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## ***ENERGY RISK MANAGEMENT***

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### **ENERGY MARKET REPORT FOR FEBRUARY 18, 2011**

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Egyptian authorities approved the passage of two Iranian warships through the Suez Canal. Egypt's Foreign Ministry had been told the vessels did not carry military equipment, nuclear or chemical contents.

Meanwhile, the US said it is monitoring the possible transit of two Iranian warships through the Suez Canal.

#### **Market Watch**

The Economic Cycle Research Institute said its Weekly Leading Index fell to 129.5 in the week ending February 11<sup>th</sup> from 130.2 the previous week. The index's annualized growth rate increased to 4.9% from 4.6% a week earlier, originally reported as 4.5%.

China increased its banks' reserve requirements for the second time this year. It increased the reserve requirement by 50 basis points.

China Association of Automobile Manufacturers said the country's auto sales in January increased by 13.81% to 1.89 million units. It reported that passenger vehicle sales in China increased by 16.7% to 1.53 million units in January.

The cost of insuring exposure to Bahrain and Saudi Arabia risk for a five year period increased to a 19 month high on Friday as violence erupted in Bahrain. The five year credit default swaps for Bahrain were quoted at 310 basis points after closing at 261 basis points on Thursday. Saudi 5 year CDS increased 15 bps to 140 bps while Dubai CDS increased by 19 bps to 437 bps.

Bahrain's top Shi'ite cleric said a police attack on protesters, which killed four people, was a massacre and added that the government has shut the door to dialogue. Bahraini troops shot at demonstrators as government crackdowns on protests turned increasingly violent. At least two people were killed in Yemen when security forces and pro-government loyalists clashed with crowds demanding an end to President Ali Abdullah Saleh's 32-year rule. Meanwhile, soldiers attempted to stop the unrest in Libya's city of Tripoli on Friday and opposition forces said they were fighting troops for control of a nearby town following crackdowns which Human Rights Watch said killed 24 people.

US President Barack Obama urged the governments of Bahrain, Libya and Yemen to show restraint in dealing with protests that have erupted in their countries.

The IEA's executive director Nobuo Tanaka said the world economy would suffer from sustained oil prices of \$100/barrel. He said an IEA analysis of the effects of higher oil prices shows that sustained prices of \$100/barrel or more would lead to comparable effects as the 2008 shock, when oil prices close to \$150 impacted the economy. On the positive side for consumers, he said OPEC has recently increased its output and is producing at close to the level sought by the IEA. Separately, an IEA official downplayed the risks to global oil markets from a major political disruption in Libya.

**February  
Calendar Averages**  
**CL – \$87.24**  
**HO – \$2.7382**  
**RB – \$2.4994**

Saudi Arabia's Finance Minister Ibrahim al-Assaf said the country is committed to its moderate policy that supports a stable crude market. He said the country's policy is aimed at achieving stability and a stable price, which would enable producers and consumers to achieve their goals.

Venezuela's Oil Minister Rafael Ramirez said the government is not planning any measures to ration fuel consumption in the country. His comments came just days after President Hugo Chavez said that the country needed to reduce domestic fuel consumption.

ICAP Shipping reported that crude oil stored in floating storage increased to 47 million barrels in the week ending February 18<sup>th</sup> from 45 million barrels in the week ending February 11<sup>th</sup>.

The API reported that US crude oil and petroleum product demand in January increased by 1.7% or 309,000 bpd on the year to 18.837 million bpd.

