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## ***ENERGY RISK MANAGEMENT***

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### **ENERGY MARKET REPORT FOR FEBRUARY 22, 2010**

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Algeria's Energy Minister, Chakib Khelil, does not expect any change in oil output quotas when OPEC meets on March 17<sup>th</sup>. Most OPEC ministers have already stated that they expect the group to keep output steady as prices have stabilized at a level generally deemed acceptable at about \$70/barrel.

#### **Market Watch**

The National Weather Service forecast that US heating demand this week is expected to be 8.9% above normal. Demand for heating oil this week will average 2.2% below normal while heating demand for natural gas this week will average 8.7% above normal. Heating oil demand last week was 2.9% below normal compared with a forecast for 1.2% above normal while heating demand for natural gas was 6.7% above normal compared with a forecast for 8.2% above normal.

Goldman Sachs said benchmark oil prices will increase to \$85-\$95/barrel this year as world economic growth accelerates, up from the low \$70 to low \$80/barrel range since October last year. It said positive economic news from the US and Japan has already increased prices this year and a tighter supply-demand balance will draw OPEC spare capacity back into the market. It however said that refining margins are likely to remain under pressure because of large increases in Asian capacity.

Ships are sailing partly loaded on the German sectors of the Danube and southern Rhine River in Germany due to low water levels.

Iran's OPEC governor Mohammad Ali Khatibi said using an oil price of \$60/barrel in the country's annual budget is reasonable and defensible. He said that while world oil demand fell in 2009 it is expected to increase in 2010 and prices are expected to increase in the second half of 2010 and increase over the previous year's average.

US Energy Secretary Steven Chu said oil price swings are more of a concern for the US than the outright price during a visit with Saudi Arabia's Oil Minister Ali al-Naimi. He however declined to comment on what decision he believed OPEC should take when it meets to discuss oil policy next month. He said the US planned to review the role of financial institutions in oil price swings. US Energy Secretary Steven Chu is scheduled to meet the UAE's and Qatar's Oil Ministers on Wednesday and Thursday, respectively.

The EIA reported that the US retail average price of diesel increased by 2.8% or 7.6 cents to \$2.832/gallon in the week ending February 22<sup>nd</sup>. The rise was the first after five weeks of declines that totaled 12.3 cents. It also reported that the US retail price of gasoline increased by 4.7 cents to \$2.655/gallon on the week.

**February  
Calendar Averages**  
**CL – \$75.74**  
**HO – \$1.9781**  
**RB – \$1.9804**

According to the Lundberg survey, the US average price of gasoline fell by 3.29 cents to \$2.63/gallon in the last two weeks ending February 19<sup>th</sup>.

Israeli Prime Minister Benjamin Netanyahu renewed his call for the international community to impose an oil embargo on Iran over its nuclear program, regardless of the UN Security Council. He said no other sanctions

will be effective.

The US said Iran's plan to build two new uranium enrichment plants is further evidence it rejects diplomatic engagement with the international community.

