

**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 MARCH 30, 2011**

---

US President Barack Obama set a goal of cutting US oil imports by a third over the next 10 years and said it must be done by both increasing domestic energy production and reducing consumption. He said the US would continue to be impacted by the shifts in the oil market until we get serious about a long term policy for secure, affordable energy. He said the US must increase its energy independence to improve national security.

Qatar's Oil Minister Mohammed Al Sada said there is no need for OPEC to call for an emergency meeting to address the current crude oil prices. He said the market is at a very comfortable situation in terms of supply and demand. He added that OPEC was keeping a close eye on developments in the market.

Libya's government warned it would sue any international company which concluded energy deals with the rebels who control some of the country's oil infrastructure. A government communiqué said the National Oil Corp is the entity authorized by law to deal with external

#### **Market Watch**

According to the ADP Employer Services report, US private employers added 201,000 jobs in March while February's figure was revised down to 208,000 from 217,000. The market expected a gain of 203,000 jobs in March.

Kansas City Federal Reserve Bank President Thomas Hoenig renewed his call for higher benchmark interest rates and shrinking the Fed's balance sheet to pre-financial crisis levels. He had previously called for a modest increase in borrowing costs and expressed his opposition to the Fed's \$600 billion bond buying program. He said there is evidence that Fed policies are fueling imbalances and inflationary pressures.

The European Commission's monthly survey showed that economic sentiment in the Euro zone fell to 107.3 points from a revised 107.9 in February. Industrial sentiment held unchanged at 6.6 points in March against February. For consumers, the inflation expectations increased to 30.8 from 25.7 in February and 20.9 in January. Among manufacturers, selling price expectations increased to 23.8 in March from 22.4 in February and 17.3 in January. Separately, the European Commission said its business climate index fell to 1.41 in March from a revised 1.46 in February.

Japan's Ministry of Economy, Trade and Industry said the country's industrial output increased for the fourth consecutive month in February but is expected to decline in the coming months as a devastating earthquake and tsunami and a subsequent nuclear safety crisis and power outages dampen business activity. Japan's industrial production in February increased 0.4%. Manufacturers surveyed by the ministry expect output to increase 1.4% in March and fall 1.3% in April.

Statistics Canada reported that Canadian producer prices and raw material prices increased faster than expected in February. Industrial product prices increased by 0.7% from January, more than double the 0.3% forecast by analysts. January's increase was revised to 0.4% from an originally reported 0.2%. The February rise was led by a 3% increase in oil and coal products.

A World Bank economist said high oil and food prices may complicate China's balanced monetary policy, creating new problems for the government's management of the country's potential real estate bubble. He stated that needed attention to rising commodity price inflation is creating difficulties for authorities attempting to prevent ballooning asset prices. If the bubble bursts, it could cause a raft of financial and economic problems. Higher oil prices in addition to higher food prices could spark an upward inflation spiral.

Senator Debbie Stabenow said the CFTC should use its oversight authority in oil and gas markets to bring relief to farmers and families. She said she wanted to make sure CFTC has the tools and resources it needs to protect American consumers from oil prices that are out of line with market fundamentals.

Venezuela suffered widespread power failures this week, leaving eight states including Zulia without light for hours. Caracas' state owned power company said the city would continue to suffer staggered cuts due to maintenance until Friday. Blackouts hit eight states on Tuesday as the main power station in Zulia failed after a suspected rebel bomb on a Colombian gas pipeline that feeds it.

### DOE Stocks

**Crude** – up 2.945 million barrels

**Distillate** – up 710,000 barrels

**Gasoline** – down 2.684 million barrels

**Refinery runs** – unchanged, at 84.1%

parties. Meanwhile, Libyan oil shipments remained halted, with no one attempting to hire tankers due to violence and the impact of sanctions. Oil shipments from the country have been halted for weeks due to heavy fighting and western sanctions on the Libyan government. A NATO arms embargo at sea has also meant further potential shipping disruptions.

French Foreign Minister Alain Juppe said he had seen no objection from Arab countries attending the conference on Libya in London to the transfer of military operations in the country to NATO.

