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## ***ENERGY RISK MANAGEMENT***

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

**www.e-windham.com**

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### **ENERGY MARKET REPORT FOR MARCH 18, 2011**

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Libya's Foreign Minister Musa Kusa said Libya was already implementing a ceasefire following a decision to halt all military operations. He said that no military offensive had been launched on Friday. He said Libya was obliged to accept the UN Security Council's resolution. Earlier, Libya's leader Muammar Gaddafi threatened to "turn to hell the lives" of anyone who attacks Libya in line with a UN Security Council

resolution passed on Thursday. Gaddafi's son, Saif al-Islam said Libya was not afraid of the UN resolution. The UN Security Council passed a resolution late Thursday approving a no-fly zone to halt government troops now 60 miles from Benghazi. The resolution also authorized all necessary measures to protect civilians against Gaddafi's forces. The UN's Secretary General Ban Ki-moon said Libyan authorities must comply with all elements of the UN resolution. US President Barack Obama warned Libya's leader to comply with UN demands for a ceasefire or else face consequences that include military action. US Secretary of State Hillary Clinton said the UN resolution was only one step and added that the international community would continue to consider options. She added that the US was not impressed by words and the Libyan government would need to show actions demonstrating a cease fire. French Foreign Minister Alain Juppe said everything was ready to launch military strikes in Libya and that a ceasefire declared by Libya would need to cover the entire country. Russia on Friday ruled out taking part in a military operation against Libya. NATO allies agreed to speed up planning for possible military action in Libya however the alliance has yet to decide whether to intervene in the conflict. The Arab League chief said the UN Security Council resolution on Libya was aimed at protecting civilians and did not support any invasion.

#### **Market Watch**

The Organization for Economic Cooperation and Development said higher oil prices due to unrest in North Africa and the Middle East could push up inflation among countries in the OECD. It said a \$10 rise in the price of oil would add 0.2% to the inflation rate in the OECD area in the first year after the shock and another 0.1% in the second year. Inflation in the OECD area could increase by 0.75% by 2012 if the \$25/barrel increase in the oil price that has occurred, were sustained. It added that a \$10 increase in the price of a barrel of crude could reduce economic activity in the OECD area in the second year after the shock by 0.2%. GDP among OECD countries could be cut by 0.5% by 2012 if the recent \$25/barrel rise in oil prices persists.

The Economic Cycle Research Institute said its Weekly Leading Index fell to 130.4 in the week ending March 11<sup>th</sup> from 130.9 in the previous week, originally reported at 130.8. The index's annualized growth rate increased to 7.1% from 6.8% a week earlier.

China's Central Bank said it will increase banks' required reserves by 0.5%, the third increase this year, amid inflationary pressure. The increase, which takes effect on March 25<sup>th</sup>, comes after the country's consumer price index increased 4.9% in February, unchanged from January's 4.9% increase.

Lipper data showed that there was \$4.05 billion invested in commodity based products and mutual funds increased in February, favoring agricultural markets, silver and broad index funds. It was up from just \$38 million in January. The increase helped elevate total net assets in the funds to \$151.4 billion from \$142.4 billion at the end of January.

**March**  
**Calendar Averages**  
**CL – \$101.84**  
**HO – \$3.0389**  
**RB – \$2.9698**

Forces loyal to Libya’s leader Muammar Gaddafi attacked the rebel held city of Misrata on Friday with tanks and heavy artillery, killing at least four people. Meanwhile, supporters of Libyan rebels said they were impatient for action to follow up the UN resolution authorizing a no-fly zone and military attacks on Muammar Gaddafi’s forces.

The prosecutor of the International Criminal Court warned the Libyan government that any indiscriminate attack on civilians in Benghazi would constitute war crimes.

Saudi Arabia’s King Abdullah announced on Friday billions of dollars in handouts for his people and increased his security apparatus in a renewed effort to shield the country from unrest that has been seen in other Arab states. The decrees outlined an increase in welfare benefits, bonuses for public sector worker, including the army and a massive drive to build new housing. In addition, the king ordered the creation of 60,000 security jobs within the interior ministry, promised more money for the religious police. King Abdullah last month announced an economic package worth an estimated \$37 billion in an initial move to ease social tensions.

