



## ***ENERGY RISK MANAGEMENT***

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### **ENERGY MARKET REPORT FOR FEBRUARY 11, 2010**

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The IEA estimated that world oil demand will grow by more than previously expected in 2010. It revised upwards its demand growth estimate for 2010 by 120,000 bpd to 1.6 million bpd. It estimates that world oil demand will average 86.5 million bpd this year, down 10,000 bpd from the record peak seen in 2007. It stated that China will account for 25% of the growth in oil demand outside the OECD this year. It estimated China will consume an average 8.9 million bpd this year, up 4.7% on the year. It raised the demand estimate for OPEC oil by

300,000 bpd from its previous report to 29.4 million bpd in 2010, up from 28.9 million bpd last year. The IEA reported that OPEC production increased by 105,000 bpd to 29.1 million bpd in January. The 11 OPEC members with production targets were producing about 1.8 million bpd above the group's target of 24.845 million bpd. The IEA said Venezuela's crude oil production in January

#### **Market Watch**

The US Labor Department reported that the number of initial claims for unemployment benefits fell by 43,000 to a seasonally adjusted 440,000 in the week ending February 6<sup>th</sup>. It is down from a revised 483,000 in the prior week. The total number of continuing claims in the week ending January 30<sup>th</sup> fell by 79,000 to 4,538,000, its lowest level in more than a year. The four week average of new claims fell by 1,000 to 468,500. The unemployment rate for workers with unemployment insurance was unchanged at 3.5%. Meanwhile, in an economic report released earlier on Thursday, the White House said it expects the economy to create an average of 95,000 jobs a month this year. However the White House said the unemployment rate would probably fall only slowly and it was concerned about the large number of people out of work for a prolonged period. The economy lost 20,000 jobs last month and although the unemployment rate fell to 9.7%, the White House forecast it would average 10% this year.

Under a proposal released by US Senators Max Baucus and Charles Grassley, the \$1/gallon tax credit for biodiesel blended into conventional diesel, which expired at the end of 2009, will be extended for another year.

EU President Herman Van Rompuy said EU leaders reached an agreement on helping Greece deal with its economic crisis. He said the 15 euro zone countries will take determined and coordinated action if needed to safeguard stability in the euro zone as a whole. He also stressed that Greece did not ask for financial aid and added that the EU was expecting action from the Greek government. Meanwhile, a public sector strike brought many services to a standstill in Greece in light of the government's austerity plans. The government has decided to freeze public sector salaries and raise the retirement age. Greece's deficit is at 12.7%, more than four times higher than euro zone rules allow. Its debt is about 300 billion euros and the government estimates it will need to borrow about 53 billion euros this year to cover budget shortfalls.

The ICE announced that physical delivery against the expired ICE February gas oil futures contract was a record 499,300 tons or 4,993 lots. In January, the delivery at the prompt expiry was 483,000 tons.

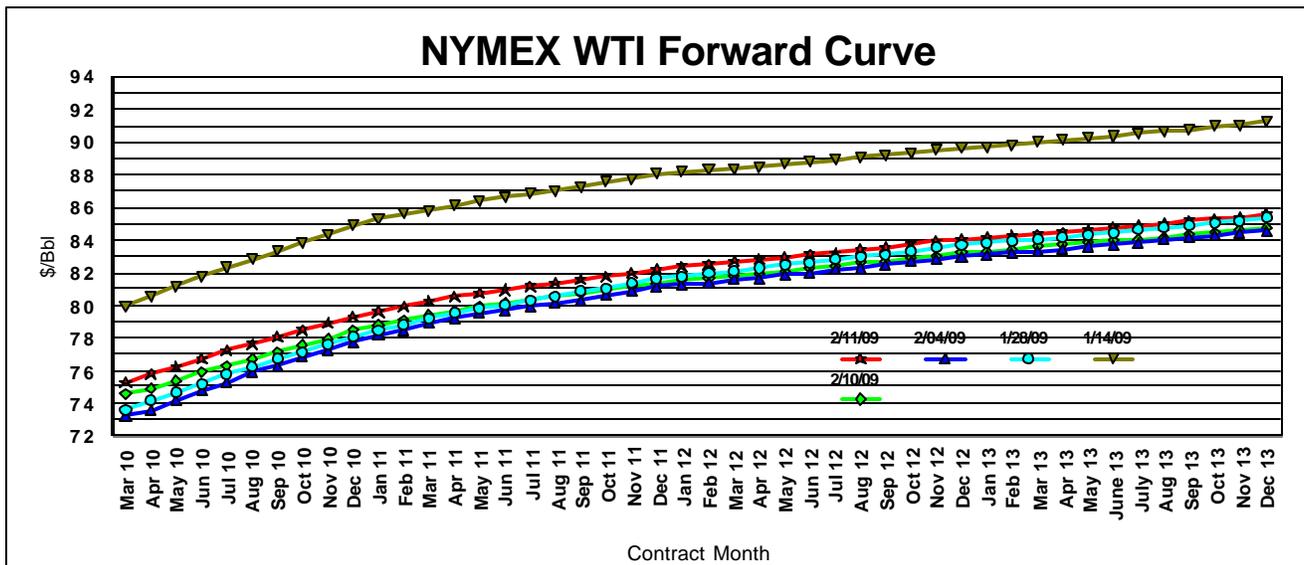
Iraq will switch the benchmark for pricing sales of crude to the US to the Argus Sour Crude Index away from NYMEX US light sweet crude futures. The move follows a similar switch by Saudi Arabia and Kuwait to the Argus index. The pricing policy will take effect for sales to the US from April.