Forces loyal to Libya's leader Muammar Gaddafi pressed further east with an artillery offensive against rebels on Wednesday. After moving towards Sirte on Monday, rebels were pushed back more than 95 miles towards Brega, an oil town east of Ras Lanuf, by better equipped government forces. The forces also attacked the city of Misrata on Wednesday after 18 people were killed on Tuesday. It was not clear whether Gaddafi's forces were in full control of Libya's third city or just part of it. The rebels called on coalition forces to launch air strikes against Muammar Gaddafi's loyalists after fleeing from Ras Lanuf.

Al Arabiya reported that Uganda would welcome Muammar Gaddafi if he requested asylum after western and other nations suggested the Libyan leader should go into exile to end the conflict in his country. The US, Britain and Qatar suggested Gaddafi and his family could be allowed to go into exile if they took up the offer quickly.

The EIA reported that US oil demand in January increased by 3.2% on the year to 19.121 million bpd, the highest level in the month since 2008. Demand was however down 3.2% from December. Gasoline demand in January averaged 8.412 million bpd, down 1.3% or 113,000 bpd while distillate demand increased by 8.5% or 312,000 bpd to 3.968 million bpd. The EIA also reported that US finished gasoline exports in January increased by 87.3% on the year to 414,000 bpd. It reported that US crude oil imports increased for a third consecutive month in January by 438,000 bpd on the month to 9.069 million bpd. Imports from Canada increased by 85,000 bpd to 2.149 million bpd while imports from Mexico fell by 7,000 bpd to 1.216 million bpd and imports from Saudi Arabia increased by 23,000 bpd to 1.099 million bpd.

Deutsche Bank increased its crude oil price forecast, citing developing financial and geopolitical trends. It expects Brent prices to range between \$115 and \$125/barrel through 2015. It increased its 2011 Brent forecast to \$117.50/barrel from \$101/barrel and increased its WTI price forecast to \$107.75/barrel from \$91/barrel.

China's National Development and Reform Commission said it expects WTI crude prices to fluctuate between \$100 and \$110/barrel in the near future. If potential tensions in the Middle East continue, and especially if they spread to other major oil producing countries, global oil supplies will be affected and oil prices will rise.

Israel's central bank governor, Stanley Fischer said Israel's economy would be able to support any increase in defense spending if it is warranted by recent instability in the Middle East. Israeli leaders have expressed concern in recent weeks that turmoil in neighboring countries, especially in Egypt, could have a negative impact on national security.

**March  
Calendar Averages  
CL – \$102.81  
HO – \$3.0433  
RB – \$2.9921**

Bahrain's Shi'ite opposition leader Sheik Ali Salem urged Iran to keep out of the country's internal affairs after the government charged that Tehran had orchestrated month long protests. He also warned against Bahrain being used for a proxy war between rival regional powers Iran and Saudi

Arabia. He demanded the withdrawal of the Saudi led troops deployed in the country in mid-March to help quash the protests.

Yemen's President Ali Abdullah Saleh made a new offer to protesters demand his ouster, proposing he stays in office until elections are held but transferring his powers to a caretaker government.

Kuwait's cabinet is expected to resign on Thursday after lawmakers requested to question three ministers. The three ministers are ruling family members, including the country's energy minister, who is also the information minister. Kuwait's parliament has triggered numerous cabinet resignations or reshuffles through questionings. The questioning of ministers in Kuwait is a direct challenge to the individual and an indirect challenge to the ruler.

