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## ***ENERGY RISK MANAGEMENT***

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### **ENERGY MARKET REPORT FOR JANUARY 11, 2010**

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US Secretary of State Hillary Clinton said the US and other major powers will meet late this week to discuss sanctions over Iran. She said the US will meet with Britain, China, France, Russia and Germany in New York at the end of the week to explore the kind and degree of sanctions that should be pursued.

A Russian Energy Ministry spokeswoman said Russian oil continues to flow to Belarus and via Belarus to the European Union despite a failure by Russia and Belarus to sign a new supply deal during talks on Saturday.

The EIA reported that the US average retail price of diesel increased by 8.2 cents/gallon to \$2.879/gallon in the week ending January 11<sup>th</sup>. It also reported that the US average retail price of gasoline increased by 8.6 cents/gallon to \$2.751/gallon on the week.

The Lundberg Survey reported that the US average price of gasoline increased by 14 cents in the last three weeks ending January 8<sup>th</sup> to \$2.74/gallon.

#### **Refinery News**

According to Reuters, complex oil refiners in the US Gulf coast posted an average profit of \$3.18/barrel last week, up from \$1.97 the previous week. In Europe, complex refiners in the Rotterdam area posted an average profit of \$1.89/barrel by processing one barrel of North Sea Brent

#### **Market Watch**

The National Weather Service reported that US heating oil demand this week is expected to be normal as temperatures in the Northeast moderate. Last week, heating oil demand was 12% above normal compared with a forecast of 11%.

CME weather futures markets are pricing colder than normal temperatures that would continue to support US demand for distillates like heating oil in January and February. The weather futures markets suggest that in January, the US will experience 114 heating degree days more than the 20 year average on a population weighted basis, up 13.2% and 135 heating degree days on an oil-weighted basis, up 13%, with temperatures remaining colder than normal in February before returning to the 20 year average in March.

Citigroup raised its long-term oil price estimate to \$80/barrel from \$65/barrel. In the medium term, Citigroup expects prices to increase towards \$90/barrel though it is less optimistic about 2010.

Bank of America's Merrill Lynch said today that they see oil prices risen to more than \$100 per barrel next year as the global economy improves.

The Orkney Islands Council said the Very Large Crude Carrier Australis completed a ship-to-ship transfer of North Sea Forties crude with an Aframax tanker over the weekend in Scapa Flow, Scotland. The vessel is heading to Wilhelmshaven, Germany after completing a ship-to-ship transfer with the Ocean Lady.

**January  
Calendar Average**  
**CL – \$82.40**  
**HO – \$219.20**  
**RB – \$213.32**

crude, compared with \$1.48/barrel in the previous week. Complex refiners in the Mediterranean posted an average profit of \$1.31/barrel on Russian sour Urals crude, up about 90 cents from the previous week. Simple margins in the Rotterdam area averaged 43 cents/barrel. In the Singapore area, complex margins on sour Dubai crude averaged \$3.95/barrel, up from \$3.78/barrel during the previous week. Simple margins averaged \$1.29/barrel, up 17 cents on the week.

Chevron's 260,000 bpd El Segundo, California refinery planned to restart a catalytic cracking unit on Monday following an unexpected shutdown on Friday.

Shell Oil said it will be flaring at its 332,000 bpd Deer Park, Texas refinery following recent frigid weather in the US Gulf Coast region. On Friday, it reported a problem in its coker unit after a wet gas compressor tripped.

LyondellBasell reported an unspecified problem at its 270,000 bpd Houston, Texas refinery. An official said abnormal operating conditions at the plant resulted in a gas release.

