



## ***ENERGY RISK MANAGEMENT***

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### **ENERGY MARKET REPORT FOR MARCH 11, 2010**

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OPEC President Germanico Pinto said he saw reasonable stability in the oil market. He said no policy changes will be necessary at the next meeting. He said the price of oil in the international market will remain stable, at between \$70 and \$80/barrel. Meanwhile two OPEC delegates said oil demand and supply data reviewed by OPEC's Economic Commission Board ahead of the group's March meeting indicated no need for it to change its output policy.

According to Oil Movements, OPEC's oil exports, excluding Angola and Ecuador, are expected to fall by 80,000 bpd to 23.2 million bpd in the four weeks ending March 27<sup>th</sup>.

Genscape reported that oil inventories at the Cushing, Oklahoma crude oil terminal fell by 630,000 barrels to 31.1 million barrels in the week ending March 9<sup>th</sup>.

#### **Market Watch**

The US Labor Department reported that the number of initial claims filed for unemployment benefits in the week ending March 6<sup>th</sup> fell by 6,000 to 462,000, from a downwardly revised 468,000 in the prior week. It reported that the four week average increased by 5,000 to 475,500 from the previous week's revised level of 470,500. The number of continuing claims increased by 37,000 to 4,558,000 from the preceding week's revised level of 4,521,000. The unemployment rate for workers with unemployment insurance for the week ending February 27<sup>th</sup> was 3.5%.

The Commerce Department reported that the US trade deficit unexpectedly narrowed in January as oil import volumes reached their lowest level in more than a decade. The US deficit in international trade of goods and services fell 6.6% to \$37.29 billion from a revised \$39.90 billion the month before. US exports fell by 0.3% to \$142.66 billion from a revised \$143.15 billion the previous month while imports fell by 1.7% to \$179.95 billion from \$183.05 billion in December. It reported that the US bill for crude imports in January fell to \$18.12 billion from \$20.28 billion in December. Crude import volumes fell to 245.27 million barrels, the lowest level since February 1999 from 277.07 million in December.

The head of the Commodity Futures Trading Commission said he believes there is a consensus across the political spectrum for reforms to make over-the-counter derivatives markets more transparent. Senator Christopher Dodd said he will unveil a reform bill on Monday.

Venezuela's Finance Ministry said the recent increase in world oil prices should allow Venezuela to comfortably meet its financial obligations through the rest of the year. Venezuela's basket of crude averaged \$71.14/barrel last week compared with an average of \$57.02/barrel in 2009.

Russia's Finance Ministry reported that Russia will likely increase its oil export duty in April to between \$268 and \$269/ton from the current level of \$253.60. It also stated that export duties on light refined products, such as gas oil and gas oil, will likely increase to \$193-\$194/ton, up from the current level of \$183.20/ton. The export duties on heavy refined products, such as fuel oil, will likely increase to \$104/ton, up from the current level of \$98.70/ton.

**March  
Calendar Averages**  
**CL – \$80.95**  
**HO – \$2.0851**  
**RB – \$2.2457**

US Defense Secretary Robert Gates said Saudi Arabia and the UAE have signaled a willingness to urge China to support tough new sanctions on Iran. He said the two countries were also open to lobbying Russia on the issue although there is less need with respect to Russia as it was more supportive of sanctions. Meanwhile, French Foreign Minister Bernard Kouchner said the UN Security Council could introduce sanctions against Iran in the reasonably near future. He said sanctions would be aimed not just at restricting Iran’s nuclear program but also at supporting opponents of the Iranian regime.

Iran’s President Mahmoud Ahmadinejad warned “corrupt” powers against destabilizing the Gulf as US Defense Secretary Robert Gates visited the UAE. He was quoted as saying that “the Iranian people will not allow corrupt world powers to create unrest in the Persian Gulf” alluding to the Western troop presence in the region. He also reiterated his controversial prediction of Israel’s eventual demise.

**Refinery News**

Colonial Pipeline said that power restoration was completed at its Dorsey substation in Woodbine, Maryland following a weekend outage that forced Colonial to reduce oil product flow on some local lines.