China's exports and imports continued to recover in January from a fall at the start of 2009. Exports increased by 20% on the year. However, the January level was actually below December's, with exports down from \$130.7 billion in December to \$109.5 billion and imports falling from \$112.3 billion to \$95.3 billion.

increased by 30,000 bpd to 2.22 million bpd. It also revised its production estimate for non-OPEC countries up by 100,000 bpd from last month's report. Non-OPEC supply is expected to average 51.6 million bpd in 2010, up 200,000 bpd on the year. It also reported that OECD inventories were the equivalent of 58.1 days of forward supply at the end of December, just 0.1 day higher on the year. It estimates that there is a total of 51 million barrels of crude stored in floating storage, down from 59 million barrels in January. It also estimates that there is a total of 75 million barrels of middle distillate stocks stored in floating storage in early February compared with 96 million barrels at the end of December. The IEA expects oil prices to average \$75/barrel in 2010, up from \$58/barrel last year. The IEA also reported that oil refineries worldwide will process 72.6 million bpd of crude in the first quarter, relatively unchanged from its previous estimate. Global throughput will be 1 million bpd higher between January and March than in the same period last year, although it is still 1.35 million bpd below first quarter 2008 levels. It revised OECD crude throughput estimates for the fourth quarter up by 52,000 bpd to 35.3 million bpd. Chinese crude runs increased more than expected to 8.15 million bpd in December from 8.1 million bpd in November.

<b>February Calendar Averages</b>
<b>CL – \$74.27</b>
<b>HO – \$1.9499</b>
<b>RB – \$1.9457</b>

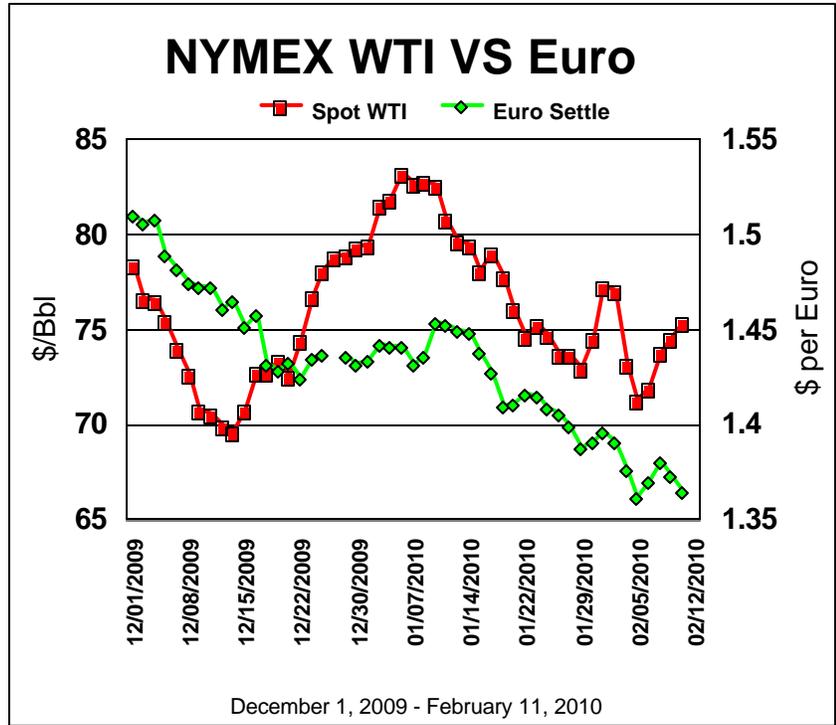
An IAEA document revealed that Iran will start producing its first batch of higher enriched uranium within a few days however output will remain modest for now. Meanwhile, Iran's President Mahmoud Ahmadinejad declared that Iran has produced its first stock of 20% enriched uranium. Also, Iran's Atomic Energy Organization chief, Ali Akbar Salehi said the country's newly launched 20% nuclear fuel production is going "very well." He said Iran has the capacity to enrich uranium up to a level of 100% but said the country has no intention of refining the material to that level. He said Iran's production of 20% uranium will be limited to the needs of a Tehran medical reactor of about 1.5kg/month. He also said Iran will have good news on improved nuclear enrichment centrifuges in coming months, adding that the construction of new enrichment sites will start in March. He said Iran can make fuel plates required to power a research reactor in four to five months. Separately, the White House expressed doubt over Iran's claim to have increased uranium enrichment to 20% strength, saying some of Iran's statements were based on politics not science.



