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## ***ENERGY RISK MANAGEMENT***

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### **ENERGY MARKET REPORT FOR FEBRUARY 2, 2011**

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The IEA's chief economist Fatih Birol said crude oil prices of \$100 will cause little destruction to the world economy despite an increase in inflation. He also reiterated IEA head Nobuo Tanaka's assertion that the unrest in Egypt would not cause a supply crisis and dismissed the prospect of disruptions to tanker traffic through the Suez Canal.

The chief economist of BP said OPEC is likely to increase its production by more rather than less in response to tensions in the Middle East. He said that without a supply response, levels of oil in storage would fall in relation to demand below the range of the past five years by the summer.

#### **Market Watch**

According to ADP, private sector payrolls expanded in January, led by small business hiring. Private sector jobs in the US increased by 187,000 in January compared with expectations of an increase of 143,000. The estimated change in employment for December was revised to show an increase of 247,000. The ADP report showed that large businesses with 500 employees or more hired 11,000 new employees and medium sized businesses added 79,000 workers in January and small business that employ fewer than 50 workers added 97,000 new workers.

Global outplacement company Challenger, Gray & Christmas said the number of planned layoffs at US firms in January increased by 20% on the month to 38,519.

The CME Group said NYMEX WTI futures are a good reflection of the oil market, offering transparency and liquidity. The chairman and chief executive of the CME, Terry Duffy said the NYMEX WTI contract was the market leader by a wide margin over its rival, ICE Brent. He said the large differential between the two benchmarks is a cyclical phenomenon.

CME Group's daily trading volume increased by 10% in January to 12.3 million contracts, with 85% of the month's total of 246 million being traded electronically. Energy contract volume increased by 22%, while metals contract volume increased 16% and foreign exchange contracts volume increased by 15%.

IntercontinentalExchange said its average daily volume in January increased by 30% on the year to 1.6 million contracts. The Brent crude futures and options volume increased by 44% while gasoil futures and options volume increased by 33%.

One of the most powerful cyclones on record started pounding Australia's northeast coast on Wednesday. Cyclone Yasi is a maximum strength category five storm. The cyclone could batter the state for up to three days as it moved inland and slowly weakened. It is predicted to be the strongest ever to impact Australia. The cyclone, which measures up to 500 miles across, is set to generate high destructive winds of up to 295 kilometers per hour, up to 27.5 inches of rain and storm surges that are threatening to flood towns and tourist resorts.

According to a Bloomberg News survey, US gasoline retail prices may increase by 13% to \$3.50/gallon by May. The AAA said regular gasoline was \$3.108/gallon on Tuesday.

## **Refinery News**

Explorer Pipeline said it shut its Texas to Tulsa pipeline at the request of ERCOT due to rolling blackouts. The pipeline, which has a capacity to transport 677,000 bpd of gasoline and distillate from Lake Charles, Louisiana to Texas and Oklahoma and up to Chicago, was expected to restart later on Wednesday at higher rates to make up for the closure. The outage should not have an impact on supply. Earlier crude oil and pipeline operations in and around Texas appeared to be unaffected by the rolling power blackouts which have been caused by extremely cold weather. Colonial Pipeline

<b>DOE Stocks</b>
<b>Crude</b> – up 2.594 million barrels
<b>Distillate</b> – down 1.579 million barrels
<b>Gasoline</b> – up 6.154 million barrels
<b>Refinery runs</b> – up 2.7%, at 84.5%

said there were no problems, either in Texas or at its terminus in Linden, New Jersey. A Shell spokesman said there were no problems on its upstream operations while a spokeswoman for Kinder Morgan said there was no impact to its operations from the rolling blackouts.

ExxonMobil reported flaring at its 149,500 bpd refinery in Torrance, California on Tuesday. It said production was not impacted. Separately, ExxonMobil said a blower tripped at its 238,600 bpd refinery in Joliet, Illinois on Tuesday night. It said the malfunction had no impact on production. ExxonMobil also said maintenance continued at a fluid catalytic cracking unit in its Chalmette, Louisiana refinery. The unit was shut on January 22<sup>nd</sup> for maintenance while the rest of the refinery remained operational.

BP Plc said a crack in a process vessel caused a leak at its 405,000 bpd refinery in Whiting, Indiana. It is investigating the cause and trying to isolate the leak. BP also stated that operations at its 475,000 bpd Texas City, Texas refinery were not affected by the severe winter weather in the state. The refinery has a gas-fired cogeneration plant to provide steam and electricity in case rolling blackouts affect Texas City.

Alon USA Energy reported emissions due to a gas oil hydrotreater problem at its 67,000 bpd refinery in Big Spring, Texas.

