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Windham Group



## ***ENERGY RISK MANAGEMENT***

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### **ENERGY MARKET REPORT FOR FEBRUARY 4, 2010**

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The White House said it thought China would continue to work with the US to combat Iran's nuclear challenge, despite China's skepticism over the prospect of new sanctions. Earlier, China's Foreign Minister Yang Jiechi said that threatening sanctions on Iran will derail diplomatic efforts to resolve the dispute over Iran's nuclear program. Separately, Iran's envoy to the UN's IAEA said Iranian President Mahmoud Ahmadinejad's announced readiness to send enriched uranium abroad signals a wish to cooperate for a deal with Western powers to ease nuclear tension.

A senior Iranian

#### **Market Watch**

The US Commerce Department reported that US factory orders increased in December by 1% to a seasonally adjusted \$370.37 billion. Orders in November increased by 1%, revised down from a previously reported 1.1% increase. It reported that durable goods orders increased 1%, while non-durable goods also increased by 1%. Manufacturers' inventories fell by 0.1% in December.

The US Labor Department reported that initial claims for unemployment benefits increased by 8,000 to 480,000 in the week ending January 30<sup>th</sup>. The previous week's level was revised up to 472,000 from 470,000. It reported that the four week moving average increased by 11,750 to 468,750 from the previous week's revised average of 457,000. The number of continuing claims increased by 2,000 to 4,602,000 from the preceding week's revised level of 4,600,000. The unemployment rate for workers with unemployment insurance for the week ending January 23<sup>rd</sup> was 3.5%, unchanged from the prior week's unrevised rate of 3.5%.

Separately, the US Labor Department said nonfarm business labor productivity increased by a seasonally adjusted annual rate of 6.2% in the October to December period, after increasing by a downwardly revised 7.2% in the third quarter of last year. Overall, productivity has increased by 5.1% over the last four quarters.

Weather forecasters predict that unseasonably cold weather should settle over key heating oil consuming regions of the US next week in the wake of heavy snow expected this weekend. Weather 2000 said temperatures in the Northeast are expected to fall, with New York seeing temperatures up to 10 degrees below normal over the next five days. Temperatures in the Midwest are expected to fall as much as 13 degrees below normal in the coming days. Planalytics said temperatures across the eastern US could fall anywhere from 4-12 degrees below normal next week. Telvent DTN forecast below normal temperatures starting Saturday and continue into next week. Beyond next week, temperatures could return to more normal levels.

The Climate Prediction Center said the El Nino weather anomaly is slowly dissipating. It said the abnormally warm waters in the equatorial Pacific Ocean should gradually cool during April to June, indicating a transition to neutral conditions during the Northern Hemisphere spring. However predicting the timing of this transition is highly uncertain.

**February  
Calendar Averages**  
**CL – \$75.45**  
**HO – \$1.9853**  
**RB – \$1.9843**

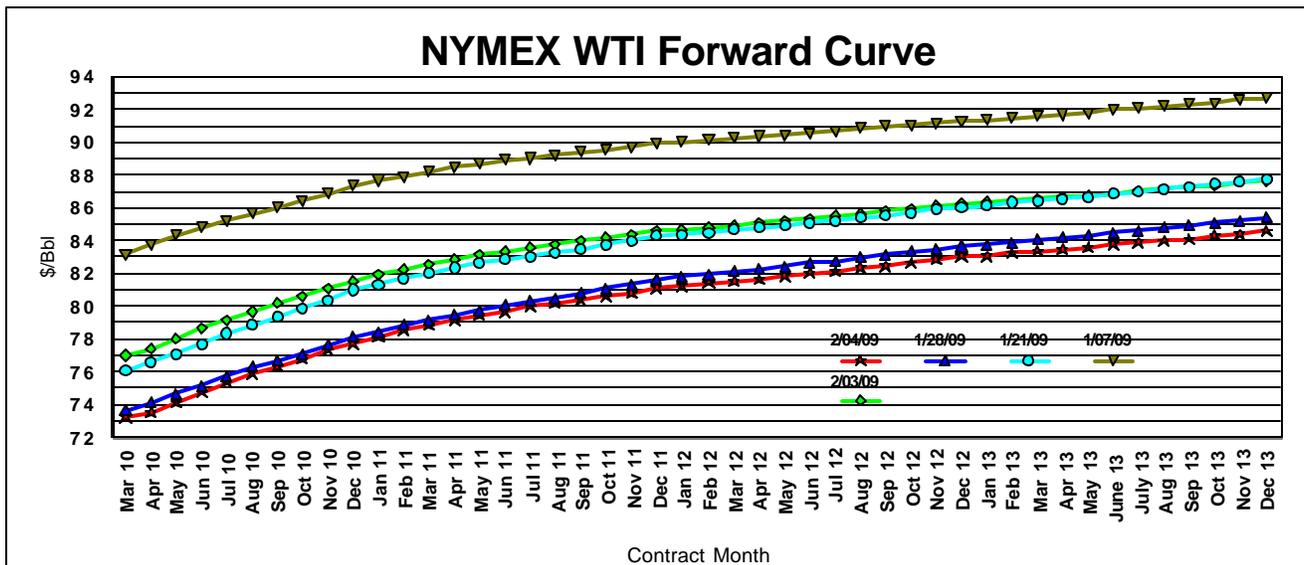
military official told Gulf states not to buy US missiles, boasting that Iran can render them useless. Iran on Wednesday condemned plans by the US to increase defenses in the Gulf against potential Iranian missile attacks, with Iran insisting it posed no threat to its neighbors.

