



## ***ENERGY RISK MANAGEMENT***

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### **ENERGY MARKET REPORT FOR MARCH 22, 2011**

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OPEC is scheduled to hold its next formal meeting to reassess output policy on June 8<sup>th</sup>, not June 2<sup>nd</sup> as previously announced. The meeting was postponed to enable all ministers to attend.

Iraq's Oil Minister Abdul-Kareem Luaibi said OPEC believes the price of oil is approaching \$120/barrel but is unlikely to go higher, a level that is acceptable and will not hinder global growth. Separately, he stated that Iraq's

oil production is expected to more than double to 6.5 million bpd by 2014. Iraq's oil output is forecast to total 2.75 million bpd this year and increase to 3.3 million bpd in 2012 and 4.5 million bpd in 2013. He said Iraq plans to auction 12 exploration blocks in November.

#### Market Watch

US refiner PBF Energy expects the unrest in the Mideast to spread to all oil producing nations. Separately, it stated that it planned to bid on the California and Texas refineries that BP Plc put on the market this year. It said it may make a bid for the Carson, California and Texas City, Texas refineries.

The Federal Housing Finance Agency's monthly home price index fell 0.3% on a seasonally adjusted basis from December to January. January's index value was 186.5. US home prices fell for the third straight month in January.

Statistics Canada reported that retail sales fell by 0.3% in January from December. It was the second consecutive decline. Separately, Canada's composite leading indicator increased 0.8% in February from January, in part due to renewed strength in the manufacturing sector. In manufacturing, new orders for durable goods increased by 1% following three straight declines.

The chairman of the CFTC, Gary Gensler said preventing another financial crisis similar to the one that occurred in 2008 requires a global effort and cannot be done by one nation alone. He said that even though it has been more than two years since the financial crisis exposed flaws in global financial and regulatory systems around the world uncertainty still remains. He said effective reform would require a comprehensive, international response. The CFTC is currently writing dozens of regulations to implement the Dodd-Frank law, which was enacted last July and gives the agency some oversight of the \$600 trillion global swaps market. However most rules have not been finalized.

Britain's Financial Services Authority said a proposal by the US CFTC to force clearinghouses to accept more members could inadvertently increase risk in the financial system. The CFTC proposed a measure that would prohibit clearinghouses from setting a minimum capital requirement above \$50 million for those interested in becoming a member to clear swaps. The chairman of the CFTC has complained that swaps clearinghouses acted like exclusive clubs and have unnecessarily kept out smaller players.

#### API Stocks

**Crude** – up 970,000 barrels  
**Distillate** – down 612,000 barrels  
**Gasoline** – down 7.883 million barrels  
**Refinery runs** – up 0.3% at 82.6%

Iran's OPEC governor Muhammad Ali Khatibi said Iran is concerned an output increase by some OPEC members is leading to an oversupply of oil. However the official said the nuclear shutdowns that followed Japan's earthquake could support oil demand.

Japan's Economy, Trade and Industry Ministry said it will

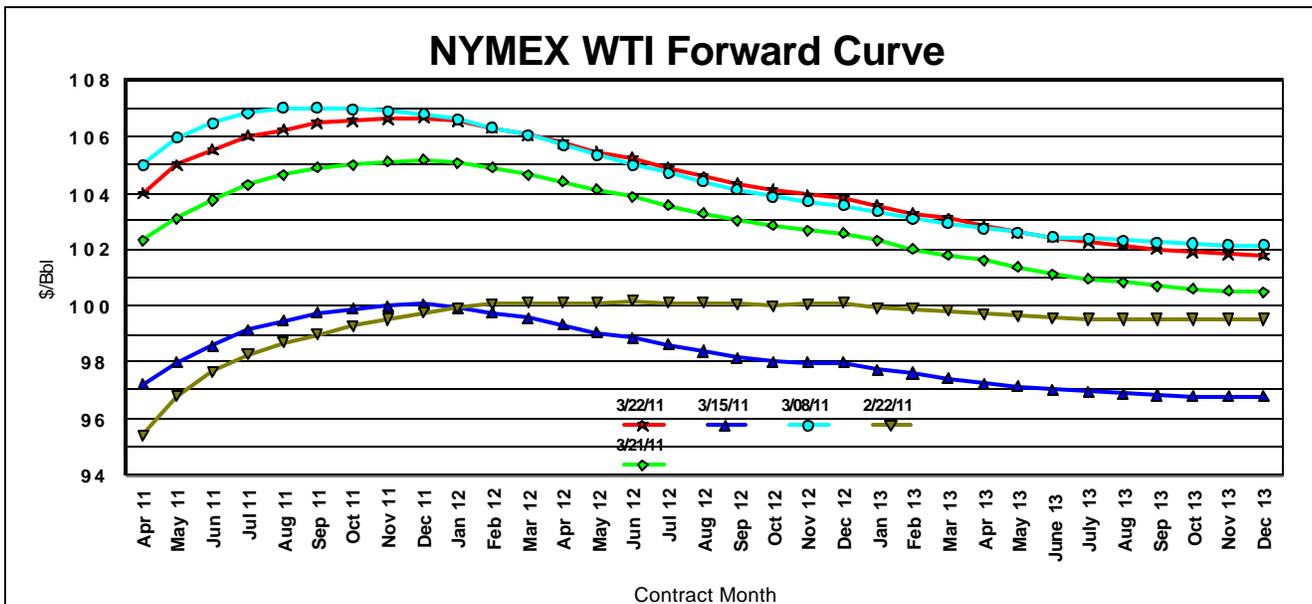
allow the release of an additional 22 days' worth of crude oil from privately held reserves in a bid to meet gasoline and heating oil demand in the northern region following the earthquake and tsunami. The release of about 9.24 million kiloliters or 58.1 million barrels of reserves, announced on Monday, follows a 1.26 million kiloliter release or three days' worth of demand last week.