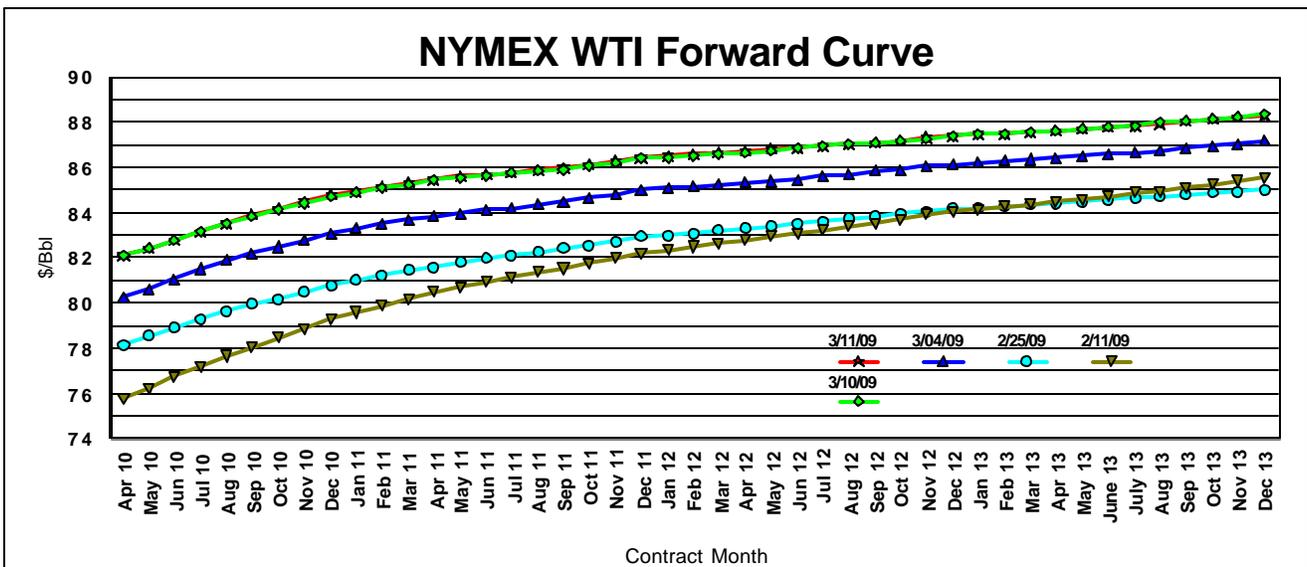
The US Coast Guard said pilots have stopped moving vessels inbound or outbound at the oil ports of Houston, Texas City and Galveston due to fog. As of midday Thursday, 31 outbound vessels and 15 inbound vessels were delayed.

Valero Energy Corp will restart units at three complexes at its 315,000 bpd Corpus Christi, Texas refinery following scheduled maintenance that started on February 26<sup>th</sup>. Emissions associated with the startup are expected to last until March 20<sup>th</sup>. The company was carrying out work at Complex 1, 3 and 6 at the plant but the only main production unit involved is the 36,000 bpd hydrocracker unit.

Spain’s Repsol said it has halted the hydrocracker at its Puertollano refinery for 3 months due to low refining margins.

South Korea’s Hyundai Oilbank will shut its 280,000 bpd No. 2 crude distillation unit for maintenance between mid-April and mid-May. The unit will remain shut for 30 days.

Indian Oil Corp on Thursday started a naphtha cracker, its first such unit at the Panipat refinery. The



cracker would require 200,000 tons of naphtha at full capacity every month. The naphtha cracker, which is capable of producing 800,000 tons of ethylene and 600,000 tons of poly propylene annually, will initially operate at about 60% of capacity.

China's apparent oil demand in January increased by 23% on the year but fell by 2.6% on the month to 8.043 million bpd.

China's National Bureau of Statistics reported the country's refinery crude throughput increased to a record high of 8.32 million bpd in February. China's crude runs in the first two months increased by 23.4% on the year to 65.62 million tons or 8.12 million bpd. Crude oil production increased by 5.8% to 31.98 million tons while its natural gas production increased by 12.6% to 15.8 billion cubic meters. Separately, the combined stocks of gasoline, diesel and kerosene held by China's PetroChina and Sinopec in February increased by 12% on the month as domestic sales fell by 15%. Gasoline stocks fell by 3% while diesel stocks increased by 23%. China's gasoline sales stood at 5.9 million tons in February while its diesel sales fell by 24% to 8.8 million tons.

France's CGT union called for the restart of Total's refinery strike. It said the workers will hold general meetings in the next two weeks to vote on a strike.

Total said it has to sell one refinery with a capacity of 200,000 bpd outside of France in addition to closing the Dunkirk refinery in France.

Russia's Energy Ministry reported that Russia's gas oil exports in February fell by 3% on the month but increased by 9.3% on the year to 114,000 tons/day. It reported that local supplies of gas oil increased by 18.7% on the month to 76,500 tons/day. Russia's Energy Ministry reported that the country's fuel oil exports increased by 2% on the month but fell by 4.5% on the year to 128,000 tons/day while Russia's domestic supplies of fuel oil increased by 31.2%. Russia's exports of gasoline fell by 49.2% on the month to 9,700 tons/day.