According to an analyst at Barclays Capital, NYMEX crude has established firm support at \$70/barrel for 2010. The analyst also said that OPEC is likely to cut its output if prices fall below that level. Barclays Capital expects crude prices to average \$85/barrel for 2010, gaining in the second quarter but peaking in the final quarter of the year.

According to Oil Movements, OPEC's oil exports, excluding Angola and Ecuador, are expected to increase by 580,000 bpd in the four weeks ending February 20<sup>th</sup> to 23.35 million bpd.

Nigeria's Information Minister Dora Akunyili formally called on the cabinet to ask President Umaru Yar'Adua to hand over power to his deputy following an absence of more than two months.

Royal Dutch Shell's chief executive Peter Voser said world oil demand will be slow in the early part of 2010. He also said stocks are high and there is plenty of unused capacity, suggesting downside risks for prices. He said OPEC's output cuts have been effective in supporting prices but they leave OPEC with a large amount of unused capacity which is overhanging the market. He said OPEC must manage downside risk to oil prices. Royal Dutch Shell said it planned even deeper cuts to its oil refining and retail operations after downstream weakness caused a 75% decline in fourth quarter profits to \$1.18 billion. It said it will continue to shift its focus of its downstream business to Asia, where rising fuel demand could ensure better profits. It also affirmed its target to increase its oil and gas production. Separately, Royal Dutch Shell Plc said it was open to selling more assets in Nigeria, where its oil and gas production has again been impacted by recent attacks on pipelines. Shell's Nigerian production has declined to 150,000 bpd, down from 175,000 bpd during the fourth quarter of last year. Shell on Sunday shutdown three pumping stations in Nigeria's Niger Delta following sabotage of a crude pipeline.

