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## ***ENERGY RISK MANAGEMENT***

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### **ENERGY MARKET REPORT FOR FEBRUARY 1, 2010**

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The Obama administration said it wanted to cancel any leftover Energy Department funds dedicated to expanding the US SPR and instead use that money to pay for the reserve's current operating costs. The SPR is now at its full capacity of 727 million barrels.

The Obama administration asked Congress on Monday increase the Commodity Futures Trading Commission's 2011 budget by 28% to add new technology and staff needed for proposed financial market regulatory reforms. The CFTC would see its total budget increase to \$216 million from \$168.8

#### **Market Watch**

The US Commerce Department said US consumer spending increased 0.2% in December after increasing by an upwardly revised 0.7% in November. Consumer spending in November was previously reported to have increased by 0.5%. In December, spending adjusted for inflation increased 0.1% after rising 0.4% the prior month. Personal income increased 0.4% last month after increasing 0.5% in November.

The Institute for Supply Management index increased to 58.4, its highest level since August 2004. It showed that the US manufacturing sector grew in January at a faster rate than expected. It is up from 54.9 in December.

The National Weather Service forecast that US heating oil demand this week is expected to be 0.4% below normal. Last week, heating oil demand was 7.6% below normal.

The Guardian reported that tension between the US and Iran increased in light of the disclosure that the US is deploying a missile shield to protect American allies in the Gulf from an attack by Iran. The US is deploying Patriot Defense missiles to Qatar, UAE, Bahrain and Kuwait and keeping two ships in the Gulf capable of shooting down Iranian missiles. The US is also helping Saudi Arabia develop a force to protect its oil installations. The move is aimed at deterring an attack by Iran. The US is also seeking to discourage Israel from striking Iran by demonstrating that the US is prepared to contain any threat.

Iranian opposition leaders called on supporters to protest on February 11<sup>th</sup>, the anniversary of the 1979 Islamic Revolution. Opposition leaders Mehdi Karroubi and Mir Hossein said the widespread arrests of political activists and university students, the silencing of the media and the forced confessions of prisoners are against the principles of Islam and the constitution of Iran. The called for the people to protest and demand their rights back as citizens of Iran. Meanwhile, Iran's President Mahmoud Ahmadinejad said that the nation will deliver a harsh blow to "global arrogance" on February 11<sup>th</sup>.

JPMorgan Chase is reconsidering its purchase of RBS Sempra and could purchase only the joint venture's oil operations and all of the non-US businesses. JPMorgan has been in exclusive talks to buy all of RBS Sempra for about \$4 billion, however the US' plans to stop proprietary trading by banks have prompted it to rethink its plans.

Russia's Federal Statistics Service reported that the country's economy shrank 7.9% in 2009 compared with 2008. It was less than the government's 8.5% forecast. However the country may see growth in 2010. Manufacturing data indicated a month of expansion in January, with the country's purchasing managers' index rising to 50.8 from the previous month's 48.8.

The Baltic Exchange's main sea freight index fell over 3% on Monday, extending last week's 11% decline. The index fell by 3.62% or 103 points to 2,745 points on Monday.

**February  
Calendar Averages**  
**CL – \$74.43**  
**HO – \$1.9549**  
**RB – \$1.9321**

million under the White House proposal. The budget will permit the commission to implement reforms that require swap dealers and major swap participants to register and come under comprehensive regulation including capital standards, margin requirements, business conduct standards and recordkeeping and reporting requirements. The administration said its reforms will also ensure that dealers and major swap participants bring their clearable swaps into central clearinghouses, use transparent trading venues

for clearable swaps and provide the CFTC with authority to impose position limits in the over-the-counter derivatives markets. Meanwhile, the Obama administration on Monday asked Congress for a second time to end some \$36.5 billion in subsidies for oil and gas companies. It said eliminating the subsidies would foster the clean energy economy of the future and reduce reliance on fossil fuels that contribute to climate change.

