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## ***ENERGY RISK MANAGEMENT***

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### **ENERGY MARKET REPORT FOR FEBRUARY 17, 2010**

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Iran's supreme leader, Ayatollah Ali Khamenei accused the US on Wednesday of war-mongering and of turning the Gulf into an "arms depot" following US accusations that Iran was moving towards a military dictatorship. In an apparent reference to US Secretary of State Hillary Clinton's visit to the Middle East this week, Iran's supreme leader said the American had dispatched their agent to the region to accuse Iran's system of government. During her three day visit to Qatar and Saudi Arabia, the US Secretary of State denied the US planned to attack Iran and said Washington wanted talks with Iran but could not "stand

#### **Market Watch**

The Federal Reserve said industrial production in January increased by 0.9% compared with market expectations of an increase of 0.8%. December industrial production was revised to 0.7% from an original level of 0.6%. The rate industries used their capacity increased in January to 72.6% from 71.9%.

The US Commerce Department said housing starts increased by 2.8% to a seasonally adjusted 591,000 annual rate compared to the prior month. It is at its highest level in six months. December starts were revised up, falling 0.7% instead of 4%, as originally reported. Building permits in January fell 4.9% to a 621,000 annual rate. On Tuesday, the National Association of Home Builders reported US homebuilder confidence grew in February from a seven month low. The NAHB said its housing market index climbed two points to 17.

The Labor Department said US import prices increased for the sixth consecutive month in January. Prices of goods imported into the US increased by 1.4% in January after increasing an upwardly revised 0.2% in December. Fuel import prices increased by 5.3% in January, accounting for about three quarters of the increase in all import prices. A 4.8% increase in petroleum import prices and an 18.8% increase in natural gas prices both contributed to the January increase. Excluding petroleum, import prices increased 0.6% in January.

China cut its US Treasury holdings, falling behind Japan in a sign that China has been acting on recent complaints about US policy by unloading US debt. China was a net seller of all Treasuries, with a total sale of \$34 billion, bringing its total holdings down to \$755.4 billion from \$789.6 billion in November. Meanwhile, Japan increased its total holdings by \$11.5 billion to \$786.8 billion, surpassing China for the first time since August 2008.

Sasol Ltd expects oil prices to remain just over the \$70/barrel level for the remainder of the financial year. Its CEO sees long term fundamentals for higher oil prices.

Saudi Arabia arrested a Saudi militant suspected of links to al Qaeda in the southern Saudi town of Yanbu. A security source said the militant had been monitoring oil and industrial facilities in Yanbu, site of a large oil refinery, an oil terminal and petrochemical plants.

The CME Group said its NYMEX division will list nine new fuel oil futures contracts for trading on the NYMEX floor and clearing through CME ClearPort, starting Sunday, March 7<sup>th</sup>. The contracts, which include both European and Singapore fuel oil, are listed with NYMEX, and subject to the rule and regulations of NYMEX and the CME.

### API Stocks

**Crude** – down 63,000 barrels  
**Distillate** – up 1.283 million barrels  
**Gasoline** – up 1.428 million barrels  
**Refinery runs** – up 2.9%, at 79.9%

idly by” while Iran pursued a suspected nuclear weapons program.

Separately, Iran’s Foreign Ministry said Iran will not suspend its sensitive high level enrichment in return for radioisotopes as offered in a letter by the US, France and Russia to the UN’s IAEA.

According to MasterCard Advisors LLC, US gasoline demand fell by 2.5% to 8.844 million bpd in the week ending February 12<sup>th</sup>. It is the lowest weekly demand since October 10, 2008. Gasoline demand in the week was down 2.9% or 265,000 bpd on the year. It reported that the four week moving average increased by 0.4% on the year. On a nationwide average, the retail price of gasoline fell by 3 cents on the week to \$2.62/gallon.

### Refinery News

Citgo Corp reported that a faulty gauge caused an oil storage tank to overflow at the east plant of its 163,000 bpd Corpus Christi, Texas refinery. The company stopped blending and diverted the oil to another tank.