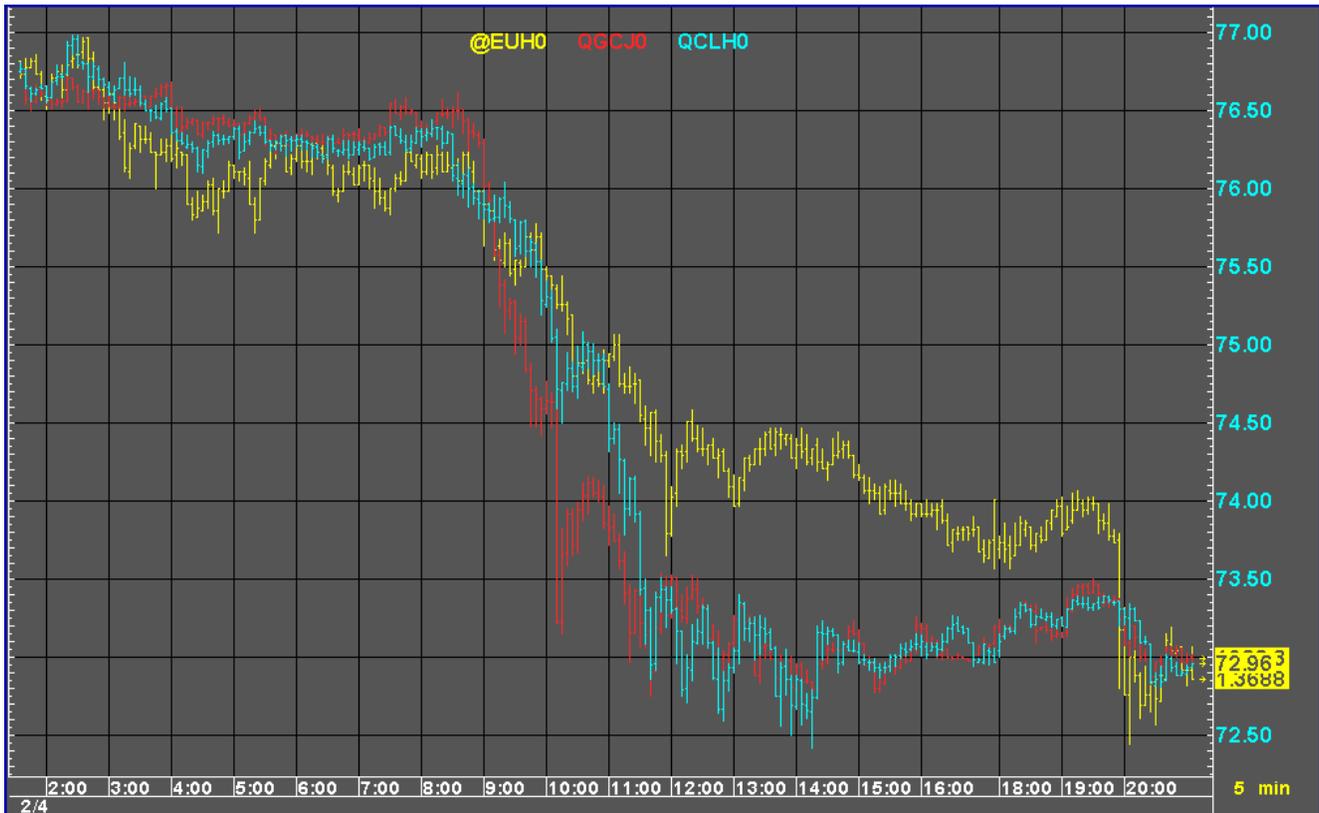


BP's chief executive said world oil demand will peak sometime after 2020 at a maximum of about 110 million bpd.

**Refinery News**

The US Coast Guard said high winds and rough seas caused pilots to stop moving ships into and out of the port of Houston on Wednesday.

Marathon is resuming operations of its 72,000 bpd refinery in Texas City, Texas on Thursday following a one month maintenance outage. It is restarting its fluid catalytic cracking unit, propylene and alkylation units. Separately, Marathon Oil Corp said its firefighters extinguished a fire at its refinery in Catlettsburg, Kentucky. A Marathon spokeswoman said the fire occurred in part of the site that is scheduled for demolition.



Citgo began restarting fluid catalytic cracking unit No. 1 at its 163,000 bpd Corpus Christi, Texas refinery on Wednesday.

Valero Energy Corp completed a brief unplanned maintenance to fix a leak at complex 3 in its 340,000 bpd Corpus Christi, Texas refinery. Separately, Valero Energy said cold weather made it difficult to assess the damage at its 66,000 bpd fluid catalytic cracking unit at its 235,000 bpd Jean Gaulin refinery in Quebec following a fire on Tuesday morning. The unit was shut after a fire started at a pump.

Kazakhstan's KazMunaiGas said that oil supplies from Russia to Kazakhstan have been restricted. Meanwhile, Kazakhstan's Pavlodar oil refinery is expected to halt its output after Russian producers, fearing an imminent export duty, cut crude supplies to Kazakh refineries. Russia and Kazakhstan do not levy duties on mutual trade in oil and oil products, however that is expected to change as Russia, Kazakhstan and Belarus introduce a common customs tariff in July. The Pavlodar refinery is particularly affected as it relies entirely on Russian crude.

Refining margins at China's main refineries have declined since February 1<sup>st</sup> due to lower domestic fuel prices ahead of the Lunar New Year holiday, which starts on February 13<sup>th</sup>. The country's two largest refiners' plants have cut runs in February as fuel sales are expected to fall as a result of upcoming halts in industrial activity.

Dubai closed its Jebel Ali port, which holds a fuel export terminal, on Thursday morning due to poor weather conditions.

