

### API Stocks

**Crude** – up 3.77 million barrels  
**Distillate** – down 1.138 million barrels  
**Gasoline** – up 3.909 million barrels  
**Refinery runs** – up 3.5% at 83.2%

**W** The  
Windham Group



**ENERGY RISK I**

Howard Rennel  
& Karen  
**(212) 624-1132**

**www.e-win**

## **ENERGY MARKET REPORT FOR FEBRUARY 1, 2011**

The DOE is expected to offer a total of 2 million barrels of heating oil for sale from the Northeast Home Heating Oil Reserve's sites in New England and New York and replace it with ultra-low sulfur diesel. The sale of heating oil from the reserve's sites in New England and New York Harbor will start Thursday, February 3<sup>rd</sup> with an initial offer of about 1 million barrels from the Hess First Reserve Terminal in Perth Amboy, NJ. The move is in response to change in laws in several Northeast states which will require that fuel used as home-heating oil is of the ultra-low sulfur grade. The DOE plans to buy the replacement ultra-low sulfur distillate fuel this summer.

According to a SpendingPulse report by MasterCard Advisors LLC, US weekly gasoline demand increased by 0.7% to 9.004 million bpd in the week ending January 28<sup>th</sup>. The increase of 271,000

### Market Watch

The US manufacturing sector grew at its fastest pace in nearly seven years in January. The Institute for Supply Management manufacturing index came in at 60.8 in January, above consensus forecasts of 58 and higher than December's 58.5 level. The prices paid index increased to 81.5 from 72.5 in December.

The US Commerce Department reported that US construction spending fell for a second consecutive month in December. Spending on construction fell by 2.5% to a seasonally adjusted annual rate of \$787.88 billion compared to the prior month. Spending in November fell 0.2%, revised down from a previously estimated increase of 0.4%. The value of construction in 2010 fell by 10.3% from 2009.

The International Council of Shopping Center and Goldman Sachs reported that US chain store sales fell by 1% last week but increased by 1.6% on the year to 488.2.

Redbook Research reported that US chain store sales increased by 1.8% last week. It also reported that US chain store sales in January increased by 2.3% on the year but fell by 0.9% on the month.

European statistics agency Eurostat said the euro zone jobless rate held steady at 10% in December. It said the number of unemployed people in the euro zone fell by 73,000 on the month, falling to 15.8 million but increased by 178,000 on the year. Eurostat said unemployment in the 27 member European Union was unchanged at 9.6% and the number of unemployed fell by 19,000 to 23.1 million in December.

Germany's Federal Labour Office said unemployment in Germany fell more than expected in January, leaving the unemployment rate at its lowest level since March 1992. Unemployment fell by a seasonally adjusted 13,000 and the rate to 7.4%.

Manufacturing activity in the euro zone accelerated more than previously expected in January. The Markit Eurozone Manufacturing Purchasing Managers' Index increased to 57.3 in January from 57.1 in December, exceeding an earlier estimate of 56.9.

China's Premier Wen Jiabao promised to rein in excessive consumer price increases in the country on Tuesday. He said the government would try to keep overall consumer prices stable.

bpd was the third consecutive gain. Gasoline demand was up 3.2% on the year. The four week gasoline demand averaged 8.751 million, up 1.1% on the year. It showed that gasoline prices were steady at \$3.10/gallon, the highest level since October 10, 2008.

Libya's top oil official Shokri Ghanem said OPEC does not need to meet to discuss oil policy in February because the market is well supplied and oil prices at \$100/barrel are justified. He however said that OPEC is ready to increase its production quota anytime this year should market supply fall.

The executive director of the IEA, Nobuo Tanaka said the situation in the oil market is not yet an emergency. He said the Suez Canal and the Sumed pipeline were operating normally and added that even if the Suez Canal closed due to unrest in Egypt, it would not create a physical shortage in the market but only increase shipping costs due to longer journeys.

The Canal Authority said traffic through the Suez Canal was unaffected by the ongoing protests across Egypt on Tuesday. The number of ships passing through increased to 65 from 40 yesterday. Meanwhile Egyptian troops were deployed along the SuMed crude oil pipeline to protect this transport link as well.

At least one million people rallied across Egypt on Tuesday calling for President Hosni Mubarak to give up power. The army's pledge not to use force against demonstrators emboldened Egyptians to push for the largest shake up of the political system.

Egyptian opposition leader Mohamed ElBaradei said President Hosni Mubarak must leave the country before any dialogue can start between the opposition and the government. Separately, a senior Obama administration official said Egyptian President Hosni Mubarak will not seek re-election.

Israeli Prime Minister Benjamin Netanyahu said he feared Egypt could end up with a radical regime like in Iran. He said he hoped Israel's three decade old peace treaty with Egypt would survive any changes that were taking place in Cairo.

