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## ***ENERGY RISK MANAGEMENT***

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### **ENERGY MARKET REPORT FOR MARCH 9, 2010**

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US Energy Secretary Steven Chu said oil will remain a key part of the world's fuel consumption for the coming decades. However he said society must develop cleaner ways to use it.

The chief economist of the IEA, Fatih Birol said that the era of cheap energy is over with oil supply unlikely to keep up with demand. He said China will be the main driver of world oil demand, which is expected to increase by about 1.5

million bpd this year. China will account for a third of the gain, with the rest split between Middle East oil producers and other developing countries. He said that with lower investment and declining production, even if world demand remains around 85 million bpd by 2030, about 45 million bpd worth of new oil would have to be found to compensate for falling output at existing fields.

The chairman of Libya's National Oil Co, Shokri Ghanem said no new decision is expected at OPEC's meeting next week. He said the current rise in oil prices is not based on supply and demand. He added that oil demand will increase later in the year but the market will see more volatility.

An Iranian Foreign Ministry official said Iran would consider a nuclear fuel swap with any supplier provided its conditions are met. The official said Iran's priority is to obtain fuel for a Tehran medical research reactor. Iran has stated that it would agree to a deal if guarantees are provided that the fuel would be shipped to the country in a timely manner. Separately, Iran's Interior Minister Mostafa Mohammad Najjar warned that Iran has great means of deterrence to face any possible attack over its nuclear program. He said Iran was working on strengthening relations with its Arab neighbors in the Gulf to ensure security and stability in the region.

#### **Market Watch**

The chairman of the Commodity Futures Trading Commission, Gary Gensler warned lawmakers against excluding some energy contracts from pending legislation. He said that exempting financial contracts overseen by the Federal Energy Regulatory Authority from pending over-the-counter derivatives legislation could create a significant and problem filled loophole in the future. He said the financial restructuring bill should ideally encompass a wide range of over-the-counter products and if jurisdictional issues arise between regulators, they can deal with it through cooperative agreements. FERC chairman Jon Wellinghoff, also scheduled to testify before the Senate energy committee, is expected to urge lawmakers to more clearly define jurisdictional boundaries. The US House version of the bill, which passed in December, would give the CFTC and the US Securities and Exchange Commission authority to control the swaps market. However FERC and some lawmakers believe the definition of a swap is much too broad and may apply to certain financial products and entities regulated by FERC and hinder its ability to police wholesale energy markets.

### API Stocks

**Crude** – up 6.5 million barrels  
**Distillate** – down 2.796 million barrels  
**Gasoline** – down 3.181 million barrels  
**Refinery runs** – down 0.7%, at 80.9%

Turkey's Prime Minister Recep Tayyip Erdogan said further sanctions on Iran over its nuclear program will not yield results. He added that earlier rounds of sanctions have never yielded results.

In its Short Term Energy Outlook, the EIA increased its 2010 forecast for oil demand growth to 1.5 million bpd from its previous estimate of 1.2 million bpd. World oil demand in 2010 is estimated at 85.51 million bpd, up 0.25% from its previous estimate. World oil demand in 2011 is expected to increase by 1.55 million bpd to 87.06 million bpd, which is up 0.23% from its previous estimate. The EIA reported that non-OPEC supply is expected to increase by 550,000 bpd in 2010 to 50.82 million bpd but fall by 90,000 bpd to 50.73 million bpd. It also expects OPEC's crude oil production to increase by 1.01 million bpd to 34.89 million bpd in 2010 and increase further by 1.07 million bpd to 35.96 million bpd in 2011. The EIA has revised its estimate of OECD commercial oil inventories at the end of 2009 downwards to 2.67 billion barrels or about 57 days of forward supply and about 63 million barrels more than the 5 year average. OECD stocks are expected to increase by 35,000 barrels to 2.705 billion barrels in 2010 but fell by 59,000 barrels to 2.646 billion barrels in 2011. The EIA also reported that US oil demand in 2010 will increase by 200,000 bpd to 18.89 million bpd, which is up 40,000 bpd from its previous forecast while demand in 2011 is expected to increase by 210,000 bpd to 19.10 million bpd, which is up 30,000 from its previous forecast. Gasoline demand in 2010 is estimated at 9.04 million bpd, up 50,000 bpd on the year but down 10,000 bpd from its previous forecast while demand in 2011 is expected to increase by 70,000 bpd to 9.11 million bpd, which is down 10,000 bpd from its previous estimate. Meanwhile, distillate demand in 2010 is estimated at 3.65 million bpd, up 20,000 bpd on the year but down 10,000 bpd from its previous estimate while demand in 2011 is expected to increase by 100,000 bpd to 3.75 million bpd, which is down 10,000 bpd from its previous estimate. In regards to prices, the EIA expects WTI prices to average above \$80/barrel this spring, increasing to an average of \$82/barrel by the end of the year and to \$85/barrel by the end of 2011. It also forecast that the annual average retail price of regular gasoline will increase from \$2.35/gallon in 2009 to \$2.84/gallon in 2010 and to \$2.96/gallon in 2011. The average US retail price of gasoline will likely exceed \$3/gallon at times during the spring and summer driving season. US retail prices of diesel are expected to average \$2.96/gallon in 2010 and increase to \$3.14/gallon in 2011.

