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## ***ENERGY RISK MANAGEMENT***

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### **ENERGY MARKET REPORT FOR JANUARY 4, 2010**

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US Secretary of State Hillary Clinton said the aim of sanctions on Iran would be to pressure the government and the Iranian Revolutionary Guard Corps to cut Iran's nuclear program without hurting ordinary people. She said the US has discussed with its allies pressure and sanctions on Iran over its nuclear aims. Meanwhile, a White House spokesman said the door is still open for Iran to provide information about its nuclear program before the international community takes the necessary next steps.

#### **Market Watch**

The Institute for Supply Management's index of the country's manufacturing activity increased to a better than expected 55.9 from 53.6 in November. The ISM's new orders index increased to 65.5 last month from 60.3 in November. The production index increased to 61.8 from 59.9.

The Commerce Department reported that construction spending fell by 0.6% in November to a seasonally adjusted annual rate of \$900.08 billion.

A Chinese central bank official said the country must invest its foreign exchange reserves in oil and other strategic resources as part of its drive to diversify away from dollar assets. China, has to an extent, already been moving in this direction, with China Investment Corp buying into foreign commodities companies and state owned companies pursuing a range of mining and oil acquisitions and partnerships abroad. The official played down worries about China's build up of foreign exchange reserves, saying that this was a natural consequence of economic growth. At the end of September, China's reserves stood at \$2.27 trillion.

Global factory output increased in December, with Chinese manufacturing activity expanding at the fastest rate on record in the month and the recovery among European manufacturers, led by Britain, gathering pace. In China, the HSBC Purchasing Managers' Index increased to 56.1 from 55.7 a month earlier to reach its highest level since the survey started in April 2004. The CIPS/Markit PMI for the UK reached a 25 month high of 54.1 in December while the 16 nation Euro zone saw output expand at its fastest pace in 27 months. Euro zone growth was increased by activity in Germany, which expanded at its fastest pace since May 2008, while activity in France and Italy also increased from November.

Singapore's Trade and Industry Ministry said the country's economy fell by a larger than expected 6.8% in the fourth quarter, led by a 38% decline in manufacturing. It said the GDP fell an annualized, seasonally adjusted 6.8% in the fourth quarter. However compared to a year ago, the economy grew 3.5% in the fourth quarter and fell just 2.1% for all of 2009. The government is forecasting economic growth of between 3 and 5% this year.

Inergy LP said its subsidiary acquired Liberty Propane LP for about \$223 million and agreed to buy the propane assets of MGS Corp, making it the fourth-largest retail propane operator in the US. The acquisition is expected to close by mid-January.

China's Foreign Ministry called on Iran to agree to a consensus on a UN proposal on nuclear fuel supplies for its research reactor. Iran's Foreign Minister Manouchehr Mottaki on Saturday said Iran

**January  
Calendar Average**  
**CL – \$81.51**  
**HO – \$219.05**  
**RB – \$210.44**

had until the end of January to reach a uranium swap deal, stressing it will continue with its plan to produce higher enriched nuclear fuel if there is no agreement. Iran has already ignored a US set December 31<sup>st</sup> deadline to accept the IAEA brokered deal.

Morgan Stanley is expected to load the North Sea Forties crude on to a very large crude carrier. The VLCC is expected to arrive in Hound Point, Scotland, in the next few days to load Forties. From December 22-24, Morgan Stanley bought a total of three 600,000 barrel cargoes of Forties for January 3-8 loading, with two bought from Royal Dutch Shell Plc and Vitol Holding.

The EIA reported that the US average retail price of diesel increased by 6.5 cents/gallon to \$2.797/gallon in the week ending January 4<sup>th</sup>. The price is the highest since November 9, 2009. The price of diesel is up 50.6 cents or 22.1% above a year ago. It also reported that the US average retail price of gasoline increased by 5.8 cents to \$2.665/gallon on the week.

The EIA reported that distillers produced 740,000 bpd of ethanol in October, up from 725,000 bpd in September. Fuel blenders and refiners mixed about 703,258 bpd of ethanol into gasoline in October, up from 678,800 bpd in September.

