

**W** The  
Windham Group



## ***ENERGY RISK MANAGEMENT***

Howard Rennell, Pat Shigueta,  
& Karen Palladino  
**(212) 624-1132 (888) 885-6100**

**www.e-windham.com**

---

### **ENERGY MARKET REPORT FOR FEBRUARY 23, 2011**

---

Libya's oil production has been cut by as much as 25% due to unrest in the country. Austria's OMV said it may completely shut down its production in Libya. The company produced about 33,000 bpd of oil equivalent in 2010. Total, Repsol, Eni and BASF have also stated that they are either cutting or shutting in production. Germany's Wintershall halted its oil production in Libya. BP Plc said it evacuated all family members of staff from Libya while the rest of its employees in the country would leave the country soon. The company has about 140 staff members in Libya. Occidental Petroleum Corp evacuated all of its expatriate employees and their families from Libya on Wednesday. Libya produces 1.6 million

#### **Market Watch**

The Mortgage Bankers Association said applications for US home mortgages increased last week. It reported that its seasonally adjusted index of mortgage application activity, which includes both refinancing and home purchase demand, increased by 13.2% in the week ending February 18<sup>th</sup>. The MBA's seasonally adjusted index of refinancing applications increased by 17.8% while the index of loan requests for home purchases increased by 5.1%.

The International Council of Shopping Centers and Goldman Sachs reported that US chain store sales in the week ending February 19<sup>th</sup> increased by 2.6% on the week and by 3% on the year to 505.

The Labor Department said mass layoffs in the US increased in January. US employers in January had 1,534 mass layoffs, up 51 from the previous month on a seasonally adjusted basis. January's mass layoffs resulted in 149,799 lost jobs.

Nomura said oil prices could peak at more than \$220/barrel if Libya and Algeria both halted production as a result of spreading violence in the Middle East and North Africa.

Barclays Capital forecast that US crude oil prices are expected to increase to \$106/barrel by 2012 due to lower spare capacity, increasing global demand and increased sensitivity to political unrest. The bank ruled out the possibility that violent protests in the Middle East and North Africa would spread to Saudi Arabia but warned that significant political realignment in the region over the coming months would keep investors on edge.

Mercuria Energy Group said oil could reach a new record above \$150/barrel if unrest spreads across the Middle East. It said the potential equilibrium price for crude oil was close to \$100/barrel, between \$90 and \$110/barrel.

Bank of Japan Deputy Governor Hirohide Yamaguchi said that the central bank will closely watch the impact of recent commodity price rises on Japan's economy.

Euro zone industrial new orders unexpectedly increased in December. The European Union's statistics office, Eurostat, said industrial new orders in the Euro zone in December increased by 2.1% on the month from November for an 18.5% year on year gain.

Saudi Arabia's King Abdullah returned to the country after spending three months abroad for medical treatment.

Dow Jones Indexes said total investment tracking the Dow Jones-UBS commodities indices increased to \$62 billion at the end of 2010 from about \$59 billion at mid-year.

The American Trucking Associations' advance seasonally adjusted For-Hire Truck Tonnage Index increased by 3.8% in January after increasing a revised 2.5% in December last year. Year over year, the index increased 8%.

**API Stocks**

**Crude** – up 163,000 barrels  
**Distillate** – down 534,000 barrels  
**Gasoline** – down 1.621 million barrels  
**Refinery runs** – down 2.5% at 78.1%

bpd of oil and exports about 1.3 million bpd, mainly to Europe. Meanwhile, all Libyan ports and terminals were temporarily closed due to the unrest.

The IEA's executive director Nobuo Tanaka said it will look to OPEC first to meet any loss of Libyan oil and would save its emergency stockpiles as a last resort. He said there was no shortage currently and that it was fear that caused a rally in crude oil prices above \$100/barrel. Separately, Venezuela's Oil Minister Rafael Ramirez does not expect an emergency OPEC meeting in the short term, despite the political turmoil in the Middle East.

European Union states are evacuating some 10,000 EU citizens from Libya. European Union governments are expected to meet on Wednesday to discuss imposing sanctions against Muammar Gaddafi's government. French President Nicolas Sarkozy called for Europe to suspend all economic ties with Libya and to adopt sanctions against the North African country, which is suppressing opposition protests. He called for immediate halt to the violence and a political dialogue to stop the developing tragedy. Meanwhile, Britain's Prime Minister David Cameron said the country would like to see a UN Security Council resolution condemning Libya's use of force against demonstrators. The Security Council reprimanded Libya's rulers on Tuesday for using force against peaceful demonstrators and called for those responsible for such attacks to be held accountable. The UN Human Rights Council said it would hold a special session on Friday to discuss the crisis. Separately, Spain condemned Libyan leader Muammar Gaddafi's use of force to quell the uprising as absolutely unacceptable and said he lost the right to lead the country.

