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## ***ENERGY RISK MANAGEMENT***

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### **ENERGY MARKET REPORT FOR MARCH 7, 2011**

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A second air strike targeted Libyan rebels just east of the oil town of Ras Lanuf on Monday. Rebels unleashed a volley of return fire. An earlier air strike took place further away from a checkpoint, about two kilometers east of the town. Offering a potential olive branch to rebels seeking to end Muammar Gaddafi's rule, one of his associates appealed to opposition chiefs for talks. The offer was rapidly dismissed by rebels. The rebel National Libyan Council said there was no room for broad dialogue with the government of Muammar Gaddafi and any talks must be on the basis that he quits. Separately, a rebel spokesman said rebels in eastern

#### **Market Watch**

The US National Weather Service reported that US heating demand this week is expected to be 5.4% below normal. Demand for heating oil this week is expected to average 7.5% below normal while heating demand for natural gas is expected to average 5% below normal.

Atlanta Fed President Dennis Lockhart said if a further rally in oil prices appeared to be pushing the US economy into recession the Federal Reserve would have to respond by easing monetary policy further. He said increasing commodity prices have largely been driven by market fundamentals. Separately, Chicago Fed President Charles Evans said increasing prices for oil and other commodities are largely the result of the growing global economy and turmoil in the Middle East, rather than US monetary policy to maintain low interest rates.

Morgan Stanley has stopped trading oil with Libya. It cancelled all crude oil and refined products in the past week due to sanctions imposed against Libya by the US. Meanwhile, ConocoPhillips said it is in full compliance with US sanctions against Libya and is not exporting oil from that country. Also, ExxonMobil has stopped trading crude with Libya to comply with US sanctions. Marathon has also halted its oil trade with Libya.

A top IMF official said unrest in the Middle East and North Africa generated a fear factor that drove up oil prices and growth factors could be at risk if those gains were sustained.

Citigroup raised its price forecasts for Brent and WTI crude for 2011 and 2012 citing a stronger than expected first quarter and fear premium through the year on threats of continued output disruptions. Its new price estimate for 2011 Brent crude was \$105/barrel, up from \$90/barrel. It also increased its 2011 WTI crude price forecast to \$94/barrel from \$91/barrel. Similarly, it increased its 2012 Brent estimate to \$100/barrel from \$90/barrel and for WTI to \$95/barrel from \$91/barrel.

Commerzbank raised its second quarter forecast for Brent crude to \$120/barrel from \$93/barrel. It said a swift return to normality was unlikely after the unrest in Libya lifted prices to a 2-1/2 year high.

Investors in the US options market are making a record number of bullish bets on the US Oil Fund. Ahead of the crude futures' rally to a 2-1/2 year high, the number of outstanding call options to buy the exchange traded fund neared 1.2 million. Friday's most active contracts were April expiry \$49 calls that profit if the ETF gains 17% or more. The US Oil Fund increased 35 cents or 0.8% to \$42.68/barrel.

The European Commission remains committed with its target to reduce green house gas emissions by 20% by 2020.

Moody's cut Greece's credit rating by three levels due to an increased default risk, raising the prospect that the distressed euro zone sovereign may have to restructure its debt. The move increased pressure on euro zone leaders to ease repayment terms on bailout loans to Athens. Moody's Investors Services downgraded Greek debt to B1 from Ba1 and said it may cut it further.

**March**  
**Calendar Averages**  
**CL – \$102.73**  
**HO – \$3.0571**  
**RB – \$3.0179**

Libya fear the Libyan leader could attack the country's oilfields if the West did not seek to stop him with tactical air strikes. Later rumors circulated that Libya's leader was seeking an exit deal with rebels.

Libya's leader Muammar Gaddafi said Libya is an important partner for the West in containing al Qaeda and illegal migrants trying to reach Europe, in an apparent warning to governments planning sanctions. He has denied his security forces shot innocent people and on Monday repeated his assertion that the violence was orchestrated by al Qaeda. Meanwhile one of Muammar Gaddafi's sons, Saadi, said Libya would descend into civil war if his father stepped down. He blamed one of his brothers, Saif al-Islam who sought reforms before the unrest, for failing to address the problems of ordinary Libyans.

Libya's oil ports of Ras Lanuf and Brega were closed as violence in the area hampered operations at the terminals. A vessel left Ras Lanuf with over 500,000 barrels of crude on Saturday. Shipping sources said it was believed to have been the last cargo to have sailed from the port. According to traders and brokers, Libya has not imported gasoline in two weeks. Libya's National Oil Corp and its subsidiaries buy gasoline from Italian and Greek refiners with whom they have term contracts.