<b>March</b>
<b>Calendar Averages</b>
<b>CL – \$102.00</b>
<b>HO – \$3.0421</b>
<b>RB – \$2.9737</b>

The Nikkei reported that petroleum production and distribution infrastructure is resuming operations, raising expectations that gasoline shortages will be eased shortly. On Monday, JX Nippon Oil & Energy Corp resumed operations at a main refinery in Yokohama and tankers arrived in Miyagi Prefecture for the first time since the disaster. Its largest refinery in Okayama Prefecture increased its daily refinery capacity by 20,000 bpd to 400,000 bpd. Kyokuto Petroleum Industries resumed gasoline production at a refinery in Ichihara, Chiba Prefecture.

Russia's top energy official Igor Sechin said Russia is set to double its crude oil supply to Japan this year to 18 million tons as part of an energy aid package. Russia is making several proposals to help Japan, including an offer to increase shipments of liquefied natural gas and coal. Russia may also increase its coal exports to Japan by 3-4 million tons.

Muammar Gaddafi's forces attacked two west Libyan towns, killing dozens while rebels were pinned down in the east and NATO attempted to resolve a dispute over who should lead the Western air campaign. In the latest attack, Gaddafi's tanks shelled the rebel held western city of Misrata, killing forty people. Al Jazeera news said his forces were trying to seize the western rebel held town of Zintan near the Tunisian border. The US military said a US F-15E crashed in Libya overnight and its two crew members were rescued. It said the crash was likely caused by mechanical failure rather than hostile fire. Meanwhile, US President Barack Obama said the US would cede control in days even as divisions in Europe fueled speculation that the US would be forced to retain leadership of air patrols. The French Foreign Ministry said that NATO would support the military intervention by the western coalition in Libya when the US scaled back its participation. The French Foreign Ministry also said that a call by Russia for a ceasefire in Libya could be discussed at a UN Security Council meeting on Thursday. French Foreign Minister Alain Juppe called for the creation of a special committee of foreign ministers from coalition countries to oversee operations in Libya. Russia's Defense Minister Anatoly Serdyukov said that an immediate ceasefire would be the best way to protect civilians in Libya. He said Russia wants the start of political negotiations. China called again for an end to fighting in Libya, expressing deep concern at reported civilian casualties and warning of



a humanitarian disaster.

NATO allies agreed to use the alliance's naval power to enforce an arms embargo on Libya. NATO said that top operational commander is activating NATO ships and aircraft in the Mediterranean to conduct operations to monitor and if needed, interdict vessels suspected of carrying illegal arms or mercenaries. It also said it had finalized plans to help enforce the no-fly zone.

NATO member Turkey's Prime Minister Tayyip Erdogan said the UN should be the umbrella for a solely humanitarian operation in Libya. Turkey has stated that it is unable to agree to NATO taking over enforcement of a no-fly zone over Libya if the scope of the operation goes beyond what the UN sanctioned.

US Defense Secretary Robert Gates said the western coalition carrying out air strikes in Libya is trying to avoid civilian casualties and is targeting air defenses in sparsely populated areas. He also stated that the US is concerned about instability in Yemen. Separately, Yemen's President Ali Abdulla Saleh told army commanders that there could be a civil war in the country because of efforts to stage what he called a coup against his rule.

About 100 Omani demonstrators set up tents on Tuesday in a district of the capital where the main government ministries are located, demanding political reform. Separately, hundreds of people marched in two southern Syrian towns on Tuesday demanding freedom, the fifth consecutive day of demonstrations challenging the ruling elite.

According to a SpendingPulse report released by MasterCard Advisors LLC, US gasoline demand increased by 1.7% or 154,000 bpd to 9.303 million bpd in the week ending March 18<sup>th</sup>. The four week moving average stood at 9.131 million bpd, up 0.2% on the year. It also reported that the US average retail price of gasoline increased by 3 cents to \$3.56/gallon.

### **Refinery News**

Colonial Pipeline is allocating its main distillate line north of Collins, Mississippi for Cycle 18.

