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## ***ENERGY RISK MANAGEMENT***

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### **ENERGY MARKET REPORT FOR FEBRUARY 9, 2010**

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A member of Kuwait's Supreme Petroleum Council said OPEC will call for further compliance before considering any output cuts if oil falls below \$70/barrel. He said Kuwait is complying with its output target but overall OPEC compliance is deteriorating because some members are tempted to sell more oil at a higher price.

According to the Wall Street Journal, Iran said it started enriching some of its low-grade uranium for use in a medical research reactor. It said the enrichment process started Tuesday morning

at Iran's pilot enrichment facility in Natanz, under the supervision of inspectors from the UN's IAEA. Iran formally informed the IAEA of its intentions to begin enrichment in a letter late Monday. It is not

#### **Market Watch**

The EIA announced it will delay the release of its weekly petroleum stock report until Friday, February 12<sup>th</sup> at 11 am as the federal government remains closed for the second day on Tuesday due to a snowstorm over the weekend.

The US Commerce Department said US wholesale inventories fell by 0.8% in December while sales increased by 0.8%. November's wholesale inventories estimate was revised to an increase of 1.6%.

Morgan Stanley purchased 13 million barrels of jet fuel via supply deals from North Asian refiners for 2010 and more than doubled its fuel storage capacity in Asia. Morgan is expected to move most of the fuel from these deals into the US.

Venezuela's President Hugo Chavez declared an electricity emergency on Monday as the country faces major shortages of electricity. He declared the emergency due to low water levels at the reservoirs that serve the country's hydroelectric plants. He signed a decree authorizing Energy Minister Ali Rodriguez to take the necessary measures to guarantee the electricity supply. Under the decree, which will be in force initially for 60 days, energy users who consume more than 500 kilowatt hours per month, must reduce their consumption by at least 10% or face a 75% price increase. Industrial users will also have to cut their usage by 20% or face sanctions. Critics of Chavez government acknowledge that rainfall was less than average last year and has contributed to the power problems. However they say the main reason for the electricity shortages was not drought but a lack of investment in the sector.

Nigeria's senate voted on Tuesday on a motion calling on the government to suspend ailing President Umaru Yar'Adua from office and hand power over his deputy, Vice President Goodluck Jonathan, until the president is well enough to resume his duties. President Umaru Yar'Adua has been receiving treatment for a heart condition for more than two months.

Greece's socialist government announced income policy on Tuesday, a day before unions strike against measures needed to exit a fiscal crisis. Finance Minister George Papaconstantinou announced a wage freeze and other measures that will save the state 800 million euros this year. Greece has pledged to cut a double digit budget deficit that had been feeding a large debt.

### **API Stocks**

**Crude** – up 7.195 million barrels  
**Distillate** – down 1.531 million barrels  
**Gasoline** – up 1.552 million barrels  
**Refinery runs** – down 1%, at 77%

clear how quickly Iran will be able to refine significant amounts of stockpiled, low-enriched uranium to the 20% purity level necessary for use in the medical reactor. President Barack Obama said that a new push toward international sanctions against Iran was proceeding fairly quickly and should be completed in the next few weeks. He said it is clear the Iran is pursuing a path toward nuclear

weaponization. He said the international community was considering a variety of ways to apply pressure to Iran's government.

Meanwhile, the head of Russia's national security council, Nikolai Patrushev said Iran's move raises doubts about Iran's nuclear intentions. Separately, China called for continued talks on a nuclear fuel deal for Iran after Iran said it increased its enrichment of uranium. The European Union's nuclear envoy said Iran's decision to enrich uranium to 20% feeds a deficit of confidence in Iran's atomic ambitions. He reiterated that the EU will support UN action.

Separately, Iran's atomic chief Ali Akbar Salehi said Iran's Russian-built nuclear power plant in the southern port city of Bushehr will start operations in the spring. He said the penultimate test was successfully carried out on Sunday.

