



## ***ENERGY RISK MANAGEMENT***

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

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According to a SpendingPulse report by MasterCard Advisors LLC, US weekly gasoline demand increased by 3.3% to 8.669 million bpd in the week ending January 14<sup>th</sup>. It was the first increase since the week ending December 24, 2010. Gasoline demand was up 0.2% on the year. It reported that the four week average gasoline demand stood at 8.77 million bpd, up 0.3% on the year. The price of gasoline increased for the seventh consecutive week by 2 cents to

#### Market Watch

The US Commerce Department said home construction in the US fell to its lowest level in more than a year in December as builders cut back on new single family homes. Housing starts fell by 4.3% to a seasonally adjusted annual rate of 529,000 from a downwardly revised 553,000 a month earlier. However building permits increased by 16.7% to an annual rate of 635,000. The results were driven by a 9% drop in single family home construction to a seasonally adjusted annual rate of 417,000.

On Tuesday, the National Association of Home Builders said its housing market index remained flat at 16 in January.

According to a Reuters poll, recent evidence a US economic recovery may be gaining ground has led economists to increase their forecasts for the pace of growth. A poll of around 80 economists suggested US GDP will increase by 3% on an annualized basis in 2011, up from 2.7% in a similar poll in December and 2.3% in a November poll. The median of forecasts for 2010 GDP increased to growth of 2.9% from 2.8% in the December poll.

Goldman Sachs commodities trading risk fell sharply in the fourth quarter as it saw lower results from fixed income trading that included commodities. Goldman Sach's Value-at-Risk for commodities stood at \$23 million for the fourth quarter ending December 31<sup>st</sup>. That was down 20% from the \$29 million in the third quarter and 40% lower than the \$38 million in the fourth quarter of 2009.

China's consumer prices in December increased by 4.6% on the year, down from a 5.1% increase in November, according to Hong Kong media. Meanwhile, China's GDP grew 10.3% last year.

Societe Generale will start offering over-the-counter commodity derivatives products in China this year as it looks to tap into increasing demand from Chinese companies to manage price risks. It said it will first focus on launching base metals and agricultural products before expanding into energy related instruments in the future.

#### API Stocks

**Crude** – up 3.533 million barrels  
**Distillate** – up 940,000 barrels  
**Gasoline** – up 1.869 million barrels  
**Refinery runs** – down 1.4% at 82.9%

\$3.09/gallon. The price is 12.4% or 34 cents/gallon above a year ago.

US Secretary of State Hillary Clinton said that some Chinese entities are not complying with nuclear sanctions against Iran



Essar Oil Ltd has finalized its purchase of Royal Dutch Shell Plc's Stanlow refinery in the UK for \$350 million.

Singapore's Ceylon Petroleum Corp has delayed a plan to double the capacity of its Sapugaskanda refinery to 100,000 bpd due to increased costs. If it does not double the capacity of the refinery, it will upgrade the refinery by adding other facilities.

China is unlikely to import diesel in the first quarter after the country imported 460,000 tons of diesel in December, nearly five times the year ago level, according to China Customs Statistics Information Center. Oil firms increased refinery operations to peak rates and increased diesel imports starting in November after factories cut off from state power supplies started to use diesel generators. China exported about 170,000 tons of diesel in December, more than half the volume in December 2009. China also cut its gasoline exports in December to about 360,000 tons, down 25% on the year.

The Petroleum Association of Japan reported that the country's commercial oil inventories in the week ending January 15<sup>th</sup> increased by 2.52 million barrels on the week and by 3.83 million barrels on the year to 100.41 million barrels. Its gasoline stocks increased by 290,000 barrels on the week but fell by 230,000 barrels on the year to 13.85 million barrels while its kerosene stocks fell by 1.22 million barrels on the week and by 1.39 million barrels on the year to 13.51 million barrels. Naphtha stocks increased by 410,000 barrels on the week to 11.73 million barrels. Japan's crude runs fell by 20,000 bpd on the week but increased by 20,000 bpd on the year to 4 million bpd and its refinery utilization rate fell by 0.3% on the week but increased by 6.8% on the year to 88.6%. The PAJ also reported that Japan's total oil product sales increased by 19.9% on the week but fell by 6% on the year to 3.27 million bpd.

### **Production News**

Venezuela's Energy Minister Rafael Ramirez said Venezuela surpassed Saudi Arabia to become the nation with the largest proven crude oil reserve in the world at 297 billion barrels. He said at the end of 2010, Venezuela had 217 billion barrels of oil. Venezuela has claimed increasing reserves in recent years, including a 23% increase a year ago, due to heavy and extra heavy oil in Venezuela's Orinoco Belt. Venezuela's Energy Minister said Venezuela hopes for first new production of 50,000 bpd from projects in the Orinoco heavy crude belt. He also stated that there was consensus among OPEC ministers that no extraordinary meeting was needed despite the global price rise.