Motiva Enterprises said a compressor trip resulted in a unit shutdown at its 235,000 bpd refinery in Convent, Louisiana. The incident led to the release of sulfur dioxide.

Shell Oil Co said severe weather caused a malfunction in fuel production units at its 329,800 bpd Deer Park, Texas refinery on Wednesday. It however said that refinery production was not affected.

Valero Energy Corp started a 51 day planned overhaul on specific units at its 287,000 bpd Port Arthur, Texas refinery. Separately, Valero reported flaring at its 40,000 bpd crude unit at its Corpus Christi West plant in Texas due to a suspected hydrocarbon carryover due to cold weather. It said operations later returned to normal.

China's oil demand growth in 2011 may fall as the government's moves to rein in excessive credit are expected to slow economic growth and energy use. It may consume 5-7% more crude or 450,000 to 550,000 bpd this year following an increase of 19% in December due to the diesel shortage and a 12% increase for the whole of 2010.

Singapore's International Enterprise reported that the country's residual fuel stocks fell by 25,000 barrels to 19.058 million barrels in the week ending January 31<sup>st</sup>. It also reported that the country's light distillate stocks fell by 466,000 barrels to 9.405 million barrels and middle distillate stocks fell by 452,000 barrels to 11.814 million barrels on the week.

<b>January Calendar Averages</b>
<b>CL – \$90.82</b>
<b>HO – \$2.7689</b>
<b>RB – \$2.5090</b>

The French CGT labor union said industrial action, which has completely or partially affected all French sea ports for several days over the last three weeks, is expected to continue as negotiations between unions and government over pension age and working conditions have stalled. The strike does not affect oil or passenger traffic but the flow of containers and bulk commodities such as coal and grains has been disrupted at most French ports.

The Rhine River was closed to southbound sailings on Wednesday as salvage work continued on a capsized tanker.

### **Production News**

Mexico's Transport Ministry reported that the country closed its Dos Bocas oil terminal in the Gulf of Mexico on Wednesday due to bad weather.

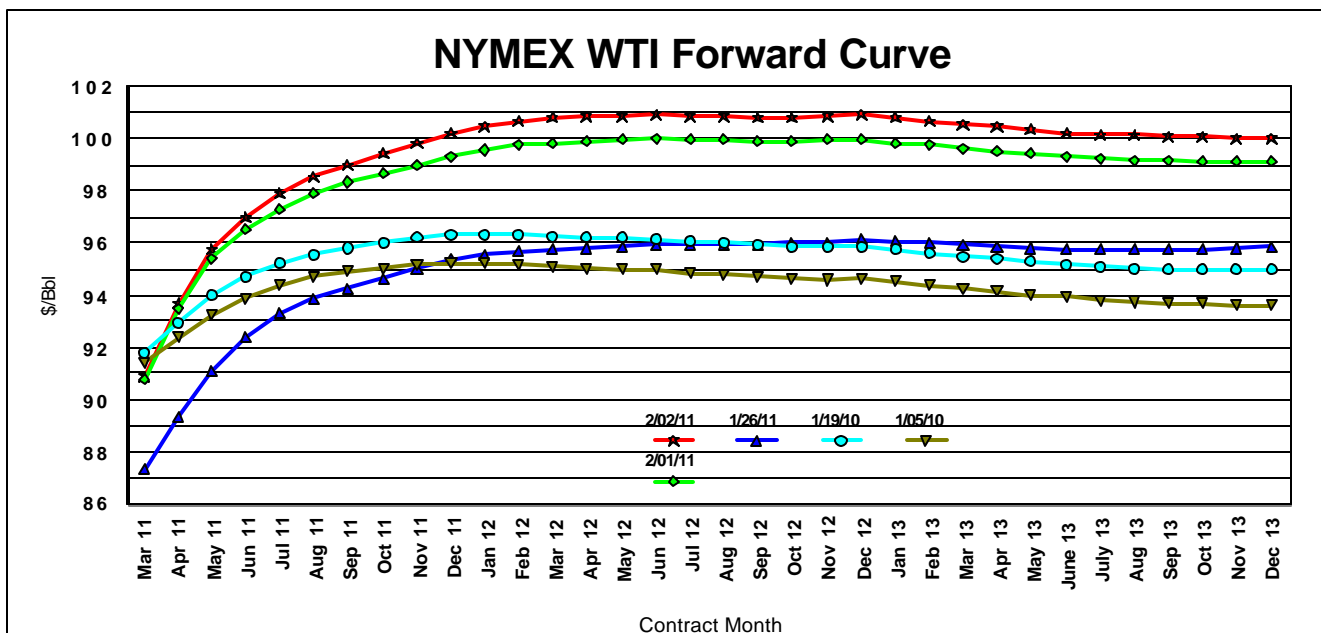
Marathon Oil Corp set its 2011 capital, investment and exploration budget for 2011 at \$5.267 billion. It expects net synthetic crude production in 2011 to total between 36,000 bpd and 45,000 bpd. Its 2011 production available for sale is expected to total between 380,000 and 400,000 bpd of oil equivalent.