According to shipbroker SSY, the volume of crude oil held on tankers at sea fell to 25.64 million barrels at the end of January from 40.85 million barrels at the end of December. The number of tankers storing crude fell to 14 vessels by the end of January compared with 23 at the end of December. SSY said the volume of clean oil products also fell at the end of January to 72.67 million barrels or 102 tankers compared with 85.63 million barrels or 122 vessels at the end of December. Separately, ICAP Shipping estimates that the volume of crude held in tankers is 43 million barrels. It also said the volume of clean oil products held on tankers at sea has fallen to 80.22 million barrels from 89.41 million barrels in January. It estimated that 102 tankers were storing oil products globally, down from 116 vessels on January 12. Goldman Sachs estimates that a total of 39 million barrels of crude is stored on tankers in January, down from 51 million barrels in December.

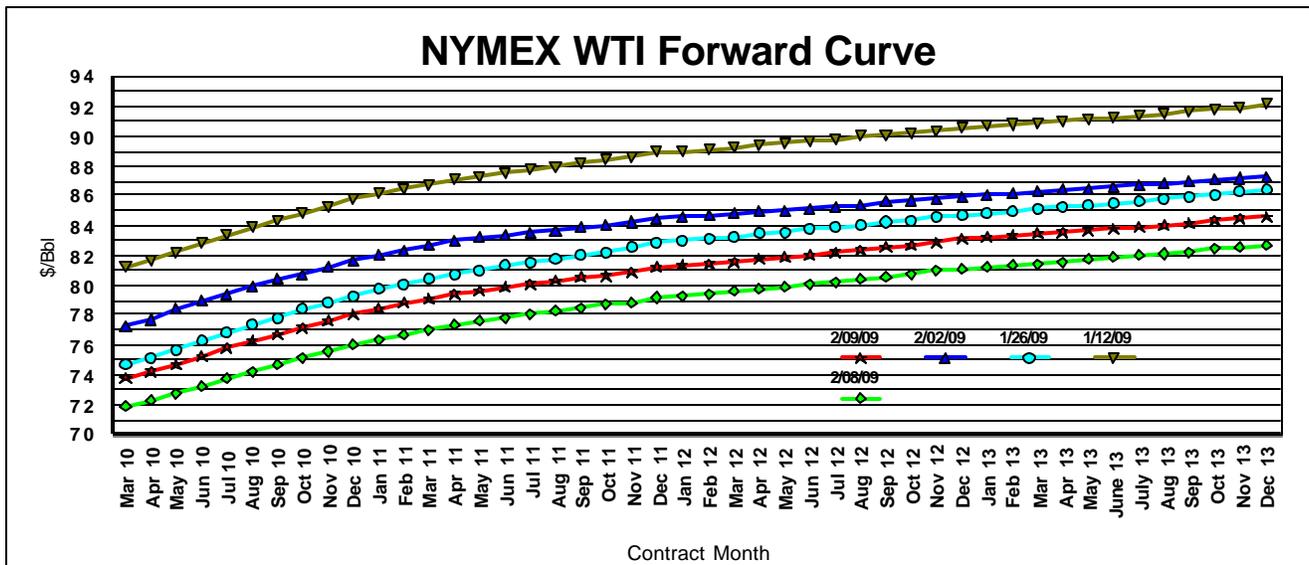
MasterCard Advisors LLC said US gasoline demand fell by 3.7% to 9.07 million bpd in the week ending February 5<sup>th</sup>. On a four week basis, demand was up 1.7% on the year. On a nationwide average, the retail price of regular gasoline fell by 3 cents on the week to \$2.65/gallon, down 35.8% on the year.

Euroilstock reported that total inventories of crude oil and oil products in 16 European countries increased by 1.1% on the month and by 0.2% on the year in January to 1.16 billion barrels. It reported that crude inventories increased by 0.3% on the month but fell by 2.4% on the year to 479.25 million barrels while gasoline inventories increased by 5.3% on the month but fell by 3.1% on the year to 124.53 million barrels. Middle distillate stocks increased by 1.8% on the month and by 7.6% on the year to 419.25 million barrels while fuel oil stocks fell by 1.3% on the month and by 9.3% on the year to 107.97 million barrels and naphtha stocks fell by 1.5% on the month but increased by 0.3% on the year to 29.04 million barrels. The refinery utilization rate fell to 81.65% in January from 82.46% in December.