The US Treasury on Tuesday blacklisted six individual and five business entities in Iran and Turkey for providing materials and support to Iran's ballistic missile development efforts. The sanctions target a procurement network that has facilitated more than \$7 million in transactions for Aerospace Industries Organization, which oversees all of Iran's missile industries.

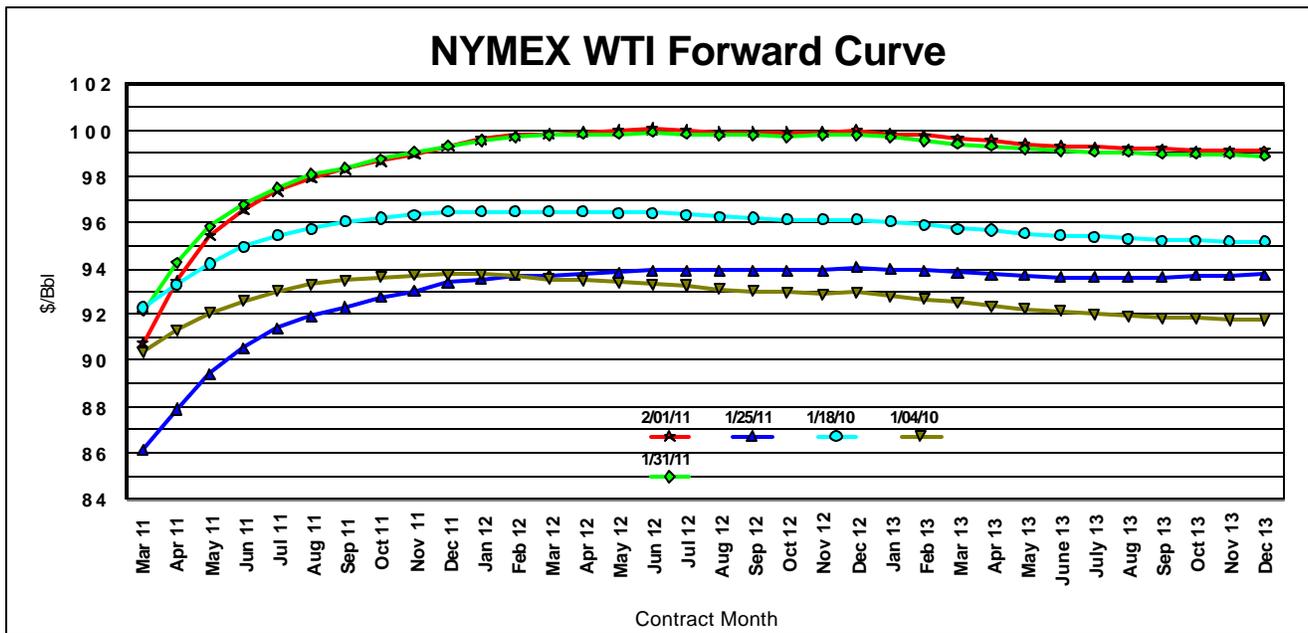
According to an industry survey by AR magazine, hedge funds raised more money in 2010 as investor confidence began to recover. At least 50 new funds with more than \$50 million in assets under management were launched last year, raising \$17.4 billion. It is up 17% compared with 2009, when 53 new funds raised \$14.89 billion.

The EU is planning to regulate speculation in commodities such as grains to combat unprecedented price volatility. The bloc's executive will stop short of calling for position limits to be introduced as part of the market itself, instead saying that they could be introduced when and where necessary.

### **Refinery News**

A US Coast Guard spokesman said fog and winds slowed ship traffic at the major oil port of Houston late Monday and early Tuesday. Pilots stopped boarding vessels about mid-afternoon Monday. A total of 32 vessels inbound and 34 outbound were waiting to enter or leave Houston, Galveston and Texas City, all served by the Houston Ship Channel.

<p><b>January Calendar Averages</b> <b>CL – \$90.77</b> <b>HO – \$2.7570</b> <b>RB – \$2.5194</b></p>
---



Chevron Corp is restarting a repaired Colorado to Utah oil pipeline that was shut on December 1<sup>st</sup> due to a leak in Salt Lake City, Utah. The pipeline serves Chevron's 45,000 bpd Salt Lake City refinery, which has been relying on oil in storage and delivered by truck.

Marathon Petroleum Corp cut output at its 76,000 bpd refinery in Texas City, Texas following a power outage late afternoon on Monday.

Valero Energy Corp started a turnaround on a 90,000 bpd crude unit at its 145,000 bpd refinery in Houston, Texas. The unit is expected to be shut for 24 days of work.

Tesoro Corp said operations at its 58,000 bpd refinery in Mandan, North Dakota remain at minimally reduced rates following a fire that damaged a furnace at its alkylation unit on January 19<sup>th</sup>.