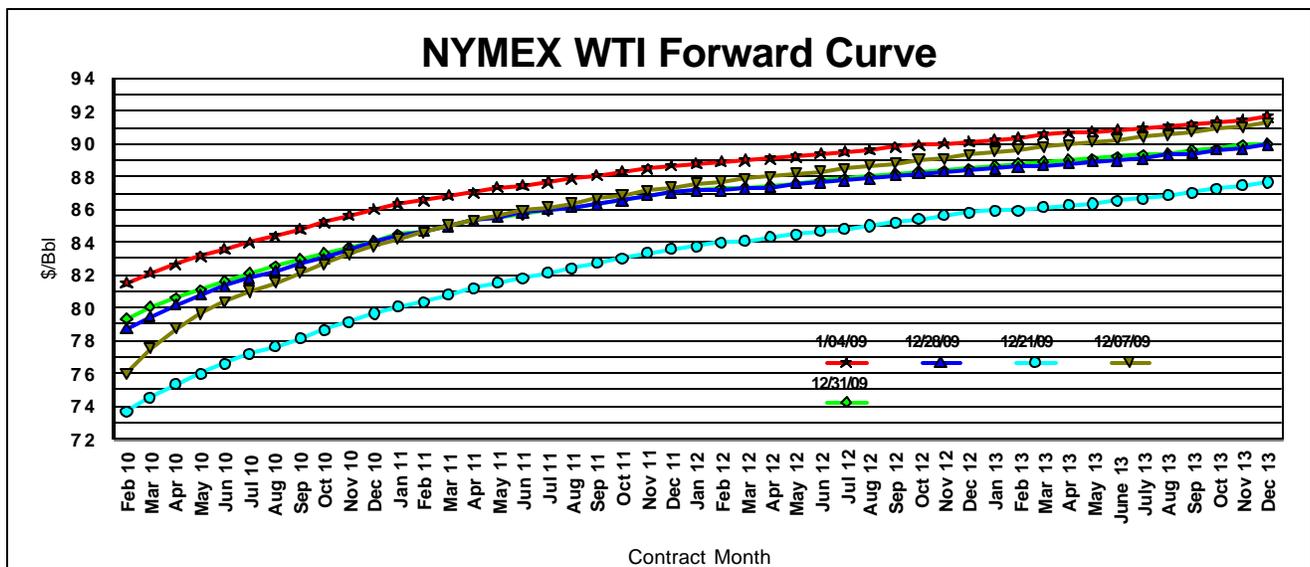
The US National Weather Service said US heating demand this week is expected to average about 21% above normal across the country. Demand for heating oil is expected to be 11% above normal as temperatures in the Northeast are expected to average near to below normal. Heating demand was 9% above normal nationwide last week.

Private weather forecaster Planalytics said the US experienced its coldest winter in nine years in December. It said highly populated northeast saw its coldest December since 2005, as did the southeast.

Britain's Met Office said its bitterly cold weather is likely to continue into late January. It expects widespread and severe frost, patchy heavy snow showers and Arctic winds over the next few weeks, keeping heating demand well above seasonal norms.

**Refinery News**

Credit Suisse said US refinery margins were mostly down last week. Margins in the Midwest fell by 12 cents to \$5.54/barrel while margins in the Rockies fell by \$1.78/barrel to \$8.35 and margins in the West Coast fell by \$1.48/barrel to \$10.82/barrel. Meanwhile, margins in the Northeast increased by



\$1.30/barrel to \$8.01/barrel while margins in the Gulf Coast increased by 80 cents to \$6.35/barrel.

Husky Energy said all units at its 160,000 bpd refinery in Lima, Ohio were up and running after repairs on an isocracker and compressor were completed in late December. The refinery continues to operate at 120,000 bpd but is expected to increase over the next few days. The isocracker was damaged by a fire in November.

Sunoco's 93,000 bpd fluid catalytic cracking unit at its 179,000 bpd refinery in Marcus Hook, Pennsylvania was shut over the weekend. As of Monday, the unit started recirculating and was expected to return to service on Tuesday, adding that extreme cold weather in the region could hamper the restart of the unit.

ConocoPhillips will shut a unit at its 247,000 bpd Sweeny refinery in Texas for two weeks of maintenance starting January 4<sup>th</sup> until January 18<sup>th</sup>.

Marathon Oil Corp will shut its entire 76,000 bpd Texas City refinery for a 14 day scheduled turnaround. Emissions are expected from its alkylation unit, fluid catalytic cracking unit, platformer and sulfur recovery unit until January 18<sup>th</sup>.

Mexico's Pemex shut a coker unit at its 162,000 bpd Madero refinery in Mexico following a fire in the unit on December 31<sup>st</sup>. The fire occurred as a result of an instrumentation failure in a heater.

Russia said it resumed supplies to refineries in Belarus while tensions are still simmering in a dispute over oil deliveries. Belarus state oil company Belneftekhim said Russian oil was flowing normally through the Druzhba pipeline to European Union customers. Russia halted oil supplies to Belarussian refineries after failing to agree on terms for 2010. Negotiators from Belarus and Russia were holding talks in Moscow on Monday.

