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## ***ENERGY RISK MANAGEMENT***

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### **ENERGY MARKET REPORT FOR JANUARY 27, 2010**

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Iraq's Foreign Ministry said a small contingent of Iranian troops fully withdrew on Wednesday from near an inactive oil well inside Iraq's territory. The Foreign Ministers of the two countries had agreed to maintain friendly relations and withdraw all military forces in the area to their original positions. The Fakka well is part of the Maysan oilfield complex, which has reserves of about 2.5 billion barrels.

JPMorgan Chase said the oversupply of oil should fall further in the first quarter of this year, increasing the risks of a spike in crude prices and a move into backwardation at the end of the second quarter. It said crude stocks have fallen sharply from their peak at the second quarter of last year, with OECD land-based storage back to the middle of the five year range and floating storage possibly as low as 20 million barrels. It also stated that world oil

#### **Market Watch**

The chairman of the US Commodity Futures Trading Commission said Congress should require banks and other big market participants to trade derivatives on regulated exchanges as an absolutely essential part of regulatory reform to prevent another market crisis. He said requiring banks and other Wall Street dealers to bring their standardized transactions to transparent trading venues would shift the information advantage from a small group of derivative dealers on Wall Street to the broader market.

The IEA has invited representatives from global regulators, OPEC and banks to a two day oil industry meeting in Tokyo on February 25-26 to examine potential policy and regulatory measures aimed at increasing oil market transparency and efficiency. They will also examine physical and financial oil price drivers and market stability.

US banks involved in proprietary trading of commodities are taking less risk than they did before the financial crisis. Financial data for the fourth quarter from US banks such as JP Morgan Chase, Goldman Sachs and Morgan Stanley show their Value-at-Risk for commodities at least 25% below levels seen during the third quarter of 2008. JP Morgan Chase's VaR for commodities totaled \$26 million in the fourth quarter of 2009, down from \$30 million in the fourth quarter of 2008. Goldman Sachs' VaR remained unchanged at \$38 million while Morgan Stanley's VaR stood at \$23 million, down from \$27 million a year earlier.

Traders and shipping brokers said at least 10 Long-Range tankers storing a total of 1 million tons of gas oil are mostly anchored off southern Singapore and Malaysian waters, as weak prompt demand encourages traders to store for future sale.

The US Commerce Department said single family home sales in December fell by 7.6% on the month to a seasonally adjusted annual rate of 342,000. Home sales for all of 2009 fell by 22.9% to an unadjusted 374,000 from 2008's 485,000. The 7.6% drop in December followed a 9.3% decline in November, revised up from an originally reported 11.3%.

A Venezuelan Oil Ministry official confirmed it is ready to receive bids Thursday on the long-anticipated Carabobo drilling round, where seven extra-heavy crude blocks are on auction. The Carabobo fields are expected to increase Venezuela's production by about 1.2 million bpd starting in 2015.