ExxonMobil Corp began scheduled turnaround maintenance at several process units at its Torrance, California refinery. The refinery's 22,100 bpd hydrocracker unit, a saturated gas plant and a hydrogen unit will be out of service for several weeks. The work is expected to start on February 7<sup>th</sup> and last until the end of the month.

ConocoPhillips reported a problem at its 146,000 bpd refinery in Borger, Texas.

Canadian synthetic crude prices rallied amid talk that Suncor Energy had advanced planned maintenance at its oil sands upgrader by a month.

BP PLC chief executive Bob Dudley said the company held talks with unspecified potential buyers of the Texas City refinery. BP executives declined to identify the potential buyers but said they expect the sale of the 437,000 bpd Texas City refinery and its smaller refinery in Carson, California to total \$3.7 billion. It expects to close the refinery sales by the end of 2012.

Iraq's vice prime minister for energy policy, Hussain al-Shahristani said Iraq wants Brazil's Petrobras to help the country increase its refining capacity. Iraq is increasing its oil production but lacks the refining capacity to produce oil products such as gasoline and diesel fuel. Iraq is seeking to build four new refineries to increase its capacity by 750,000 bpd.

India's Bharat Petroleum Corp has not purchased crude through a tender for March lifting due to high oil prices. In a previous tender, the refiner bought 1 million barrels of Nigerian Qua Iboe crude from Morgan Stanley for February loading.

Kazakh and Russian oil exports via the Caspian Pipeline Consortium was revised up by 12% to 728,000 bpd in February.

Russia plans to export 4.9 million metric tons or 1.16 million bpd of Urals crude in February from its Baltic Sea port of Primorsk, down from January's 5.4 million tons. Russia also plans to export 31 cargoes of Urals crude, totaling 3.29 million tons from the Black Sea port of Novorossiisk and seven cargoes of Urals, totaling 634,000 tons from Poland's Baltic Sea port of Gdansk. Russia is also expected to ship six cargoes of Siberian Light crude, totaling 405,000 tons from Tuapse and 11 stems of ESPO crude from the Far East port of Kozmino, totaling 1.1 million tons in February.

At least 340,000 tons of North Asian low sulfur diesel have been booked for arbitrage shipments to Northwest Europe loading this week.

The Rhine River opened to shipping sailing south on Tuesday. It is expected to permit southbound sailings on Tuesday while salvage work continues after a vessel capsized on January 13<sup>th</sup>.

### **Production News**

Statoil said its Gullfaks output is currently 12,000 cubic meters/day, down from 18,000 cubic meters/day in November. It said 50 problematic wells at the Gullfaks field will be closed as long as necessary to diagnose the exact problems.

Provincial safety officials have lifted a stop work order at Canadian Natural Resources Ltd's Alberta oil sands upgrader, allowing the company to begin assessing the damage from a fire last month. The safety and health agency will continue investigating the January 6<sup>th</sup> fire at the Horizon oil sands project. The agency will issue another order preventing the restart of the plant's main processing units until the cause has been determined and measures have been put in place to prevent another incident.

Petrohawk Energy Corp said its fourth quarter production increased by about 50% mainly due to its operations in the Haynesville and Eagle Ford shales. The company estimates that oil, condensate and natural gas liquids will make up for 12% of its production in the current year, up from 5% in 2010. Its fourth quarter output increased by about 48% to 761 million cubic feet/day of natural gas equivalent.

Iraqi Kurdistan is set to resume oil exports a few days later than planned. The resumption could offer some relief to oil markets after Egyptian disruption fears pushed prices to the \$100/barrel level. The pipeline is currently being tested and exports are due to start in the next few days.

Belarus' ambassador to the EU said the country will respond proportionately to new sanctions imposed by the EU but added that transit of Russian oil and gas to Europe will not be affected. The EU approved extra sanctions against Belarus on Monday in response to Minsk's violent crackdown on protests after the disputed December re-election of President Alexander Lukashenko.