The US said it was considering imposing sanctions on Libya to punish it for a crackdown on protesters. State Department spokesman P.J. Crowley said freezing Libyan assets, including those belonging to leader Muammar Gaddafi, was also a possible US response to the crisis.

Iranian President Mahmoud Ahmadinejad expressed outrage at what he said was unimaginable repression in Libya, urging world leaders to listen to their people.

Libya's Quryna newspaper reported that a Libyan air force plane crashed near the eastern city of Benghazi after its crew bailed out because they refused to carry out orders to bomb the city.

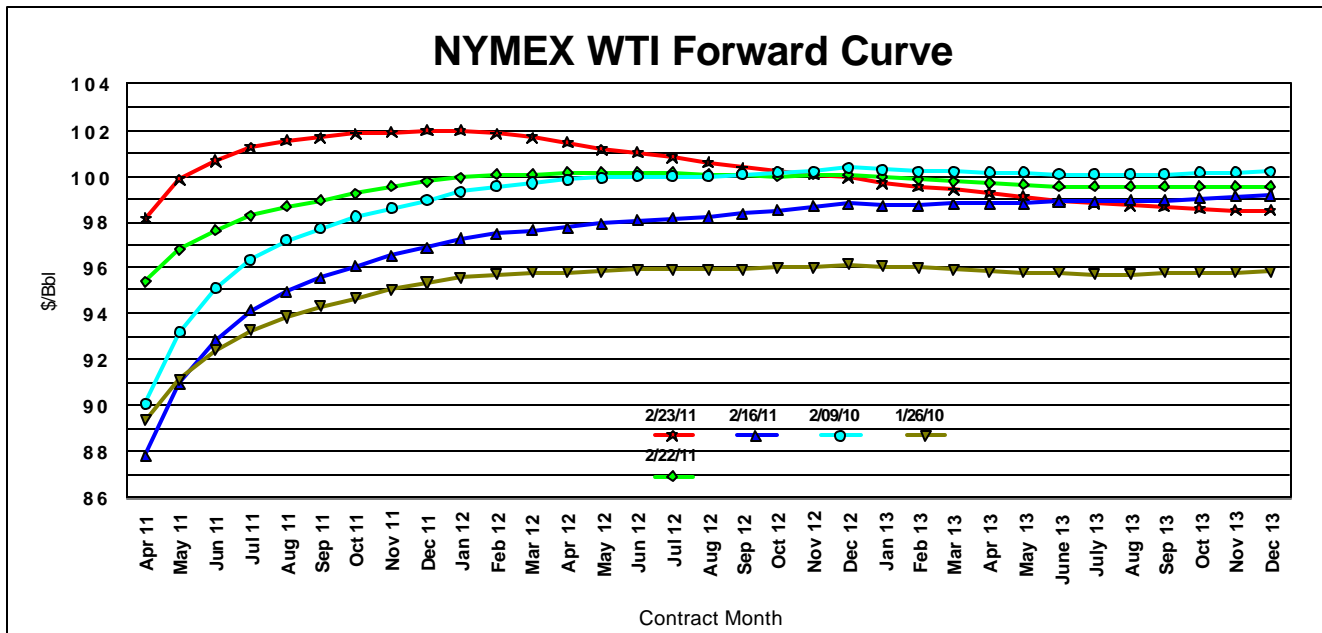
A Shi'ite opposition lawmaker said Bahrain started freeing political and other prisoners, including 23 accused of seeking to overthrow the Sunni Mulsim monarchy.

White House economist Austan Goolsbee said higher oil prices caused by unrest in the Middle East and Africa are not at a level where they would derail the US economic recovery.

According to a SpendingPulse report released by MasterCard Advisors LLC, US weekly gasoline demand increased by 4.5% or 381,000 to 8.847 million bpd in the week ending February 18<sup>th</sup>. Gasoline demand was up 0.8% from a revised year ago level. It reported that the four week gasoline demand averaged 8.757 million bpd, up 2.5% on the year. It reported that the US average retail price of gasoline increased by 2 cents to \$3.15/gallon.

Republicans in the House of Representatives announced a series of public hearings concerning permits to drill for oil off US shores. Interior Secretary Ken Salazar is scheduled to testify at a March 3<sup>d</sup> hearing while Michael Bromwich, head of the regulatory agency that oversees offshore drilling will testify before the committee on March 30<sup>th</sup>. On March 16<sup>th</sup>, the committee will hear testimony from states, communities and local businesses affected

**February  
Calendar Averages**  
**CL – \$87.66**  
**HO – \$2.7418**  
**RB – \$2.5063**



by a lack of permits in the Gulf of Mexico.

### **Refinery News**

Colonial Pipeline is allocating its Linden Delivery Line L2 for Cycle 10 because nominations on its line exceeded its ability to meet the 5 day lifting cycle.