China's CNPC expects the country's crude oil imports to increase 9.1% to 212 million tons or 4.24 million bpd in 2010. Net oil imports, including crude and refined oil products, are expected to increase by 8.3% to 234 million tons or 4.68 million bpd. China's apparent oil demand will grow more than 5% to 427 million tons or 8.54 million bpd this year. The country's crude refining capacity is expected to increase by 31.5 million tons to 515 million tons or 10.3 million bpd by year end. Its crude throughput is expected to increase by 5.1% to 7.82 million bpd. China's domestic crude production is expected to increase by 2% to 193 million tons or 3.86 million bpd while its gas output is expected to increase to near 100 billion cubic meters.

Gas oil stocks held in independent tanks in the Amsterdam-Rotterdam-Antwerp area in the week ending February 4<sup>th</sup> fell by 1.57% on the week due to an increase in demand but increased by 16.98% on the year to 2.632 million tons. Gasoline stocks increased by 8.8% on the week and by 10.73% on the year to 1.001 million tons while its fuel oil stocks increased by 4.21% on the week and by 21.94% on the year to 767,000 tons. Naphtha stocks increased by 37.5% on the week but fell by 54.17% on the year to 44,000 tons while jet fuel stocks increased by 0.12% on the week and by 3.61% on the year to 832,000 tons.

Singapore's International Enterprise reported that residual fuel stocks in the week ending February 4<sup>th</sup> increased by 2.986 million barrels to 21.655 million barrels. It also reported that Singapore's light distillate stocks fell by 865,000 barrels to 9.624 million barrels while its middle distillate stocks increased by 90,000 barrels to 14.634 million barrels.

Indonesia's Pertamina is seeking an extra 400,000 barrels of diesel oil for February delivery after suspending operations at one of its two Balikpapan refinery hydrocracker units. It was originally expected to import 3.6 million barrels of diesel oil in February.

### **Production News**

ConocoPhillips said its 2010 production is expected to total 1.8 million bpd of oil equivalent, down 2.7% starting in 2009.

Mexico's Pemex has expanded the Pajaritos export terminal to handle its light Istmo crude and expects the first tanker carrying Istmo to head to the US on Friday. The Pajaritos export terminal is now the only export terminal to load all three of Pemex's crude types, including heavy Maya and extra light Olmeca.

Ecuador's central bank reported that the country exported 11.45 million barrels or 369,403 bpd of crude in December, up 33% on the month. It reported that Petroecuador exported 8.94 million barrels or 78% of the country's total exports.

Petroecuador reported that Ecuador's average oil production increased by 2% to 14.56 million barrels in December from 14.31 million barrels in November. Its average production stood at 469,800 bpd in December. Petroecuador's oil production averaged 8.59 million barrels in December while private companies produced an average of 5.97 million barrels.

A new maritime oilfield has been discovered in the emirate of Dubai. No details were given about the size or production capacity of the new field.

South Africa is expected to issue a tender offering up to 21 million barrels of crude storage located in its strategic fuel depot at Saldanha Bay in the second quarter. South Africa keeps some of its emergency oil reserves at the location, which also provides commercial storage tanks. The crude storage facility at Saldanha Bay consists of six 7.5 million barrel concrete oil storage reservoirs.