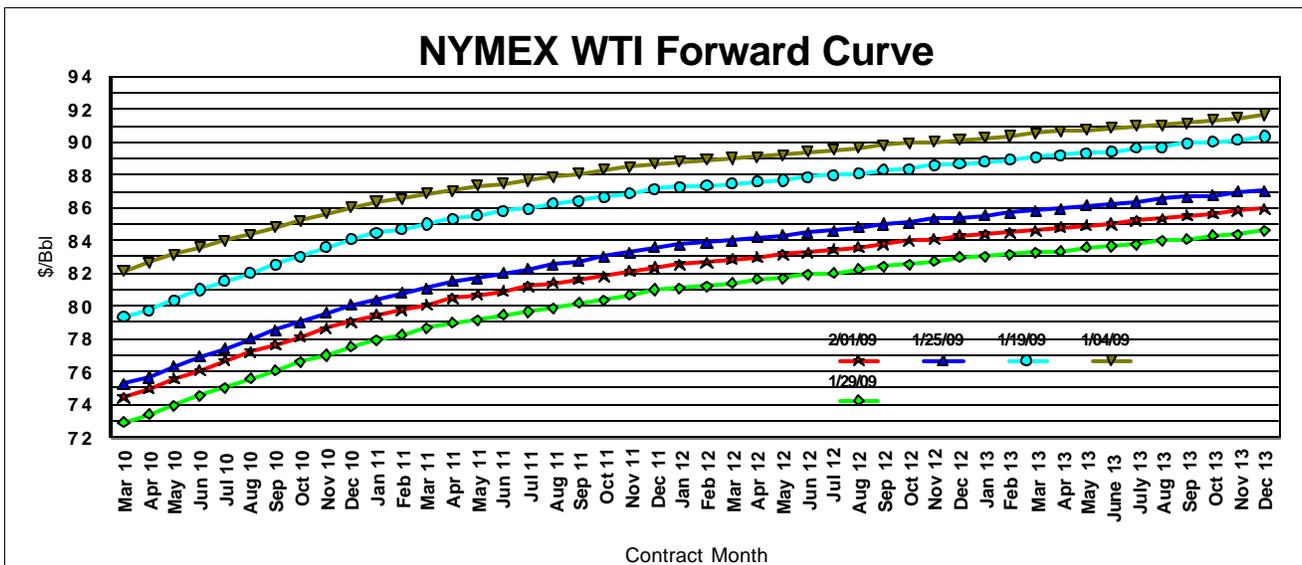
OPEC's Secretary General Abdullah al-Badri said the US CFTC's moves on market regulation were a step in the right direction but added that it would be impossible to eliminate speculation completely from the oil market. He said some speculation is necessary for markets to function. Separately, OPEC's Secretary General said it will be four to five years before there is a need to re-accommodate Iraqi oil output in OPEC's production policy. Iraq has targeted a sharp rise in its production after signing deals with international oil companies.

Iran's OPEC Governor, Muhammad Ali Khatibi said recovering oil demand is set to increase oil prices in the second half of the year.

Separately, Ecuador's Minister of Oil and Mining, Germanico Pinto said world petroleum prices will remain in a range of \$70-\$80/barrel in 2010.

Nigeria's main militant group, the Movement for the Emancipation of the Niger Delta said it was not directly responsible for the sabotage of an oil pipeline that forced Royal Dutch Shell to shut three pumping stations. The sabotage on Saturday came hours after MEND ended a three month oil ceasefire and threatened to unleash "an all-out assault" on Nigeria's oil and gas industry. MEND said sabotage on Shell's pipeline, in Bayelsa state, may have been carried out by oil thieves trying to tap into it. Shell said the sabotage caused some oil to spill into the delta's creeks and that it was in the process of recovering spilled crude. It is not clear how much oil production had been shut in.

The EIA reported that the US average retail price of diesel fell by 5.2 cents/gallon to \$2.781/gallon in



the week ending February 1<sup>st</sup>. The price is up 53.5 cents on the year. The EIA also reported that the US average retail price of gasoline fell by 4.4 cents/gallon to \$2.661/gallon on the week.

### **Refinery News**

Colonial Pipeline is freezing nominations for cycle 9 on its main gasoline line.

Sunoco Inc plans to permanently shutdown its 145,000 bpd Eagle Point, New Jersey refinery as weak margins continue to impact the US refining sector.