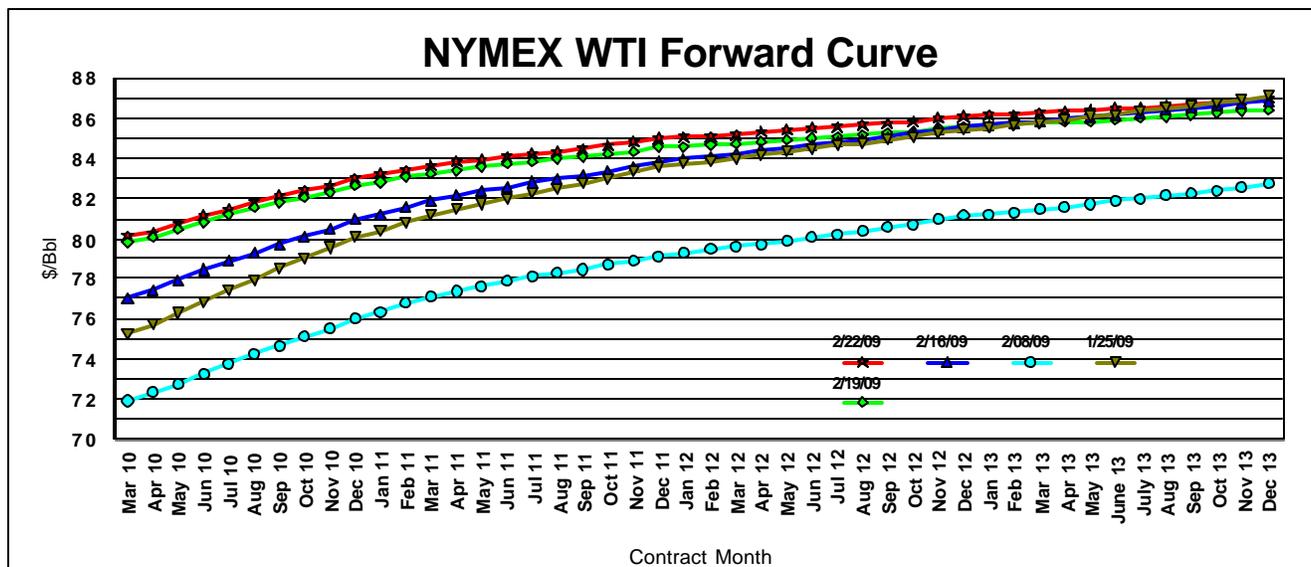
**Refinery News**

Total SA said that management will resume talks with union representatives on Tuesday morning. Talks ended with no agreement on Sunday as unions walked out after Total's management told union representatives it would stop refining activities at its Flanders refinery, near Dunkirk. The Flanders refinery has been shut since September 15<sup>th</sup> due to weak European product demand and lower refining margins. The CGT union called for a strike to spread to all French refineries. It said operations at Total's Grandpuits refinery, its Gonfreville refinery and its La Mede refinery will stop on Tuesday while output at its 230,000 bpd Donges refinery will stop in the next 12 hours. Meanwhile, unions representing workers at ExxonMobil's French refineries are currently in talks with management and so far have not decided whether to take industrial action. Workers at the 207,000 bpd Lavera refinery voted for an open ended strike starting on Wednesday. France is not yet considering tapping into its strategic fuel stocks to cope with a six day refinery strike. The French petroleum industry body UFIP said France has about 7 days of fuel supply left before the country faced a shortage.

The UK Milford Haven Port Authority said late Monday that talks to avert a strike by the Unite trade union, which would shut the port from February 23<sup>rd</sup>, were continuing. Ship pilots are planning a 12 hour strike on Tuesday. The workers would follow up with an indefinite work-to-rule period, which would halt large oil and liquefied natural gas tankers from arriving at the port in south Wales.

Credit Suisse reported that US refinery margins were mixed last week, with the Midwest region posting the highest gain on higher middle distillate fuel prices. Margins in the Midwest increased by \$2.62/barrel to \$5.38/barrel while margins in the Gulf Coast increased by 88 cents to \$6.58/barrel. Margins in the West Coast also increased by 87 cents to \$10.20/barrel while margins in the East Coast fell by 4 cents to \$7.76/barrel and margins in the Rockies region fell by \$2.66 to \$12.95/barrel.

ExxonMobil Corp's 344,000 bpd Beaumont, Texas refinery shut a crude distillation unit on Friday for



planned work. The company said the impact to production will be minimal and all of its customers' needs will be met.

Delek US Holdings reported repairs to the blowers on the fluid catalytic cracking unit's flare at its 60,000 bpd Tyler, Texas refinery overnight on Friday. Repairs were completed and the blowers were restarted.

Sunoco Inc will start planned maintenance on its 98,000 bpd fluid catalytic cracking unit and its 12,000 bpd alkylation unit at its 178,000 bpd refinery in Marcus Hook, Pennsylvania on February 26<sup>th</sup>.

Suncor Energy began restarting a number of units at its 135,000 bpd Edmonton, refinery in Canada following an incident last week that had cut hydrogen and steam production.

Venezuela's PDVSA shut two small units at its 187,000 bpd Puerto La Cruz refinery for 10 days of planned maintenance. It shut its 38,000 bpd No. 3 distillation unit and its continuous catalytic reformer. The refinery was operating at 183,000 bpd ahead of the maintenance shutdown.

India's Mangalore Refinery and Petrochemicals will shut its diesel hydro desulphurization unit for up to 35 days starting on Friday for revamp, which will allow it increase the capacity of its 1.4 million ton/year diesel unit by 30% and to produce superior quality diesel.