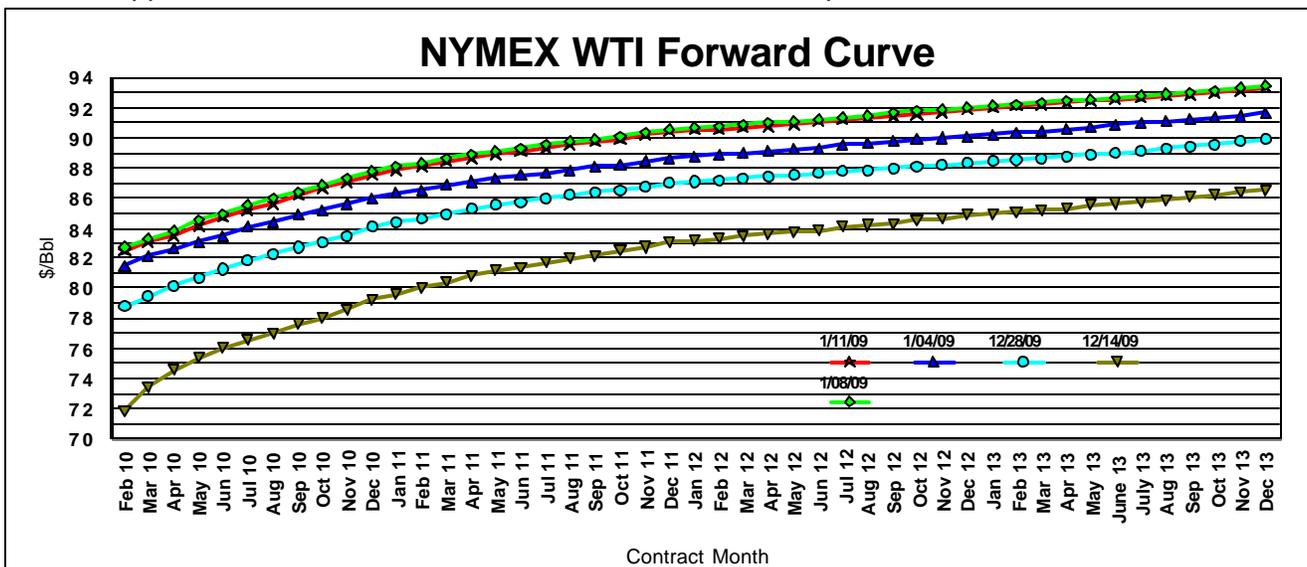
Valero Energy Corp reported that inclement weather conditions caused venting to flare at Complex 7 of its Corpus Christi Refinery East Plant in Texas on Sunday. Separately, Valero was starting scheduled turnaround on its fluid catalytic cracking unit at its 325,000 bpd refinery in Port Arthur, Texas. The planned work is expected to take 44 days.

Sunoco Inc reported that a compressor trip resulted in flaring at its 178,000 bpd refinery in Marcus Hook, Pennsylvania on Saturday.

Indonesia's Pertamina shut an 83,000 bpd residual fuel catalytic cracking unit at its Balongan refinery for five days since Sunday.

Saudi Aramco and Royal Dutch Shell are expected to start ultra-low sulphur diesel exports from their 305,000 bpd joint venture refinery by the end of January. The commissioning of the new refining unit is likely to take place before the end of the month.

Combined stocks of gasoline, diesel and kerosene held by China's CNPC and Sinopec Group increased in December as rising domestic demand and exports lagged behind record high refinery production. Fuel stocks in December increased by 2.4% on the month despite an 8.7% rise in domestic sales. Meanwhile, China's monthly crude oil imports increased above 20 million tons for the first time ever in December, reaching 21.26 million tons or 5 million bpd, up almost 25% on the month. China shipped 3.67 million tons of refined fuel in December, up 64% on the month. Gasoline stocks



increased by 1.7% while diesel stocks increased by 4.5%.

Indonesia's crude imports for delivery totaled 11.25 million barrels or 360,000 bpd, of which 8.5 million barrels were term cargoes and the remaining were bought on a spot basis.

Glencore has ceased gasoline supply to Iran to avoid fallout from US sanctions on companies supplying fuel to Iran. The company halted shipments since November. The European trader has been supply no more than 17,000 bpd of gasoline per month to Iran, a small portion of Iran's typical monthly import program of between 10 and 12 cargoes or 102,000 bpd.

Saudi Arabia has purchased about 250,000 barrels of gasoline for delivery in January. Saudi Arabia imported gasoline in November when it bought about 511,000 barrels of gasoline.

Poland's PKN Orlen SA signed a 12 month agreement to supply gasoline and diesel fuels to a local unit of Norway's Statoil ASA.

The Baku-Tbilisi-Ceyhan pipeline is expected to pump 19 million barrels of crude oil in February, down 3.6 million barrels less than the January program. The February loadings will amount to 678,571 bpd compared with 729,032 bpd in January.

### **Production News**

Kuwait Oil Co contained a minor leak at its al-Ahmadi field with no impact on exports. Kuwait is still estimating how much oil leaked at the al-Ahmadi field. The leak occurred on Sunday morning from a pipeline.

Mexico reopened all three of its main oil exporting ports of Cayo Arcas, Dos Bocas and Coatzacoalcos on Monday after closing the terminals due to bad weather. Authorities closed the ports of Dos Bocas and Coatzacoalcos on Friday while the port of Cayo Arcas was shut on Saturday.

Crude oil loadings from the four benchmark North Sea streams is scheduled to average 1.32 million bpd in February, up from 1.27 million bpd in January. The Brent stream is scheduled to load 150,000 bpd, up from 116,000 bpd while the Forties crude stream is scheduled to load 600,000 bpd in February, up from 581,000 bpd in January. The Oseberg crude stream is scheduled to load 195,000 bpd, up from 187,000 bpd in January while the loading program for North Sea Ekofisk crude scheduled the loading of 10.5 million barrels, down 1.55 million barrels from 12.05 million barrels in January. It is equivalent to 375,000 bpd compared with 388,710 bpd in January.