According to Oil Movements, OPEC's oil shipments, excluding Angola and Ecuador, are expected to increase by 430,000 bpd to 23.36 million bpd in the four weeks ending February 27<sup>th</sup>.

**Refinery News**

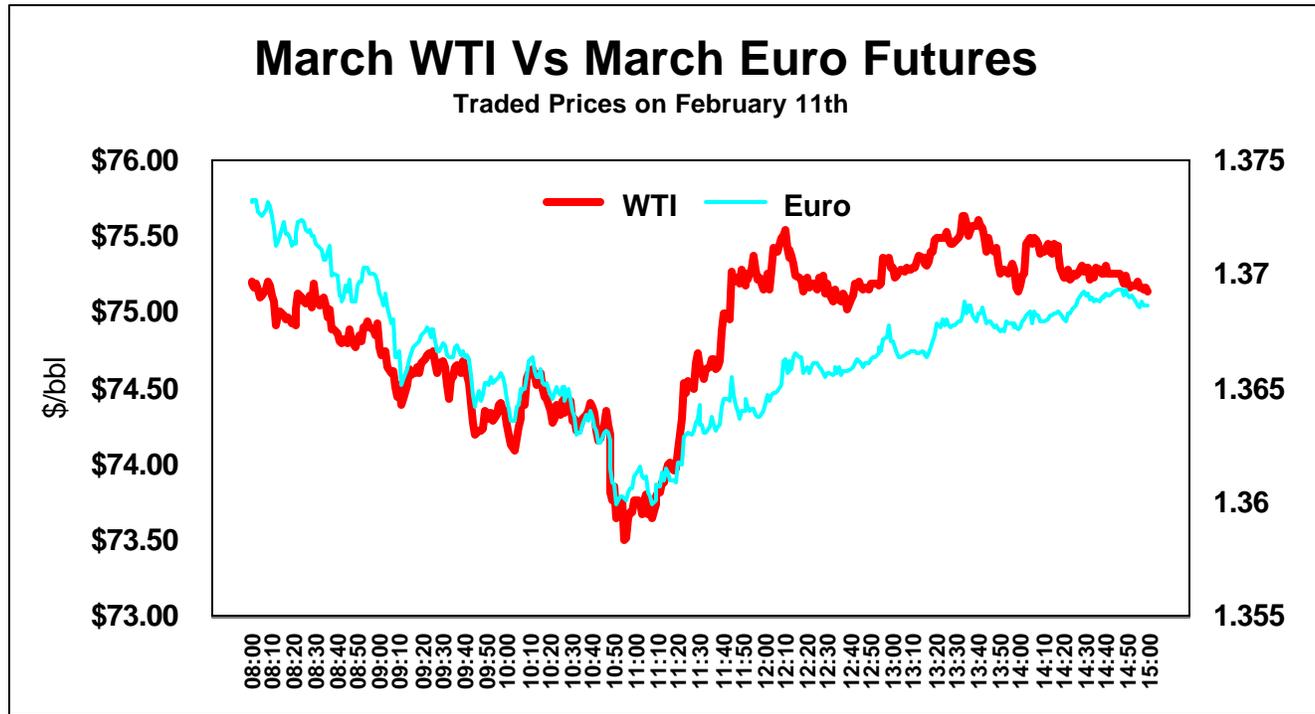
The US Coast Guard said a four mile stretch of the Houston Ship Channel was shut on Thursday morning while authorities searched for a missing man after a tugboat sank. It is uncertain how long the operation will last and when the area will reopen to ship traffic.



