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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 JANUARY 14, 2011**

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Alaska's oil pipeline will be temporarily shut again late Friday as workers begin installing a bypass pipe around the leaking stretch of line that forced its shut for 84 hours. The effort to build and install a bypass line at Pump Station 1 is expected to last several days. The bypass pipe should allow the Trans Alaska Pipeline System to resume normal shipments of crude.

A senior diplomat said Russia is not expected to take part in the January 15-16 tour of two Iranian nuclear facilities. China on Thursday rejected Iran's invitation to tour the facilities and Russia cautioned the visit could never replace

UN inspections or talks between Iran and world powers. Iran described the visit as a goodwill gesture and a sign of openness regarding its nuclear activities.

#### **Market Watch**

The US Commerce Department said US retail sales increased by 0.6% in December following an increase of 0.8% in November. It was the sixth consecutive increase in retail sales. The market was expecting an increase of 0.9%.

The Commerce Department also reported that US business inventories increased in November less than expected. Inventories increased 0.2% on the month to a seasonally adjusted \$1.422 trillion. October inventories increased by 0.8%, revised up from a 0.7% increase. US business sales increased by 1.2% to \$1.133 trillion following a revised 1.5% gain in October.

The US Labor Department said US consumer prices in December increased to its fastest pace since June 2009. It reported that the seasonally adjusted Consumer Price Index in December increased by 0.5% from November. For all of 2010, consumer price inflation increased by 1.5%. The core CPI in December increased by 0.1%.

The Federal Reserve reported that US industries increased production in December. Industrial production increased by 0.8% in December following a revised gain of 0.3% in November. Capacity utilization increased to 76% in December from 75.4% in November.

Thomson Reuters/University of Michigan Surveys of Consumers' preliminary January consumer sentiment fell to 72.7 from 74.5 in the final December reading.

China's Central Bank said it will increase the banks' reserve requirement ratio by 50 basis points. The increase, which takes effect on January 20<sup>th</sup>, is the latest move by China to curb inflation after the consumer price index increased by 5.1% in November from a year earlier. It was the seventh increase in required reserves since early 2010.

JPMorgan Chase & Co's commodities trading risk steadied in the fourth quarter amid a rally in oil, metals and grains. Value at Risk for commodities at JPMorgan stood at \$14 million in the fourth quarter from \$13 million in the third quarter.

**January  
Calendar Averages  
CL – \$90.28  
HO – \$2.5637  
RB – \$2.4479**

ICAP Shipping reported that crude oil stored globally in VLCCs in the week ending January 14<sup>th</sup> increased to 43 million barrels, up from 41 million barrels in the week ending January 7<sup>th</sup>.

US CFTC's chairman Gary Gensler said the agency will probably have to reduce its technology budget this year because Congress provided the agency with less overall funding than it requested. He said it would have to increase its technology funding in future years to enforce the new Dodd-Frank financial reform law.

Separately, a senior official said budget constraints could force the US CFTC to outsource enforcement of planned new trading rules to an industry funded body. It has alerted the National Futures Association that it may be asked to shoulder some oversight of the over-the-counter derivatives market handed to the government agency by the Dodd-Frank financial reform bill. The move could increase pressure on lawmakers to provide the CFTC with more funding. The CFTC has estimated that 300 to 400 new firms will register with the agency when it assumes oversight of the OTC market.