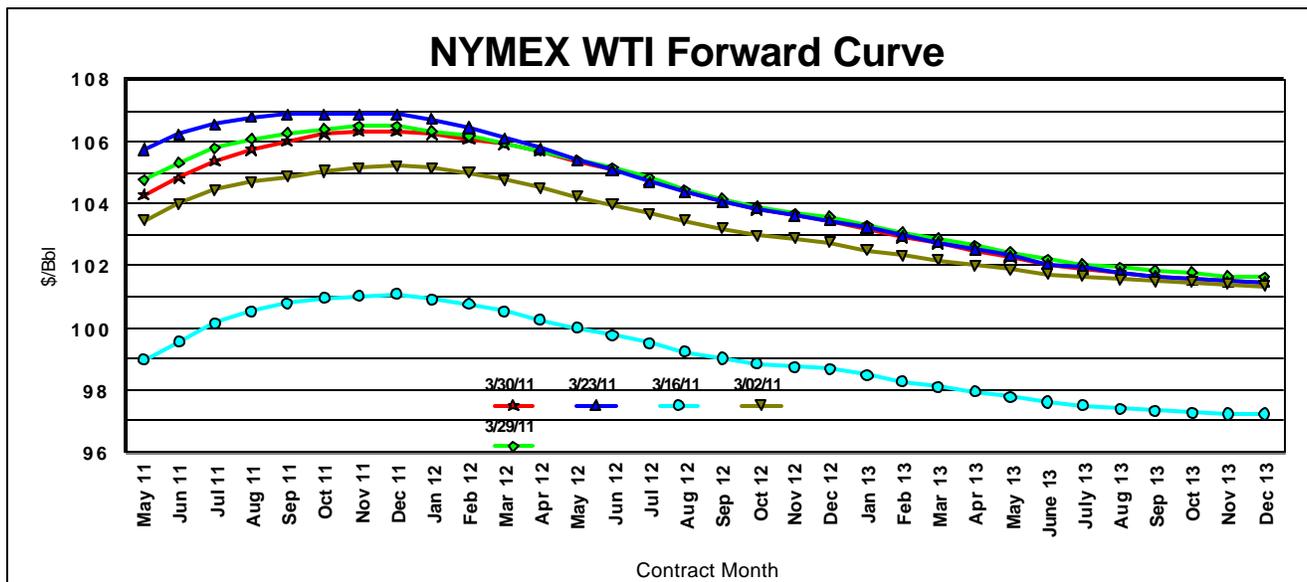
### Refinery News

Marathon Oil Corp said an alkylation unit is being restarted on Wednesday at its 76,000 bpd Texas City, Texas refinery following the completion of repairs. The unit was shut on Sunday due to a leak of butane and hydrofluoric acid.

Valero Energy Corp said its heavy oil cracker was nearing planned rates at the west plant of its 142,000 bpd Corpus Christi, Texas refinery. It restarted the unit on Tuesday after it was shut for maintenance. Valero also reported that a coker unit at its 287,000 bpd Port Arthur, Texas refinery was at planned rates. It also said a crude unit was increasing to planned rates.

BP shut half of its crude distillation capacity at its 400,000 bpd Rotterdam refinery for maintenance. The turnaround work is being carried out at one of two crude distillation units at the plant, which have a capacity of 193,000 bpd of crude distillation each. The maintenance work started at the end of March and is expected to last until mid-April.

The Dortmund-Ems canal in north Germany was still closed to shipping on Wednesday following an accident at the BP Emsland refinery on Monday night. A gasoline barge exploded late Monday at the



Emsland refinery, spilling gasoline into the canal. However it did not affect refinery operations.

Libyan Tamoil's 105,000 bpd Holborn refinery in Germany is operating at a reduced rate of 80% of capacity, denying reports that the refinery had trouble purchasing crude oil. The reduction in capacity is unrelated to recent events in Libya.

A planned shutdown at Q8's 88,000 bpd Europoort refinery in Rotterdam has been set for late 2012.

ExxonMobil and its partners have no near term plans to expand China's Fujian 240,000 bpd refining and petrochemical plant. However Exxon said the joint venture was considering ways to increase production at the existing refinery by improving the plant's efficiency.

The director of the largest US farm co-op, CHS said US ethanol exports in 2011 are expected to surpass last year's record high as it remains relatively cheaper than Brazilian cane based ethanol in external markets. Shipments are expected to total at least 500 million gallons or 1.9 billion liters, up from 400 million gallons in 2010, with no less than 200 million gallons bound for Europe. It estimates that demand for the fuel through 2015 would grow by close to 50% to 32.9 billion gallons per year, with Brazil and the US continuing to provide over 80% of the global supply.