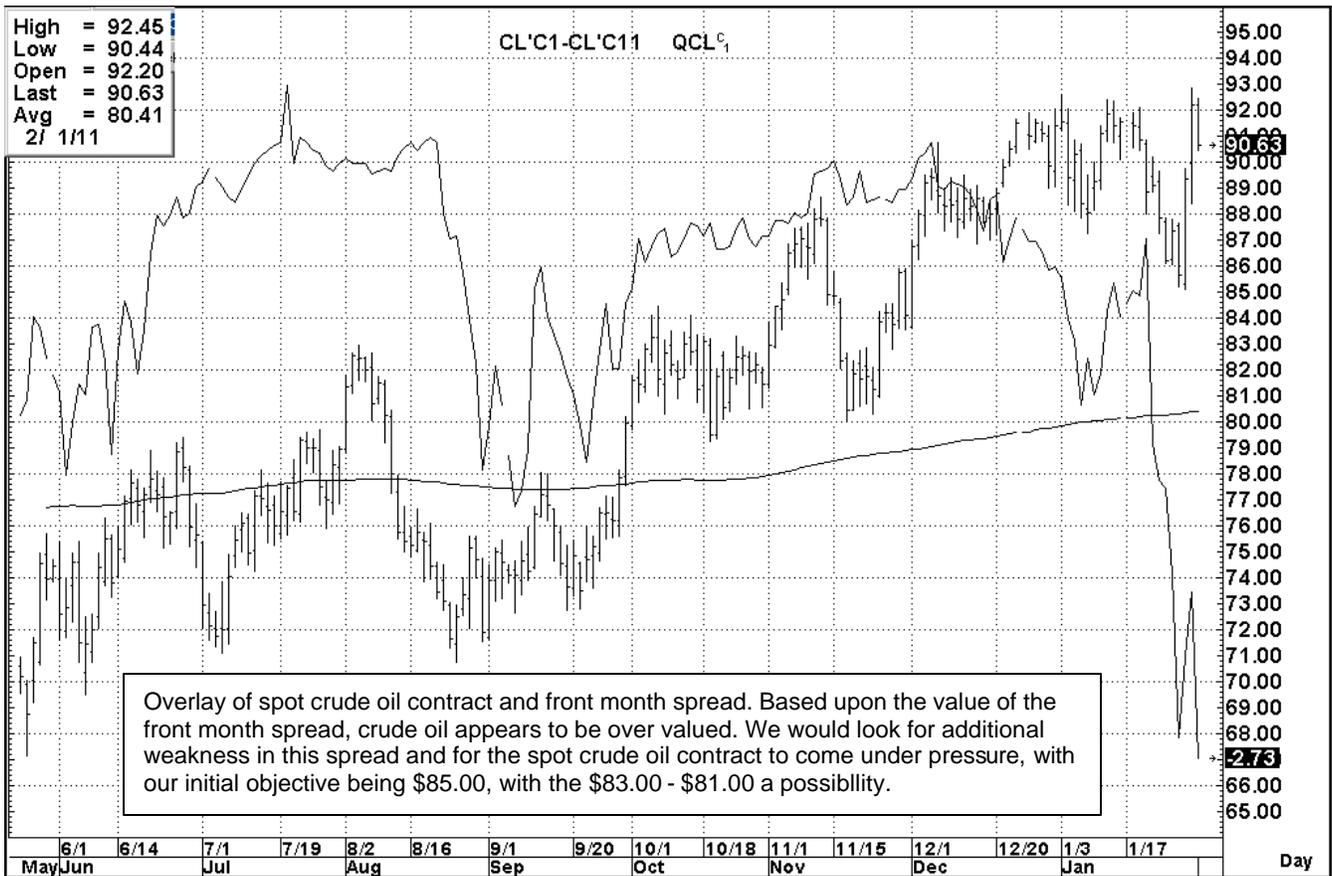
OPEC's news agency reported that OPEC's basket of crudes increased further to \$95.53/barrel on Monday from \$94.10/barrel on Friday.

### **Market Commentary**

Crude oil slipped as much as 1.8 percent on news that Egyptian President Hosni Mubarak would not seek another term and reports that traffic in the Suez Canal is moving normally. In an effort to ward off a similar situation, Jordan took steps today by making changes in its government. Quite a bit of the fear premium was removed from the front month spread, with the March/April settling 64 cents weaker on the day. Based upon the value of the spread and the current price of the March contract, we would look for additional pressure to come into this market, with the initial downside objective being \$85.00. Expectations of the DOE report are calling for additional increases in inventories, with crude oil expected to gain an additional 2.5 million barrels. With this in mind, we would not be surprised to see the March contract trade within the \$83.00 - \$81.00 ranager prior to expiration. Brent continues to outpace the WTI to the upside and hit a new 28 – month high today. With tensions in the Middle East still brewing, Brent should continue to gain against the WTI.

Crude oil: Mar 11 395,576 -708 April 11 131,639 +7,458 May 11 100,213 –1,256 Totals 1,514,230 +2,665 Heating oil: Mar 11 113,080 –2,320 Apr 11 45,801 +1,620 May 11 25,904 +478 Totals 302,172 –2,549 Rbob: Mar 11 106,677 –2,677 Apr 11 43,152 May 11 30,284 +960 Totals 278,582 –2,218.

Crude Oil		Heating Oil		Rbob	
Support	Resistance	Support	Resistance	Support	Resistance
8780		27070		24837	
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			



The information contained in this letter is taken from sources, which we believe to be reliable, but is not guaranteed by us as to accuracy or completeness and is sent to you for information purposely. The Windham Group bases its market recommendations solely on the judgment of its personnel. Reproduction in whole or part or other use without written permission is prohibited.