop a nuclear armed missile. The IAEA report may provide the US and allies with additional arguments for further tightening sanctions on the country.

The EIA reported that US oil demand increased for the first time in five years in 2010, capped by a gain of 2.7% in December. US oil demand stood at 19.148 million bpd in 2010, up 2% or 377,000 bpd on the year. Gasoline demand averaged 9.034 million bpd in the year while distillate demand increased by 4.5% to 3.794 million bpd. The EIA reported that oil demand in December increased by 2.7% or 521,000 bpd to 19.758 million bpd. Gasoline demand in December averaged 8.972 million bpd, up 41,000 bpd on the year while distillate demand stood at 4.169 million bpd.

### **Refinery News**

Colonial Pipeline is allocating its Line 32, servicing deliveries from Dorsey Junction to Curtis Bay, for Cycle 14 as nominations on the line exceed the company's ability to meet its 5-day delivery cycle.

A ruptured Magellan Midstream Partners' oil products pipeline at Texas City, Texas remained shut on Friday as crews worked to clean up an estimated 6,000 barrel gasoline spill. It had no estimate on when repairs would be completed.

Shell Oil Co reported unplanned flaring at its 156,400 bpd refinery in Martinez, California.

ExxonMobil said production was not impacted by a compressor trip at its 344,500 bpd refinery in Beaumont, Texas. Separately, ExxonMobil said there was no offsite impact from emissions at its 238,600 bpd refinery in Joliet, Illinois.

Valero Energy Corp said the conversion of a catalytic cracking unit to a fluid catalytic cracking unit at its 185,000 bpd St. Charles refinery has started. It was previously scheduled to start in March.

ConocoPhillips reported a shutdown of a fluid catalytic cracking unit at its 146,000 bpd refinery in Borger, Texas. The refinery shutdown the unit due to equipment malfunction.

Tesoro Petroleum Corp warned of flaring at its 96,860 bpd refinery in Wilmington, California starting February 27<sup>t</sup> to March 1<sup>st</sup>. It also stated that it would startup an unspecified process unit following completion of routine planned maintenance at its refinery.

Italy's Saras is looking to Russia, Iran and other Caspian countries to replace crude oil shipments from Libya which have virtually stopped amid increasing turmoil in the country. Saras is traditionally a large buyer of Libyan crude with about 40% of its oil supplies in 2009 coming from North Africa, mainly Libya. Saras however does not expect the disruption to last more than a few weeks.

Libya's 220,000 bpd Ras Lanuf refinery halted operations and most of its staff has left. Tanker loadings from the refinery were disrupted and traders are concerned that unrest in the country could lead to long term supply problems for European customers. The Libyan Emirates Oil Refining Co has declared force majeure on all its operations as crude deliveries through the pipelines from the oil fields were halted.

Sweden's Nynas AB plans to shut its 22,000 bpd Nynashamn refinery for about five weeks in the fall.

Japan's Cosmo Oil Co restarted its 30,000 bpd desulfurizer unit at its 110,000 bpd Sakaide refinery on Thursday. The unit has been closed for unplanned maintenance since February 4<sup>th</sup>. Its 25,000 bpd No. 2 reformer at its 220,000 bpd Chiba refinery is still undergoing unplanned maintenance.

Japan's Idemitsu Kosan Co plans to shut its 220,000 bpd crude distillation unit at its Chiba refinery from mid-April to late May.

The western arbitrage fuel oil shipments to East Asia for March is expected to reach a six year high of 4.4 million tons to 4.5 million tons.

### **Production News**

BP PLC will shut down Angola's Greater Plutonia oil field, which is currently operating at half its capacity, for repairs in April. The field is currently producing 95,000 bpd compared with an average production since startup of 180,000 bpd due to problems with the water injection system.

Production at Libya's Amal oil field has not been disrupted by the uprising in the country.

Officials in Angola and Nigeria said the countries cannot immediately make up for the missing shipments of Libyan oil. This comes after Saudi officials said Libya's shut in production could be replaced by West African light crude.

Nigeria is expected to export 13 full cargoes of its Qua Iboe crude in April, up from 11.5 cargoes in March.

Russian crude exports to northwest Europe via the Baltic port of Primorsk is expected to increase in March by 14% on the month to 6.2 million tons. Exports via the port of Novorossiisk are expected to fall by 0.6% on the month.

Russia's Lukoil is hoping to fully replace its reserves over the medium term and is looking to acquire new assets to achieve this including in the Middle East. Lukoil President Vagit Alekperov said the company was looking for an annual average reserve replacement ratio of 100% or slightly higher over the next 10 years. It replaced 84% of its reserves in 2010. Separately, Lukoil said it has not cut its oil output in Egypt despite the political unrest in the country.

Vietnam's crude oil exports are estimate to have declined by 3.4% in the first two months of the year to 1.31 million tons or 162,200 bpd. In February alone, Vietnam's crude oil exports increased by 25.6% on the year to 688,000 tons.

India's Finance Ministry reported that the country's annual crude output is expected to increase by 12.67% to 37.96 million tons in 2010/11.

India's Oil Minister S. Jaipal Reddy said the issue of increasing domestic fuel prices, due to rising crude oil prices, will be forwarded to a panel of ministers. He said he would ask Finance Minister Pranab Mukherjee to set up a ministerial meeting on fuel prices. Meanwhile, India's Finance Minister said Indian markets need not worry about global oil price uncertainty.

India's Hindustan Petroleum Corp said it has no immediate plans to raise gasoline prices but may consider a change in prices after Monday's federal budget.