Gasoline inventories in independent storage in the Amsterdam-Rotterdam-Antwerp area in the week ending March 11<sup>th</sup> increased by 1.03% on the week and by 17.14% on the year to 984,000 tons. Gas oil inventories fell by 0.26% on the week but increased by 6.32% on the year to 2.34 million tons while fuel oil stocks fell by 3.68% on the week but increased by 39.97% on the year to 837,000 tons. Naphtha stocks fell by 6.38% on the week and by 10.2% on the year to 44,000 tons while jet fuel stocks fell by 6.11% on the week and by 0.39% on the year to 768,000 tons.

Singapore's International Enterprise reported that the country's residual fuel stocks built by 860,000 barrels to 24.376 million barrels in the week ending March 10<sup>th</sup>. It also reported that the country's light distillate stocks built by 179,000 barrels to 10.806 million barrels while its middle distillate stocks fell by 923,000 barrels to 12.179 million barrels on the week.

### **Production News**

ExxonMobil Corp plans to spend between \$25 billion to \$30 billion per year through 2014. It also said the startup of its major projects around the world will increase its production by 1.5 million bpd of oil equivalent by 2015. It expects 12 of its major projects to begin production between 2010 and 2012. ExxonMobil also said gasoline demand is expected to increase in the future but that current conditions for the refining and marketing business remain challenging.

Colombia's oil production is expected to reach 790,000 bpd in 2010, according to the country's association of private oil companies.

Premier Oil Plc said it has discovered oil in the Norwegian North Sea. It said the oil was encountered in the Blabaer prospect, which lies about 25 kilometers northeast of the Snorre field. Pre-drill estimates expect the well to hold between 30 million and 75 million barrels of oil.

Indonesia's Pertamina may miss its crude oil production target of 190,000 bpd in 2010 if a new environmental law is enforced. Environment Minister Gusti Muhammad Hatta said he intended to enforce a new environment law that allows the government to cancel the operating permit of any company found to be breaching the terms of its environmental impact assessment. Indonesia previously stated that it would produce 965,000 bpd of crude and condensate this year.

Gabon's main oil union, the National Organization of Petroleum Workers, said it may begin a strike as early as Saturday due to a dispute with the government over whether energy should be on a list of sectors required to provide uninterrupted minimal service. The strike could halt current production of about 250,000 bpd in Gabon.

Russia is considering inviting India's Oil and Natural Gas Corp to develop oil and gas fields in Russia.

OPEC's news agency reported that OPEC's basket of crudes increased to \$77.80/barrel on Wednesday from \$77.38/barrel on Tuesday.

National Iranian Oil Co cut its official selling prices for April term supply to Europe. It set the price of its Iranian Light crude at BWAVE minus \$2.95, its Iranian Heavy at BWAVE minus \$3.60 and its Forozan Blend at BWAVE minus \$3.55. Its Iranian Light crude bound for the Mediterranean was set at BWAVE minus \$4.35, its Iranian Heavy crude was set at BWAVE minus \$5.30 and its Forozan Blend was set at BWAVE minus \$5.25. Meanwhile its Iranian Light crude bound for Asia was set at the Oman-Dubai average minus 25 cents, its Iranian Heavy crude was set at the Oman-Dubai average minus \$1.50 and its Forozan blend was set at the Oman-Dubai average minus \$1.45.

### **Market Commentary**

The energy markets continue to exude confusion as all three markets traded in an inside fashion, overshadowed by the previous day's trading range. At its upcoming, March 17<sup>th</sup> meeting, OPEC will have to focus on world demand rather than that of just Asia, where they have been flooding the market. While members have been curbing supplies in other areas of the world, supplies to Asia have been in abundance. There is only so much supply that Asia can hold before it starts to burst at the seams. The physical market remains weak, while demand is still struggling. At some point, the floodgates will open and this market will realize that it is awash in supply. In the meantime, investors continue to turn to commodities as a financial hedge, with the crude oil market within their vested sight. For this reason, we cannot discount the impact these players have on the market. We would continue to closely monitor the financial influence, while our overall opinion is that this market has no fundamental right to be at the level it is at. For now, we would expect that prices will hold firm up until the aforementioned OPEC meeting, reaching for the 2010 high of \$83.95.

Crude oil Apr. 10 190,419 -22,473 May 10 247,724 27,472, June 10 173,882 -8,625 Totals 1,353,762  
Heating oil APR10 69,167 -3,806 May 10 66,589 +2,984 June10 48,504 -1,538 Totals: 317,566 -859  
Gasoline APR10 75,389 -6,626 May 10 78,558 +5,335 Jun10 43,963 +1,234 Totals: 294,622 +1,706.

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|--|---|
| <b>Crude Support</b>   | <b>Crude Resistance</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 | 2.3350, 2.5040,                                 |

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