Valero Energy Corp depressurized part of a delayed coker unit No. 843 at its 325,000 bpd Port Arthur, Texas refinery for maintenance over the weekend. It said the unplanned work was completed and added that the delayed coking unit remained in operation during the repair work. The work did not impact production. It also reported that a wet gas compressor tripped on Sunday at the Port Arthur complex. Separately, Valero Energy said its scheduled turnaround at its 250,000 bpd St. Charles, Louisiana refinery has started.

Shell Oil Co said planned startup of several units at its 340,000 bpd Deer Park, Texas refinery began on Sunday following more than two weeks of scheduled maintenance. A hydroprocessing unit, a coker unit, a gasoil hydrotreating unit, a catalytic reformer and a platformer were shutdown for maintenance and inspection on January 14<sup>th</sup>.

Marathon Oil Corp said its newly expanded Garyville, Louisiana refinery is still on schedule to reach full capacity by the second quarter of the year. Its capacity was increased by 180,000 bpd. Marathon also said its 226,000 bpd Catlettsburg, Kentucky refinery will remain at reduced rates until the reopening of a lock on the Ohio River. The main lock on the Ohio River at Greenup, Kentucky was closed on Wednesday due to damage. Repairs to the main chamber of the lock are expected to take 6-8 weeks.

Royal Dutch Shell is restarting an unspecified process unit at its 98,000 bpd Scotford refinery in Alberta, Canada. It reported that work started on a unit on Sunday.

Russia's Lukoil shut its 142,000 bpd Bulgarian refinery for a month long maintenance on January 31<sup>st</sup>. The refinery has enough stocks and will not impact supplies to its customers.

Japan's Cosmo Oil Co Ltd will cut its refining capacity by 80,000 bpd to 555,000 bpd starting Tuesday and consider further reductions at the mid-year due to declining domestic demand. It will reduce its refining capacity at Chiba by 20,000 bpd to 220,000 bpd at Yokkaichi by 50,000 bpd to 125,000 bpd and at Sakaide by 30,000 bpd to 110,000 bpd. However it will increase capacity at its Sakai refinery by 20,000 bpd to 100,000 bpd as it plans several new secondary units to start commercial operation in April.

Margins in Asia increased in January to the highest level in about nine months. Complex oil refiners in the Singapore area posted an average profit of \$4.82 by cracking medium-heavy, sour Dubai crude in January. Simple margins in the same area averaged \$1.78/barrel on January. Complex margins in the Mediterranean average \$2.85/barrel in January for cracking Russian heavy, sour Urals crude. In the Rotterdam area, complex refineries posted an average profit of \$3.62/barrel for cracking North Sea Brent. Simple margins averaged \$2.65/barrel. In the US, complex margins on light, sweet WTI crude averaged \$3.10/barrel in January.

South Korea's GS Caltex is shutting down a 155,000 bpd No. 2 crude distillation unit for 10 days of maintenance in June.

According to a Reuters survey, South Korea's crude runs in February are estimated at 2.27-2.3 million bpd or 80-81% of its total capacity, relatively unchanged from January's level of 2.25-2.3 million bpd.

Total has delayed until June a decision on whether to close its Dunkirk refinery in northern France, delaying a move that could have cost over 600 jobs and embarrassed the government weeks ahead of regional elections. Following a meeting with workers' representatives, Total said it would in the interim preserve jobs at the 137,000 bpd refinery, which stopped production in mid-September due to poor demand for fuel products and low refining margins.

Saudi Aramco and Royal Dutch Shell said they signed a contract with Japan's JGC Gulf International to build two units at their joint 305,000 bpd refinery in Jubail, in a bid to improve the refinery's environmental performance. The units will help reduce sulfur dioxide emissions to less than 250 part per million to start up.

Iran's February gasoline imports are expected to increase by 20% on the month and by 23% on the year to 153,000 bpd as Iran continues to build inventories due to the threat of tougher sanctions.

Asian imports of West African crude oil are set to fall in February after reaching record levels in January. Asian buyers have bought about 1.7 million bpd of crude from Angola, Nigeria and smaller West African producers for February loading, down from about 1.9 million bpd in January.

Royal Dutch Shell plans to form an ethanol and fuel distribution joint venture with Brazil's sugar and biofuel company, Cosan. The 50-50 joint venture will be the third largest fuel distributor in Brazil. The companies hope to more than double ethanol output to up to 5 billion liters a year from about 2 billion liters.

