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## ***ENERGY RISK MANAGEMENT***

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### **ENERGY MARKET REPORT FOR MARCH 2, 2010**

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The oil minister of the UAE said today that global oil prices ranging between \$70-\$80 per barrel are acceptable to producers. He said, "...oil price stability has been achieved despite weakness in the global economy and unfavorable market conditions." He noted that current oil prices are suggesting that international oil markets were taking a long-term view and were providing producers with an incentive to continue investing in the oil sector. Meanwhile the Iraqi oil minister said Tuesday that he does not expect OPEC to change its output target at a meeting later this month.

MasterCard SpendingPulse report released today showed that U.S. retail gasoline demand rose 0.3% in the week ending February 26<sup>th</sup>, compared to the previous week. Gasoline demand was estimated at 9.385 mbd, up 1.1% from a year ago.

#### **Refinery News**

#### **Market Watch**

Russia's Foreign Minister Lavrov said today that diplomatic efforts to avoid imposing sanctions against Iran over its nuclear program were not yet exhausted, despite Russian President Medvedev saying Moscow was ready to consider new sanctions against Tehran. China meanwhile called for more talks with Iran to resolve the Iranian standoff

The IMF's Deputy Managing Director said today that global commodity prices are expected to rise slightly due to some demand from emerging market economies but a broad based price spike is unlikely. He looked for demand from China to slow this year given signs of policy tightening and inventory restocking has run its course.

The CEO of Total SA said today he sees oil prices falling in the \$90-\$100 per barrel range this year.

This coming Friday Chinese Premier Wen Jiabao is expected to lay out China's 2010 economic blueprint on Friday, which should give a roadmap on how China will gradually exit its crisis driven expansionary policies as inflationary risks rise and exports recover.

BP's CEO said today that he sees global refining margins will remain depressed in 2010.

President Obama today proposed rebates of up to \$3,000 to help homeowners pay for the cost of making their homes more energy efficient, as part of the administrations \$6 billion jobs program.

The CFTC reportedly has recommended enforcement action against the U.S. Oil Fund following a yearlong investigation relating to a large NYMEX crude oil trade made by the ETF in February 2009. The agency felt that enforcement action was necessary given the failure of the ETF's futures commission merchant to properly report certain trades relating to the February 6, 2009 roll. The ETF sold more than 85,000 oil futures for March delivery on February 6<sup>th</sup>, accounting for nearly a quarter of the market's open interest, and purchased nearly 78,000 contracts for April delivery. The U.S. Oil Fund said it was "vigorously contesting the proposed charges and has requested that the CFTC decline to bring any action against it." The spread that day posted a \$2.10 trading range versus an 84 cent daily trading range posted the day prior and the day after following the event.

CFTC Commissioner Michael Dunn said today that Congress should not create blanket exemptions from new rules designed to make trading of OTC derivatives more transparent. He aid the CFTC should be given the authority to exempt end users, companies that rely on hedging to spread their financial risk, from requirements to trade and clear standardized derivatives on a case by case basis. He felt that exempting a large class of transactions would mean dealers would have more risk on their books. If these dealers fail, this risk could affect the entire financial system.

Chevron reported minor flaring activity at its 242,901 b/d refinery in Richmond, California on Tuesday due to the loss of a processing unit.

#### **API Weekly Stats**

Crude Oil up 2.655 million barrels  
Distillate down 4.074 million barrels  
Gasoline up 909,000 barrels  
Refinery % Operated up 0.8% to 81.6%

Chile's state run oil company ENAP said on Tuesday the Aconcagua oil refinery will be operational next week after being shut due to this past week end's earthquake. The company declined to estimate when the Bio Bio refinery would be operational. The two refineries have a combined refining capacity of 227,000 b/d. The company though did delay a tender for crude to supply the refinery. Also a cargo of Ecuadorean Oriente crude oil bound for Chile has been re-offered for sale. The Chilean energy minister said the country is prepared to import more fuel if needed. The country has a normal diesel demand of 75,000 b/d. The state oil company said it had enough diesel inventories to last 10 days as well as enough gasoline stocks to last two weeks.

The Isla refinery on Curacao remained shut Tuesday due to a strike and power supply problems. The 320,000 b/d refinery leased and operated by PDVSA has been closed since early Monday following a power cut. Attempts to restart the plant have so far failed according to union leaders, which have begun an indefinite strike by 1,000 workers. Workers called the power supplies to the facility as in deplorable conditions and it makes the facility unsafe. PDVSA has been rumored to be considering closing the refinery in the near future and on Monday said if Curacao allowed the U.S to continue to launch military operations from the island against Venezuela, how could it support oil operations to continue on the island. Venezuela recent accused the U.S. of violating its airspace by planes based in Curacao.

