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## ***ENERGY RISK MANAGEMENT***

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### **ENERGY MARKET REPORT FOR DECEMBER 19, 2011**

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Saudi Arabia's King Abdullah said the security of his country and that of his Arab neighbors was being targeted, in an apparent reference to Iran and called for Gulf Arab states to close ranks in a single entity. He called for the formation of a Gulf union in response to growing threats.

#### Market Watch

The National Association of Home Builders said US homebuilder sentiment increased in December for the third month to its highest level in a year and a half. The NAHB/Wells Fargo Housing Market index increased to 21 from a downwardly revised 19 the previous month.

The National Weather Service forecast that US heating demand this week is expected to be 19.6% below normal. Demand for heating oil this week will average 18.8% below normal while heating demand for natural gas will average 18.7% below normal.

J.P.Morgan reported that Middle East OPEC producers led by Saudi Arabia were setting January official selling prices at record levels apparently to limit Asian refinery crude buying of OPEC grades.

European Central Bank President Mario Draghi said bond market pressure on the euro zone would be very significant in the first quarter of next year. He said that in the first quarter of next year, about 230 billion euros of bank bonds were expiring, 250 to 300 billion in government bonds and that more than 200 billion in collateralized obligations issued would be due in the course of next year.

Hundreds of oil workers held a third day of protests in Kazakhstan's western oil producing region on Monday after at least 15 people were killed. About 400 protesters confronted lines of police, in the main square of Aktau. The protesting oil workers met senior Aktau officials on Monday, demanding an increase in their wages.

#### Refinery News

Colonial Pipeline said it was allocating its Linden delivery line L2 for Cycle 68.

IIR Energy said US oil refiners are expected to shut 267,000 bpd of capacity in the week ending December 23<sup>rd</sup>, down from 312,000 bpd of shut capacity the previous week.

ExxonMobil Corp said operations were not impacted from a leak in a naphtha line on a crude light ends unit at its 560,640 bpd Baytown, Texas refinery. It had reported a leak on Saturday.

Valero Energy Corp said operations on a delayed coking unit at its 287,000 bpd refinery in Port Arthur, Texas were not affected by a blown water seal on Sunday.

BP Pipelines reported a spill in Long Beach, California. It said the leak occurred during a hydrotest. It said material was released in an unknown location from loss of pressure.

**December  
Calendar Averages**  
**CL - \$98.14**  
**HO - \$2.9120**  
**RB - \$2.5646**

Kuwait National Petroleum Co is planning to partially shut its Mina al-Ahmadi refinery in January for planned maintenance. It said two crude distillation units with a combined capacity of about 250,000 bpd would be shut for about 20-35 days for maintenance.

Japan's Toa Oil Co plans to shut its 65,000 bpd crude distillation unit at its Keihin refinery from April to mid-May 2012 for maintenance.

China's Sinopec Corp in January is expected to buy less than half the crude it typically imports from Iran as the two dispute over terms. China has cut its January purchases by about 285,000 bpd. It is over half of the 550,000 bpd that China has been buying on an annual contract this year. China and Iran have been disagreeing over the period given to Sinopec to pay for the oil. Sinopec requested a 90 day credit period while Iran wants the refiner to pay in 60 days. China's Zhuhai Zhenrong Corp is expected to cut Iranian crude oil imports in January by about 120,000 bpd or half of the average monthly amount.