Meanwhile, Lyondell Basell Industries said there was no impact to operations at its 270,600 bpd Houston refinery following the closure of a portion of the Houston Ship Channel. Valero Energy Corp said its 145,000 bpd Houston refinery was not impacted by the closure of the waterway.

BP Plc is restarting a residual hydrotreating unit at its 455,790 bpd Texas City, Texas refinery on Thursday. The restart may last through Saturday. It also restarted an ultraformer unit at the refinery on Thursday following repairs to fix a steam leak in a furnace.

ExxonMobil Corp's 572,000 bpd refinery in Baytown, Texas reported a flange leak on a pipe still drum, which it is repairing. It however said there was no impact to its production and all its customers' needs were being met. ExxonMobil is planning a turnaround at its 150,000 bpd Torrance, California refinery beginning in the first week of March and lasting for 40 days. The turnaround is expected to involve a 100,000 bpd fluid catalytic cracking unit and alkylation unit while other units may operate at



reduced rates.

Silver Eagle Refining plans to begin restarting the first of several crude units at its 10,250 bpd Woods Cross, Utah oil refinery. The company shutdown the plant on November 13<sup>th</sup> at the request of the US Chemical Safety Board and Utah's state Occupational Safety and Health Administration.

ConocoPhillips is restarting rappers for its electrostatic precipitator that provides pollution control for particulates at a fluid catalytic cracking unit at its 247,000 bpd Sweeny, Texas refinery.

Murphy Oil's 125,000 bpd Meraux, Louisiana refinery reached less than 50% of its normal rates during this week's startup of the refinery. A spokeswoman said the refinery will slowly return to its planned rate of about 115,000 bpd.

Valero Energy Corp's 170,000 bpd Benicia, California refinery will completely shutdown for about five weeks of turnaround starting during the fourth quarter.

Kuwait Petroleum Corp shut its new aromatics plant for four days of repairs, the second shutdown in less than a month. The plant which was shut on February 9<sup>th</sup> is expected to resume operations on Friday, about three weeks after it resumed operations following an earlier outage.

Venezuela will shut its flexicoker unit at its 640,000 bpd Amuay refinery for 45 days in March or April for maintenance.

Spain's Repsol said it planned to halt production in the desulphurization unit at its La Coruna refinery for 21 days in April. It also plans to halt the petrochemical platformer at its Puertollano refinery for 35 days starting in September as well as its redistillation unit at its Tarragona refinery for 40 days in October.

India's Hindustan Petroleum Corp has deferred the planned maintenance shutdown of crude units at two of its refineries. It will shut a 40,000 bpd crude distillation unit at its Mumbai refinery for 35 days starting in April. The shutdown is not expected to significantly impact the throughput of secondary units. It also plans to shut its 60,000 bpd crude unit for 45 days and its 600,000 ton/year fluid catalytic cracking unit for 60 days from the end of March to increase its capacity by about 33%.

Gas oil stocks in independent tanks in the Amsterdam-Rotterdam-Antwerp area in the week ending February 2<sup>nd</sup> increased by 2.96% on the week and by 23.07% on the year to 2.71 million tons due to imports from the US and relatively limited heating demand. Gasoline stocks increased by 3.7% on the week and by 14.44% on the year to 1.038 million tons while fuel oil stocks fell by 14.99% on the week but increased by 11.45% on the year to 652,000 tons. Naphtha stocks increased by 25% on the week and by 61.76% on the year to 55,000 tons while jet fuel stocks increased by 0.72% on the week and by 5.01% on the year.

Diesel stored on tankers in Asia increased to unprecedented volumes of at least 14 million barrels and could increase further as weak global demand persists. The volume of diesel stored on tankers has increased as the current East-West arbitrage economics remain unviable, even as Western distillate supplies were gradually drawn down during the cold snap.

BP has provisionally booked a tanker to ship about 560,000 barrels of gas oil from Europe to Asia, which could increase the total volume of 14 million barrels already stored in floating storage in Asia.

Floating storage of North Sea Forties crude may have dropped to zero after recent de-stocking. The number of supertankers for short term storage of Forties crude reached a high level of eight in

October 2009 but has been declining since then, partly due to the narrowing time spread in crude futures and an increase in heating demand.

Singapore's International Enterprise reported that the country's residual fuel stocks increased by 513,000 barrels to 22.168 million barrels in the week ending February 10<sup>th</sup>. It also reported that Singapore's light distillate stocks fell by 520,000 barrels to 9.104 million barrels while middle distillate stocks fell by 1.371 million barrels to 13.263 million barrels on the week.

### **Production News**

Mexico's Gulf oil port of Dos Bocas reopened on Thursday after it was closed for nearly two days due to bad weather conditions.