Reuters reported this morning that Citgo had cut runs at its 167,000 b/d refinery in Lemont, Illinois after a problem was discovered at its crude unit last week. The unit is not expected back in service until later this week, as repairs are ongoing.

Sinclair Oil said today that its operations at its 80,000 b/d refinery in Sinclair, Wyoming are back to normal. Power outages in December had plagued the plant and reduced output through January and February.

ConocoPhillips 190,000 b/d Trainer refinery has moved back its full plant turnaround from the autumn of 2010 to the spring of 2011, according to state regulators.

Valero Energy said today that its FCC unit at its 250,000 b/d St. Charles refinery would be at planned rates when other units there are restarted.

India reported today that oil imports from April through January have cost \$63.97 billion, down 25.3% on the year.

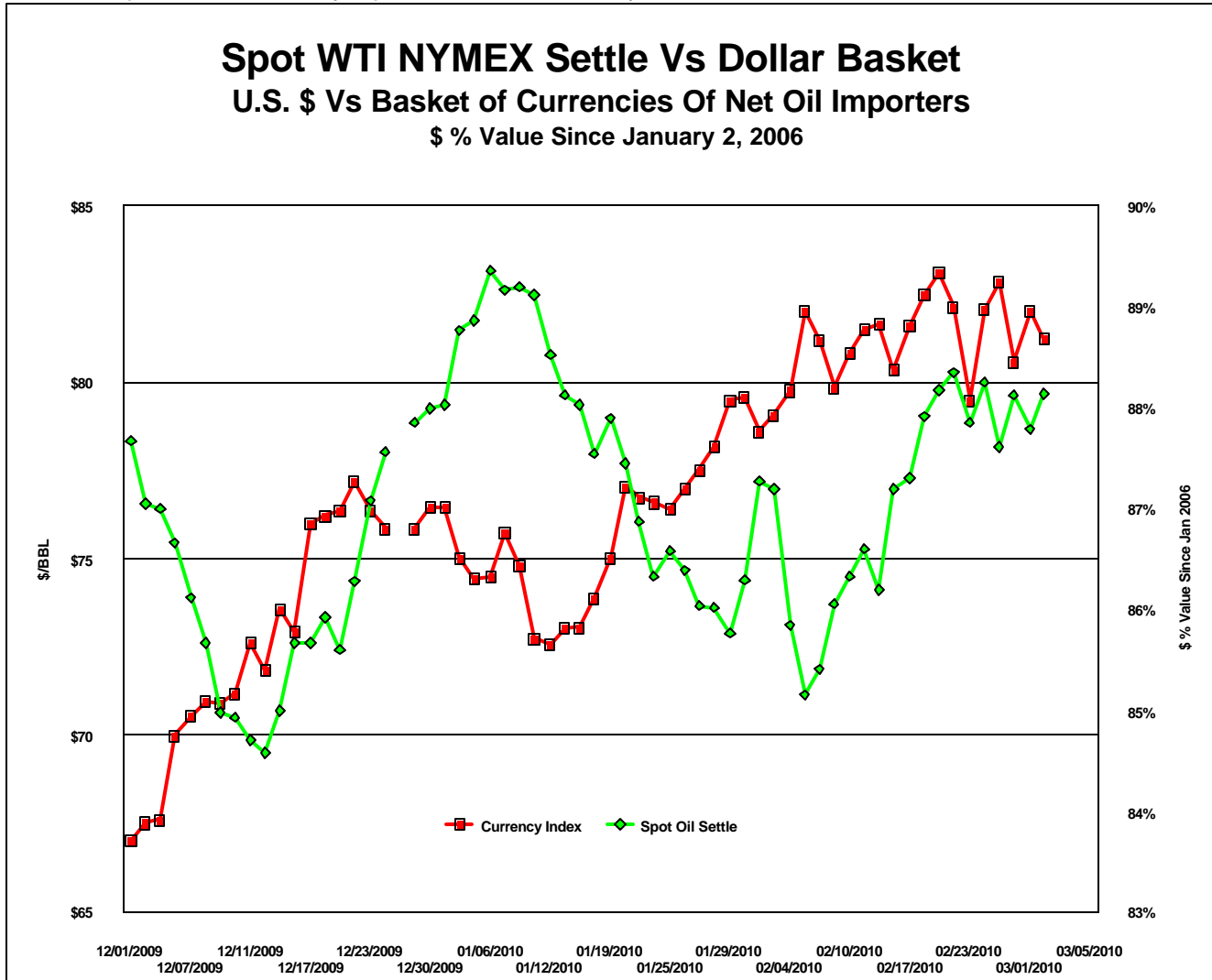
United Refining Company said on Tuesday that planned work on a reformer unit at its 70,000 b/d refinery in Warren Pennsylvania will be finished in about two days, with the plant back full operations by early next week.