Valero Energy Corp said its hydrocracking unit at its 315,000 bpd refinery in Corpus Christi, Texas was at planned rates after it was shut on February 9<sup>th</sup> for planned work. The outage did not have a material impact on production or operations. Meanwhile, the three crude units at its Texas City, Texas refinery are operating at planned rates after the 245,000 bpd refinery experienced a fire on December 24<sup>th</sup>. Its fluid catalytic cracking unit at the 235,000 bpd Quebec refinery is still expected to be shut for several weeks for repairs following a fire on February 2<sup>nd</sup>. Valero does not have an estimated restart date.

Suncor Energy reported increased flaring at its 135,000 bpd refinery in Edmonton, Alberta as the plant returns to normal operations following a snag.

Workers at Total’s six French oil refineries and 15 oil depots started a two day strike on Wednesday, threatening to reduce France’s supply of gasoline and heating oil. If the unions succeed in closing the 15 depots, about half of Total’s storage depots will be incapacitated. Total confirmed the strike stopped petrol products from leaving the six refineries but said production continued at a bare minimum. The unions are protesting over the prospect that Total will permanently close the 137,000 bpd refinery at Dunkirk, where production ceased in September last year. Total wants to close or sell refineries in Europe due to oversupply and poor profits. It said last week it aimed to cut about 500,000 bpd of refined products by 2011.

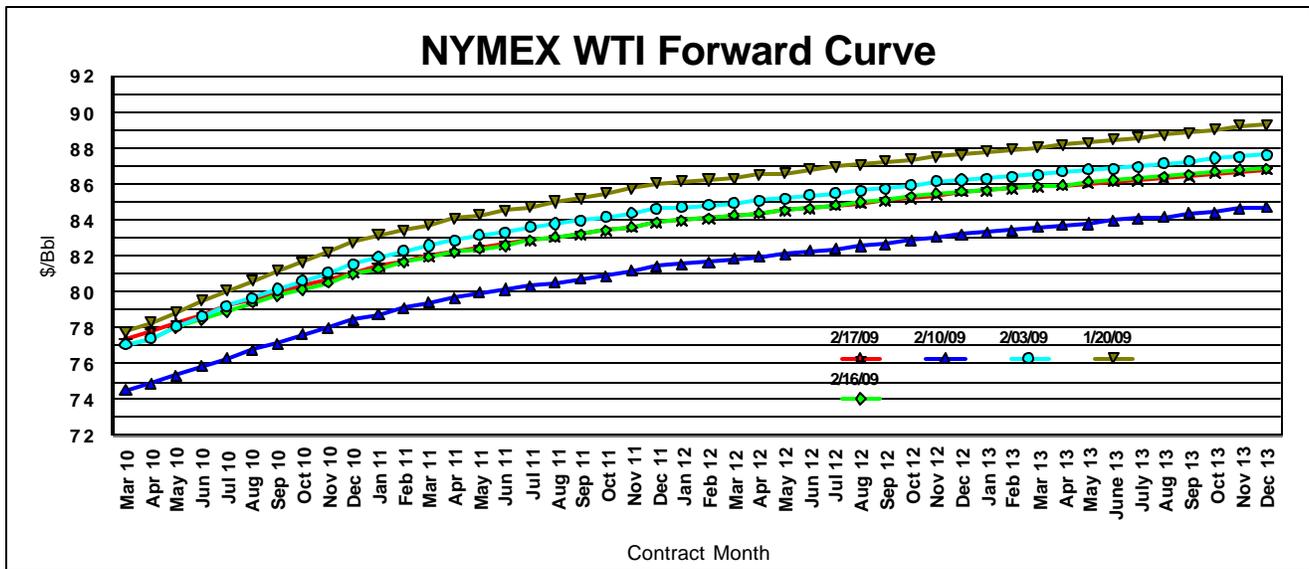
Repsol halted maintenance work at its Bilbao refinery for 24 hours on Tuesday. Its fluid catalytic cracking unit, vacuum distillation unit and visbreaker at the 22,000 bpd Bilbao refinery are currently undergoing maintenance.

Japan’s Cosmo Oil Co plans to shut a crude distillation unit at its Chiba refinery for two months’ maintenance. It has scheduled a shutdown of its No. 2 120,000 bpd crude unit starting at the end of April to the end of June.

According to Europaia, European refinery utilization fell by 8% to 25% between 2000 and 2009, depending on plant configuration.