### **Production News**

According to Dow Jones, OPEC's 11 quota bound members increased their oil production by 30,000 bpd in January to 26.8 million bpd. They produced about 1.955 million bpd above their output target of 24.845 million bpd. Output by the OPEC 11 is now at its highest level since December 2008. OPEC's total production increased by 110,000 bpd in January to 29.28 million bpd, largely due to an output increase from Iraq, which increased its output by 80,000 bpd to 2.48 million bpd. Saudi Arabia's oil production was unchanged at 8.175 million bpd, about 120,000 bpd above its quota. Nigeria increased its oil production by 10,000 bpd to 2.085 million bpd while Venezuela increased its output by 20,000 bpd on the month to 2.26 million bpd. Kuwait and Angola each increased their output by 10,000 bpd to 2.28 million bpd and 1.89 million bpd, respectively.

Mexico reopened the ports of Coatzacoalcos and Dos Bocas on Monday after the ports were closed on Sunday due to bad weather conditions.

Kuwait Oil Co has brought a fire under control at one of its crude oil storage tanks at the al-Mugwa field. There was no impact on production. The fire started in a dual tank at an oil and gas gathering center.

Kuwait aims to increase its crude oil production capacity by 350,000 bpd to 3.5 million bpd in the next five years and to 4 million bpd by 2020. A Kuwait Oil Co official said new oil and gas gathering stations are due to start up that would continue Kuwait's long path to repairing damage to facilities from both a fire and an explosion in 2002. A new oil and gas gathering center will add a further 165,000 bpd to Kuwait's capacity after the facility was tested this month. It will start operations in February. Another facility in northern Kuwait would add 20,000 bpd capacity. A second gathering center in western Kuwait would add further capacity of 100,000 bpd.

Iraq has resumed normal crude oil exports from the Basra terminal in southern Iraq after exports were reduced by half for two days due to bad weather conditions. Separately, Iraq's State Oil Marketing Organization said the country's oil exports fell to 1.926 million bpd in January from 1.977 million bpd in December. Average exports from Basra stood at 1.451 million bpd in January while exports from the Kirkuk fields in northern Iraq averaged 475,000 bpd.

An Iraqi oil official said oil production from Iraq's Rumaila oil field in southern Iraq is expected to increase by 110,000 bpd either in July or August from its current production level of 1.066 million bpd.

Russia's Deputy Prime Minister Igor Sechin said the country's oil production will increase to 500 million tons this year and zero export duties for East Siberian fields will remain in place.

Brazil's OGX said it estimated recoverable oil reserves from its OGX-4 well at 100 million to 200 million barrels.

Petrobras' chief executive Jose Sergio Gabrielli said he expects oil prices in the near term within \$60-\$80/barrel.