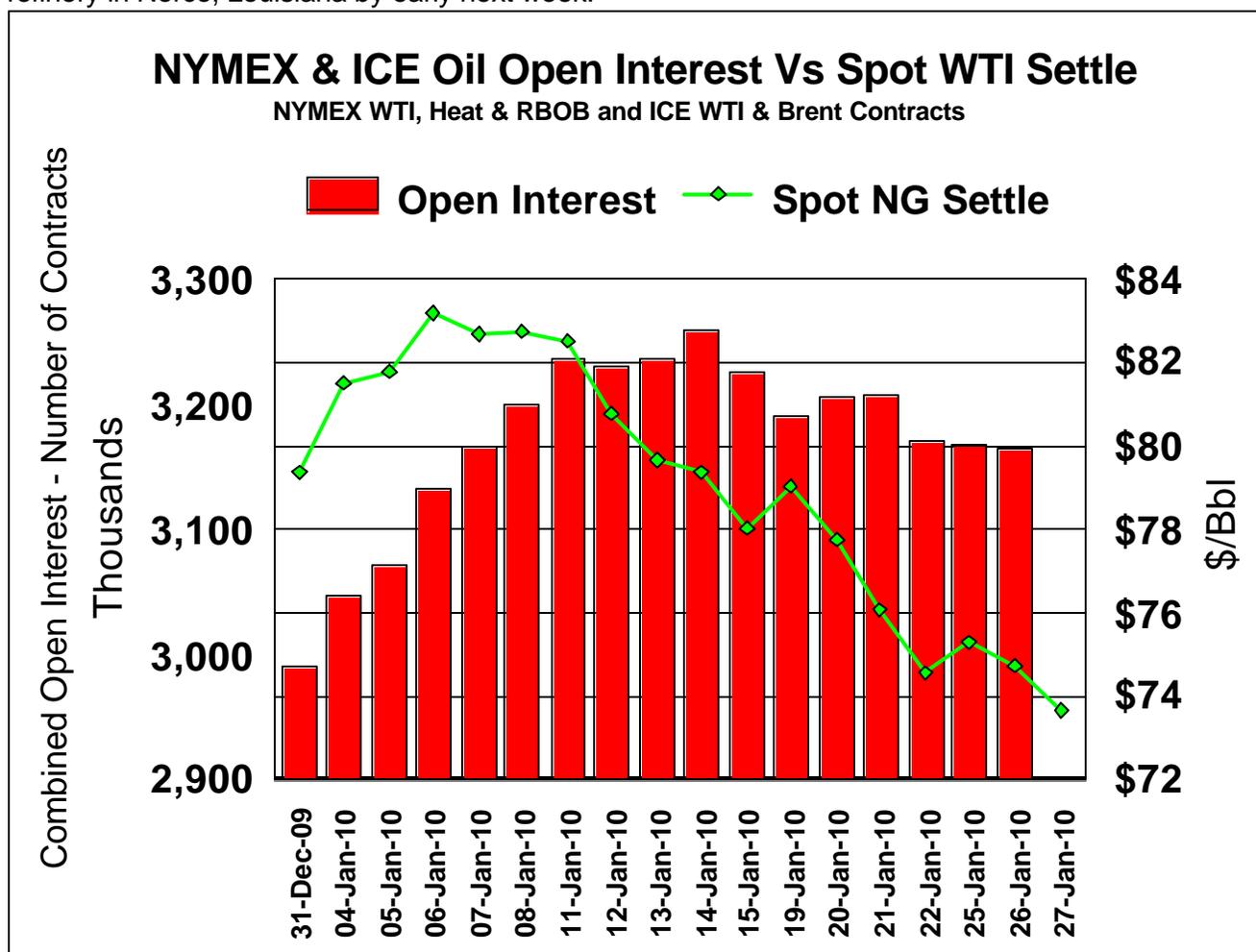
Japan's Finance Ministry reported that the country's export have increased for the first time since the global financial crisis started in 2008. It showed exports in December increased 12.1% on the year to \$60 billion. Strong demand from Asia and China helped lead the increase. Total shipments to the region increased to \$33 billion, with exports to China increasing by 42.8%. Analysts however warn that an overreliance on China could have its problems as China looks to tighten monetary policy.

demand is expected to return to its historical peak in first quarter of 2011 due to strong demand from emerging economies.

### Refinery News

The Sabine-Neches waterway has been partially reopened to tanker traffic after a leaking tanker was moved from the channel. The channel has been closed since Saturday following a tanker collision and oil spill.

Turnaround maintenance on a fluid catalytic cracking unit at Motiva Enterprises' 235,000 bpd oil refinery in Convent, Louisiana will begin on Thursday. It will shut several units for scheduled maintenance, which are expected to return to operation in early March. Separately, Motiva Enterprises LLC expects to complete the assessment of a fire damaged crude unit at its 220,000 bpd refinery in Norco, Louisiana by early next week.



Valero Energy Corp is performing maintenance work on a fluid catalytic cracking unit and alkylation unit at its 310,000 bpd Port Arthur, Texas refinery starting this month that will last 44 days. Its 45,000 bpd hydrocracker unit will start a 38 day turnaround in March. Its Corpus Christi, Texas refinery's East Plant is performing an 18 day maintenance at its 15,000 bpd hydrocracker beginning in January while the West Plant's 36,000 bpd hydrocracker unit will start an 18 day turnaround in March. Valero Energy Corp has rescheduled the timing of a plantwide shutdown at its St. Charles refinery in Norco, Louisiana to February from January. It will overhaul the refinery's 190,000 bpd crude unit and coker unit. The entire refinery will remain down during the work. In March, Valero's 195,000 bpd Memphis refinery will start a 45 day turnaround at its 105,000 bpd crude, fluid catalytic cracking and alkylation units.