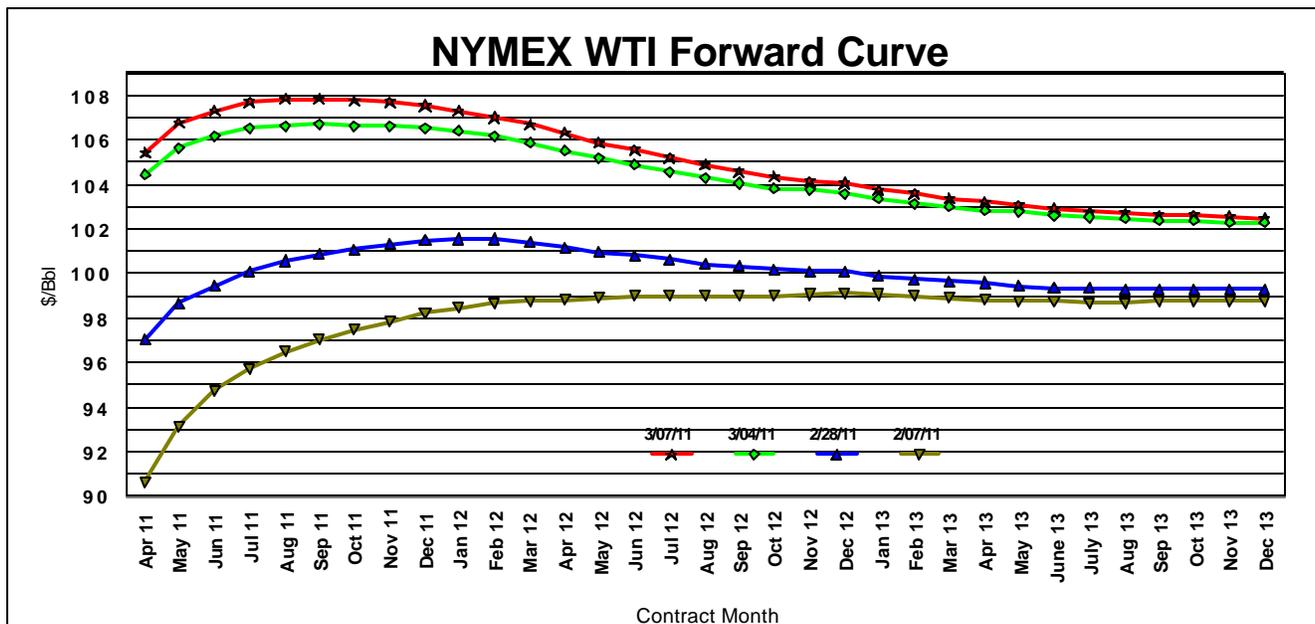
Qatar's Oil Minister Mohammed Al Sada said OPEC was evaluating the situation in Libya but added that the world oil market was well supplied. He said there was no shortage in production and supply.

An OPEC delegate said OPEC ministers are holding informal talks concerning oil prices and the Libyan crisis. The delegate however said the group was not planning to hold an emergency meeting. The next scheduled OPEC meeting is in June.

The IEA said a coordinated release of strategic oil stocks is not yet needed because the world oil supply disruption caused by an uprising in Libya remains limited. On Friday, the IEA estimated that 1 million bpd of Libya's crude oil production was shut in.

The US government reiterated that it could tap its strategic oil reserves in order to safeguard economic growth. The White House said no specific price point would trigger use of oil reserve.

North Atlantic Treaty Organization Secretary General Anders Fogh Rasmussen said attacks against civilians in Libya may amount to crimes against humanity. The UN said more than 1 million people fleeing Libya and inside the country needed humanitarian aid. The UAE called on the US Security



Council to protect the people of Libya. Separately, US President Barack Obama said that NATO was considering military options in response to the situation in Libya. He also vowed that loyalists to Muammar Gaddafi would be held accountable for perpetrating violence. The White House said another option that NATO would be involved in is enforcing UN mandated arms embargo on Libya. It also said that arming Libyan rebels is also among options under consideration but the US does not want to get ahead of events.

The Arab League supports imposing a no-fly zone over Libya to prevent Muammar Gaddafi's government forces from attacking rebels.

UK Foreign Secretary William Hague said the fighting in Libya risks becoming a protracted conflict as the UK and France prepare a UN resolution on imposing a no-fly zone over the country. He said supplies of food, fuel and medicine were running low and in Tripoli there were reports of hostage taking.

Japan is set to impose sanctions on Libya, including freezing assets of Muammar Gaddafi and several other Libyans, in line with a UN Security Council resolution.

Yemen's opposition coalition vowed to escalate protests demanding the resignation of President Ali Abdullah Saleh after he rejected a plan that would have him step down in 2011.

The EIA reported that the US average retail price of diesel increased by 15.5 cents/gallon to \$3.871/gallon in the week ending March 7<sup>th</sup>. It also reported that the US average retail price of gasoline increased by 13.7 cents to \$3.52/gallon on the week.

The Lundberg survey showed that US retail gasoline prices increased by 33 cents in the last two weeks to \$3.51/gallon.

The UN's IAEA said Iran needed to fully implement its binding obligations to establish international confidence that its nuclear program was exclusively peaceful. Last month, the IAEA said it received new information about allegations that Iran may be seeking to develop a nuclear armed missile.