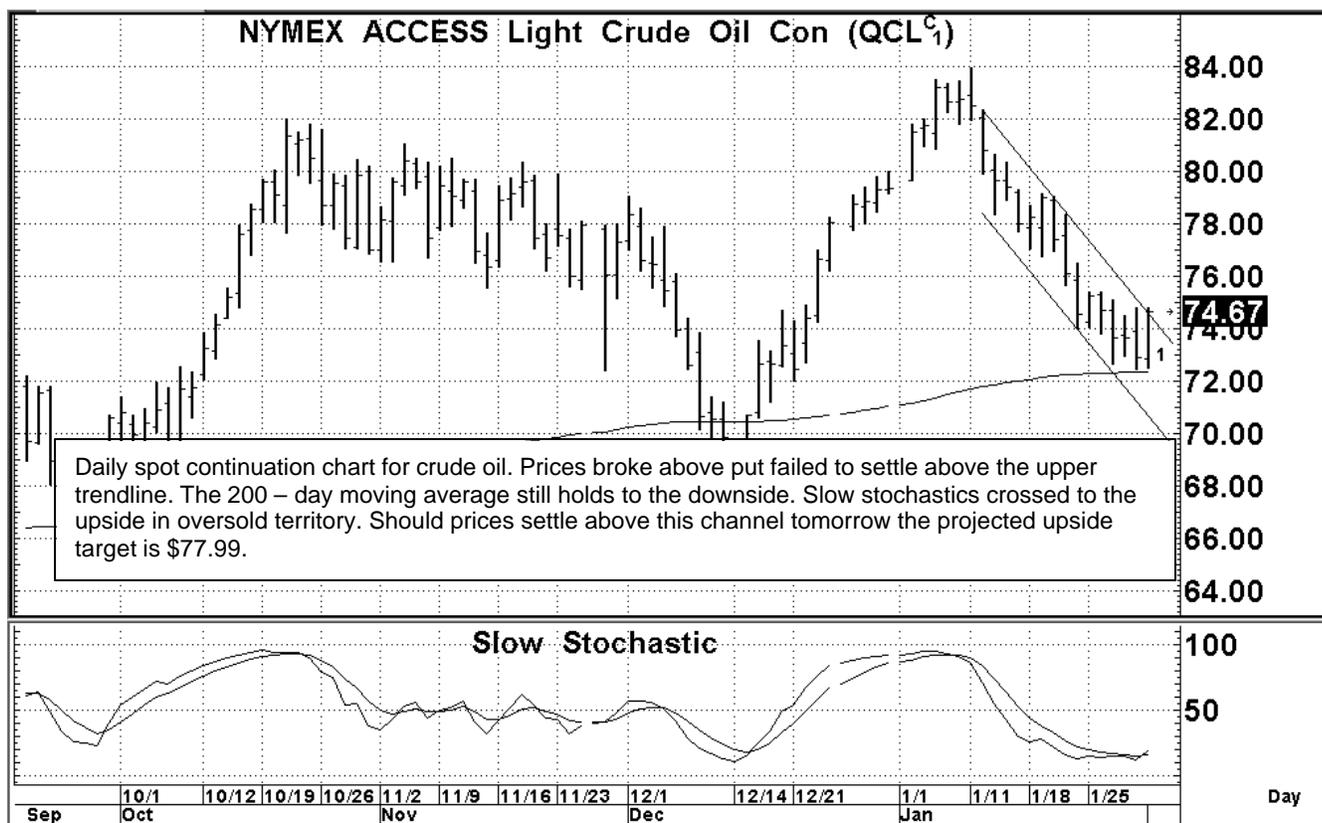
OPEC's news agency reported that OPEC's basket of crudes fell further to \$71.01/barrel on Friday from \$71.40/barrel on Thursday. It also reported that OPEC's basket of crudes fell by \$3.19/barrel to \$71.64/barrel in the week ending January 29<sup>th</sup>.

### **Market Commentary**

Weakness in the dollar and strength in the equities markets pushed energy prices higher today, despite last week's bearish inventory report. With U.S. manufacturing growing more than expected thoughts of greater demand circulated the marketplace. Heating oil reacted to expectations of below normal temperatures in the northeastern part of the U.S., which is expected to experience below normal temperatures through mid-February. Gasoline rose along with the rest of the market. Although prices reacted strongly today, we do not view this as a change in the market trend. Demand is still sluggish, inventories are just about bursting at the seams and there is still plenty of empty storage available. China continues to show signs of putting restraints on banks in order to slow economic growth. We have yet to see sustained growth in consumer confidence, which will greatly impact demand. The strength in the front month spread has made the storing of supplies less attractive from a financial standpoint, which will put additional oil on the market. We view this move higher as a pause in market trend and would look to find a selling point. Technicals, however, are indicating that prices should continue higher. The spot month for crude oil has been holding the 200-day moving average, which is currently set at \$72.36. We would look for the March contract to test a settlement above the descending channel depicted on the chart below. Should prices settle above this channel the projected range will be \$3.92 higher than the breakout point.

Crude oil MAR.10 342,928 +1,498 APR 132,990 +3,773 May 88,89,284 Totals 1,319,931 Heating oil MAR.10 99,204 +2,674 APR10 38,678 -334 May 27,370 +490 Totals: 307,093 -3,793 Gasoline MAR. 89,131 +214 APR10 40,111 +352 May 26,926 +788 Totals: 247,511 -2,499

<b>Crude Support Based on February</b>	<b>Crude Resistance Based on Feb</b>
72.49, <b>72.00</b> , 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>
1.8903, 11.8890, 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>
1.8800, 1.8650, 1.85.65, 1.7900, 1.7200 1.6600	2.0045, 2.0110, 2.1930, 2.2270, 2.3350



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