Kazakhstan’s Energy Minister Sauat Mynbayev said the Chevron-led Kazakh oil venture Tengizchevroil has stopped pumping oil through the Baku-Tbilisi-

<b>February Calendar Averages</b> <b>CL – \$74.74</b> <b>HO – \$1.9559</b> <b>RB – \$1.9530</b>
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Ceyhan pipeline. He said the move could be linked to disagreement over fees charged by BTC but gave no details. He did not provide any figures or say when the shipments were halted.

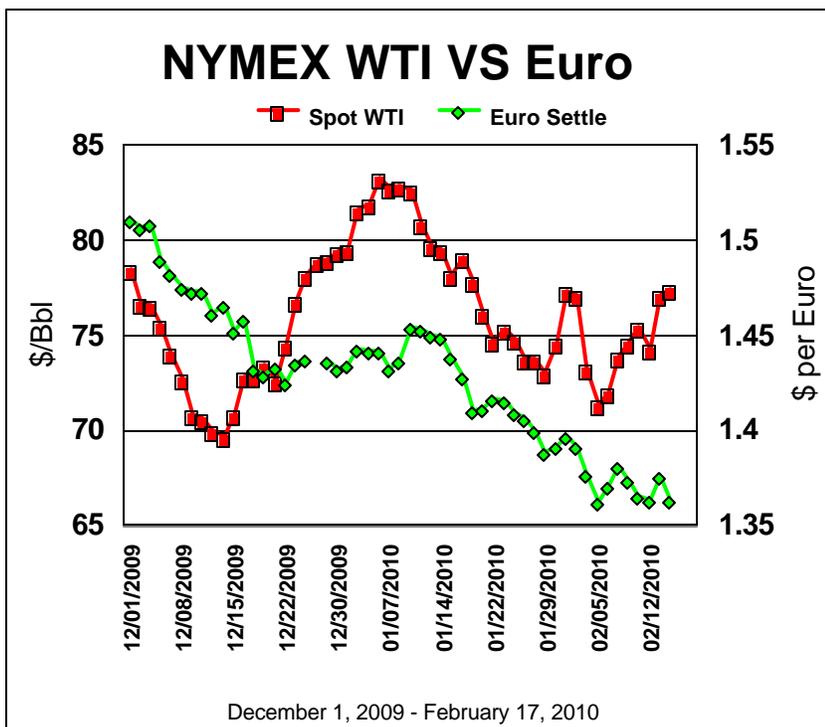
Germany's MWV reported that the country's total sales of oil products in Germany fell by 17.3% on the year in January to 5.8 million metric tons. Germany's gasoline sales fell by 5.7% to 1.39 million tons while its diesel sales fell by 4.4% on the year to 2.12 million tons. Its heating gasoil sales fell by 35.3% on the year to 1.79 million tons while its high sulfur fuel oil sales fell by 8.9% on the year to 470,000 tons.

According to the Petroleum Association of Japan, refiners in Japan ran their facilities at an average 83.2% of total capacity in the week ending February 13<sup>th</sup>, down 0.7% on the week and 1.9% on the year. Its crude runs fell by 60,000 bpd on the week and by 180,000 bpd on the year to 3.99 million bpd. The PAJ reported that crude oil stocks fell by 440,000 barrels on the week and by 8.55 million barrels on the year to 92.91 million barrels while its gasoline stocks increased by 190,000 barrels on the week and by 1.35 million barrels on the year to 14.61 million barrels. Its kerosene stocks fell by 400,000 barrels on the week and by 110,000 barrels on the year to 14.7 million barrels while its naphtha stocks fell by 610,000 barrels on the week to 10.11 million barrels. The PAJ also reported Japan's total oil product sales increased by 0.4% on the week but fell by 5% on the year to 3.35 million bpd. Its gasoline sales fell by 3.9% on the week and by 5.2% on the year to 960,000 bpd while kerosene sales increased by 1.2% on the week and by 12.4% on the year to 610,000 bpd and gas oil sales fell by 13.5% on the week and 8.8% on the year to 530,000 bpd. Japan's naphtha sales increased by 37.8% on the week and 3.4% on the year to 530,000 bpd while jet fuel sales fell by 12.8% on the week and by 11.3% on the year to 83,000 bpd.

Indonesia's Pertamina has diesel oil stock for 18.6 days, down from 23 days in January as production at its 27,500 bpd hydrocracker unit at its Balikpapan refinery was still suspended. Pertamina has gasoline stocks for 18 days, up from 17.5 days in January. Separately, Pertamina said it planned to increase its oil products storage tanks' capacity in Tanjung Uban to 180,000 kiloliters or 1.1 million barrels from the current capacity of 160,000 kl.