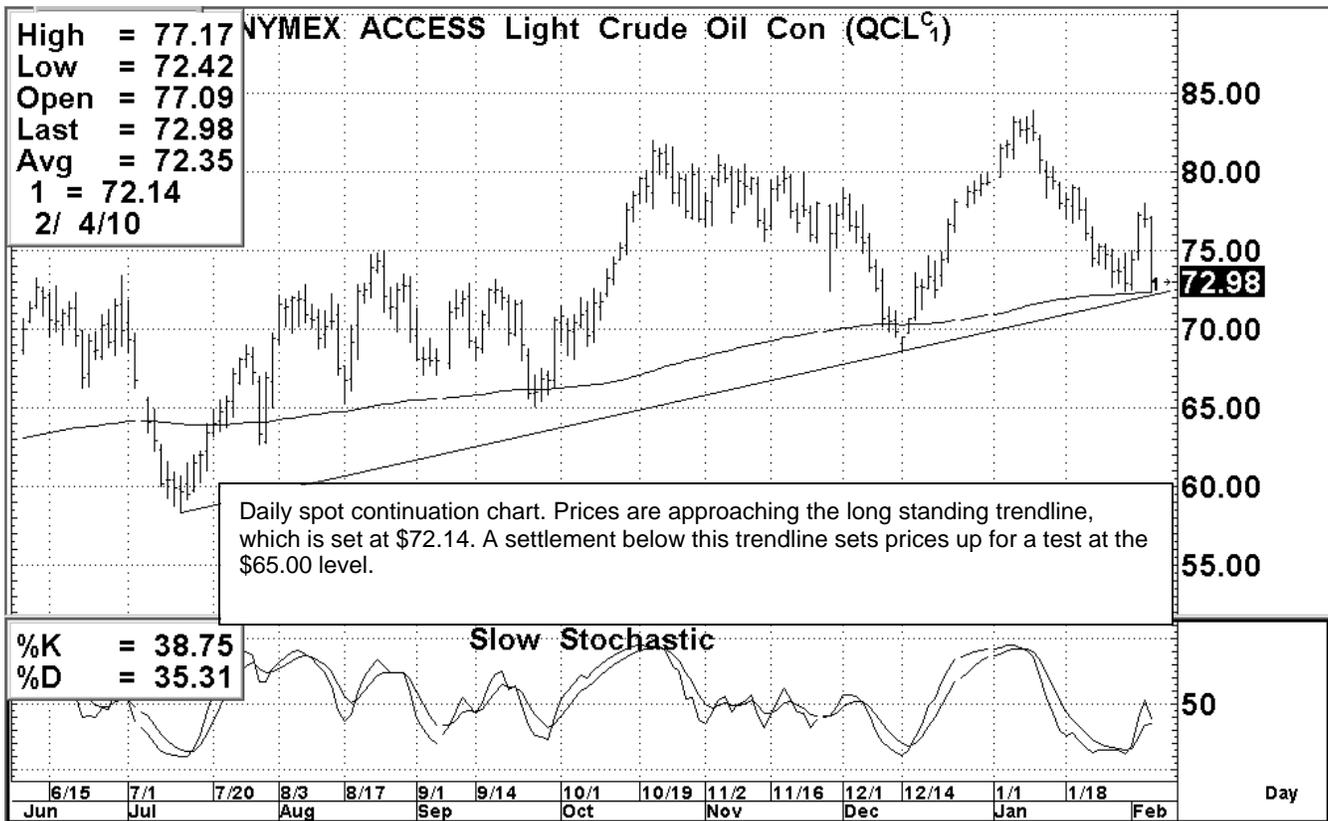
OPEC's news agency reported that OPEC's basket of crudes increased by \$2.09/barrel to \$75.14/barrel on Wednesday.

**Market Commentary**

Overnight concerns regarding Spanish and Greek debt lead to huge sell-offs in the equities markets, which also put pressure on commodities across the board. The euro weakened in response to the inability of Greece and other European nations to curb budget deficits, which are in excess of European Union limits. The weakness in the euro gave strength to the dollar, which causes the appeal of commodities as a financial hedge to become less attractive. With initial U.S. jobless claims indicating that approximately 8,000 new claims were filed during the week ending January 30, hopes of an economic recovery and its impact on demand dimmed. The front month spread surprisingly settled slightly stronger and we believe that this is more of a reflection of longs liquidating length put on in the deferred. The shape of the forward curve indicates that deferred longs are exiting or lightening up on their positions. The March crude oil contract is approaching the long-standing trendline, which is set at \$72.14. Coming into tomorrow's session, we would look for a test at this trendline, selling breaks below it and buying failed attempts to penetrate it. A settlement below this line sets prices up for a test of the \$65.00 level.

Crude oil MAR.10 329,819 -13,320, Apr. 10 138,079 -2,515, May 10 99,769 +108 Totals 1,336,797 -24,202 Heating oil MAR.10 96,662 -1,824, APR10 46,226 +3,435 May 10 30,011 +559 Totals: 315,773 +3,582 Gasoline MAR.10 88,642 +655 APR10 45,731 +559 May 10 28,362 -210 Totals: 259,632 +1,510

<b>Crude Support Based on February</b>	<b>Crude Resistance Based on Feb</b>
72.42, <b>72.00</b> , 70.42, 65.05, 64.70, 63.38, 62.70, 61.61, 60.95	78.36, 79.86, 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	2.0665, 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	2.0846, 2.1930, 2.2270, 2.3350,



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