### DOE Stocks

**Crude** – down 3.9 million barrels  
**Distillate** – up 400,000 million barrels  
**Gasoline** – up 2 million barrels  
**Refinery runs** – up 0.1%, at 78.5%

Valero Energy Corp said the company should be profitable in 2010 due to the company's efforts to shutdown unprofitable operations and cut costs and capital spending. Valero reported a loss of \$1.41 billion in the fourth quarter compared with a prior year loss of \$3.28 billion. Valero's 14 refineries are expected to have combined production rates between 2.06 million and 2.14 million bpd in the first quarter of 2010. Valero

also said it is looking to sell its idle Aruba refinery that it admits will not be profitable if it was currently running and may be able to sell its Paulsboro, NJ refinery instead of shutting it down.

BP Plc will shut a fluid catalytic cracking unit at its 455,700 bpd Texas City, Texas refinery on Wednesday to facilitate repairs at an associated compressor.

Shell Oil Co reported emissions from its delayed coking unit at its 158,000 bpd refinery in Martinez, California.

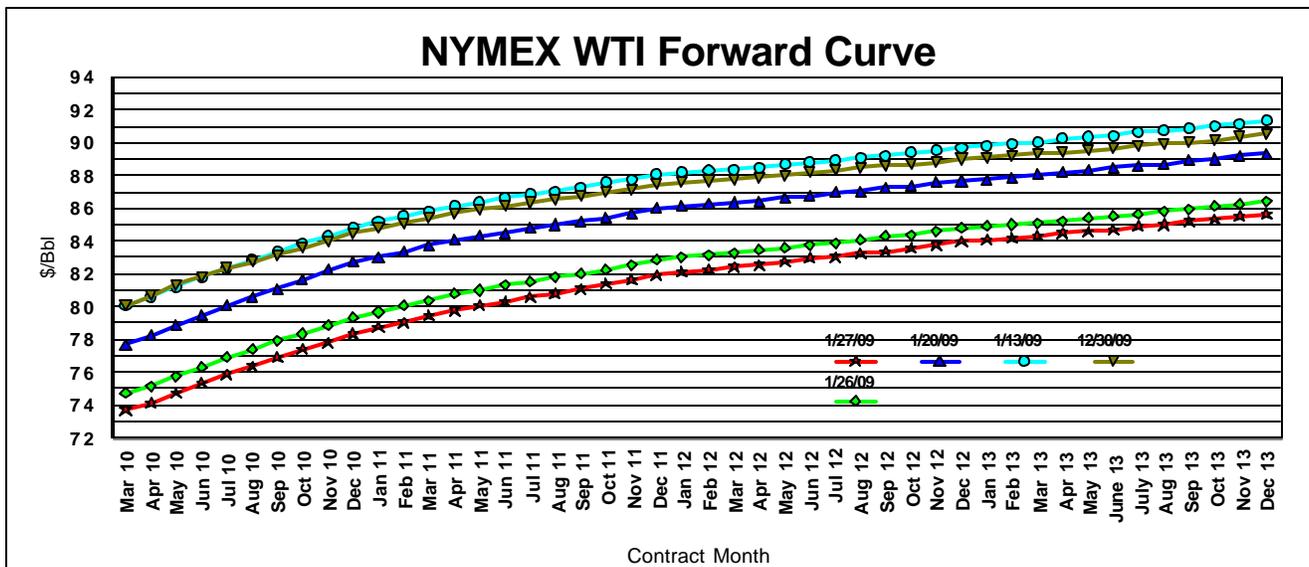
ConocoPhillips is expected to restart a 145,000 bpd fluid catalytic cracking unit at its 263,000 bpd Bayway refinery in Linden, New Jersey refinery early next month after completing planned work, which started on January 7<sup>th</sup>.

Meanwhile, ConocoPhillips reported that its worldwide refining crude capacity utilization rate fell to 76% in the fourth quarter from 90% in the third quarter due to low worldwide refining margins. It reported a profit of \$1.22 billion compared with a year earlier loss of \$31.76 billion.

**January  
Calendar Averages**  
CL – \$79.01  
HO – \$2.0785  
RB – \$2.0610

Royal Dutch Shell started planned partial maintenance at its 245,000 bpd Stanlow refinery in the UK last week. It did not specify the duration of the maintenance or the units that have been affected.