China Petroleum and Chemical Industry Association reported that the country processed 30.14 million tons or 7.1 million bpd of crude in January, up 29% on the year. The country's refined products output increased by 24.4% on the year to 18.6 million tons.

Total stocks of gasoline, diesel and kerosene held by China's top two oil companies in January increased by 3% on the month as domestic sales fell by 6%. Gasoline stocks fell by 4% while diesel stocks increased by 7%. Gasoline sales increased 8% in January while diesel sales fell by 11%. Commercial crude stocks in January increased to 26.8 million tons while refined products stocks stood at 18 million tons, with 6.63 million tons of gasoline, 9.53 million tons of diesel and 1.62 million tons of kerosene.

The managing director of the National Iranian Refining and Distribution Co said Iran hopes to increase its domestic gasoline production with new refinery facilities due to come on line this year. He said a cat cracker project at Abadan oil refinery and the first phase of Shazand oil refinery in Arak will be commissioned next year. The two facilities will increase gasoline production by 11.6 million liters/day.

Nigeria plans to ship at least 12 cargoes of Qua Iboe crude in April as part of its monthly loading program.

### **Production News**

Maersk Oil said that DUC oil and condensate production in January totaled 230,300 bpd, down from 230,900 bpd in December and 241,100 bpd in January 2009.

Norway's Troll crude stream is scheduled to load about 213,000 bpd or 6.6 million barrels in March, down from 236,000 bpd in February.

Iran has reached an agreement with a Malaysian firm to carry out further development at the Resalat offshore oil field to increase its production. Development at the field will take 42 months to complete and increase Iranian Light crude production by 10,000 bpd to 47,000 bpd.

OPEC's news agency reported that OPEC's basket of crudes increased to \$75.17/barrel on Friday, up from \$74.49/barrel on Thursday. It also reported that OPEC's basket of crudes increased by \$3.20/barrel to \$73.75/barrel in the week ending February 19<sup>th</sup> from \$70.55/barrel during the previous week.

**Market Commentary**

The energy markets were higher again today in response to continued strikes at Total SA refineries in France. Limiting the upside potential was a stronger dollar, which makes the appeal of commodities as a hedge less appealing. The dollar gained on reports that the European Union had denied plans to bail out Greece. The refinery strikes and lower runs in the U.S. have been supportive for both the heating oil and gasoline markets, which have been suffering from demand destruction. With refining runs in the U.S. running below 80%, stockpiles of both products should begin to show signs of draws. Crack spreads for both products continued to gain in response to the aforementioned fundamentals. The April crude oil contract held just below the resistance level of \$80.96. An ascending channel has formed on the daily bar chart for April and will come into tomorrow's session set between \$81.57 and \$77.10. Slow stochastics are set high in overbought territory and are giving a slight hint of crossing to the downside. We would look for prices to continue to trend within this channel, working more towards the top up of the channel until the release of the DOE numbers. We would look to sell any failed attempts to trade above the channel top and buy successful ones, waiting to get a clearer picture of the supply/demand situation on Wednesday.

Crude oil MAR.10 27,761 -25,359 Apr. 10 270,598 +15,038, May 10 157,866 +1,674 Totals 11,297,516 +5,875 Heating oil MAR.10 38,071 -4,300 APR10 66,864 +5,594 May 10 37,887 +384 Totals: 301,289 +1,724 Gasoline MAR.10 35,001 -3,413 APR10 70,575 +5,832 May 10 42,107 +848 Totals: 258,415 +3,914

<b>Crude Support Based on February</b>	<b>Crude Resistance Based on Feb</b>
79.35, 78.71, 76.72, 75.00, 72.60, 71.31, 70.42, 69.50, 65.05, 64.70, 63.38, 62.70, 61.61, 60.95	, 81.00, 82.00, 84.83, 85.40, 86.60, 88.80, 89.88
<b>Heat Support</b>	<b>Heat resistance</b>
2.0125, 1.9975, 1.9860, 1.8570, 1.8280, 1.7670, 1.7565	, 2.2270, 2.2575, 2.4200
<b>Gasoline support</b>	<b>Gasoline resistance</b>
2.0660, 2.0420, 1.9970, 1.9862, 1.8650, 1.85.65, 1.7900, 1.7200 1.6600	2.1930, 2.2270, 2.3350,

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