**Refinery News**

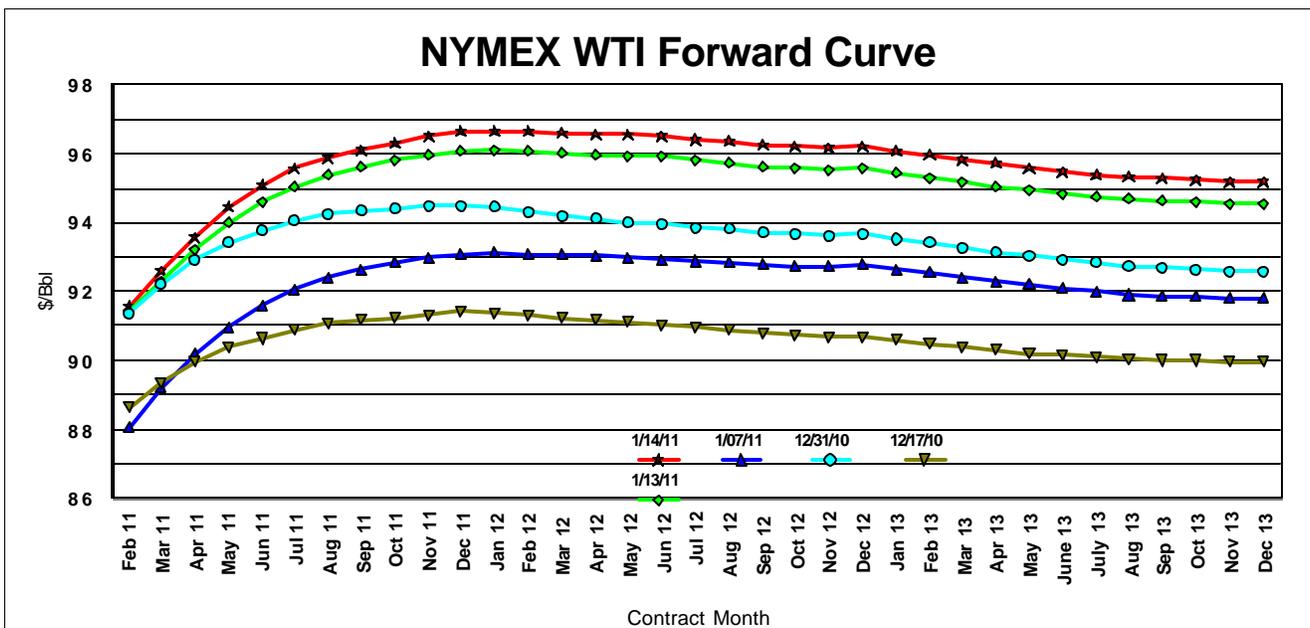
Marathon Oil Corp is cleaning a small amount of crude oil from a waterway near its refinery in Garyville, Louisiana following a pipeline leak. It said about 50 gallons of crude was spilled. The company declined to comment on whether the leak affected operations at the 464,000 bpd refinery.

Valero Energy Corp said it moved scheduled turnaround at its 170,000 bpd refinery in McKee, Texas to April 2011. The company had previously stated that the turnaround would begin in March.

Total cut production on a fluid catalytic cracking unit, a hydrocracking unit and a diesel hydrotreater after a malfunction at its 233,000 bpd Port Arthur, Texas refinery.

Hovensa LLC said it moved up the date for the turnaround of one of its sulfur recovery units at its 500,000 bpd refinery in St. Croix, which is now expected to last through at least the end of the month. It said the temporary shutdown of the unit resulted in a reduction of the refinery's crude processing rate.

A natural gas plant leak of propane in Oklahoma shut a gathering pipeline. ONEOK NGL Pipeline LP



isolated the line after 10 barrels of propane leaked Thursday near Calumet, Oklahoma due to gasket failure in a valve.

Unipetrol's Paramo unit will start a temporary shutdown for maintenance at its Pardubice refinery a month earlier than planned. It is scheduled to start the shutdown on January 20<sup>th</sup> due to the current squeeze on refinery margins.

China's West Pacific Petrochemical Co plans to carry out major maintenance from late February that will involve its 200,800 bpd refinery. The maintenance will last until around early April.

South Korea's Yeochun Naphtha Cracking Center restarted its No. 2 naphtha cracker following a fire. The unit is however operating at a maximum of 70% of its capacity until at least April while repairs are carried out.

### **Production News**

An operator has started oil wells shut in Louisiana coastal waters due to a leak in the South Pass Block 11. Energy Partners Ltd shut the wells after a platform pipe leaked 1.1 gallons of crude on Thursday.

Mexico reopened its Dos Bocas and Coatzacoalcos oil ports in the Gulf of Mexico on Friday as bad weather subsided. The port of Cayo Arcas remained closed.