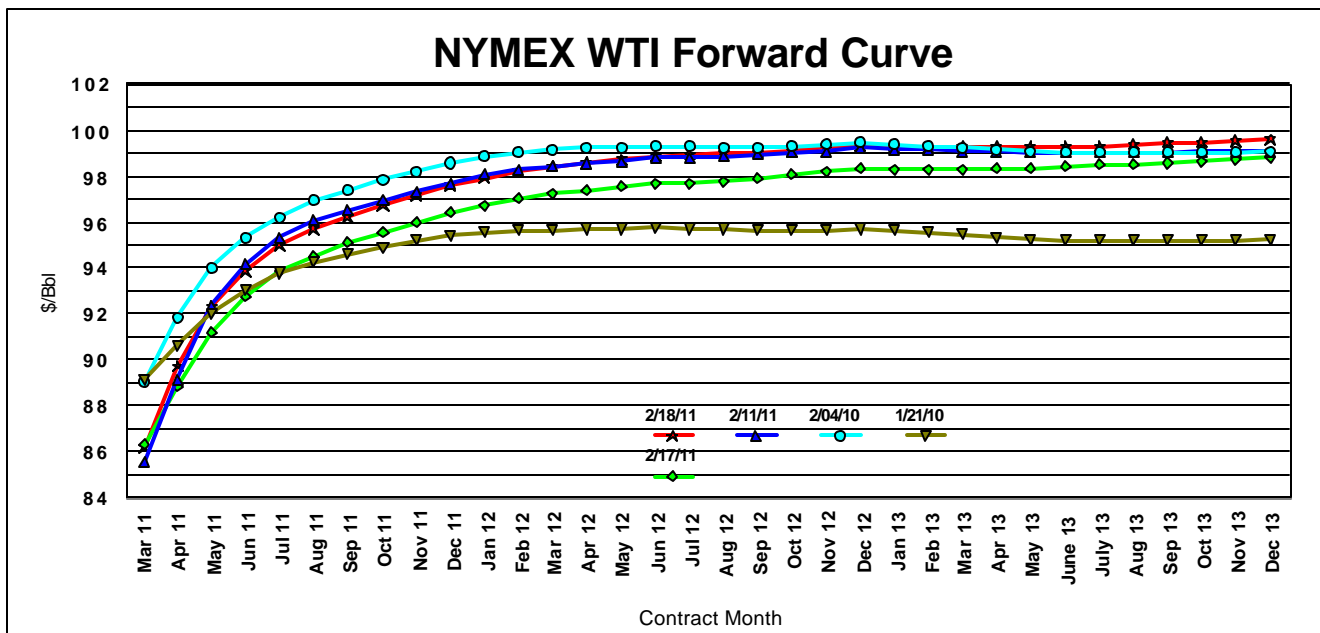
A panel of experts advising on how to avoid another flash crash said US regulators need to overhaul market structure and increase its supervision. The advisers offered 14 recommendations for the SEC and CFTC, including new proposals for fees to cancel trades and alternative trade routing requirements. They recommended the evaluation of the need for a second tier or pre-trade risk safeguards.

Iran's largest crude oil tanker operator NITC said its ship insurers had declined to renew policy cover for the coming year due to the impact of tightening sanctions in the EU.

Kystverket, the Norwegian coastal administration said emergency services stopped the leakage of oil from the grounded Icelandic cargo ship Godafoss off the coast of Fredrikstad, southern Norway. One of the containers on the ship contains 12 tons of dynamite however Kystverket does not see the explosives posing any danger. The cargo ship is carrying about 800 metric tons of heavy fuel oil or 204,800 gallons.

**Refinery News**

Enbridge Energy Partners LP announced that it is undertaking a reconfiguration of its North Dakota pipeline system to expand the capacity by 23,500 bpd from Minot, North Dakota to Clearbrook,



Minnesota. The North Dakota system mainline capacity was recently expanded by 51,500 bpd to 161,500 bpd through the Phase VI expansion, which started operations January 1, 2010. The reconfigured operating mode will have an overall capacity of 185,000 bpd.

Valero Energy Corp restarted a hydrocracking unit at its 171,000 bpd refinery in McKee, Texas. The unit is increasing its operations to planned rates.