### **Refinery News**

BP reported unplanned flaring at its 266,000 bpd Carson, California refinery due to a snag. The flaring occurred at the refinery due to a flue/gas imbalance. BP Plc reported planned flaring activity at its 455,790 bpd Texas City, Texas refinery related to the restart of a hydrotreating unit.

**February  
Calendar Averages**  
**CL – \$74.09**  
**HO – \$1.9484**  
**RB – \$1.9495**



Valero Energy Corp reported that flaring will start Tuesday afternoon at the East Plant of its 315,000 bpd Corpus Christi, Texas refinery due to planned maintenance. Intermittent flaring is expected to last four days. The maintenance activity will take place at Complex 8 and Light Ends unit No. 1.

Western Refining Co said the south side of its 125,000 bpd El Paso, Texas refinery is in restart after a 20 day turnaround. The work, which started in late January, included maintenance of a crude unit, fluid catalytic cracking unit and alkylation unit. During the work, the refinery was operating at about 50% of its capacity.

ConocoPhillips restarted its 145,000 bpd fluid catalytic cracking unit at its 238,000 bpd Bayway refinery in Linden, New Jersey on Tuesday. The unit was restarted last week following the completion of planned work that started in January.

Emergency response crews at Sunoco Inc's 335,000 bpd refinery in Philadelphia, PA extinguished a fire that started on a crude unit late Tuesday morning at the Girard Point section of the refinery. The crude unit was still operating but at lower rates.

Suncor Energy Inc said there was a fire earlier Tuesday at one of its two oil sands upgraders north of Port McMurray, Alberta a week after it completed repairs to another unit following a fire in December. It is assessing the damage and will provide an update when that assessment is complete. Its U1 upgrader is capable of producing up to 125,000 bpd of synthetic crude.

Japan's Idemitsu Kosan Co has suspended operations at the 50,000 bpd fluid catalytic cracking unit at its Aichi refinery. The cause of the unit shutdown was unknown and it is expected to remain shut until February 13<sup>th</sup>.

The Baku-Tbilisi-Ceyhan pipeline is expected to pump 23 million barrels or 741,935 bpd of crude oil in March, up 4 million on the month.

Kazakhstan halted Urals crude oil supplies to Slovakia and Hungary via the Druzhba pipeline amid a trade dispute with Ukraine, prompting Russian oil firm Lukoil to intervene to compensate for the loss. Lukoil will reroute about 300,000 tons of Russian export blend Urals crude scheduled for loading from the Polish port of Gdansk in February to Slovakia and Hungary.

Indonesia's Pertamina will import 5 million barrels of gasoline in March, down from the 5.7 million barrels expected this month. It is also expected to cut its gasoil imports to 3 million barrels in March from 4 million barrels in February.

China National Petroleum Corp will invest 980 million yuan to build a 1 million cubic meter or 6.2 million barrel commercial crude oil reserve in the northern city of Tianjin. It signed a cooperation agreement with the Tianjin Economic Development Zone on the project, comprising 10 crude storage tanks each with a capacity of 100,000 cubic meters which will store mostly imported crude oil. Construction is expected to start in March and completed by the end of the year.

### **Production News**

Sources at three US refiners said Saudi Arabia will keep its crude supply to US buyers steady in March. They stated that some US buyers were seeking more shipments under a new pricing scheme started in January, however those requests were rejected. The new mechanism, pricing Saudi crude against a basket of US Gulf Coast sour crudes rather than WTI, makes Saudi Arabia's oil attractive versus other imports.