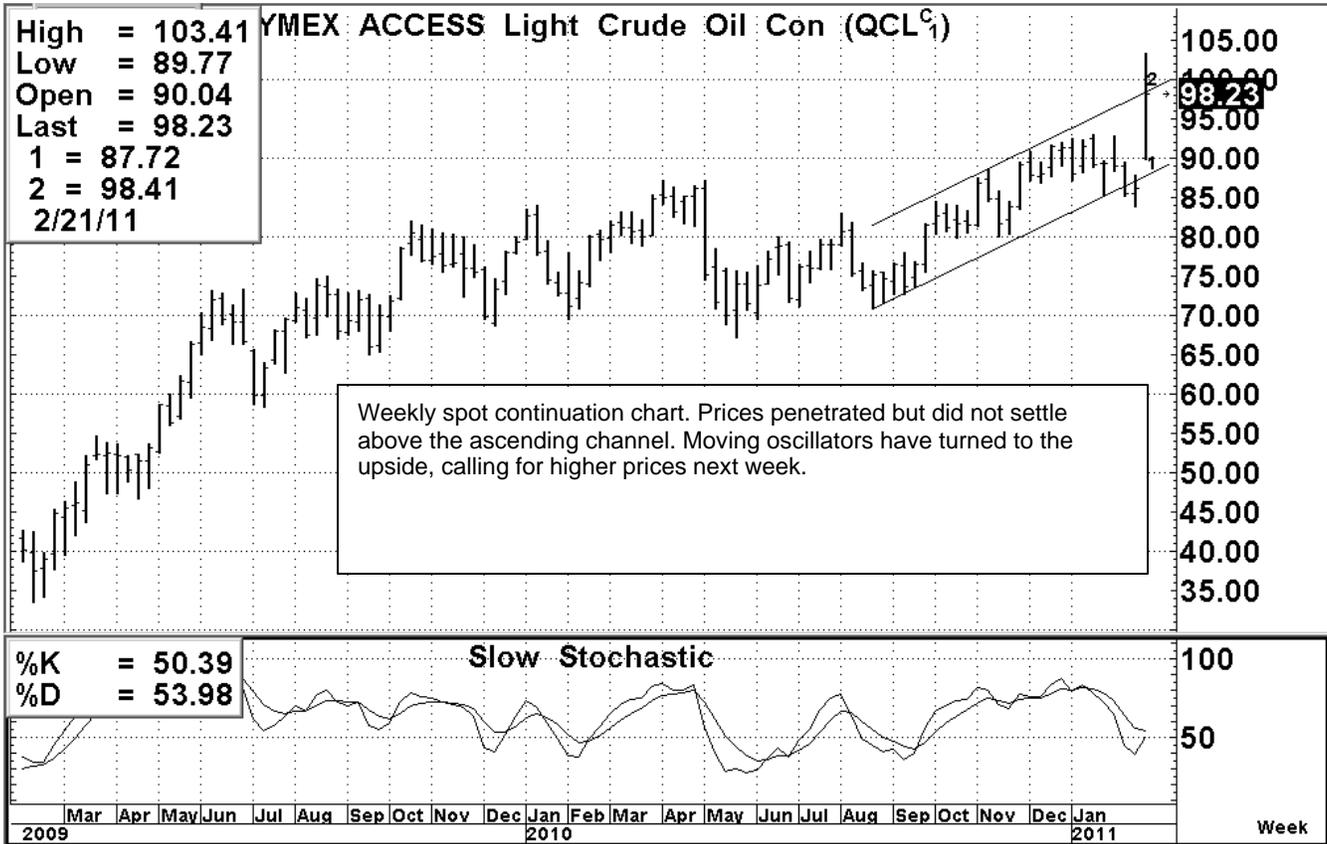
### **Market Commentary**

It was another choppy day for energy prices, with crude oil posting its biggest weekly gain in two years. Early in the session crude oil prices danced around the unchanged level prior to heading higher late in the session. Shorts, who feared carrying their positions over the weekend, appeared to have covered. Turmoil in Libya is the dominant force driving this market, as fears mount that rebellions will spread. According to Barclays Capital, production in Libya was cut by more than 1 million barrels per day, with the IEA saying that production was down at least 850,000 barrels. Based upon a weekly technical chart, prices traded above the ascending channel but failed to settle above it. Slow stochastics have turned to the upside, calling for higher prices next week. We would look for prices to react to the upside and for an attempt at settling above the aforesaid channel. The top of this channel comes into next week set at \$99.07.

The Commitment of Traders report showed that non-commercials in the crude market increased their net long position by 53,508 contracts to 219,022 contracts in the week ending February 22<sup>nd</sup>. The combined futures and options report also showed that the funds increased their net long position by 50,485 contracts to 280,081 contracts on the week. The funds increased their net long position amid the concerns over the political turmoil in Libya. The disaggregated futures and options report showed that managed money funds increased their net long position by 55,336 contracts to 240,571 contracts on the week, the largest increase since late September.

Crude oil: April 11 298362 -5,412 May 11 195,179 +6,060 June 11 136,680 +256 Totals 1,524,988 -45 Heating oil: Mar 11 13,658 -5,982 Apr 11 96,238 +243 3,767 May 11 43,263 -56 Totals 302,315 -10,391 Rbob: Mar 11 17,384 -6,059 Apr 11 88,474 +5,505 May 11 53,647 Totals 280,226 +2,162

Crude Oil		Heating Oil		Rbob	
Support	Resistance	Support	Resistance	Support	Resistance
9245					
9150		26680		25683	
8772	9841	23685	29500	25145	
8647	103.85	22960	30955	24240	28793
8387	111.65	22013	31525	23631	29600
8231		21860	33510	23414	
8180		21140		22560	
8000		20702			
7984					



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