A shortage of ethanol has caused Brazil's Petrobras to import gasoline for the first time in 40 years. Petrobras purchased 270,000 cubic meters of gasoline or about 2 million barrels from Venezuela. The gasoline is expected to arrive in Brazil later this month.

Woodside Petroleum Ltd plans to resume exports of Vincent crude in April after halting shipments for two months due to an outage at the field. It has offered about 550,000 barrels of heavy sweet crude for April loading.



Angola plans to export 54.74 million barrels or 1.82 million bpd of crude in April, down from 56.45 million barrels or 1.82 million bpd in March. It plans to export a total of 57 cargoes, comprising seven Cabinda, seven Dalia, seven Girassol, six Hungo, six Kissanje, two Kuito, two Mondo, eight Nemba, two Palanca, six Plutonio, three Saxi and one Xikomba.

**Production News**

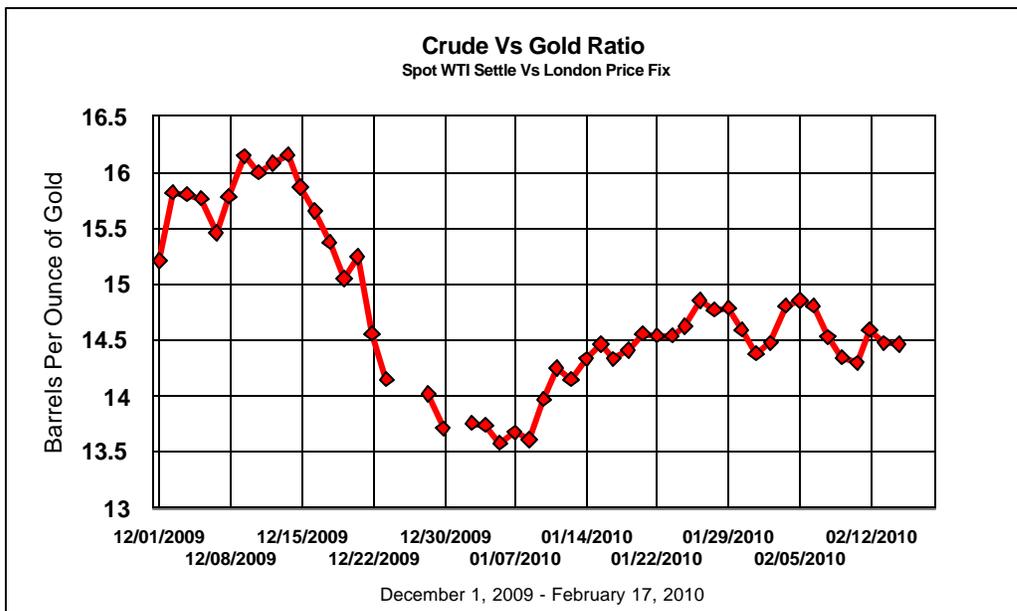
Mexico reopened its Dos Bocas and Cayo Arcas oil ports on Wednesday, two days after shutting them due to bad weather conditions.

Output at Nexen’s North Sea Buzzard oilfield has fallen as the

company investigates a production problem. It said it is too soon to give an estimate of when it will resume normal production. Cargo loadings of Forties crude are expected to be delayed as a result of the drop in Buzzard supply.

An injunction has been granted to stop the two day strike and the plan to “work to rule” by the Unite trade union at Britain’s Milford Haven port. The strike by the union was initially scheduled to start on

Thursday and would have closed the port, disrupting the arrival of large oil and liquefied natural gas tankers. Later the Unite trade union said it plans to strike at the Milford Haven port starting February 23<sup>rd</sup> after the court injunction blocked a strike planned for this week. They plan to strike, with 50 participating pilots on February 23<sup>rd</sup>, when they will start working to rule, meaning they will not guide big ships into the port in south Wales indefinitely.



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An Iraqi oil official said Iraq, BP Plc and China's CNPC have invited 10 firms to drill 56 new wells in the Rumaila oilfield. BP and CNPC signed a 20 year development contract last year for Rumaila, which has 17 billion barrels of estimated crude reserves.