Iraq's Oil Ministry will finalize deals later this month with foreign energy companies for its Majnoon, Gharaf, Qayara and Najmah fields. An official at Iraq's Petroleum Contracts and Licensing Directorate said the Oil Ministry will sign a final service contract for the Majnoon oilfield, which was awarded to Royal Dutch Shell and Petronas on January 17<sup>th</sup>. The Majnoon field has reserves of 12.6 million barrels. On January 18<sup>th</sup>, it will sign a deal for smaller field Gharaf, with reserves of 900 million barrels, with Petronas and Japan Petroleum Exploration Co. On January 26<sup>th</sup>, the ministry will sign deals for the Qayara and Najmah fields with Angola's Sonangol.

Saudi Arabia will keep its February crude oil supply volume to one European major steady on the month. Meanwhile, Saudi Arabia will supply crude oil at about 5% below contracted volumes to one Asia buyer, steady on the month. It will supply another buyer in Asia at full nominated volumes for February or about 7-8% less than the full contracted volumes for January.

Oman is on track to increase its oil production for the second consecutive year and surpass its target for 2009 of about 800,000 bpd. It aims to increase its output further to about 900,000 bpd in 2010.

Iran's Oil Ministry reported that it aims to increase oil output to 5.1 million bpd by 2015 under a five year national development plan. Iran produced 3.75 million bpd in December. Total investment in Iran's oil and gas sector during the 2010-15 period would amount to \$155 billion. In order to reach its oil and gas output targets, Iran needs to develop 15 oil fields and 20 gas fields. Exploration of new fields would help add 1.5 billion barrels of crude to the country's reserves each year.

Russia's Energy Ministry reported that the country's oil production in 2009 increased by 1.2% on the year to 494,228 million metric tons.

Kazakhstan's State Statistics Agency reported that the country increased its oil and gas condensate output by 8.1% to 76.4 million tons last year. It also reported that Kazakhstan's natural gas production increased by 8.6% to 35.6 billion cubic meters.

India's Oil Ministry will seek free pricing of petrol and a gradual increase in diesel rates in a meeting with Prime Minister Manmohan Singh. Petrol and diesel prices are currently set by the federal government to help control inflation and protect consumers from sharp fluctuations in energy prices. India's Oil Minister Murlu Deora is scheduled to first meet Finance Minister Pranab Mukherjee on Tuesday to discuss oil subsidies before presenting his proposals to the prime minister on Wednesday.

Iraq's State Oil Marketing Organization lowered its official selling price of Basra Light crude to US buyers for February by \$2 to \$5.15 below the WTI benchmark. It also lowered its official selling price of Kirkuk Heavy crude to US buyers by \$1.15 to \$1.15 below WTI. The price of Basra Light crude was increased by 30 cents to \$1.50 below BFOE while the price of Kirkuk Heavy crude was increased by 50 cents to BFOE minus 50 cents. The February price for Basra Light crude for Asian buyers was set at the Oman/Dubai average minus 40 cents, down from parity in January.

OPEC's news agency reported that OPEC's basket of crudes fell to \$79.94/barrel on Friday from \$80.19/barrel on Thursday. It also reported that OPEC's basket of crudes increased by \$3.20/barrel to \$79.44/barrel in the week ending January 8<sup>th</sup>.

### **Market Commentary**

Crude oil initially traded higher today, reaching a fifteen-year high, as it reacted to news that China's imports of oil reached record levels last year and as the dollar weakened. A weaker dollar typically heightens the appeal of commodities as a financial hedge. As quick as prices went up, they came right back down as cold weather forecasts were changed to reflect warmer than expected weather in the eastern part of the U.S. Heating oil and gasoline also tumbled in response to reports of warmer weather on the way. Inventories for distillate for the week ending January 8<sup>th</sup> are expected to have fallen by 1 million barrels and are currently set at 16 percent higher than the five-year average. All three markets reached a higher high, but settled lower on the day. Moving oscillators for all crude oil, heating oil and gasoline have crossed to the downside. Both of these technical scenarios typically bring about additional pressure on the market. We would like to see crude oil settle below \$82.00 for two day for confirmation that the upside as reached a near term end.

Crude FEB.10 250,371 -11,938 MAR.10 202,989 +6,879 APR. 85,524 +5,790 Totals 1,289,625 +12,536 Heating oil FEB 10 89,577 -4,929 MAR.10 62,760 +3,172 APR10 32,983 -720 Totals: 323,927 -1,405 Gasoline FEB.10 87,383 -4,098 MAR. 10 53,518 +3,658 APR10 36,136 +472 Totals: 256,846 +4,761.

<b>Crude Support Based on February</b>	<b>Crude Resistance Based on Feb</b>
82.00, 81.60, 80.90, 79.89, 78.50, 77.85, 75.00, 73.50, 72.91, 72.60, 65.05, 64.70, 63.38, 62.70, 61.61, 60.95	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	2.2270, 2.2575, 2.4200
<b>Gasoline support</b>	<b>Gasoline resistance</b>
1.7900, 1.7200 1.6600	2.1930, 2.2270, 2.3350,

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