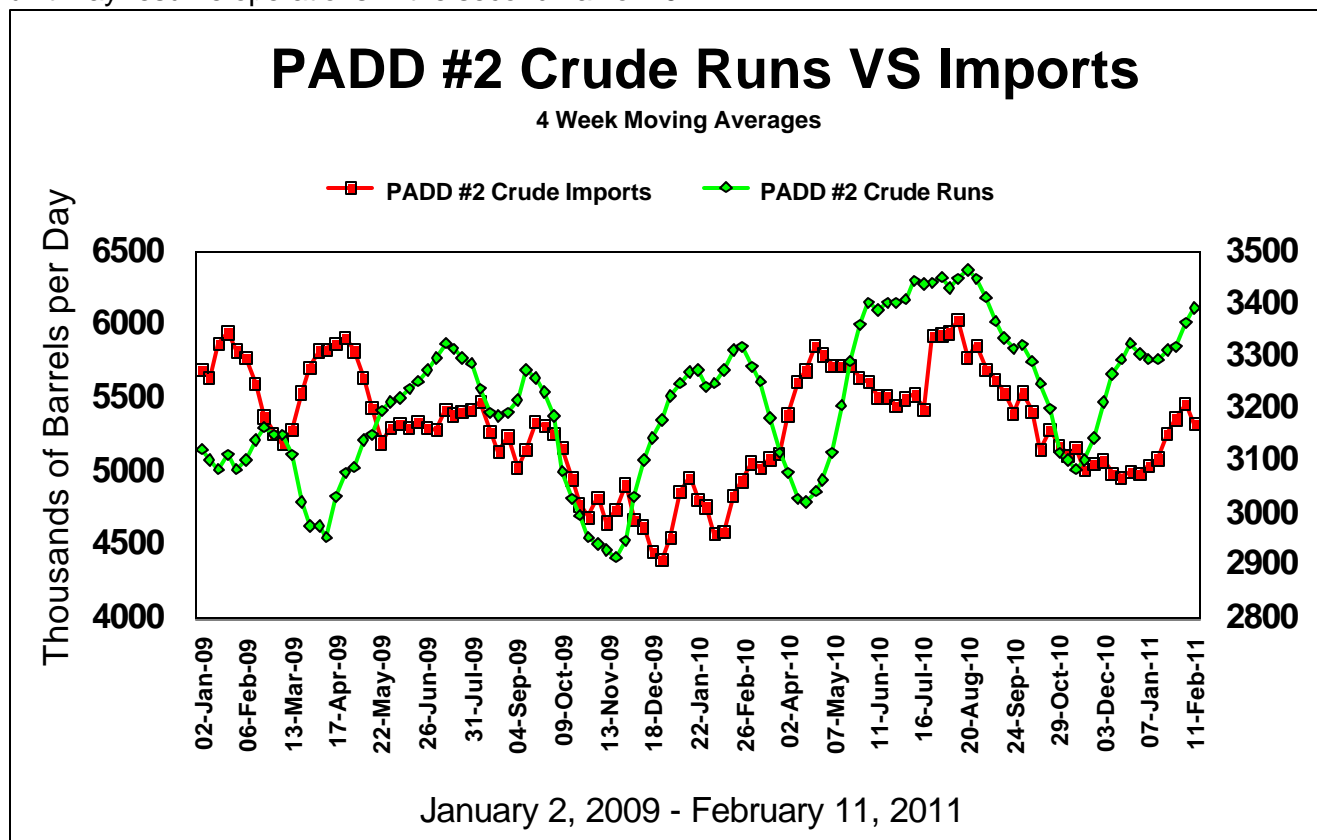
Chevron Corp had unplanned flaring Thursday at its 245,000 bpd refinery in Richmond, California. A mechanical upset caused flaring of sulfur oxide.

ConocoPhillips confirmed there was planned maintenance work underway at its 247,000 bpd refinery in Ponca City, Oklahoma starting. It is moving forward with a 23 day planned maintenance turnaround of its 20,000 bpd CRU 3 Semiregen/Cyclic Reformer and a 16,000 bpd HT 3 Reformer Feed Hydrotreater.

Tesoro Corp's 58,000 bpd refinery in Salt Lake City, Utah returned to targeted production levels. The refinery lost power due to high winds on February 16<sup>th</sup>.

Japan will receive its first crude oil delivery from Saudi Arabia on February 23<sup>rd</sup> at the Okinawa storage terminal. The terminal will receive a tanker with about 300,000 kiloliters or 1.9 million barrels of crude oil. Up to 600,000 kl of Saudi crude will be stored in the terminal.

Taiwan's Formosa Petrochemical Corp will skip term exports of 10 parts per million sulfur gasoil in 2011 due to a major fire in July that damaged its 80,000 bpd No. 2 residue desulfurization unit. The unit may resume operations in the second half of 2011.



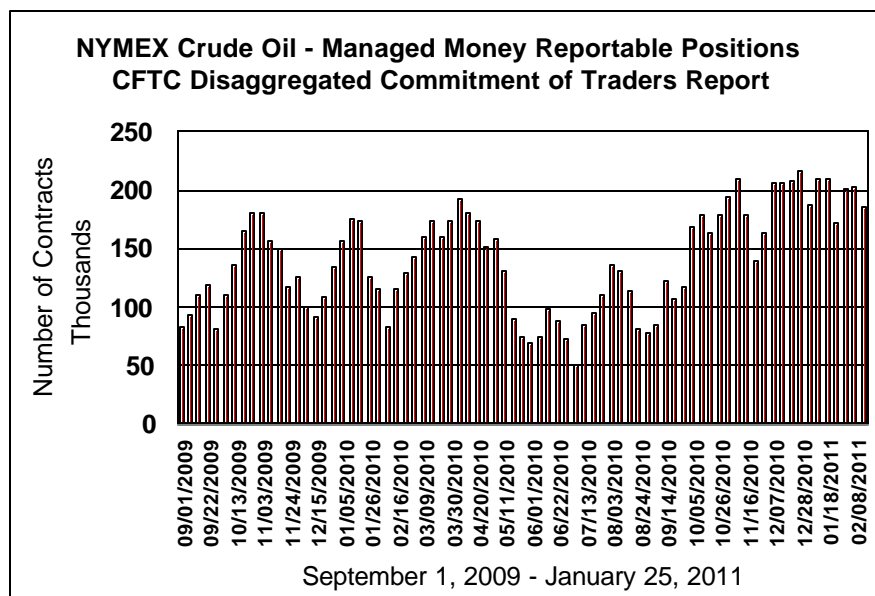
Japan's Ministry of Economy, Trade and Industry reported that the country's imports of naphtha as feedstock for ethylene in January increased by 6.1% on the year to 1.53 million metric tons. In January, Japan's ethylene production fell by 3.4% on the year to 647,100 tons.