Kinder Morgan Energy Partners said it was again rationing capacity on its Trans Mountain pipeline system, which transports crude to southern British Columbia and Washington's Puget Sound. It said it would cut back shipper nominations for space on the system next month by 28%, meaning that customers will only get to ship 72% of the volumes requested. It said accepted volumes on the system next month are 310,371 bpd for the Trans Mountain line, 165,464 bpd for Puget Sound and 49,464 bpd for the Westridge Dock.

Enbridge Inc said it would ration space on two of its oil pipelines next month due to high shipper requests for space and temporary capacity restrictions. It said it would cut back shipper nominations on Line 5, which runs from Superior, Wisconsin to Sarnia, Ontario by 8%, allowing customers to ship 92% of what they requested.

ExxonMobil said there were no offsite impacts from a compressor malfunction in a unit that led to flaring at its 504,500 bpd refinery in Baton Rouge, Louisiana.

Valero Energy Corp's hydrocracker at its 144,000 bpd refinery in Benicia, California resumed planned rates.

Venezuela's PDVSA said its 146,000 bpd El Palito refinery should be running normally again by the weekend after it was shut by an electrical fault.

A fluid catalytic cracking unit at India's Reliance Industries' plant could start product output on Wednesday. The 200,000 bpd unit at Reliance's older refinery at Jamnagar was shut for maintenance in early February.

China's National Development and Reform Commission said it approved a plan by PetroChina Co to build an oil product pipeline from its Qingyang refinery in the northwestern province of Gansu. The pipeline would have an annual transmission capacity of 1.8 million metric tons.

South Korea's Korea National Oil Corp reported that the country imported 70.74 million barrels or 2.3 million bpd of crude oil in February, up 7.9% on the year. South Korean refineries processed 70.32 million barrels of crude oil in February, up 5.4% on the year and down 10.2% on the month. South Korea's commercial crude oil stocks increased by 68.3% on the year to 13.54 million barrels.

### **Production News**

The US Interior Department approved a permit for ExxonMobil to drill in the deep waters of the Gulf of Mexico, the fourth such deepwater permit the department has cleared since the BP oil spill last summer.

Norway's Statoil said it expected its Statfjord A platform to shut down production in 2014.

Saudi Aramco said increasing oil demand from China, its largest crude buyer, would offset declining demand elsewhere. China is surpassing the US as Saudi Arabia's largest crude buyer with volumes expected to reach an average of 1 million bpd this year or about one-fifth of China's total crude imports.

A source at India's HPCL said there is still no clarity on how India will pay for Iranian oil imports but added that supplies for April from Iran is expected to continue.

Norway's DNO said it evacuated 10 expatriate employees from Yemen, where unrest that erupted in late January has escalated.

Pemex held its crude production steady through the first three weeks of March just below the company's output target of 2.6 million bpd on average for the year. Its output averaged 2.571 million bpd in the March 1-21 period compared with an average of 2.556 million bpd for the full month of February and an average of 2.576 million bpd for the full year of 2010.

Executives from Chevron Corp and Russia's Rosneft are scheduled to meet later this week to discuss certain issues that have emerged over their joint Black Sea project. Chevron last summer agreed to pay for initial exploration of the Val Shatsky ridge in the Black Sea that contains more than 6 billion barrels of oil.

Nigeria's benchmark Qua Iboe crude oil export stream is expected to load 13 cargoes or about 398,000 bpd in May. In April, a slightly shorter month, 13 Qua Iboe cargoes are due to load, giving a daily average export volume of about 412,000 bpd.

Nigeria has raised the official selling price for its benchmark Bonny Light and Qua Iboe crude grades in April to dated Brent plus \$3.40/barrel, up \$1.25 on the month.

OPEC's news agency reported that OPEC's basket of crudes fell to \$110.10/barrel on Monday from \$110.54/barrel on Friday.

**Market Commentary**

Growing speculation that demand will increase as Japan looks to rebuild itself, combined with escalating tensions in Yemen pushed the expiring April contract back over \$104.00 a barrel. Refinery activity in Japan is better than most expected as clean up efforts get underway, which is supportive for prices. Perhaps helping to exaggerate the move was extremely low volume. While tensions in the Middle East are bullish for crude oil, an increase in demand out of Japan will be supportive for products, especially heating oil. The spot month contract in crude oil traded above resistance set at \$102.93 and continues to hold the 5-day moving average, which is currently set at \$101.36. This number will provide an opportunity for trading, working as a pivotal number.

Crude oil: May 11 363,721 +11,561 June 11 154,551 +2,712 July 11 96,034 +4,176 Totals 1,514,243 -14,344 Heating oil: Apr 11 44,906 -4,204 May 11 83,388 +2,521 June 11 55,158 +626 Totals 305,943 +666 Rbob: Apr 11 40,228 -4,489 May 11 81,528 +4,552 June11 41,918 +1,362 Totals 270,703 +2,244

Crude Oil		Heating Oil		Rbob	
Support	Resistance	Support	Resistance	Support	Resistance
10136		30810		26965	30300
9622	10695	27980	31525	26300	31970
9540	10880	26680	33510	25683	32450
9267	111.65	27375		25145	35915
9635		23685		24240	36310
8385		22960		23631	

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