Chevron Corp's 222,000 bpd Pembroke refinery in Wales has been undergoing planned maintenance. The refinery is producing oil products despite the maintenance.



Hess Corp said its refining operations lost \$40 million in the fourth quarter of 2009 due to lower refining margins. Crude runs at its 500,000 bpd refinery in Kingshill, Virgin Islands, fell by 5.35% to

371,000 bpd. Throughput at its 70,000 bpd fluid catalytic cracking unit at its Port Reading, New Jersey refinery fell to 61,000 bpd, down 4.7% on the year.

China's 22 refineries will process 560,000 bpd more crude this year than 2009. The plants have a combined refining capacity of 5 million bpd or 60% of the country's throughput.

Russia's Lukoil is shutting its Odessa refinery in Ukraine until mid-March due to maintenance work and an upgrade. It said the stoppage will begin on January 28<sup>th</sup>.

Spain's Cepsa plans to halt a 115,000 bpd crude distillation unit at its Gibraltar refinery for 30 days in May. It also plans to halt a 130,000 bpd crude distillation unit for 10 days in December and its crude distillation unit 1 at its Huelva refinery for 25 days in October and November.

Japan's Nippon Oil Corp plans to refine 4.92 million kiloliters of crude in February, down 6% on the year. Its January crude refining volume was estimated at 5.4 million kl, up 2% on the year.

Japan's crude imports in 2009 fell by 11.9%, its highest rate on record. Its crude imports fell to 213 million kiloliters or 3.7 million bpd. In December, Japan imported a total of 20.759 million kl, the lowest amount for the month since 1988.

The Petroleum Association of Japan reported that Japan's crude oil inventories in the week ending January 23<sup>rd</sup> fell by 1.26 million barrels on the week and by 12.66 million barrels on the year to 95.33 million barrels. It reported that the country's gasoline stocks built by 280,000 barrels on the week and by 1.06 million barrels on the year to 14.35 million barrels while kerosene stocks fell by 610,000 barrels on the week but built by 350,000 barrels on the year and naphtha stocks built by 1.14 million barrels on the week. Crude runs increased by 50,000 bpd on the week and by 220,000 bpd on the year to 4.03 million bpd. Refiners ran their facilities at an average 82.7%, up 0.9% on the week and 4.8% on the year. The PAJ also reported that total oil product sales fell by 1.4% on the week and by 4.9% on the year to 3.44 million bpd, with gasoline sales falling by 1.3% on the week but increasing by 0.3% on the year to 940,000 bpd. Japan's kerosene sales fell by 13.8% on the week and by 24.8% on the year to 640,000 bpd while its gas oil sales increased by 10.3% on the week and by 0.85 on the year to 610,000 bpd.

Malaysia's Petronas has emerged as a regular supplier of gasoline to Iran despite the threat of further US sanctions that has forced other companies to halt their business there. Petronas, which has secured about 500,000 barrels of fuel storage at the port of Fujairah in the UAE, has been selling on average about 16,000 bpd of gasoline monthly to Iran since the fourth quarter of 2009.

Indonesia's Pertamina will import 10.98 million barrels of oil products in February, up 84.2% from 5.96 million barrels in January. Gasoline imports will increase by 25% or 1.34 million barrels to 6.7 million barrels while diesel imports will increase by 3 million barrels to 3.6 million barrels. It will also import 680,000 barrels of fuel oil in February.

Russia's Rosneft has sold seven Urals crude cargoes for loading from the Baltic Sea port of Primorsk and the Black Sea port of Yuzhny in February. Shell one the right to lift three 100,000 ton cargoes while two vessels were provided to BP and one to Vitol. In the south, Vitol was awarded one 80,000 ton cargo for loading in the port of Yuzhny.

Traders said at least one cargo of Russian ESPO Blend for January loading may have been sold to South Korea's GS Caltex, making it the first end user to buy the new grade. GS Caltex bought the 730,000 bpd cargo from Japan's Mitsubishi.

Russia's Energy Ministry reported that the country's exports of fuel oil reached 137,100 tons/day in December, up 0.5% on the month and 18.9% on the year amid lower domestic demand and high seasonal demand in Europe. Russian exports of gas oil fell to 109,100 tons/day in December, down 1.9% on the month and 4.4% on the year. It also reported that Russia exported 14,500 tons/day of gasoline, up 18.3% on the month.