Iraq's Oil Minister Hussain al-Shahristani said Iraq expects to resume its oil exports from its Kurdistan region in the near future after the government agreed to local authority's proposal on a payment method. However he stated that the fate of disputed deals with foreign oil firms is unclear. Exports have been halted for several months due to a dispute between the Kurdish region and the Baghdad government over oil deals Kurdish leaders signed independently. Separately, Iraq's Oil Minister said Iraq's Ahdab oilfield, which China's CNPC is developing, has a capacity of 200,000 bpd, up from 115,000 bpd.

Nigeria is expected to export 2 million bpd of crude in March, up from 1.79 million bpd previously expected as additional cargoes have been added. A cargo of Bonny Light crude and six Forcados cargoes have been added to the initial Nigerian crude oil loading program in March.

The Norwegian Petroleum Directorate said the country's preliminary oil production in January totaled 1.99 million bpd, up from 2 million bpd in December. It said its preliminary gas production in January amounted to 10.6 billion cubic meters against 10 billion cubic meters in December.

Nexen Inc said production at its Long Lake oil sands project in northern Alberta is improving. It said production averaged 13,600 bpd during the fourth quarter, well below the project's planned 70,000 bpd capacity. It is currently producing 18,000 bpd, up 1,000 bpd from December after it increased the amount of steam it can generate. It however is far below the initial estimates that Long Lake's first phase will reach full production of 72,000 bpd by the end of the year.

South Africa's petrochemicals group Sasol expects to increase its upstream oil and gas production to 42,000 bpd of oil equivalent this year from 38,000 bpd.

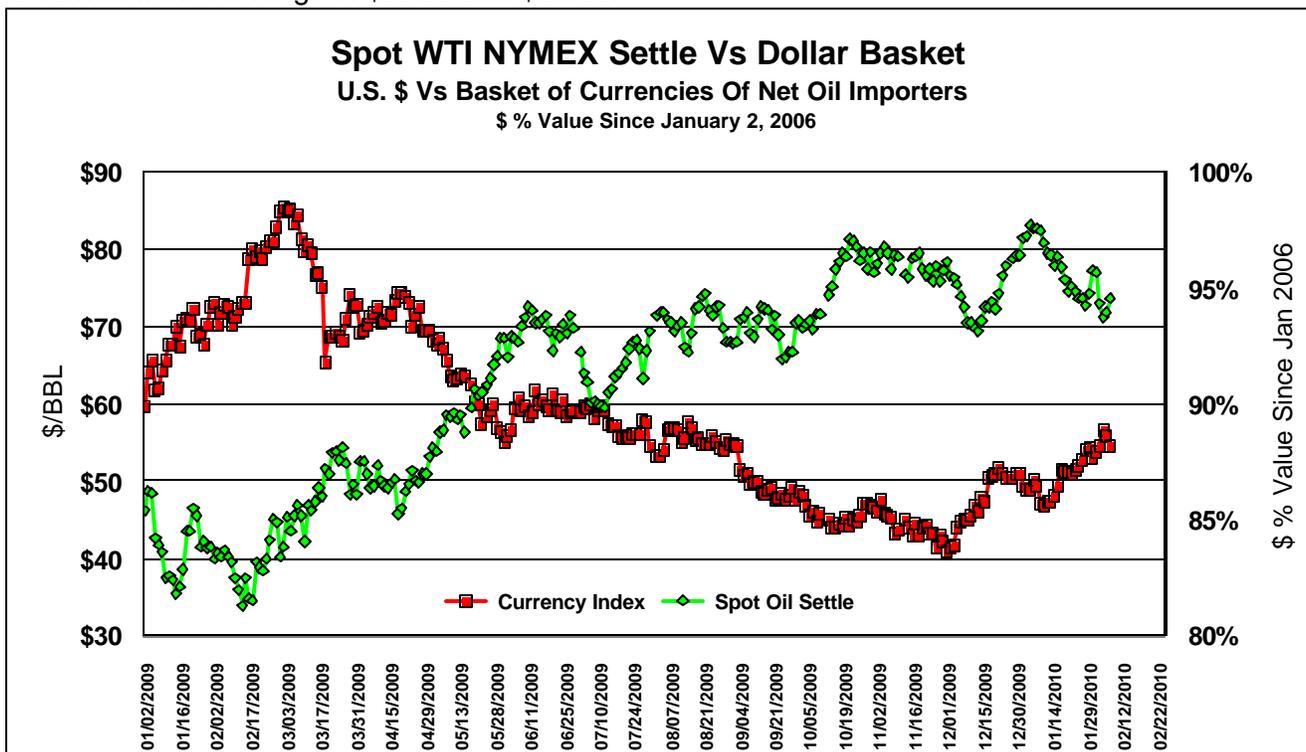
Ghana's Energy Minister Joseph Oteng-Adjei said its Jubilee oil field has recoverable reserves of 800 million barrels.