Iran's Deputy Oil Minister and head of the National Iranian Oil Co, Seifollah Jashnsaz said Iran plans to double its oil refining and gas capacity in the next five years. He gave no further details but said foreign investment was continuing.

Alaskan officials said the aged oil basin on Alaska's North Slope will see production fall but at a slower rate. A state petroleum economist said North Slope production has declined by an average annual rate of 4.9% to an average 693,000 bpd in fiscal 2009 after reaching a peak of over 2 million bpd in 1988. The decline rate will fall to 3.6% per year on average through 2030. For the current fiscal year, which ends June 30, the state Department of Revenue has forecasted an average production rate of 659,000 bpd.

Marathon Oil Corp said its proven reserves increased more than 40% last year amid a change in regulations regarding the reporting of its Canadian oil sands reserves and increased investment in its Bakken oil program and deep water developments. Marathon increased its reserves by 674 million barrels of oil equivalent compared with output of 149 million barrels.

BP Plc and Russia's OAO Rosneft have returned a license for the East Shmidt block at their joint Sakhalin-5 development project in Russia's Far East. The two companies concluded that further exploration at the block was not economically justified.

OPEC's news agency reported that OPEC's basket of crudes increased by \$1.34/barrel to \$73.06/barrel on Tuesday.

### **Market Commentary**

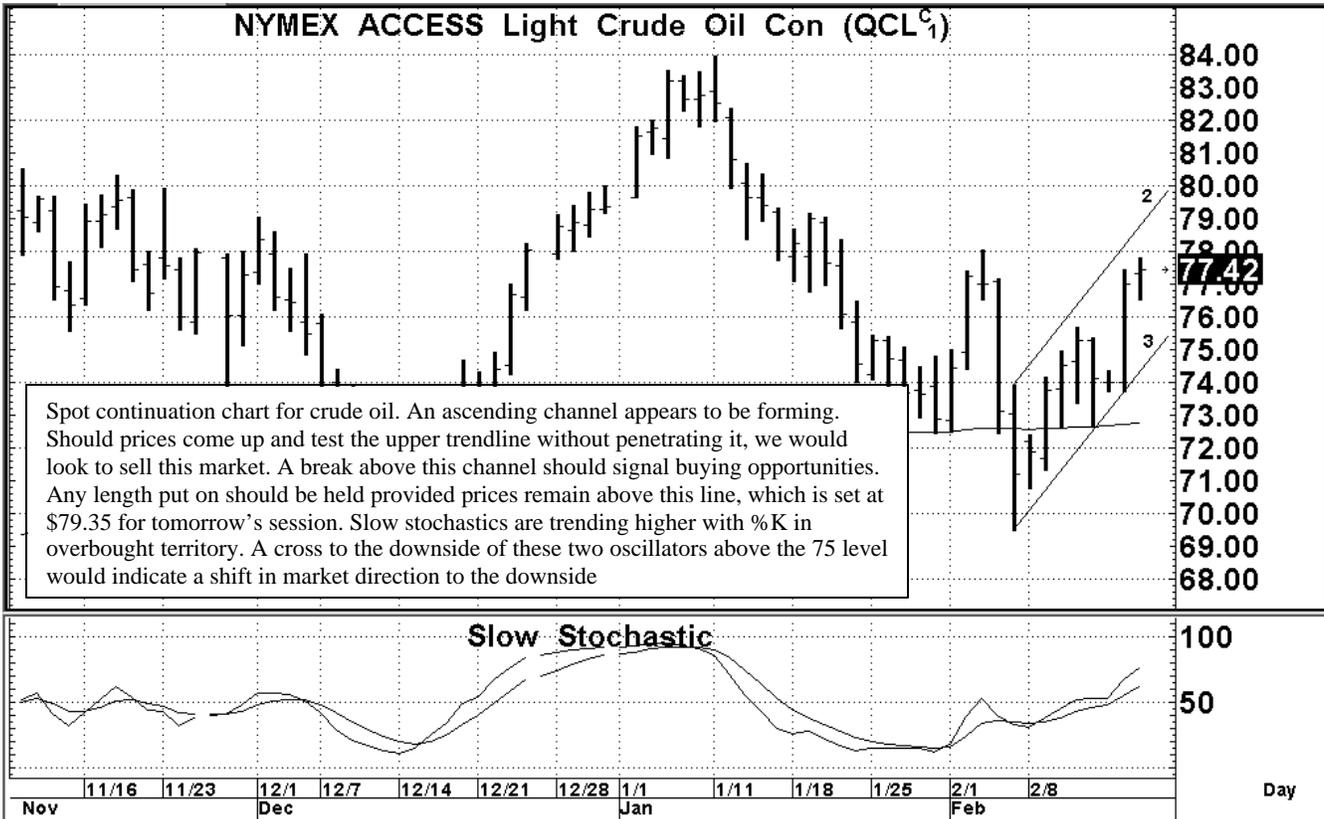
Taking its cue from the dollar and equities markets, crude oil seesawed up and down. Despite the strong dollar, crude oil gained as it responded to promising economic data. U.S. manufacturing gained 1%, with new home construction up 2.8% from December. Market participants viewed this news as positive for an economic recovery. In the past, crude oil and the dollar have traded in opposite directions as investors move back and forth between the equities and commodities markets. Also affecting prices was the expiration of the March crude oil options. Barring any surprises by the inventory numbers, we would look for prices to continue higher based on the technical outlook. Expectations are calling for an increase of 1.9 million barrels in crude oil stocks, a decrease of 1.6 million barrels in distillates and a rise in gasoline inventories of 1.6 million barrels. Crude oil continues to trade technically higher, working towards the \$78.43 Fibonacci 61.8% retracement level. Should prices fail to trade above or experience a lack of follow through at this level, sellers will enter the market.