A strike by French dockers on Monday has not impacted oil deliveries or passenger traffic at the port of Marseille. France's CGT union called for a 24 hour strike on Monday and January 11 to protest against a major reform of the country's ports.

The head of China's National Energy Administration, Zhang Guobao said China will proceed with its planned joint oil refining projects including the 400,000 bpd Jieyang refinery between China and Venezuela, the 300,000 bpd Guangdong refinery between China and Kuwait and the 200,000 bpd Tianjin refinery between China and Russia.

PetroChina's new oil pipeline running from northwest to central China is operating normally after the company shut off a branch line that spilled diesel into a river last week. PetroChina shut the Weinan branch line in northern Shaanxi province last Wednesday following a leak of 150,000 liters of diesel into a river.

### **Production News**

According to a Dow Jones Newswire survey, OPEC's 11 quota bound members increased their production by 0.3% to 80,000 bpd to 26.765 million bpd in December. OPEC members produced 1.92 million bpd above their target of 24.845 million bpd. Its compliance fell to about 54% in December from 56% in November and 59% in October. It estimates output by all 12 OPEC members increased by 0.62% or 180,000 bpd in December to 29.165 million bpd. It reported that Saudi Arabia produced 8.175 million bpd in December, down 25,000 bpd on the month while Iran's output remained unchanged at 3.77 million bpd. Nigeria increased its production by 75,000 bpd to 2.075 million bpd, which is about 402,000 bpd above its quota. Iraq increased its production by 100,000 bpd to 2.4 million bpd.

Statoil ASA restarted the North Sea Troll field following a short outage during the weekend due to a gas leak. A Statoil spokesman could not give detail on the current level of production but said output was only halted for a couple of hours.

An Iraqi oil industry source said the country's crude oil exports in December increased 4% to 1.977 million bpd from 1.902 million bpd in November. Iraq exported an average of 1.534 million bpd from the southern Basra oil terminal, up from 1.498 million bpd in November while 433,000 bpd was exported from the Kirkuk oil fields in northern Iraq and the remaining 10,000 bpd was exported to Jordan via trucks.

Nigeria's Okono crude oil exports will be delayed in January and February due to production problems. Okono is one of Nigeria's smaller oil streams and exports usually average about 60,000 bpd.

India's Ministry of Mines reported that the country's crude oil production in October increased by 3% to 2.9 million tons or 685,000 bpd. Its natural gas production increased by 8.5% to 3.97 billion cubic meters, while its coal output increased by 15% to 42.5 million tons. It also reported that the country's domestic oil product consumption in November increased by 3.7% to 11.32 million metric tons. India's diesel consumption in November increased by 5.6% to 4.72 million tons while gasoline consumption increased by 11% to 1.02 million tons. India's crude oil imports fell by 6.1% to 10.5 million tons while its oil product imports fell by 30% to 913,200 tons.

China National Petroleum Corp said PetroChina's crude oil and natural gas production at the Changqing field surpassed 30 million tons of oil equivalent in 2009, up 19%. The output comprised about 15.7 million tons of crude oil and 19 billion cubic meters of gas. PetroChina is aiming to increase combined oil and gas output at Changqing to 50 million tons of oil equivalent/year by 2015.

OPEC's news agency reported that OPEC's basket of crudes increased further to \$77.13/barrel last Thursday from \$76.77/barrel on Wednesday. It also reported that OPEC's basket of crudes increased by \$3.67/barrel to \$76.23/barrel in the week ending January 1<sup>st</sup>.