OPEC's news agency reported that OPEC's basket of crudes fell further to \$68.86/barrel on Monday from \$69.71/barrel on Friday.

### **Market Commentary**

Lifted by weakness in the dollar, crude oil rallied to a high of \$74.15 on the day. Equities rose in reaction to reports of economic aid for Greece, providing support for this rally. Heating oil edged higher ahead of this week's release of the DOE numbers and also reacted to expectations of a winter

snowstorm, which is expected to stretch from Virginia to New York. Although demand for gasoline should be somewhat flat-lined due to the sluggish economy and poor weather related driving conditions, the rest of the complex dragged gasoline higher. The recent cold weather that has plagued the Midwest and Northeastern part of the U.S. has given strength to the March heating oil/March gasoline spread, which has been gaining value since the end of January and appears headed for a test at 0.0228. A break above this level sets prices up for a run at 0.0446. The March crude oil contract should remain on the defensive, working towards the 50% retracement level of \$76.72, which is derived from the range of \$69.50 and \$83.95.

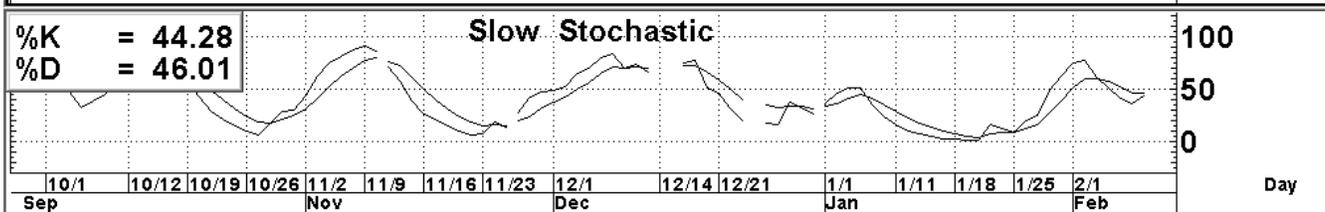
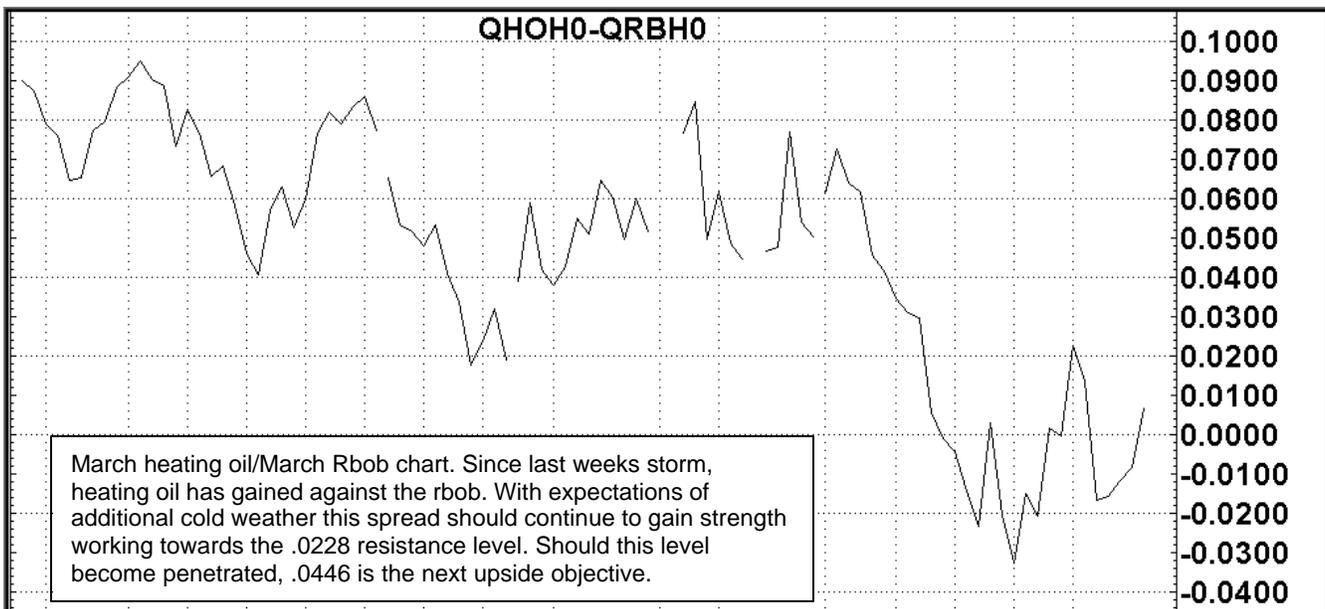