Suncor Energy Inc said its oil sands production averaged 325,000 bpd in the fourth quarter. Its total upstream production in the fourth quarter stood at 625,600 bpd. It also stated that it plans to conduct 7 weeks of maintenance turnaround at its upgrader 2. The maintenance turnaround is expected to start in May. It also stated that it is developing a plan to deal with hydrogen sulfide at its Terra Nova field, offshore Newfoundland. It said the shutdown of fields at Terra Nova is cutting its production by 9,000 bpd.

Canadian Oil Sands Ltd said its syncrude production in January averaged 319,300 bpd, down 7.6% on the month. Its share of syncrude output averaged 117,300 bpd in January, down from 127,000 bpd in December.

Iraq's Deputy Prime Minister Hussain al-Shahristani said crude oil exports from Iraq's Kurdistan resumed on Wednesday at a rate of 10,000 bpd from the Tawke field.

Russia's Energy Ministry reported that the country produced 10.21 million bpd of crude in January, up from 10.18 million bpd in December. Russian oil exports fell by 5.6% to 19.71 million tons while



supplies to the country's refineries increased by 4.5% to 21.63 million tons. Natural gas production totaled 63.697 billion cubic meters, down 0.3% on the month.

Azerbaijan's oil and condensate production increased by 0.9% in 2010 to 50.83 million tons from 50.38 million tons in 2009. It plans to produce 51.5 million tons of oil in 2011. Azerbaijan's SOCAR said it increased its oil exports via Russia to 168,223 tons in January from 129,765 tons last year.

Saudi Aramco cut the price of its crude grades bound for Northwest Europe, the Mediterranean and Asia in March while it increased the price of its crude grades bound for the US. It set the price of its Extra Light crude bound for Europe at BWAVE minus \$1.75, down \$1.10 on the month while the price of its Light crude was set at BWAVE minus \$4.20, down \$1.15, the price of its Medium crude was set at BWAVE minus \$6.10, down \$1.05 and the price of its Heavy crude was set at BWAVE minus \$8.55, down \$1.25. The price of its Extra Light crude bound for the Mediterranean was set at BWAVE minus \$3.15, down \$2.30, the price of its Light crude was set at BWAVE minus \$4.75, down \$1.80, the price of its Medium crude was set at BWAVE minus \$7.30, down \$1.85 and the price of its Heavy crude was set at BWAVE minus \$9.70, down \$1.80. The price of its Super Light crude bound for Asia was set at the Oman-Dubai average plus \$5.80, down 60 cents, the price of its Extra Light crude was set at the Oman-Dubai average plus \$3.30, down 20 cents, the price of its Light crude was set at the Oman-Dubai average plus \$1.30, down 30 cents, the price of its Medium crude was set at the Oman-Dubai average minus \$1.10, down 15 cents and the price of its Heavy crude was set at the Oman-Dubai average minus \$3.05, down 15 cents. The price of its Extra Light crude bound for the US was set at the Argus Sour Crude Index plus \$2.70, up 25 cents, the price of its Light crude was set at the ASCI plus 30 cents, up 25 cents, the price of its Medium crude was set at the ASCI minus \$1.85, up 25 cents and the price of its Heavy crude was set at the ASCI minus \$3.65, up 40 cents.

India's Oil Secretary S. Sundareshan said the country's oil payment dispute with Iran is yet to be resolved but added that supplies from Iran continues. He said the issue may be resolved in the next few days.

Indian Oil Corp said it has no immediate plans to increase gasoline prices. The company is currently losing INR1.85 billion to INR1.9 billion a day on discounted fuel sales.

OPEC's news agency reported that OPEC's basket of crudes increased by 86 cents to \$96.39/barrel on Tuesday.

Southwest Georgia Ethanol filed for chapter 11 bankruptcy protection. It said it expects to conduct normal business.