Production of benchmark BFOE crude, a basket of Brent, Forties, Oseberg and Ekofisk crude grades, will total 41.1 million barrels or 1.325 million bpd in March compared with 36.95 million barrels or 1.32 million bpd in February. The North Sea Brent crude stream is scheduled to load 4.333 million barrels or 139,774 bpd in March, up from 4.2 million barrels in February. The Forties crude stream is scheduled to load 18.6 million barrels or 600,000 barrels in March, up from 16.8 million barrels or 600,000 in February. The Oseberg crude stream is scheduled to load 6.7 million barrels or 216,129 bpd in March, up from 5.45 million barrels or 194,643 bpd in February. The Ekofisk crude stream is scheduled to load about 11.45 million barrels or 369,000 bpd in March, up from 10.5 million barrels or 375,000 bpd in February. Meanwhile, the Statfjord crude stream is scheduled to load 6.84 million barrels or 220,645 bpd in March, up from 5.13 million barrels or 183,214 bpd in February. The Gullfaks crude stream is scheduled load 7.695 million barrels or 248,226 bpd in March, up from 5.985 million barrels or 213,750 bpd in February.

Britain's North Sea Flotta crude oil stream is scheduled to load about 63,000 bpd of crude in March, down from 70,000 bpd in February.

Venezuela awarded the largest oil investment of President Hugo Chavez's 11-year rule, drawing investments to the Orinoco Belt. Chevron and Spain's Repsol led groups won the auction for projects in the Orinoco Belt. Repsol will take 11% in its project, the same stake as consortium partners Malaysia's Petronas and India's ONCC. PDVSA will take 60% stake with two other Indian companies taking the remainder. Chevron will lead a second project, holding a 34% stake, along with consortium partners that include Japan's Mitsubishi and Inpex and Venezuela's Sueloopetrol.

Statoil said it can maintain its current oil and gas production on the Norwegian continental shelf to 2020. It had previously said it could maintain Norwegian output to 2015.

Nigeria's Brass River crude can be exported via VLCCs throughout the year, starting in April, following the completion of improvement work. Previously, the Brass River terminal could handle ships up to half the size of the VLCC during the wet season from April to October. Market sources said the restriction has now been lifted and VLCCs with up to 320,000 dead weight tons can use the Brass Terminal.

Russia will likely cut its oil export duty in March to between \$252.80 and \$254.30/ton from \$270.70/ton in the current month to correspond with a fall in oil prices. Export duties on light refined products are likely to total \$182.70 to \$183.50/ton, down from the current level of \$194.70/ton. Export duties on heavy refined products will likely total about \$98.40 to \$98.90/ton, down from \$104.90/ton in February.

OPEC's news agency reported that OPEC's basket of crudes increased further to \$70.78/barrel on Wednesday from \$69.76/barrel on Tuesday.

## Market Commentary

Crude oil traded back and forth early in the session, only to find late day strength as it reacted to Greece's economic situation, political tensions in Iran and revisions by the IEA regarding forward demand. Economic growth by China has also given strength to crude oil, as demand in that region remains steady. Since the beginning of January, crude oil and the euro had been trading in a lock step fashion as both responded to the dollar. Over the last few trading sessions, crude oil has detached from the euro, which has succumb to pressure due to European economic concerns regarding Greece. Given the aforementioned geopolitical tensions and the economic situation regarding Greece, we feel that crude oil may have gotten a little ahead of itself and may in fact be overvalued at current levels. The underlying fundamentals of this market are overall bearish, as we have yet to see steady demand growth. We are technically inclined to think that prices still have additional upside movement and would not discount a test at the resistance level of \$76.72, prior to prices turning to the downside.

Crude oil MAR.10 185,178 -36,959 Apr. 10 207,347 +21,711, May 10 131,224 +7,530 Totals 1,305,656 -2,248, Heating oil MAR.10 70,740 -5,310 APR10 53,390 +554 May 10 35,783 +2,656 Totals: 312,262 -1,450 Gasoline MAR.10 61,516 -7,000 APR10 53,253 +2,213 May 10 37,802 +2,213 Totals: 260,846 +2,408.

<b>Crude Support Based on February</b>	<b>Crude Resistance Based on Feb</b>
75.00, 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	2.0110, 2.0574, 2.0665, 2.2270, 2.2575, 2.4200
<b>Gasoline support</b>	<b>Gasoline resistance</b>
1.8650, 1.8565, 1.7900, 1.7200, 1.6600	2.0420, 2.0660, 2.0846, 2.1930, 2.2270, 2.3350

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