Russia's Prime Minister Vladimir Putin will meet his Belarussian counterpart on Thursday in a bid to resolve an oil price dispute that has already cut oil products exports to Europe. Russia stopped supplying Belarus refineries, which have a daily capacity of 360,000 barrels from January 1<sup>st</sup> as the two countries were unable to agree on the oil price. The dispute has already resulted in Belarus suspending diesel exports to Europe although Belarus insists supplies have not been suspended. Russia's crude supplies to Poland and Germany via Belarus along the Druzhba pipeline has not been affected.

Iraq's Oil Ministry has agreed with its Kurdish counterpart to pay exploration costs and expenses to the foreign firms exploring in the northern Kurdish region. Iraq's SOMO will be responsible for payments to the companies, which will be made through the Kurdish Natural Resources Ministry.

Japan's Idemitsu Kosan Co said the Norwegian government awarded it production licenses in three oil and natural gas areas of the Norwegian and North Sea.

Brazil's Petrobras plans to explore for oil and natural gas in three new fields in Bolivia.

BP is looking to book oil and gas reserves in the deal with Russia's Rosneft. Russian Arctic offshore oil resources earmarked for BP and Rosneft's joint development total some 5 billion tons while gas resources total 10 trillion cubic meters.

Russian companies may face higher oil products export duties starting in March. Russia's Deputy Prime Minister Igor Sechin approved a new tax regime proposed by the Energy Ministry. Under the plan, the crude oil export duty could fall by about 7%. Meanwhile, the export duty on oil products could increase from 60% to 66% of the duty levied on crude oil.

India's Oil Secretary S. Sundareshan said Indian officials are working on a specific routing of funds to Iran for the payment of crude imports. Iran and India have been trying to find an alternative payment mechanism after the Reserve Bank of India stopped Iran-related payments through the Asian Clearing Union route. Separately, India's Oil Secretary said Indian oil companies are seeking a cut in excise and import taxes for crude oil and oil products. Meanwhile, a senior finance ministry official said two recent gasoline price increases by state-run fuel retailers is expected to add 0.4% to India's wholesale price index-based inflation reading.

OPEC's news agency reported that OPEC's basket of crudes increased to \$93.80/barrel on Tuesday from \$93.72/barrel on Monday.

