



## ***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 31, 2011**

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OPEC's Secretary General Abdalla Salem El-Badri said he was not aware of any OPEC ministers meeting on the sidelines of any energy summit due to take place in Saudi Arabia on February 22<sup>nd</sup>. He said there is a risk of an oil shortage if the Egyptian crisis escalates but added that OPEC was ready to increase its output if that was the case. He said the market is well supplied. In response to comments made by the IEA's executive director Nobuo Tanaka that he wanted OPEC to be more flexible in the face of unrest in the Arab world. OPEC's

#### Market Watch

The National Weather Service forecast that US heating demand this week is expected to be 11% above normal. Demand for heating oil is expected to average 13.1% above normal while heating demand for natural gas is expected to average 13% above normal.

Goldman Sachs is bullish on crude oil on strong global demand that is increasing well in excess of non-OPEC supply. It said the impact of the unrest in Egypt and Tunisia, neither of which are major oil exporters, was overstated.

T. Boone Pickens expects the price of oil to continue to increase this year and peak at \$120/barrel.

The US Commerce Department reported that the US consumers accelerated their spending at the end of 2010. Consumer spending increased by 0.7% in December while incomes increased by 0.4% for the second consecutive month. The December saving rate fell to 5.3% from 5.5% the month before. It showed the core price index for personal consumption expenditures, excluding food and energy prices, was up 0.7% on the year after increasing by 0.8% in November. The overall PCE price index increased by 1.2% in December compared to a year earlier.

Inflation in the euro zone accelerated to its fastest pace in 27 months in January. Consumer prices in the 17 countries were up 2.4% from January a year ago.

Statistics Canada said Canada's GDP grew by 0.4% in November due to increased oil and gas extraction as well as higher wholesale and retail prices. It also reported that Canada's industrial product price index for December increased by 0.7%.

Industrial output in Japan and South Korea increased more than expected in December. The data from Japan is encouraging as it supports the central bank's view that the economy will likely resume growing this quarter after a contraction expected in the fourth quarter following the expiry of government incentives for car purchases. Japan's industrial output increased 3.1% in December. Rising factory output also increased expectations that the Bank of Korea will increase interest rates further this year to cut inflationary pressures. South Korea's seasonally adjusted reading in industrial output index increased 2.8% in December.

Australia's Queensland state was warned to prepare for one of the largest cyclones in its history, which is expected to hit the coast as soon as Wednesday and cause flooding and port closures. The high cyclone activity in Queensland state is threatening to set back the schedule for the post-flood recovery of the coal mining sector in the area.

**January  
Calendar Averages**  
**CL – \$89.58**  
**HO – \$2.6093**  
**RB – \$2.4418**

Secretary General said oil inventories would need to be drawn down to warrant an increase in OPEC supplies. He said OPEC would increase its output if oil stocks in the industrialized economies fell to the equivalent of 53 days of forward demand. Stocks are currently estimated at 58 days of demand. Separately, OPEC's Secretary General called for moderate guidelines to cut speculation in the oil market.

Saudi Arabia's Oil Minister Ali al-Naimi said the country has significant spare capacity to help stabilize oil markets despite the prospect of continued volatility. He reiterated that a range of \$70 to \$80/barrel is an appropriate price for oil. He said that market is relatively balanced.

US Senator Jeff Bingaman, the chairman of the US Senate's energy panel, warned that the protests in Egypt could affect US access to affordable energy supplies.