According to a report by MasterCard Advisors LLC, US gasoline demand increased by 2.5% to 9.619 million bpd in the week ending March 5<sup>th</sup>. Demand was up 5.4% on the year, the highest year on year gain since October 2, 2009. During the past four weeks, gasoline demand increased by 1.2% on the year to 9.3 million bpd. It reported that the US average retail price of gasoline increased by 3 cents to \$2.70/gallon. The pump price is up 39.9% on the year.

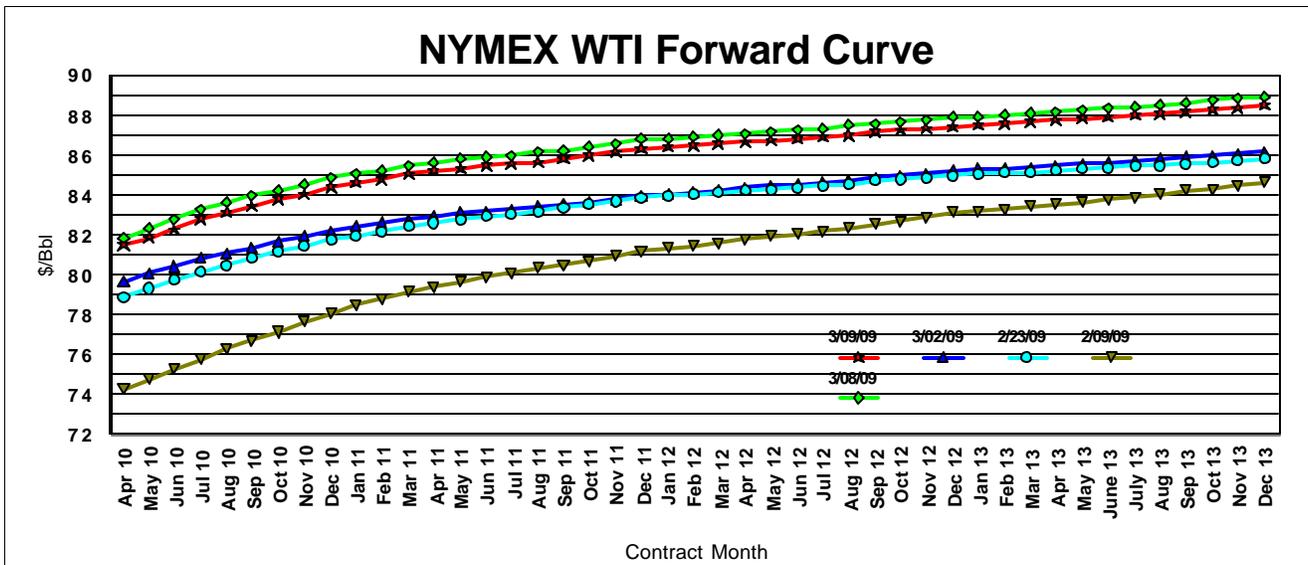
### Refinery News

ExxonMobil Corp said several units at its 191,000 bpd Rotterdam refinery are in the process of restarting after the units were shut for planned maintenance since the end of December.

Flint Hills Resources LP will shut a naphtha storage unit at the Port Neches tank farm on Tuesday for repairs. The company plans to move naphtha from Tank 34030 to Tank 1596 located at Flint Hill's Port Arthur chemicals site. Tank 34030 is expected to be out of service until May 8<sup>th</sup>.

Brazil's Petrobras is still in discussions with Venezuela's PDVSA over finalizing the details of their Brazilian joint refining venture. The 230,000 bpd Abreu E Lima refinery is expected to be located in the state of Recife in Brazil and is expected to have a price tag of about \$12 billion.