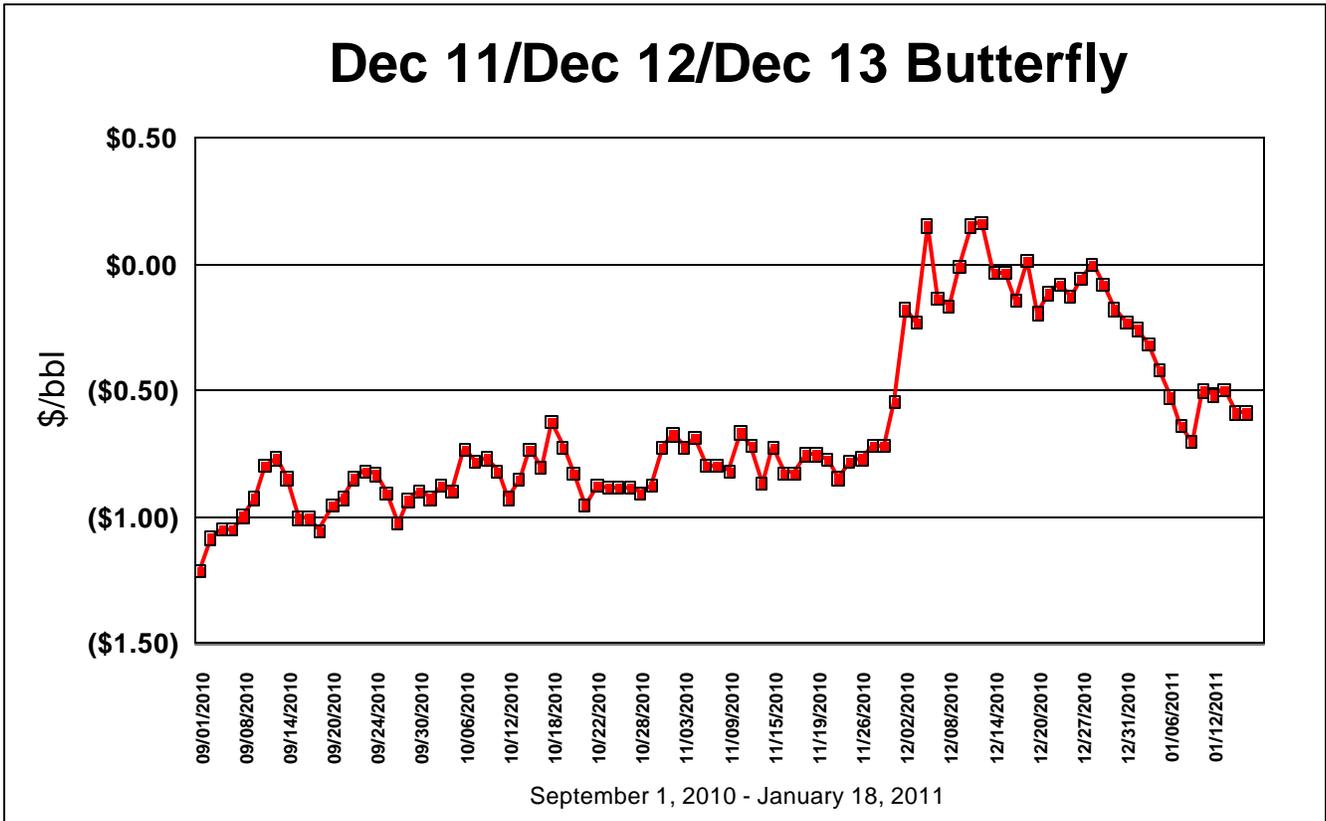
### **Market Commentary**

The February contract traded as high as \$92.10 early in the session as the dollar fell against the euro to its lowest level in two months. Providing temporary support was expectations that inventories for crude oil will show draws due to the shut down of the Trans Alaska pipeline and as the premium that Brent has over the WTI draws cargoes to Europe. A larger than expected drop in U.S. housing starts signaled that the economic recovering maybe ebbing, sending crude oil lower for the second straight day. Should inventories draw in tomorrow's numbers, support will most likely be temporary due to the fact that most shortfalls will occur in the U.S. West Coast. This market will remain economically sensitive, reacting accordingly to the dollar. Back on January 7<sup>th</sup> we made mention of the December 11/December 12/December 13 butterfly. We wrote that we liked buying the Dec 11 and Dec 13 and selling the Dec 12 between  $-\$.80$  and  $-\$.85$ . This spread got as low as  $-\$.70$  and then bounced. With our expectations that crude oil should react bearishly to the inventory numbers, we would look again to put this position on, widening our range to include the  $-\$.70$  level. Our objective for this butterfly is to take profits between flat and  $\$.20$ .

Crude oil: Feb 11 52,461 -36,357 Mar 11 399,893 +25,473 April 11 111,916 -520 Totals 1,491,996 -3,243 Heating oil: Feb 11 67,917 -3,847 Mar 11 82,431 +5,325 Apr 11 36,497 +1,192 Totals 309,256 +5,174 Rbob: Feb 11 54,698 -6,790 Mar 11 86,838 +4,569 Apr 11 35,616 +3,603 Totals 287,146 +2,734.

The API reported an unexpected build in crude stocks of 3.533 million barrels on the week, with a large build of 7.376 in Padd 3. Crude stocks in Padd 5 however fell by 2.823 million barrels amid the closure of the Trans Alaska Pipeline. It reported the build in crude stocks as refinery runs fell by 215,000 bpd to 14.117 million bpd. It however reported that crude imports fell by 1.424 million bpd on the week. The API reported slightly lower than expected builds in both distillate and gasoline stocks of 940,000 barrels and 1.869 million barrels, respectively. Distillate stocks built as apparent demand fell by 3.5% on the week to 4.673 million bpd while apparent demand basis a three week moving average fell by 1.2% on the week to 4.72 million bpd. It however reported that distillate production fell by 158,000 bpd to 4.54 million bpd and imports fell by 99,000 bpd to 267,000 bpd. Gasoline stocks saw a large build of 2.743 million barrels in Padd 1 alone. It reported the build in gasoline stocks as production increased by 144,000 bpd to 9.017 million bpd. The API however showed that apparent demand increased by 11% on the week to 8.788 million bpd.

Crude Oil		Heating Oil		Rbob	
Support	Resistance	Support	Resistance	Support	Resistance
8999		23685	26712		24880
8826	9385	22960	27070	22560	27085
8590	103.85	22013	29500	22050	
8350	111.65	21860	30955	21600	
7945		21140		20300	
7900		20702		20130	
7871					



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