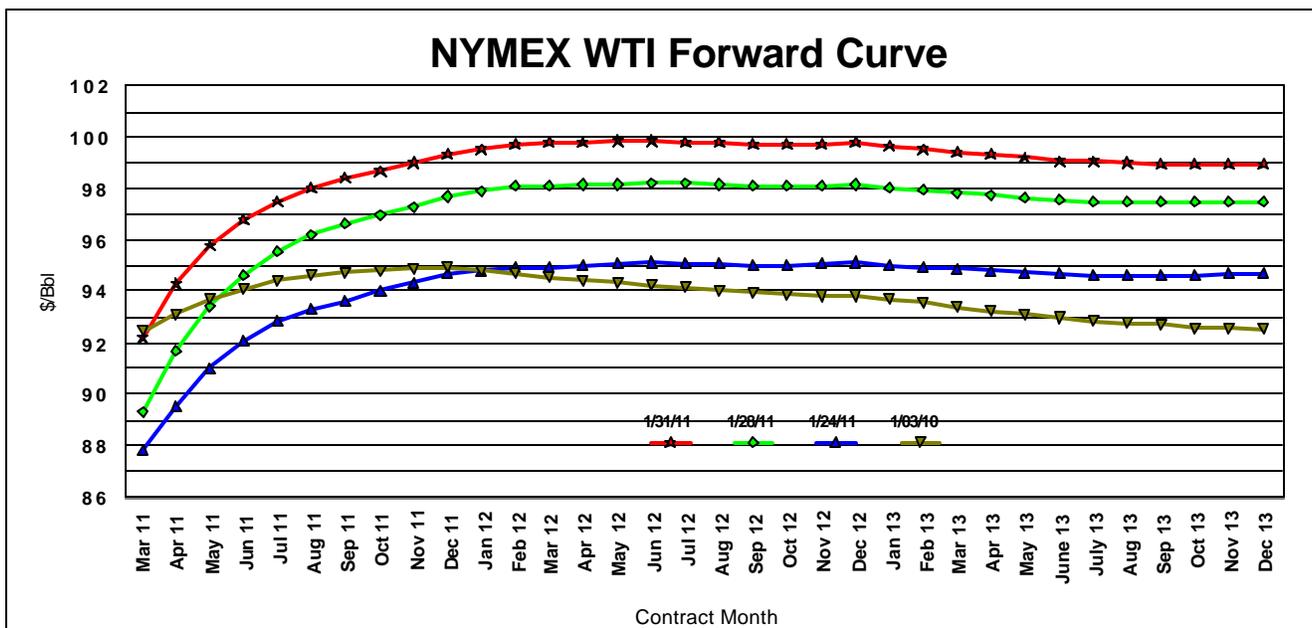
Iraq's Deputy Prime Minister for Energy Affairs, Hussain al-Shahristani said there is no need for OPEC to increase its oil production as global oil stocks are ample. Separately, he stated that Iraq will be able to export 4 million bpd of oil by the end of the year, up from the current level of 2.2 million bpd.

The Deputy executive director of the IEA, Richard Jones warned that political unrest in North Africa and the Middle East was a key uncertainty hanging over the oil markets. He however noted that OPEC and non-OPEC producers had enough capacity to cope with demand and avoid a rally to the record \$110/barrel high seen in 2008.

The Suez Canal is functioning at full capacity as oil prices increased on fears supplies could be disrupted by the turmoil in Egypt. Lloyd's Market Association said there is no direct threat to ships passing along the Suez Canal.

EU chief diplomat Catherine Ashton urged Egypt's President Hosni Mubarak to immediately hold talks with the opposition on Monday and respond to the aspirations of anti-government protesters. Meanwhile Arab League chief Amr Mussa called for a peaceful transition from an era to the other in Egypt where mass protests are being held against President Hosni Mubarak's regime.

Russia's OAO Lukoil Holdings said it evacuated all but one of its employees and family members from



Egypt due to the civil unrest in the country. Lukoil has two oil projects in Egypt with relatively small production volumes.

Transocean Ltd, which has 1,000 workers in Egypt onshore and offshore, said it closed its Cairo office. It said it moved to skeletal onshore staffing.

The EIA reported that the US average retail diesel price increased by 0.8 cents to \$3.438/gallon in the week ending January 31<sup>st</sup>. The EIA also reported that the US average retail price of gasoline fell by 0.9 cents to \$3.101/gallon on the week.

According to the results of a congressional investigation, energy companies injected more than 32 million gallons of fluids containing diesel between 2005 and 2009 as part of a controversial oil and natural gas drilling technique. The investigation found that no oil and gas service companies sought or obtained permits for the use of diesel in hydraulic fracturing.

### **Refinery News**

The US Coast Guard reported that pilots resumed moving ships at the port of Houston on Monday after a brief stoppage due to fog.

Credit Suisse reported that US refined products margins increased last week by 16% on average. Margins in the Northeast increased by 1 cent to \$7.90/barrel, margins in the Midwest increased by \$2.83 to \$15.82/barrel, margins in the Gulf Coast increased by \$1.69 to \$16.27, margins in the Rockies increased by 3.98 to \$21.07/barrel and margins in the West Coast increased by \$3.29 to \$16.23/barrel.

Flint Hills Resources said a fire at the east refinery section of its Corpus Christi, Texas refinery was extinguished within 15 minutes. The event resulted in a brief period of excess opacity at the east fluid catalytic cracking unit II. It said the fluid catalytic cracking unit was operating normally on Monday following the fire.