The API reported a larger than expected build in crude stocks of 7.195 million barrels on the week. Crude stocks in Padd 3 saw the largest build of 4.159 million barrels on the week while stocks in Padd 5 also saw a large build of 3.761 million barrels on the week. It reported the build in stocks as crude runs fell by 309,000 bpd to 13.285 million bpd on the week. Imports however fell by 96,000 bpd to 8.375 million bpd. Meanwhile, the API reported a draw in distillate stocks of 1.531 million barrels, with draws of 793,000 barrels and 800,000 barrels in Padds 2 and 3, respectively. Distillate stocks are up 11.7% on the year. It showed that distillate production fell by 76,000 bpd or 18.1% on the week to 3.477 million bpd while imports fell by 59,000 bpd or 18.4% on the week to 261,000 bpd. The API showed that apparent distillate demand fell by 1.5% on the week and by 8.5% on the year to 3.957 million bpd while apparent demand basis its three week moving average fell by 2.7% on the week and by 8.3% on the year to 4.148 million bpd. Gasoline stocks saw a larger than expected build of 1.552 million barrels on the week, with a build of 956,000 barrels in Padd 1. It reported the build in gasoline stocks as apparent demand fell by 9.5% on the week and by 11.4% on the year to 8.32 million bpd while apparent demand basis its three week moving average fell by 2.3% on the week and by 3.2% on the year to 8.792 million bpd. It also showed that gasoline imports increased by 144,000 bpd or 116.1% on the week to 268,000 bpd. Gasoline production however fell by 632,000 bpd to 8.274 million bpd.

Crude oil MAR.10 259,192 -28,098 Apr. 10 166,442 +20882, May 10 113,254 +5,073 Totals 1,308,935 +3,412, Heating oil MAR.10 80,819 -4,291 APR10 49,600 +654 May 10 32,046 +1,106

Totals: 311,969 +315 Gasoline MAR.10 73,379 -5,710 APR10 46,829 +1,747 May 10 33,345 +1,994  
 Totals: 255,574 +243

<b>Crude Support Based on February</b>	<b>Crude Resistance Based on Feb</b>
72.50, 71.31, 70.42, 65.05, 64.70, 63.38, 62.70, 61.61, 60.95	75.02, 76.72, 78.43 79.86, 81.00, 82.00, 84.83, 85.40, 86.60, 88.80, 89.88
<b>Heat Support</b>	<b>Heat resistance</b>
1.8570, 1.8280, 1.7670, 1.7565	2.0665, 2.2270, 2.2575, 2.4200
<b>Gasoline support</b>	<b>Gasoline resistance</b>
1.8650, 1.85.65, 1.7900, 1.7200 1.6600	2.0846, 2.1930, 2.2270, 2.3350,



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