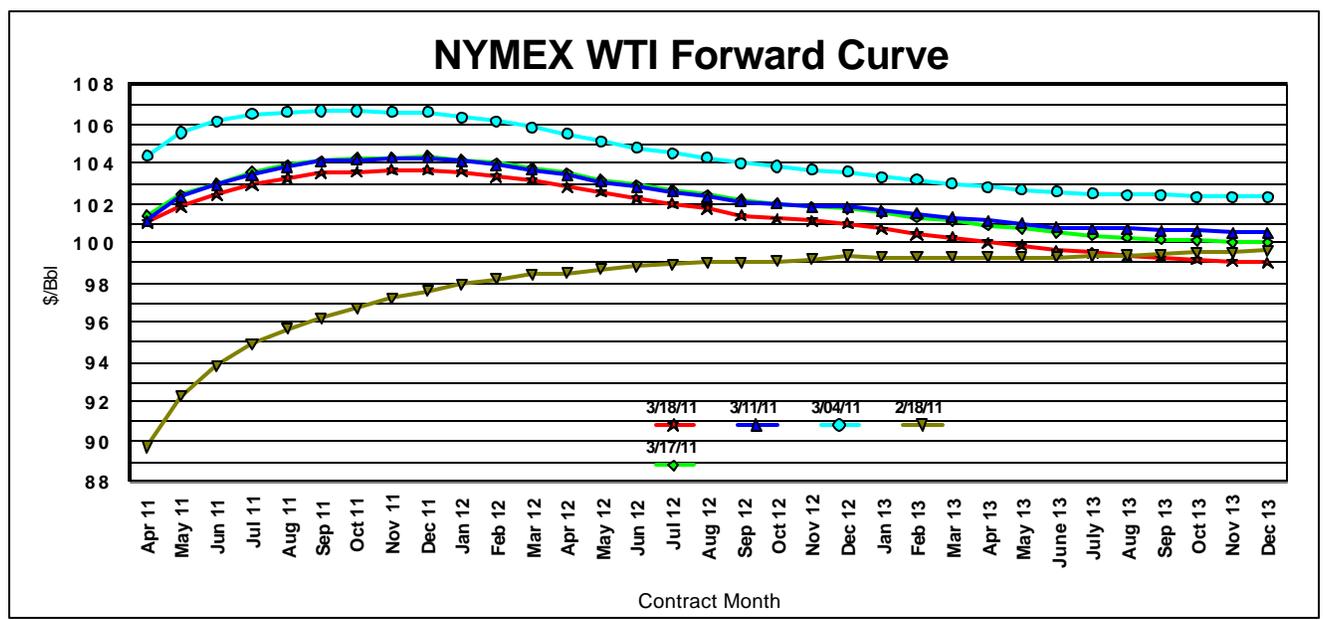
More than 5,000 Iraqis protested in northern Diyala province to denounce a crackdown on Shi’ite led demonstrators in Bahrain, with many volunteering to join the protests in the Gulf kingdom.

Yemeni security forces and pro-government gunmen killed 10 people and wounded around 50 others when they opened fire at a protest in Sanaa following Muslim prayers on Friday. Yemeni President Ali Abdullah Saleh said a defense council declared a state of emergency after gunfire in Sanaa on Friday.

The API reported that US oil and petroleum product demand in February increased by 4.4% on the year to 19.691 million bpd. Gasoline demand in February increased by 4.2% on the year to 9.014 million bpd while distillate demand increased by 3.8% to 4.015 million bpd. The API reported that crude production fell by 1.6% on the year to 5.428 million bpd. Crude oil imports in February fell by 0.3% to 8.655 million bpd while oil products imports fell by 22.6% to 1.91 million bpd.

**Refinery News**

Sunoco said a fire that started in a cooling tower at its 335,000 bpd Philadelphia, Pennsylvania



refinery was extinguished on Thursday afternoon.

Valero Energy Corp reported that planned maintenance at its 142,000 bpd Corpus Christi, Texas refinery resulted in a release of material from equipment in complex 3. It said the heavy oil cracker was restarted but shut again to complete another repair at the West plant of the refinery. Separately, Valero Energy Corp said there was a brief upset at a hydrocracker unit at its 144,000 bpd refinery in Benicia, California. It is not expected to have a material impact on production.

Citgo Petroleum Corp reported a leak under a process relief valve resulting in emissions of hydrogen sulfide, nitrogen oxide and sulfur dioxide at its 429,500 bpd Lake Charles, Louisiana refinery.

Coffeyville Resources reported a release of an ongoing amount of hydrogen sulfide from a coker flare due to a tripped compressor at its 115,700 bpd refinery in Coffeyville, Kansas.