The Houston Ship Channel has been closed since Tuesday afternoon due to heavy fog.

Italy's Unione Petrolifera said Italian oil refiners have no problems with supplies despite the political unrest in Libya.

Romania's Petrom plans to carry out maintenance at its Petrobrazi refinery in 2014 for a 30 day period.

The Iraqi Oil Ministry is expected to award this year a deal worth \$4 billion to build a refinery in Kerbala province, south of Baghdad.

Petroplus has no plans to sell more refineries in Europe and sees no major impact on its operations from Libyan oil supply disruptions.

China is expected to look elsewhere in Africa and the Mediterranean if Libyan crude exports fail due to the ongoing turmoil. Unipecc has failed to book two tankers for March loading Libyan crudes for delivery to China due to problems at loading terminals. Any disruption of Libyan crude delivery will however not have a major impact on China because it accounts for a small portion of its total imports. China imports about 150,000 bpd from Libya.

The Petroleum Association of Japan reported that the country's crude oil stocks in the week ending February 19<sup>th</sup> increased by 5.01 million barrels on the week and by 5.85 million barrels on the year to 93.92 million barrels. Japan's gasoline stocks increased by 190,000 barrels on the week but fell by 200,000 barrels on the year to 14.38 million barrels while kerosene stocks increased by 400,000 barrels on the week but fell by 1.06 million barrels on the year to 12.58 million barrels and naphtha stocks increased by 210,000 barrels on the week and by 3.77 million barrels on the year to 12.39 million barrels. The refinery utilization rate increased by 3.1% on the week and by 7.5% on the year to 88.6%. The PAJ also reported that the total oil product sales increased by 8.7% on the week but fell by 10.6% on the year to 3.3 million bpd.

## **Production News**

Iraq's Deputy Prime Minister Hussain al-Shahristani said Iraq expects to see its crude oil production reach 2.75 million bpd this year. He said exports from fields in the semi-autonomous northern Kurdish region reached between 60,000 and 70,000 bpd.

Saudi Aramco's move to set up a trading subsidiary for refined products is aimed at optimizing its production system. The main objective of Saudi Aramco Product Trading Co, expected to be operational by the end of the year, is to maximize profits by selling surpluses from its plants when prices are high and buying external cargoes for its requirement when they are low.

Indonesia's chief economics minister Hatta Rajasa said the government may further delay a plan to limit fuel subsidies for private cars from the end of March if oil prices remain high and the state energy firm is not ready.

Nigeria's state oil company increased the official selling price of its Qua Iboe crude and Bonny Light crude by 25 cents to a premium of \$2.15/barrel over Dated Brent.

## **Market Commentary**

As the rebellion in Libya heated up, crude oil prices rose to \$100 a barrel, its highest level in more than 2 years. With rebels taking control of the oil-rich eastern part of Libya, some 400,000 barrels per day of production was halted. Fear continues to mount that rebellions will spread across the Middle East, leading to severe supply disruptions. Eyes are on Saudi Arabia, with hopes that it will put more barrels on the market sooner than later, in an effort to make up for any shortfalls in supply. The April Brent/WTI spread widen from \$10.85 to \$12.58, Brent premium, as traders continued to place bets that supplies to Europe will be greatly impacted. As long as tensions remain and the risk of them spreading, fear will continue to drive this market, with some market participants anticipating \$150 a barrel. These shortfalls in supply are anticipated to most likely hit from the third quarter on back, which is evident in the shape of the forward curve. The December 11/December 12 crude oil spread traded in a range of -.35 to +\$3.18. It is apparent that market participants do not fear an immediate decrease in production but remain unnerved for future months. As mentioned in our previous wire, one should not step in front of this market as long as the situation overseas persists. We would continue to look for this market to trade higher in volatile trading activity.

Crude oil: April 11 300,882 +3,681 May 11 180,908 +1,060 June 11 139,533 +6,334 Totals 1,506,594  
Heating oil: Mar 11 32,234 -6,402 Apr 11 92,228 +7,274 May 11 43,675 +693 Totals 321,800 +4,351  
Rbob: Mar 11 32,306 -7,077 Apr 11 79,477 +2,219 May 11 50,421 +1,154 Totals 281,878 -1,791

Crude Oil		Heating Oil		Rbob	
Support	Resistance	Support	Resistance	Support	Resistance
9776					
8647		26680		25683	
8387		23685	29500	25145	
8231	103.85	22960	30955	24240	28793
8180	111.65	22013	31525	23631	29600
8000		21860	33510	23414	
7984		21140		22560	
7900		20702			

The information contained in this letter is taken from sources, which we believe to be reliable, but is not guaranteed by us as to accuracy or completeness and is sent to you for information purposes only. The Windham Group bases its market recommendations solely on the judgment of its personnel. Reproduction in whole or part or other use without permission is prohibited.