### **Production News**

The Minerals Management Service said US Gulf of Mexico oil production may be approaching the projected 2011 level of 1.6 million bpd a year earlier than expected. It said its 2008 forecast of 1.4 million bpd by 2010 was achieved in the first half of 2009. Separately, the US MMS said Royal Dutch Shell's Perdido oil and gas project in the Gulf of Mexico will start up soon, perhaps as early as the end of January. The Perdido platform is capable of producing 100,000 bpd of oil and 200 million cubic feet/day of natural gas. It also said the Petrobras operated Cascade project, which is rated at 80,000 bpd, to start production in the second half of 2010.

Anadarko Petroleum Corp said it encountered oil and gas bearing sales at one of its deepwater test wells in the Gulf of Mexico. The company plans to conduct some more appraisal drilling to better determine the full extent of the well.

Iraq's Oil Ministry signed a final contract to develop the Halfaya oilfield with China National Petroleum Co, Total and Petronas. The Halfaya oilfield has estimated reserves of 4.1 billion barrels of oil. CNPC and its partners have pledged to increase output at the Halfaya oilfield to 535,000 bpd from a current level of 3,100 bpd. Separately, Iraq's Oil Minister Hussain al-Shahristani said the latest round of talks this week between Iraq and a consortium led by Nippon Oil Corp over the Nassiriya oilfield ended without a deal. However the two sides have agreed to continue their negotiations.

The special adviser to Nigeria's President on petroleum matters, Emmanuel Egbogah said Royal Dutch Shell Plc and Chevron Corp will soon renew oil leases with the Nigerian government despite uncertainty caused by the absence of Nigeria's President, Umaru Yar'Adua. Nigeria's President has been in Saudi Arabia receiving medical treatment since November 23<sup>rd</sup>. Separately, he said Nigeria is producing 2.5 million bpd of crude following the cessation of militant attacks on pipelines. Militant attacks on oil installations had reduced production to about 1 million bpd in the summer of 2009.

Russia's OAO Rosneft discovered a new oil deposit with estimated reserves of 1.1 billion barrels at the Sevastyanovo oilfield.

Kuwait aims to increase its oil output plan from the northern fields to 1 million bpd by 2015. Kuwait is currently producing about 650,000 bpd of oil and 500 million cubic feet/day of associated gas from the northern fields.

ExxonMobil Indonesia expects peak crude oil production of 165,000 bpd from its Cepu block to be delayed until the end of 2013. An Exxon Mobil spokesman had previously stated that company hoped for peak production at Cepu in 2012.

Brazil's OGX Petroleo e Gas Participacoes expects its output to reach 1.4 million bpd in 2019. It will bring forward the beginning of its production to early next year from late 2011 and has set a target of reaching a production level of 730,000 bpd in 2015.