A fire at ConocoPhillips's 120,200 bpd refinery in Rodeo, California was extinguished after it started on Sunday following a crude residue leak. Separately, ConocoPhillips reported a problem at its 146,000 bpd Borger, Texas refinery. It said the unit was restarted following the upset.

Holly Corp said its Navajo refinery in Artesia, New Mexico lost power late last Wednesday due to an interruption in its power supply from its local utility. Its crude rate was reduced to about 40,000 bpd while certain downstream processing units are restarted.

Chevron Corp will add a \$1.4 billion lubricant plant at its 330,000 bpd Pascagoula, Mississippi refinery.

Delek US Holdings said its shell claus off-gas treating tail gas unit at its 60,000 bpd Tyler, Texas refinery could be taken offline late Monday for unscheduled maintenance.

Saudi Aramco plans to shut at least one reformer for maintenance at its 550,000 bpd Ras Tanura refinery in February.

Japan's JX Nippon Oil & Energy Corp plans to refine 5.88 million kiloliters of crude oil in February for domestic consumption, down 1% on the year. Its January crude refining for domestic consumption was estimated at 6.42 million kl, down 3% on the year.

Japan's Showa Shell Sekiyu KK said its refinery operating rates were steady in 2010 compared with 2009 at about 85%.

Russia's TNK-BP will shut its Ukrainian refinery if the country does not take steps to increase margins.

Russian crude oil exports to northwest Europe via the Baltic ports of Gdansk and Primorsk will increase in February at the expense of Black Sea deliveries. Total seaborne exports are expected to increase 7% to 8.8 million tons. Transneft has scheduled 634,000 tons of crude load in the port of Gdansk while Primorsk loadings are expected to increase to 4.9 million tons in February, up 0.5% on the month.

Russia's Transport Ministry said Gunvor started its oil product exports from its Ust-Luga terminal on the Baltic Sea. Gunvor has previously stated that its annual capacity at Ust-Luga will reach 25 million tons of refinery products.

Venezuela's PDVSA is sending two cargoes of gasoline to Iran.

Indonesia's Pertamina is seeking up to 1.55 million barrels of crude for March arrival.

Japan's Ministry of Economy, Trade and Industry reported that the country's total oil product sales in 2010 increased by 1.6% on the year to 196.7 million kiloliters or 3.39 million bpd. Japan's total oil sales in December fell by 0.3%. Crude oil imports in December increased by 0.9% to 215.4 million kl or 3.71 million bpd, up 1.6% on the year. Japan's crude oil imports in 2010 increased by 1.6% to 215.35 million kl.

Tokyo Electric Power Co cut its oil consumption outlook for the year ending in March by 23% to 4.8 million kiloliters or 30.2 million barrels compared with a prior forecast of 6.2 million kl. It lowered its annual power sales outlook to 295.3 billion kilowatt hours from its previous forecast of 296 billion kwh.

The Rhine River in Germany was partially reopened to shipping on Monday after it was closed earlier in the day for salvage work on a capsized tanker loaded with sulphuric acid. Shipping has been disrupted since January 13, when the tanker capsized.

### **Production News**

Enbridge Energy Partners LP expect pipeline flows and storage needs to grow in 2011 as drillers increase production. Most of the increased oil and natural gas liquid volumes will come from unconventional production fields, where advanced drilling technologies are allowing producers to drill even as storage hubs risk running out of room. It said the volume of crude flowing through its Lakehead system, which connects Canada to the US Midwest, will increase by 3% in 2011 because of increased production of crude from the Bakken field in North Dakota and oil sands in Canada. Enbridge is considering adding more terminal space in the country's main crude oil inventory hub of Cushing, Oklahoma, even after completing a 3 million barrel expansion project, scheduled to be completed by early 2012.

Repair work at Statoil's Troll, which produces 31 billion cubic meters/year of gas and 113,000 bpd of oil and its Oseberg field, which produces 2.77 billion cubic meters/year of gas and 74,000 bpd of oil, in Norway has been completed. The Oseberg field is expected to return to full production on Monday. The Oseberg field was shut following the discovery of a gas leak on Platform A last Monday.

Qatar has notified Asian buyers that it will supply both Land and Marine crude at full contracted volumes for March, unchanged on the month.