**March  
Calendar Averages  
CL – \$80.62  
HO – \$2.0764  
RB – \$2.2363**



Sinopec Shanghai Petrochemical Co is planning to process a record 10.7 million tons of crude or 215,000 bpd in 2010. It also plans to import 95% of its crude oil needs this year.

The Baku-Tbilisi-Ceyhan oil pipeline is expected to pump 19.7 million barrels of crude in April, down 3.3 million barrels on the month. Loadings in April will amount to 635,484 bpd, down from 741,935 bpd in March.

India's Reliance Industries Ltd was the only Indian refiner that supplied gasoline to Iran in the first nine months of the fiscal year that started April 1<sup>st</sup>. It supplied gasoline to Iran in April and May 2009. Separately, India's federal government expects to complete setting up a strategic crude oil reserve capacity of 5 million metric tons by the end of 2012 for contingency plans. India's junior oil minister Jitin Prasada said crude oil from the reserve will enable the country to deal with any short term disruption in crude oil supplies due to any unforeseen global event, an abnormal increase in oil prices or to deal with a contingency arising out of a natural calamity.

Indonesia plans to import 3.2 million barrels of 0.35% sulfur gasoil for April delivery. Indonesia's Pertamina is negotiating to purchase 800,000 barrels of gasoil on a spot basis for April 6-23. Separately, it plans to import 2.4 million barrels via term contracts with SK Energy and Kuwait Petroleum Co in April. Indonesia imported 3 million barrels of gasoil in March.

Taiwan's Bureau of Energy reported that the country's crude oil imports in January fell by 1.9% on the year and by 21% on the month to 26.94 million barrels. The country's two refiners, CPC Corp and Formosa Petrochemical Corp refined a combined 4.19 million kiloliters of oil, down 14.3% and down 2.3% on the month. Refinery utilization fell to 67.53% in January from 69.1% in December due to refinery maintenance.

### **Production News**

The North Sea Gullfaks crude oil stream is scheduled to load 5.985 million barrels, down 1.71 million barrels from March. It is equivalent to 199,500 bpd compared with 248,226 bpd in March. The North Sea Statfjord crude stream is scheduled to load 5.985 million barrels, down 855,000 barrels from March. The volume is equivalent to 199,500 bpd compared with 220,645 bpd in March. The North Sea Ekofisk crude oil stream is scheduled to load 11.4 million barrels, down 50,000 barrels from 11.45 million barrels in March. It is equivalent to 380,000 bpd compared with 369,355 bpd in March.

Chevron Corp said its production will increase about 1% through 2014 and 4% to 5% from 2014 to 2017. It also expects production will grow about 3% after 2017. Chevron Corp said the Royal Dutch Shell Plc operated Perdido project in the ultra deepwaters of the Gulf of Mexico is expected to start production in the first half of the year.

Norway's Statoil signed a \$6 billion investment agreement with the ACG partnership to develop the Azeri-Chirag-Gunashli oil project in Azerbaijan.