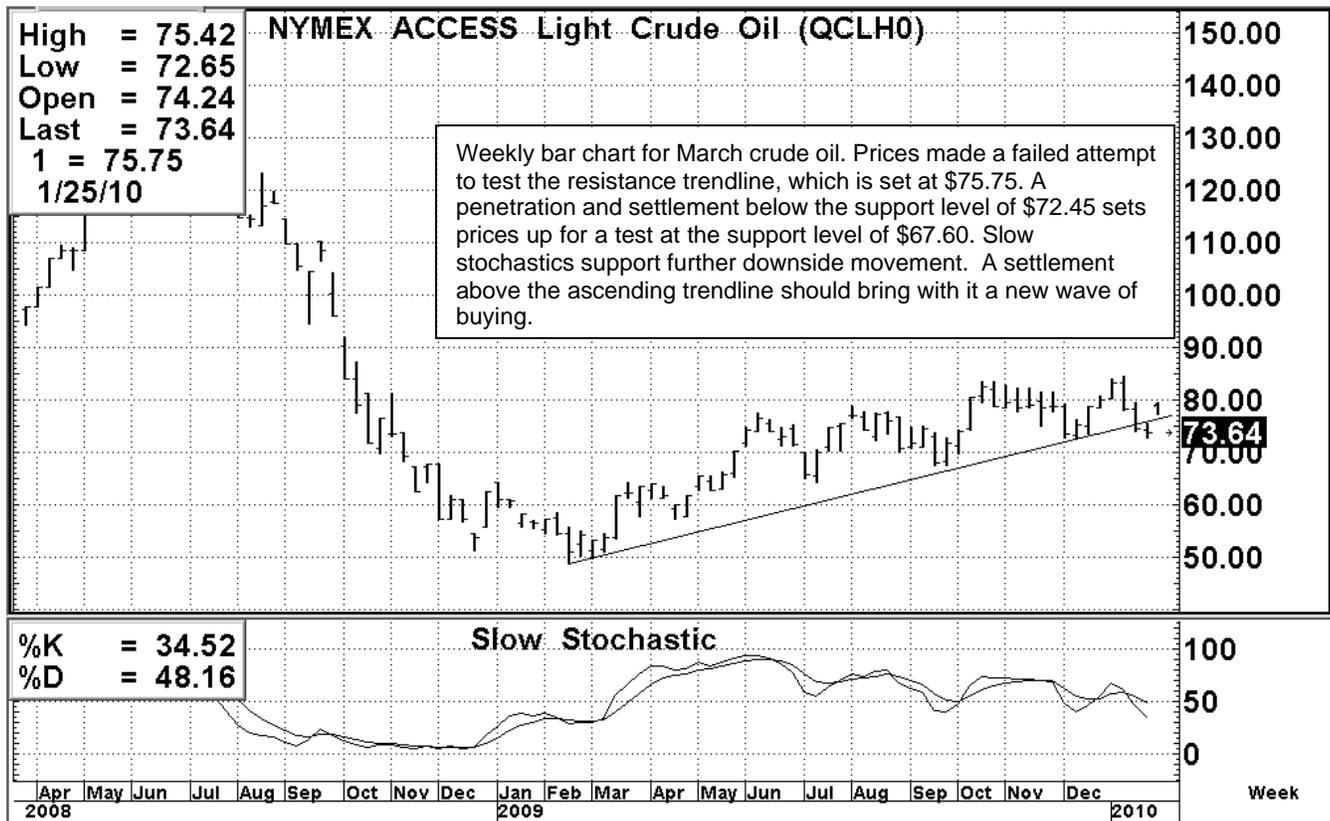
OPEC's news agency reported that OPEC's basket of crudes fell to \$71.94/barrel on Tuesday from \$71.97/barrel on Monday.

### **Market Commentary**

Gasoline was the heavy weight today, as it reacted to a 2 million build in stock levels. Expectations were calling for an increase of 900,000 barrels. Gasoline numbers are most certainly not supportive of this market, with gasoline demand falling, according to MasterCard Inc's Spending Pulse, by 0.4 percent from that of the previous week and 2 percent from a year ago. Distillate stocks also increased, as demand based on a four-week average, lags by 8.1 percent from a year ago. This is not indicative of a recovering economy. While crude oil decreased, imports fell, averaging 7.9 million barrels per day or 673,000 barrels from the previous week. We would not be surprised to see another decrease next week, due to the closing of the Houston Shipping Channel. All things considered, this market is still lacking in demand and overflowing in supply, at the same time it is reacting to outside influences such as the economic tightening by China and the strength of the U.S. dollar. We would look to buy and sell this market against the listed support and resistance numbers, with our overall bias remaining to the downside.

Crude oil MAR.10 352,878 -7,031 APR 131,555 +1,659 May 82,949 +5,507 Totals 1,320 963 +2,528  
 Heating oil FEB 10 25,186 -8,748 MAR.10 95,952 +4,400 APR10 36,538 +1,208 Totals: 315,328 +82  
 Gasoline FEB.10 17,777 -6,988 MAR. 92,982 -1,896 APR10 40,346 /817 Totals: 261,584 -8,747

<b>Crude Support Based on February</b>	<b>Crude Resistance Based on Feb</b>
72.60, 70.42, 65.05, 64.70, 63.38, 62.70, 61.61, 60.95	75.75, 76.50, 78.36, 79.25-50, 81.00, 82.00, 84.83, 85.40, 86.60, 88.80, 89.88
<b>Heat Support</b>	<b>Heat resistance</b>
1.8990, 1.8890, 1.8700, 1.8570, 1.8280, 1.7670, 1.7565	1.9690, 2.0445, 2.2270, 2.2575, 2.4200
<b>Gasoline support</b>	<b>Gasoline resistance</b>
1.8970, 1.85.65, 1.7900, 1.7200 1.6600	2.0045, 2.1930, 2.2270, 2.3350,



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