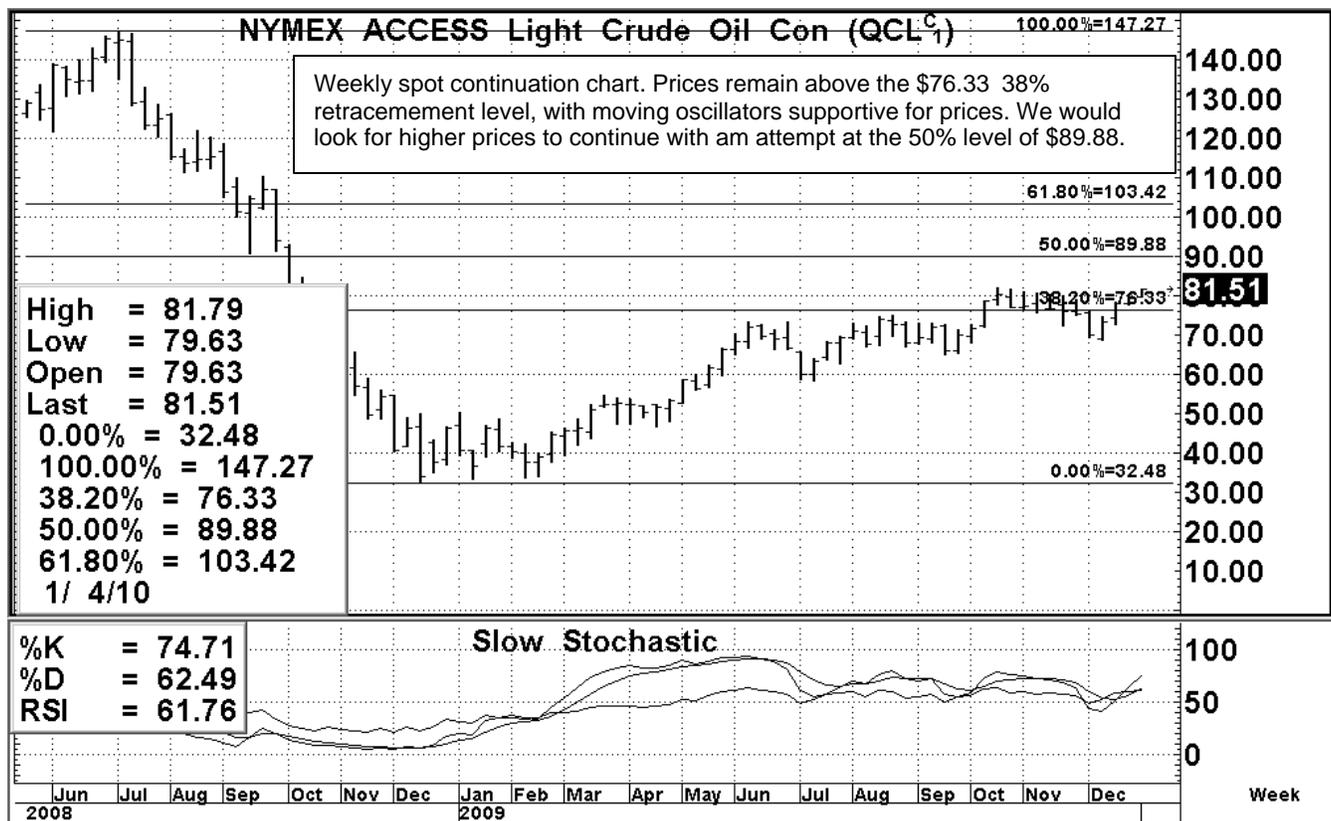
Japan's power generation increased in December for the first time in 17 months. The Federation of Electric Power Companies of Japan's data for December, due for release on January 15<sup>th</sup>, is expected to show a 1.5% increase year on year in power generation by the country's 10 utilities.

### **Market Commentary**

Crude oil surged today to just below \$82.00 a barrel in response to the cold weather experienced across the northeastern part of the U.S. The cold weather that has gripped this part of the region is expected to boost heating oil demand by as much as 21 percent. Asia is also experiencing cold weather, with snowfall reaching its highest level in more than half a century. Adding to today's higher move was a report that China's manufacturing expanded in December, the highest expansion seen in five years. Heating oil prices led the marketplace, as thoughts of cold weather spread across the complex. The February heating oil crack spread gained \$0.995 on the day. With signs of global economic growth, we would look for investors to turn to commodities as a financial hedge, thereby contributing to higher prices. When the economy rebounds, the demand for raw material increases and economists will be looking to gain on the demand for these products. We would look for higher prices to continue as long as the cold weather remains and with the hit that inventories are expected to take, prices should work toward the \$89.88 resistance level.

Crude FEB.10 278,234 -4,383 MAR.10 166,550, -1,955 Apr. 52,636, -67 Totals 1,193,065, -5,274,  
 Heating oil FEB 10 92,300, -422 MAR.10 51,049, +769 APR10 28,741 +105 Totals: 303,563 -3,229  
 Gasoline FEB.10 89,628 +4,233 MAR. 10 42,386 -370 APR10 30,393 +447 Totals: 234,654 +1,717.

<b>Crude Support Based on February</b>	<b>Crude Resistance Based on Feb</b>
78.50, 77.85, 75.00, 73.50, 72.91, 72.60, 65.05, 64.70, 63.38, 62.70, 61.61, 60.95	82.00, 84.83, 85.40, 86.60, 88.80, 89.88
<b>Heat Support</b>	<b>Heat resistance</b>
1.8570, 1.8280, 1.7670, 1.7565	2.2110, 2.2575, 2.4200
<b>Gasoline support</b>	<b>Gasoline resistance</b>
1.7900, 1.7200 1.6600	2.1142, 2.1600, 2.3350



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