Norway's Gullfaks crude oil stream is scheduled to load 30,000 bpd less than planned in February. The revised schedule shows five cargoes of Gullfaks or about 153,000 bpd, down from six cargoes or 183,000 bpd. One cargo from the February loading program has been moved to the March loading schedule.

According to a report by Bank of America Merrill Lynch, Iraq's oil production could increase to 4.4 million bpd by 2015, up from a previous estimate of 3.8 million bpd. Iraq's government raised its proven oil reserves by 25% to 143 billion barrels. Iraq's oil production increased to 2.6 million bpd in December.

Ukraine's major state-run oil company Ukrnafta said it reduced oil output to 2.49 million tons in 2010 from 2.83 million tons in 2009.

Russia's Energy Ministry reported that the country has so far failed to finalize an oil price agreement with Belarus, which stopped receiving oil deliveries on January 1 and added that talks will continue next week. Russian oil transit across Belarus via the Druzhba pipeline to European customers in Germany and Poland has not been affected and Russia has stated that it has looked into utilizing other routes to ensure supplies continue.

OPEC's news agency reported that OPEC's basket of crudes fell by 27 cents to \$93.96/barrel on Thursday.

Russia's government may consider increasing the oil product export duty and reducing crude oil export tariffs. Russia's Energy Ministry has submitted a new tax regime proposal that would increase the export duty on oil products from 60% to 66% of the duty levied on crude oil. It will lower the crude oil export duty by 7%.

### **Market Commentary**

The oil market was pressured early in the session by the news that China's central bank increased banks' reserve rate requirement by 50 basis points to rein in inflation. It was the seventh consecutive

increase in its reserve requirement since early 2010. The market posted a low of \$90.10 in early morning trading as it remained pressured by the news. However the market bounced off its low and rallied higher throughout the session. The market edged higher as traders covered their short positions ahead of the long weekend. It was also supported by some positive US economic news. The Federal Reserve reported that industrial output increased by a larger than expected 0.8% in December while the Labor Department said consumer price inflation remained subdued. The market was further support later in the session by the strength in the equities market. The crude market rallied to a high of \$91.69 and settled up 14 cents at \$91.54. Meanwhile the Brent market remained supported and traded above the \$99 level ahead of the February contract's expiration. The Brent premium to WTI crude reached a new high not seen in about two years, with the premium at \$8. The product markets also settled sharply higher, with the heating oil market settling up 3.61 cents at \$264.52 and the RBOB market settling up 4.87 cents at \$249.46, levels not seen since October 2008. The oil market's gains are still seen limited. The market is seen finding resistance at its highs of \$91.69, \$92.39 and \$92.58. Meanwhile, support is seen at \$90.70, \$90.10, \$88.93, \$88.13 and \$87.25.

The Commitment of Traders report showed that non-commercials in the crude market increased their net long position by 19,619 contracts to 169,085 contracts in the week ending January 11<sup>th</sup>. The combined futures and options report showed the funds increased their net long position by 25,252 contracts to 226,527 contracts on the week. Meanwhile, the disaggregated futures and options report showed that the managed money funds increased their net long position by 22,361 contracts to 209,769 contracts on the week. The report also showed that producers/merchants increased their net short position by 17,676 contracts to 173,590 contracts on the week.

Crude oil: Feb 11 129,665 -29,552 Mar 11 362,639 +29,638 April 11 109,429 -1,683 Totals 1,518,654  
 1,962 Heating oil: Feb 11 75,263 -6,441 Mar 11 75,561 +5,425 Apr 11 34,309 +1,993 Totals 302,387  
 +4,133 Rbob: Feb 11 61,803 -7,571 Mar 11 80,374 +5,244 Apr 11 31,035 +2,730 Totals 280,115  
 +3,326.

Crude Oil		Heating Oil		Rbob	
Support	Resistance	Support	Resistance	Support	Resistance
9070	9239	26215	26464	24740	24960
9010	9239	26040	26712	24595	25023
8893	9258	25959	27070	24493	27085
8813	9312	25865	27639	24316	
8725	9633	25451		24126	
				23945	

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