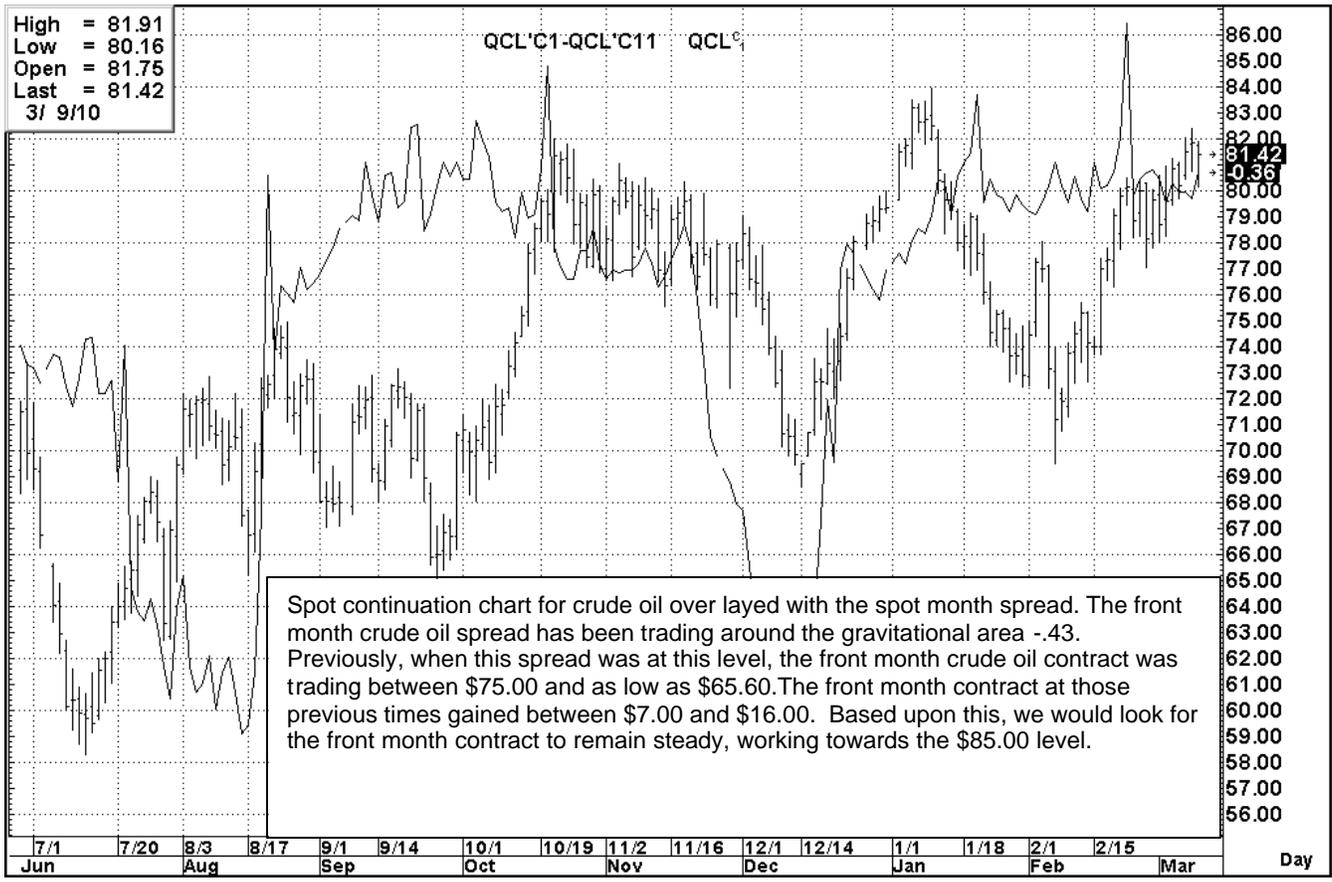
OPEC's news agency reported that OPEC's basket of crudes increased by 59 cents to \$77.86/barrel on Monday from \$77.27/barrel on Friday.

**Market Commentary**

Gasoline futures retreated after hitting an eight-week high, topping the day at \$2.2951 in the April contract. RBOB had been leading the market, fueled by emotions over growing demand. That ever-looming dark economic cloud continues to hover over the market, causing prices to seesaw up and down. Economic worries, which had subsided over the last few trading sessions, appear to be resurfacing in regards to sovereign debt in Europe. This gave strength to the dollar, which in turn pressured crude oil. Expectations for inventory increases for both crude oil and gasoline also pressured prices. The April crude oil has been climbing steadily since the beginning of February. Today's dip but failure to settle below the ascending trendline based upon a daily bar chart, is an indication that prices may have a little steam left in them. We would look to use this line, which comes into tomorrow's session set at \$81.25, as a pivotal area. Should prices settle below this line, we would wait for a failed test to trade and settle above it to confirm that the market trend has changed. One point worth mentioning is that the front month crude oil spread is approaching the -.33-resistance level. Previously, when this spread was trading at this level, the price of crude oil rose gaining anywhere between \$7.00 to \$16.00. Based on this, we would look for crude oil to hold steady and possibly work a little higher, barring any significant shift in inventories.

Crude oil Apr. 10 2125,766 -24,119, May 10 205,484 +17,560, June 10 177,615 -789 Totals 1,321,843 -10,450 Heating oil APR10 76,595 -1,604 May 10 61,699 +3,621 June10 49,148 +469 Totals: 317,520 +2,769 Gasoline APR10 88,921 -6,264 May 10 67,872 +758 Jun10 42,081 +1,347 Totals: 290,650 -672

<b>Crude Support Based on March</b>	<b>Crude Resistance Based on March</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	83.40, 84.83, 85.05, 85.40, 86.60, 88.80, 89.88
<b>Heat Support</b>	<b>Heat resistance</b>
2.0180, 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>
2.2040, 2.1460, 2.1320, 2.0660, 2.0420, 1.9970, 1.9862, 1.8650, 1.85.65, 1.7900, 1.7200 1.6600	2.3050, 2.3350,



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