#### **Production News**

Indonesia's crude oil production rose 1.1% in February from January, as a result of several wells returning to normal operations following completion of maintenance. February production reached 824,000,100 b/d. Crude production is expected to be higher in March as well.

Russian oil output in February reached 10.08 million barrels per day, up 40,000 b/d from January.

Saudi Arabia said today it was cutting its official selling price on most of its crude oil grades in April to customers in Asia and Europe. Asian prices were cut by 15 to 85 cents while European prices were cut by 30 cents to \$1.55 per barrel. The Saudis raised most prices of its crude grades to the United States by 10-15 cents per barrel. Saudi Aramco said Saudi crude production is still down compared to 2008 levels, having fallen in 2009. Oil drilling activities for production has declined, although exploration activities are increasing. The kingdom's 2008 production averaged 8.9 mbd. Recent estimates placed the country's production in February at 8.22 mbd.



Reuters reported that it estimates Nigeria will export at least 1.82 million barrels per day of crude oil in April and could see sales reach 2 million b/d if the Forcados crude stream pumps at recent production levels. This production field has been plagued by attacks by militant groups from time to time and has seen force majeure declarations on and off since 2006. Nigerian total exports in January, February and March have averaged 1.98 mbd, 1.95 mbd and 1.97 mbd respectively.

Mexico closed its Dos Bocas and Cayo Arcas oil ports on the Gulf of Mexico on Tuesday due to bad weather. The Coatzacoalcos/Pajaritos port remained open.

Kazakhstan said today that it is interested in seeing a new oil pipeline that would link the Caspian to the Black Sea, crossing the Caucasus. The country currently exports most of its crude through Russia but is looking to diversify exports as it ramps up output by launching the Kashagan field in 2013.

Meanwhile Kazakh and Russian oil exports via the Caspian Pipeline Consortium fell 10.3% to 713,400 b/d in February from January levels

**Market Commentary**

What appears to be a wave of fresh fund money has entered this market, pushing crude oil back above the \$80.00 level. The equities markets once again gave direction to the energy markets as hopes of growing demand circulated the market place. The crude oil market has been trading within the range of \$85.00 and \$70.00 since the beginning of the New Year and doesn't show signs of breaking out of this range. Despite its climb above the \$80.00 level, the April crude oil once again failed to settle above it. This is a sign of underlying weakness of a market that has been responding to outside news. Given the fact that crude oil has become somewhat of a financial instrument, we would look for it to continue to take its cue from the equities markets, with the true underlying fundamentals of this market rearing its head and adjusting prices accordingly. With regards to this, there is still ample supply of crude oil and weakness in demand. As we come into turnaround season, where refiners switch over from the production of distillate to the production of gasoline, we would look for crude oil inventories to grow, with slight draws on products. Prices should remain range bound, barring any drastic shift in fundamentals.

Crude oil Apr. 10 256,275 -3,499, May 10 163,805 +2,737, June 10 170,682 +2,879 Totals 1,279,332 +5,325 Heating oil APR10 76,774 -2,441 May 10 48,017 +1,879 June10 47,062 +1,879 Totals: 299,392 +1,181 Gasoline APR10 92,945 -1,518 May 10 52,333 +2,756 Jun10 36,108 +200 Totals: 263,761 +1,413

<b>Crude Support Based on February</b>	<b>Crude Resistance Based on Feb</b>
78.05, 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, 83.40, 84.83, 85.40, 86.60, 88.80, 89.88
<b>Heat Support</b>	<b>Heat resistance</b>
1.9975, 1.9860, 1.8570, 1.8280, 1.7670, 1.7565	2.0880, 2.1000, 2.2270, 2.2575, 2.4200
<b>Gasoline support</b>	<b>Gasoline resistance</b>
2.1320, 2.0660, 2.0420, 1.9970, 1.9862, 1.8650, 1.85.65, 1.7900, 1.7200 1.6600	2.1950, 2.2270, 2.3350,

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