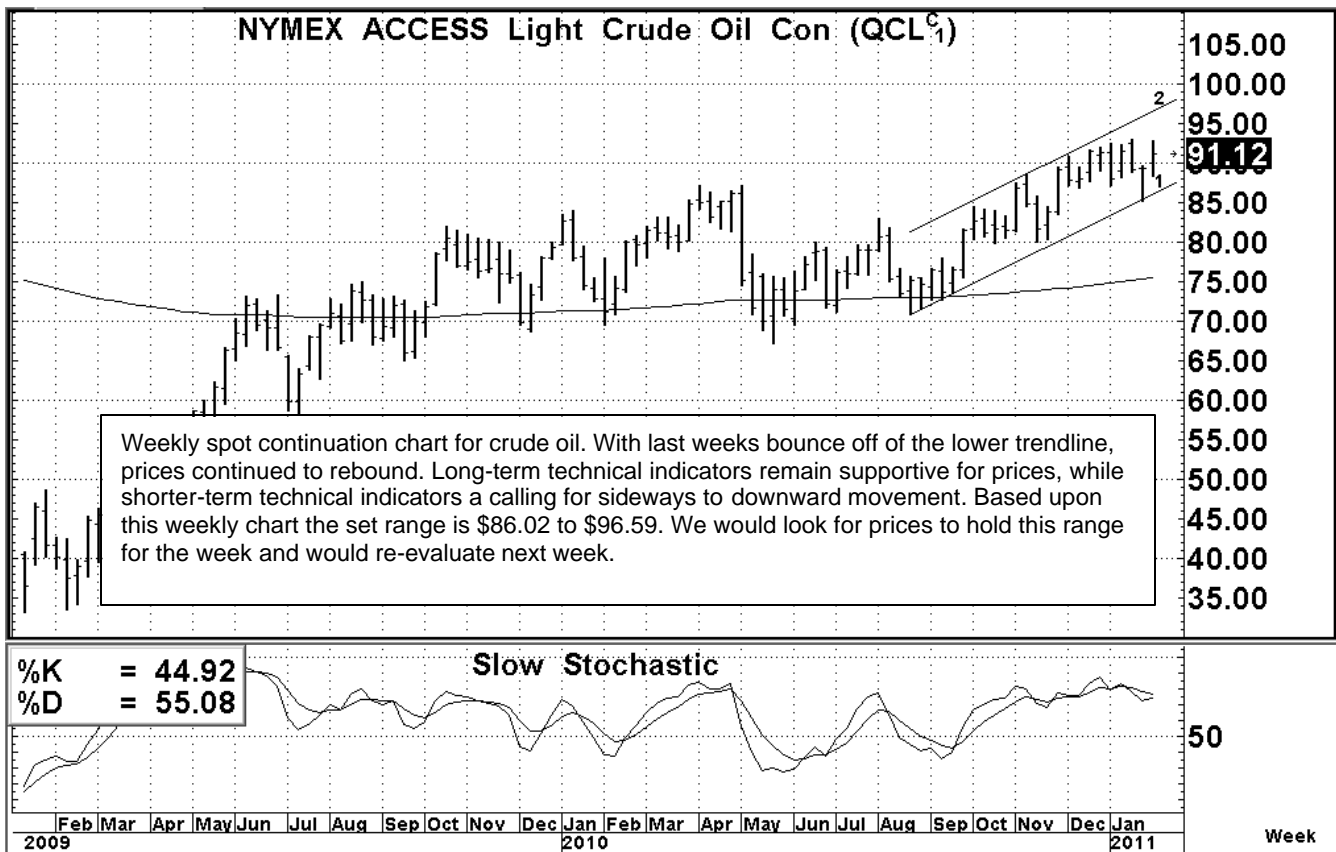
### **Market Commentary**

A strong dollar and the third weekly build in crude oil inventories caused the price of crude oil to fall and hold just above the \$90.00 level. Stock levels at Cushing, OK, the NYMEX delivery point, increased to a record high of 38.33 million barrels, adding to the pressure on prices. As tensions in Egypt heated up between supporters of Hosni Mubarak and those who want him to leave, crude oil made a mid-day rebound, trading back above unchanged. Brent's premium against the WTI widened to just above \$11 a barrel, fostered by the stock increase at Cushing. With the unrest escalating in Egypt and stock levels at Cushing near the bursting point, Brent should continue to maintain its high premium over WTI. As for flat price, with the situation in Egypt going from bad to worse, the fear factor will continue to support prices. With Friday said to be the talked about target date for Mubarak to leave, things will continue to heat up and price activity should become more volatile.

Crude oil: Mar 11 389,902 -5,674 April 11 136,773 +5,134 May 11 107,119 +6,906 Totals 1,531,942 +17,942 Heating oil: Mar 11 113,263 +183 Apr 11 46,038 +231 May 11 26,274 +370 Totals 306,216

+4,044 Rbob: Mar 11 105,602 -1,075 Apr 11 43,438 +286 May 11 31,591 +1,307 Totals 279,746 +1,164.

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			



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