### **Refinery News**

ExxonMobil said a hydrotreater and hydrogen unit at its 149,500 bpd refinery in Torrance, California were shut due to a power outage. It filed a report with the South Coast Air Quality Management District regarding unplanned flaring due to a breakdown. Separately, Exxon's 115,000 bpd Fos-sur-Mer refinery in France is expected to restart in about 10 days following planned maintenance, which started January 13<sup>th</sup>.

Citgo reported emissions due to excess seal pressure on the flare gas recovery system at its 429,500 bpd Lake Charles, Louisiana refinery.

The shutdown of a compressor at an unspecified process unit caused flaring on Friday at Tesoro Corp's 93,500 bpd refinery in Kapolei, Hawaii. There was no impact on the refinery's throughput or its ability to meet its local product supply commitments due to the compressor shutdown. Operations of its compressor were restored to normal late Saturday.

Production was not affected and no units were shut on Friday when BP Plc's 405,000 bpd refinery in Whiting, Indiana reported flaring.

Sunoco said it will shut down a fluid catalytic cracking unit at its 335,000 bpd Philadelphia, PA refinery for unscheduled maintenance that may last several weeks.

Marathon Oil Corp said that maintenance activity is underway at its 78,000 bpd oil refinery in Canton, Ohio.

China's Sinopec Jinling Petrochemical Corp plans to increase its refining capacity by a third by 2015 to 18 million metric tons/year or 361,000 bpd. It plans to keep its crude runs at its east coast refinery steady at its full capacity of 13.5 million tons or 270,000 bpd.

PT Pertamina may need to import 10.28 million kiloliters of gasoline this year to meet domestic consumption needs. It forecasts gasoline demand will total 22.05 million kl this year. Pertamina said it plans to import 4.23 million kl of high-octane gasoline and 2.86 million kl of high speed diesel. It is also importing 400,000 bpd of crude oil. It also said it planned to produce up to 4.47 million kiloliters of high octane gasoline by 2014 from 460,000 kl this year.

US shipbroker Poten & Partners said US exports of clean refined oil products in 2010 were 30% higher compared with 2009. It expects this year's exports to match, if not exceed, those of 2010.

### **Production News**

Turkish Petroleum Overseas Co, or TPOC, has evacuated its 13 foreign oil workers from Libya and put its Libyan oil exploration activities on temporary suspension amid escalating unrest in the country. TPOC does not currently produce oil and gas in Libya but it is a leading exploration company in the country and has been seen as a key player in increasing Libya's output in the years to come.

Colombia's Ecopetrol said workers repaired its 220,000 bpd Cano Limon-Covenas pipeline that was damaged in an attack. Engineers repaired the line on Saturday and began transporting 180,000 bpd to make up for a backlog in production following a bomb attack by suspected leftist rebels on February 25<sup>th</sup>.

The April loading program for Danish North Sea DUC crude oil is scheduled at 4.8 million barrels, down 600,000 barrels from March. It is equivalent to 154,839 bpd compared with 174,194 bpd in March.

Norway's Norwegian Energy Co said it produced 11,025 bpd of oil equivalents in February.

An official at Qatar's state-run Tasweeq said Qatar will increase production of condensate products as its exports of liquefied natural gas reach full capacity. Qatar is expected to export 12 million tons/year of liquefied petroleum gas in two years, up from 9 million tons/year in 2010 along with 8.3 million tons/year of naphtha in 2014, up from 6 million tons at present.

OPEC's news agency reported that OPEC's basket of crudes increased to \$111.42/barrel on Friday from \$110.48/barrel on Thursday.

### **Market Commentary**

Crude oil traded to its highest level since September 2008 in what was another choppy trading session. The April contract traded as high as \$106.95 prior to traders taking some profit off the table as they considered the possibility of the U.S. releasing oil from its strategic reserves. According to the IEA, the possibility of a release of reserves is not likely yet as the supply disruptions in Libya does not pose a significant supply threat at the moment. Should prices continue higher, the impact that they will have on the economy and the mind set of the consumer may force the release of reserves and the government is well aware of this. Traders have added to their bets that crude oil will continue to move higher as is evident in the June 11 \$200 call. Open interest in this strike has increased 258 percent

since February 24<sup>th</sup>, a clear indication that the overall mind set for this market is bullish. Prices should remain in an uptrend, with volatile moves as long as the situation in the Middle East continues.

Crude oil: April 11 275,563 -5,083 May 11 220,059 June 11 146,192 +3,684 Totals 1,568,095 +7,498  
 Heating oil: Apr 11 89,526 -1,865 May 11 52,639 +1,690 June 11 50,687 +124 Totals 307,984 Rbob:  
 Apr 11 85,291 -3,533 May 11 58,909 +1,823 June 11 35,488 +61 Totals 277,160 -293

Crude Oil		Heating Oil		Rbob	
Support	Resistance	Support	Resistance	Support	Resistance
103.39	10880	29300		30300	
9973	111.65	27980		28755	
9635		26680		26965	31970
9245		27375		26300	32450
9150		23685	31525	25683	35915
8772		22960	33510	25145	36310
8647		22013		24240	
8387		21860		23631	
8231		21140		23414	
				22560	

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