Nigeria is scheduled to export about 64 cargoes of crude oil totaling 1.95 million bpd in March, down from 70 cargoes totaling 2.26 million bpd in February.

Oil exports from Iraq's Kurdish region are not expected to resume on February 1<sup>st</sup> as previously agreed with the central government. Kurdish exports from the Taq Taq and Tawke fields flowed briefly in 2009 but were halted when the Iraqi government refused to pay the oil companies working the fields.

Brazil's National Petroleum Agency reported that the country set a record for oil and natural gas production in December as Petrobras increased its output at several fields. Brazil produced 2.18 million bpd of crude in December, up 9.1% on the year. It is up 4.4% on the month. Brazil produced 69 million cubic meters/day of natural gas in December, up 14.5% on the year.

China's Sinopec Corp discovered a high oil and gas flow at the Qianfoya stratum of the Yuanba No. 9 well in the northeast Sichuan province. Daily output amounted to 12,528 cubic meters of natural gas and 17 cubic meters of crude oil.

Anadarko Petroleum Corp said its Caesar/Tonga deepwater oil development project in the Gulf of Mexico will begin producing later than expected because testing had found equipment unfit for service. It expects full year 2011 production to total between 240 million and 250 million barrels of oil equivalent.

India's Oil and Natural Gas Corp may take part in the development of Russia's Trebs and Titov Arctic oilfields together with Russia's Bashneft.

ExxonMobil reported full year 2010 earnings of \$30.5 billion, up 57% on the year, driven by higher crude oil and natural gas realizations, stronger refining margins and record chemical performance. Fourth quarter earnings totaled \$9.3 billion, up 53%. Oil equivalent production in the fourth quarter increased by 19% on the year. ExxonMobil stated that work in Iraq was progressing and added Iraq's West Qurna field, which was producing about 255,000 bpd, is expected to reach 268,000 bpd by the end of the first half of the year. It also continued to increase its activity in Eagle Force and Bakken Shales in the US.

OPEC's news agency reported that OPEC's basket of crudes increased by 68 cents/barrel to \$94.10/barrel on Friday from \$93.42/barrel on Thursday. It also reported that OPEC's basket of crudes fell by 45 cents to \$93.02/barrel in the week ending January 28<sup>th</sup>.

The official selling price of Oman crude was set at \$92.51/barrel for March term supply, up \$3.58/barrel in February.

Saudi Aramco set its February contract price for propane at \$820/ton, down \$115 from January's record \$935/ton. It also cut its February butane price to \$810/ton, down \$110 on the month.

India's Finance Ministry will pay 80 billion rupees or \$1.74 billion to state run retailers in compensation for selling fuel at below market prices in the fourth quarter of 2010. The payout is intended to partially offset retailers' losses on sales of diesel, cooking gas and kerosene at rates set by the government.

### **Market Commentary**

Heightened concerns regarding the spread of unrest in Egypt to other areas in the region pushed the Brent crude oil above \$101 a barrel for the first time since 2008, while the WTI traded above \$92.00. Last week, hedge funds lightened up on their bets that oil would rise, while those who sold it short got

caught today. Those who have been selling the front end of the curve and buying the deferred, began on Friday to lighten up their positions as is evident in the March/December WTI spread. This spread, which was trading in positive territory in the beginning of December, recently bottomed out at -\$10.80, and finished today's session at -\$7.13. While recent price activity reacts to the situation in Egypt, the overall supply/demand situation in the U.S. does not justify prices at this level. Inventories over the past few weeks have been increasing, with stock levels in Cushing also increasing. With expectations that inventories will increase again this week, we believe that prices will struggle to maintain upside momentum for a long period of time. Either way, this should prove to be a wild and choppy ride.

Crude oil: Mar 11 396,281 -11,521 April 11 124,181 +1,502 May 11 101,469 -995 Totals 11,511,565 -5,014 Heating oil: Mar 11 115,400 +1,879 Apr 11 44,187 -2,580 May 11 25,426 -2,580 Totals 304,721 -7,251 Rbob: Mar 11 109,354 +6,376 Apr 11 40,615 +183 May 11 29,324 -216 Totals 280,800 -2,315.

Crude Oil		Heating Oil		Rbob	
Support	Resistance	Support	Resistance	Support	Resistance
8780		27070		24880	
8612		26712		22560	27085
8387	9385	23685	29500	22050	
8161	103.85	22960	30955	21600	
7945	111.65	22013		20300	
7900		21860		20130	
		21140			
		20702			

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