China National Petroleum Corp and China National Aviation Fuel Group signed an annual agreement on jet fuel supplies. No details were provided on the agreement. China National Aviation Fuel sold 12.75 million metric tons of jet fuel in 2010, up 14% on the year.

**Production News**

Iraqi government and company officials said a steady increase in crude oil exports from Iraq's northern Kurdish region is increasing the country's overall exports to a record 2.16 million bpd in February, the highest level since the US led invasion in 2003. Exports from the semi-autonomous region resumed in early February at just below 10,000 bpd and are currently flowing at 75,000 bpd. Separately sources at Iraq's North Oil Co said crude production from oilfields in Iraqi Kurdistan has reached about 80,000 bpd. Kurdish production is expected to increase up to 100,000 bpd. Kurdish Natural Resources Minister Ashti Hawrami said production could reach 250,000 bpd by the end of the year.

Brazil's Petrobras said it restarted oil production at its Cherne II platform in the Campos Basin for a second time. Partial production was restored after regional labor authorities approved safety measures at the platform. The platform was initially shut on January 19<sup>th</sup> when a fire started in an oil-transfer valve and damaged equipment.



Cenovus Energy Inc reported that its total proven reserves increased by 19% to 1.7 billion barrels of oil equivalent as of December 31, 2010. It said its bitumen reserves were 1.2 billion barrels, up 33% on the year. It reported that production at the Foster Creek and Christina Lake oil sands projects in the fourth quarter increased by 12% to 60,789 bpd. It expects production of 56,000 bpd net from Foster Creek and 16,000 bpd from Christina Lake this year. It also stated that it is targeting closing a joint venture deal by the end

of the year.

**Market Commentary**

Crude oil worked higher for most of the session, topping the week at \$87.88. A round of profit taking came in, pressuring prices ahead of the three-day holiday weekend, leading to a new session low of \$85.65. Rising tensions in the Middle East continue to ignite concerns that supplies from that region would be impacted. The difference between the spread in WTI to Brent narrowed to -\$12.26 a barrel based upon the April contract. Brent has climbed higher for four weeks in a row, as demand for distillate out of Asia remains strong. Although we may see the gap between the two narrow on profit taking, Brent could easily maintain its premium against the WTI for quite some time due to demand from Asia remaining strong. With the failed attempt of crude oil to settle back within the ascending

channel on a weekly spot continuation chart for the second straight week, we would look for prices to begin the week on a lower note, working back into a previous congestion area between \$85.00 and \$80.00.

The Commitment of Traders' combined futures and options report showed that non-commercials in the crude market cut their net short position by 6,137 contracts to 229,596 contracts in the week ending February 15<sup>th</sup> as the market traded lower. Meanwhile, the disaggregated futures and options report showed that managed money funds cut their net long position by 17,147 contracts to 185,236 contracts on the week. It showed that producer/merchants increased their net short position by 14,480 contracts to 208,950 contracts while swap dealers cut their net short position by 21,701 contracts to 78,364 contracts on the week.

Crude oil: Mar 11 90,287 -20,500 April 11 276,260 +7,686 May 11 179,133 +6,734 Totals 1,531,205 -12,926 Heating oil: Mar 11 51,642 -9,594 Apr 11 78,104 +2,612 May 11 42,556 +1,000 Totals 321,793 -3,968 Rbob: Mar 11 41,319 -3,127 Apr 11 76,506 +2,936 May 11 49,204 -503 Totals 284,402 -430

Crude Oil		Heating Oil		Rbob	
Support	Resistance	Support	Resistance	Support	Resistance
				24240	25680
8387	8790	26680	28040	23690	27085
8231	8835	23685	29500	22560	
8180	8955	22960	30955	22050	
8000	9385	22013		21600	
7984	9776	21860		20300	
7900	103.85	21140		20130	
7598	111.65	20702			

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