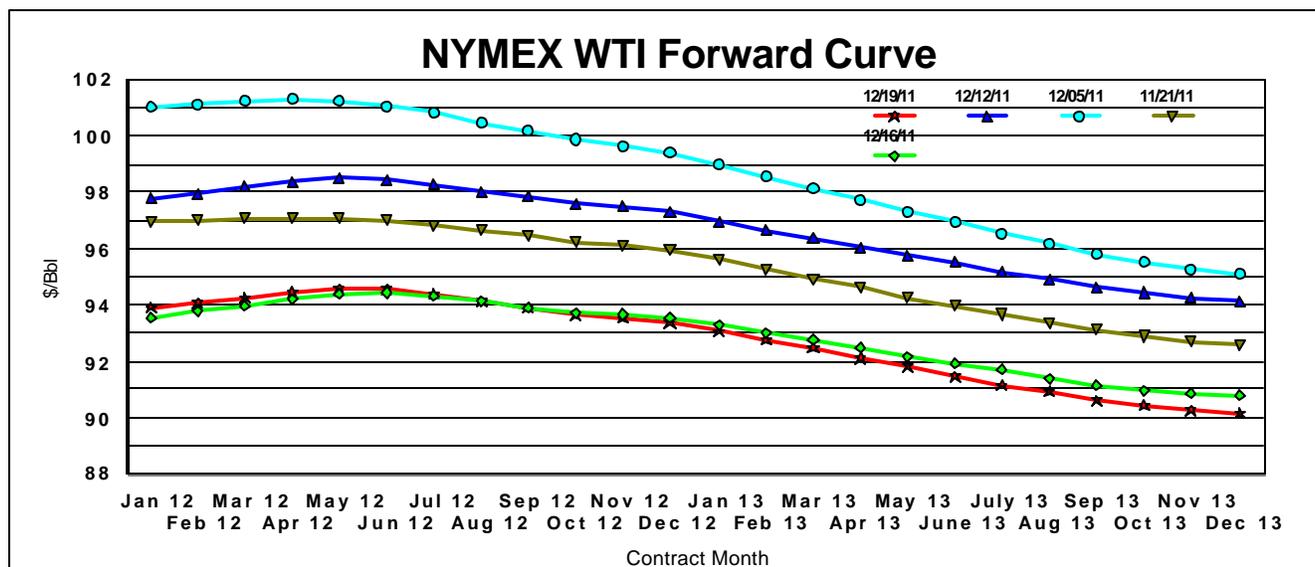
**Production News**

Norway's Statoil said production at the North Sea Gullfaks field would be lower than normal again in 2012. It said it would resume production drilling at Gullfaks early next year. Output at the field was curtailed throughout 2011 and for several months in 2010 after Statoil shut 50 out of 178 wells over safety concerns. It said 20 of the 50 shut wells have been restarted.

Nigeria is expected to export lower volumes of the light, sweet Qua Iboe crude oil grade in February. Loadings are expected to fall to 360,000 bpd from a planned 398,000 bpd in January. The volumes are due to load on 11 tankers carrying 950,000 barrels each.

PetroChina Co is expected to produce 107.53 million metric tons or 2.16 million bpd of crude this year, up 2.12 million tons or 2% on the year.

Exports of Russian Urals crude via the Transneft pipeline system is expected to fall to 52.4 million tons in the first quarter of 2012, down 1.4% from the final quarter of 2011. Russian Urals crude exports via Primorsk are expected to increase 1.7% to 17.5 million tons while exports from Novorossiisk are expected to fall by 6.7% to 10.7 million tons. Its Urals crude exports to Europe via the Druzhba pipeline is expected to fall by 2.2% to 16.4 million tons.



Russia's OAO Tatneft denied reports that it had entered an agreement to develop the Zagheh heavy crude field in southwest Iran, while a Russian regional government said a local scientific center had entered an agreement. Tatneft said it has not entered into any agreements and has not accepted any other undertakings relating to oil and gas projects in Iran. Iran's Oil Ministry said Petroleum Engineering and Development Co signed a memorandum of understanding with Tatneft to help develop the Zagheh heavy crude field. The deal would increase the field's production capacity to 7,000 bpd in the first phase and 55,000 bpd in the second phase.

A Gulf Keystone executive said reports that the company received a bid approach from ExxonMobil Corp, potentially valuing the firm at more than \$10 billion, is without foundation. A report in the UK Independent on Sunday said ExxonMobil was considering taking over the explorer, which has made substantial oil finds in the Iraqi Kurdistan region.

### **Market Commentary**

Crude oil prices, which hit a six-week low, rebounded towards the \$94.00 level, following equities higher. Market participants appear to be balanced in their opinion of the market as we approach years end. Coming into the New Year, we will still be faced with the unresolved European debt issue and concerns regarding Iran and its nuclear weapons program. There is also the possibility that OPEC could limit sales to Asian refineries by raising official selling prices for January loadings. By raising prices, Asian refineries maybe forced to look elsewhere for crude oil. This will also affect the refining process, leading to a possible shortage of product in that region. This would be supportive for prices. From a technical standpoint, this is the second trading session in a row that prices have bounced off of \$92.51, the 38 percent retracement number between \$74.95 and \$103.37. From now and until the New Year, we would look for prices to trade within a tight range, using \$92.50 as the low and the 200-day moving average as the high. This average is currently set at \$95.69.

Crude Oil		Heating Oil (Jan)		Rbob (Jan)	
Support	Resistance	Support	Resistance	Support	Resistance
	9499	27505	29288		25939
9251	9591	26975	28800	24734	26283
8916	10337	26850	30937	24516	
8581	10753	26680	31956	24480	
	11483			23803	
<b>50-day MA</b>	<b>94.62</b>				
<b>100-day MA</b>	<b>89.96</b>				
<b>200-day MA</b>	<b>95.69</b>				

MONTH	CRUDE (NYMEX)				WTI (ICE)				BRENT (ICE)			
	O.I	YEST O.I	Change	% OF TTL	O.I	YEST O.I	Change	% OF TTL	O.I	YEST O.I	Change	% OF TTL
JAN	232761	229207	3554	17.671%	32338	35988	-3650	7.497%	0	0	0	0.000%
FEB	58145	77649	-19504	4.414%	72946	73745	-799	16.912%	166959	173258	-6299	19.722%
MAR	141853	140723	1130	10.769%	32778	32508	270	7.599%	145108	144947	161	17.141%
Dec-12	166705	169153	-2448	12.656%	64124	64877	-753	14.867%	96500	97727	-1227	11.399%
Dec-13	74714	75121	-407	5.672%	36633	37817	-1184	8.493%	44761	46159	-1398	5.287%
TOTAL	1317220	1333796	-16576		431331	438581	-7250		846572	854833	-8261	

MONTH	HEATING OIL				RBOB			
	O.I	YEST O.I	Change	% OF TTL	O.I	YEST O.I	Change	% OF TTL
DEC	86967	86104	863	32.335%	40885	46229	-5344	14.479%
JAN	41491	41954	-463	15.427%	59125	53484	5641	20.938%
FEB	30537	30678	-141	11.354%	43850	43496	354	15.529%
Dec-12	18312	18121	191	6.808%	13355	13345	10	4.729%
TOTAL	268959	267505	1454		282383	278867	3516	

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