Buckeye Partners LP said it agreed to acquire refined petroleum products terminals and pipeline assets for \$225 million from BP Plc. The deal includes 33 refined petroleum products terminals with a total storage capacity of more than 10 million barrels and about 1,000 miles of pipeline, which includes BP's 50% interest in Inland Corp.

Hovensa LLC said the repair and startup of the distillate desulfurizer unit was not completed at its 500,000 bpd refinery in St. Croix. The unit was damaged by a fire on February 11<sup>th</sup>. BP plans to close a crude distillation unit for maintenance in October at its 386,000 bpd Rotterdam refinery.

Japan's Showa Shell Sekiyu KK said it has started full output at its four group refineries, with a capacity of 655,000 bpd, as part of efforts to ease a severe supply shortage following the earthquake last week.

Japan's Idemitsu Kosan said it would increase the run rate at its four refineries in Japan to full production this week to help ease the oil shortage in eastern Japan following the earthquake. Idemitsu had previously aimed to run its refineries at 87% of its 640,000 bpd capacity in the first quarter.

Japan's Cosmo Oil Co said it increased its crude refining capacity at its 125,000 bpd Yokkaichi and 110,000 bpd Sakaide refineries by 50,000 bpd and 30,000 bpd, respectively, as its 200,000 bpd refinery in Chiba remains shut for the foreseeable future. Cosmo Oil's oil terminal at the port of Chiba resumed vessel cargo operations and is open for business.

Three tankers have been fixed to move 60,000 tons of gasoline and 30,000 tons of jet fuel from South Korea to Japan, loading from late to the end of March.

Germany's BAFA said the country's crude oil import bill for January 2011 totaled 4.4 billion euros or \$6.17 billion, up 37.5% on the year.

Russia's oil exports and transit via Transneft is expected to increase 3.9% to 54.03 million tons next quarter. On a daily basis, loading will increase 2.8% to 4.35 million bpd from 4.24 million bpd in the first quarter.

### **Production News**

Libya's National Oil Corp's chairman said it is still selling any available crude oil although production is low.

Gulf Keystone Petroleum Ltd reported a significant initial oil flow on the Shaikan No. 2 appraisal well in the Kurdistan region of Iraq. The company is conducting a test to obtain further results and ascertain flow rate.

OPEC's basket of crudes increased sharply to \$108.08/barrel on Thursday from \$105.80/barrel on Wednesday.

### **Market Commentary**

Crude oil spent the early part of the session working higher as the no-fly zone caused concern that the U.S. and Europe would send in military aid to the rebels. With the possibility of this being removed by the declaration of Libya's foreign minister that military action would be halted, crude oil tumbled \$2.68. Due to its seasonality, gasoline held up better than heating oil and crude oil. The energy markets will continue to be news sensitive, reacting with volatile and wide swings. Technically speaking, the crude oil market remains in an uptrend, having settled above the upper line on an ascending channel for the third straight week. Moving oscillators support additional moves higher. The aforementioned trendline will act as support for next week. This trendline is currently set at \$100.37.

Crude oil: April 11 91,395 -41,673 May 11 343,874 +11,502 June 11 152,032 +2,530 Totals 1,540,236 -24,598 Heating oil: Apr 11 54,293 -5,453 May 11 80,502 +3,151 June 11 55,171 -996 Totals 311,699 -3,144 Rbob: Apr 11 47,246 -2,400 May 11 40,327 +472 June 11 39,855 -1,097 Totals 268,636 -1,151

The latest Commitment of Traders report showed that non-commercials in the crude market cut their net long position by 21,014 contracts to 254,568 contracts in the week ending March 15<sup>th</sup>. The combined futures and options report showed that non-commercials cut their net long position by 30,322 contracts to 317,956 contracts on the week. Meanwhile, the disaggregated futures and options report showed that managed money funds cut their net long position for the second consecutive week by 40,670 contracts to 270,962 contracts in the latest week as the market gave up its previous gains.

| Crude Oil |            | Heating Oil |            | Rbob    |            |
|-----------|------------|-------------|------------|---------|------------|
| Support   | Resistance | Support     | Resistance | Support | Resistance |
| 9622      | 10190      | 27980       | 30810      | 26965   | 30300      |
| 9540      | 10695      | 26680       | 31525      | 26300   | 31970      |
| 9267      | 10880      | 27375       | 33510      | 25683   | 32450      |
| 9635      | 111.65     | 23685       |            | 25145   | 35915      |
| 8385      |            | 22960       |            | 24240   | 36310      |
|           |            | 22013       |            | 23631   |            |
|           |            | 21860       |            | 23414   |            |
|           |            | 21140       |            | 22560   |            |

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