The API reported a small draw in crude stocks of 63,000 barrels on the week. It reported draws of 1.193 million barrels and 2.066 million barrels in Padd 2 and 5, respectively, while crude stocks in Padd 3 built by 3.879 million barrels. It reported the draw in crude stocks as crude imports fell by 336,000 barrels to 8.039 million bpd on the week. Also crude stocks fell as crude runs increased by 291,000 bpd to 13.576 million bpd on the week. The API reported that distillate stocks built by 1.283 million barrels on the week, with a build of 918,000 barrels in Padd 3 and 746,000 barrels in Padd 1. It reported the build in stocks as apparent demand fell by 15.7% on the week and by 29.8% on the year to 3.337 million bpd while apparent demand basis its three week moving average fell by 9.1% on the week and by 17.1% on the year to 3.771 million bpd. It also reported that imports increased by 98,000 bpd or 37.5% on the week to 359,000 bpd while production fell by 316,000 bpd or 9.1% to

3.161 million bpd. The API showed that gasoline stocks built by 1.428 million barrels, with a build of 623,000 bpd in Padd 2. Gasoline stocks built as apparent demand fell by 4.5% on the week and by 7% on the year to 7.946 million bpd while apparent demand basis its three week moving average fell by 3.5% on the week and by 4.8% on the year to 8.487 million bpd. It however showed that gasoline production fell by 266,000 bpd to 8.008 million bpd while imports fell by 126,000 bpd or 47% to 142,000 bpd.

Crude oil MAR.10 -35,538 Apr. 10 241,823 -510, May 10 151,487 +1,695 Totals 1,301,624 -31,820,  
 Heating oil MAR.10 53,705 -5,042 APR10 55,330 +1,042 May 10 36,475 -401 Totals: 300,777  
 Gasoline MAR.10 43,910 -4,315 APR10 61,799 +1,830 May 10 40,648 -51 Totals: 255,823 -2,375

<b>Crude Support Based on February</b>	<b>Crude Resistance Based on Feb</b>
76.72, 75.00, 72.60, 71.31, 70.42, 69.50, 65.05, 64.70, 63.38, 62.70, 61.61, 60.95	78.43 79.35, 81.00, 82.00, 84.83, 85.40, 86.60, 88.80, 89.88
<b>Heat Support</b>	<b>Heat resistance</b>
1.9975, 1.9870, 1.8570, 1.8280, 1.7670, 1.7565	2.0125, 2.0574, 2.0665, 2.2270, 2.2575, 2.4200
<b>Gasoline support</b>	<b>Gasoline resistance</b>
1.9970, 1.9862, 1.8650, 1.85.65, 1.7900, 1.7200 1.6600	2.0420, 2.0660,2.0846, 2.1930, 2.2270, 2.3350,



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