### **Production News**

According to a Reuters survey, OPEC oil production from all 12 members has averaged 29.13 million bpd in March so far, down from 29.43 million bpd in February. Libya had the largest decline in production of 1.03 million bpd. Saudi Arabia, the UAE, Kuwait, Angola and Iraq increased their output this month, limiting the overall decline in OPEC output.

Japan's Taiyo Oil Co Ltd is receiving steady supplies of Saudi Arabian Super Light crude, a signal that an increase in shipments to Europe by Saudi Arabia has not been at the expense of Asian customers. Taiyo's intake of Saudi crude will remain unchanged for the new fiscal year starting in April. Saudi Arabia has sold Europe buyers about 2 million barrels of a new crude, blended to compensate for lost Libyan barrels.

Libya's Waha Oil Co still has not resumed operations despite a call for workers to return to state-owned facilities. A notice on Libya's National Oil Co's website earlier this month called on workers to return to work at its subsidiaries, including Waha Oil Co.

Qatar Petroleum is struggling to work out how to market Libyan crude on behalf of anti-government rebels. A Libyan rebel official said on Sunday that Qatar had agreed to market oil from east Libyan fields no longer under the control of Muammar Gaddafi.

Iraq's West Qurna Phase One is producing 310,000 bpd of crude and output is expected to increase to 400,000 bpd by the end of 2011.

Colombia's Ecopetrol said its output may reach 1 million bpd of oil equivalent before a 2015 target and sees exports to Asia increasing over the next five years. It said production was increasing more rapidly than initially expected with output seen reaching 750,000 bpd of oil equivalent from 616,000 bpd in 2010.

Norway's Statoil signed an agreement with Kazakhstan's KazMunaiGas to explore for oil and gas in the Caspian Sea. The parties plan to conduct evaluation of the hydrocarbon potential of the Abay block in the Northern Caspian Sea.

Russia's OAO Bashneft increased reserves by 51% last year to 1.91 billion barrels.

Mexico's Pemex said its proven oil reserves fell by about 1% to 13.8 billion barrels of oil equivalent as of January 1<sup>st</sup> compared with 13.99 billion barrels of oil equivalent a year earlier.

OPEC's news agency reported that OPEC's basket of crudes fell to \$109.87/barrel on Tuesday from \$110.37/barrel on Monday.

**Market Commentary**

The crude market traded mostly sideways after the ADP report showed that US private employers added 201,000 jobs in March, less than market expectations of an increase of 203,000 jobs. The market however sold off sharply following the release of the DOE report, which showed a larger than expected build in crude stocks of close to 3 million barrels on the week and a build of 1.689 million barrels in Cushing stocks. It also showed that total petroleum stocks built by 3.3 million barrels, the first build in seven weeks. The crude market traded to a low of \$103.44. The market later bounced off that level and breached yesterday's high as it rallied to a high of \$105.15 in early afternoon trading. In a yo-yo fashion, the market erased some of its gains ahead of the close and settled down 52 cents at \$104.27. The uncertainty surrounding the situation in Libya will continue to limit the market's losses. The oil complex is also seen supported ahead of the April products contracts' expiration on Thursday. Technically, the crude market is seen finding resistance at \$104.77, basis a downward trend line, followed by \$105.15, \$106.69, \$106.95 and \$108.80. Support is seen at \$104.00, \$103.44, \$102.70 followed by more distant support at \$101.93, \$101.01 and \$97.02.

Crude oil: May 11 350,797 -292 June 11 160,923 +1,086 July 11 106,249 +1,338 Totals 1,516,081 +63 Heating oil: Apr 11 10,818 -4,492 May 11 105,203 +6,581 June 11 56,086 -234 Totals 306,903 +3,991 Rbob: Apr 11 15,366 -3,979 May 11 104,262 +1,149 June11 45,461 +593 Totals 281,632 -376.

Crude Oil		Heating Oil		Rbob	
Support	Resistance	Support	Resistance	Support	Resistance
10400	10477	30500	30630	30500	30631
10344	10515	30366	30720	30328	30950
10270	10695	30183	30880	30071	
10193	10880	29728	30970	29856	
10101	11165	29300	31127	29821	
9702		29254		28211	
				27800	
				27683	

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 permission is prohibited.