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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 30, 2010**

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OPEC's Secretary General Abdalla Salem El-Badri said the recent rise in oil prices has prompted members of OPEC to restart investing in oil projects. Last year, OPEC countries postponed 35 of 150 massive oil projects designed to increase the group's output.

Saudi Arabia's Oil Minister Ali Al Naimi said the current range of oil prices is nearly

optimal. He said the \$70-\$80/barrel price is close to perfection. He said he hopes oil prices remain around \$80/barrel. Meanwhile, an OPEC delegate from the Middle East said oil prices above \$85/barrel could be harmful to the world economy. Another OPEC delegate said OPEC would increase its oil production if oil prices remained "too high" for a long time. The delegate would not name a specific price at which OPEC would have to act. Separately, Algeria's Energy and Mines Minister Chakib Khelil said OPEC had no specific oil price trigger that would prompt the group to increase its output. He said the current oil price was acceptable to the market for a period of six months to one year.

**API Stocks**  
**Crude** – up 421,000 barrels  
**Distillate** – down 1.007 million barrels  
**Gasoline** – down 946,000 barrels  
**Refinery runs** – up 1.3%, at 82.1%

#### **Market Watch**

Deutsche Bank increased its average US oil price forecast for the year by almost 10% to \$71/barrel. Meanwhile, Reuters' latest survey of price forecasts showed an average estimate of \$78.91/barrel for US crude oil in 2010.

The Conference Board said its index of consumer attitudes increased to 52.5 in March from an upwardly revised 46.4 in February. The expectations index increased to 70.2 from a revised 62.9. The present situation index increased to 26, the highest level since May 2009, up from a revised 21.7 in February.

The Standard & Poor's/Case-Shiller home price indexes released on Tuesday showed prices of US single family homes increased in January. The S&P composite index of 20 metropolitan areas unexpectedly increased by 0.3% in January, seasonally adjusted. On an unadjusted basis, prices fell 0.4% in January.

The IMF cut its 2010 growth projection for Germany's economy. It expects Germany's economy to grow by 1.2% this year, down from its previous estimate of 1.5%. The IMF said Germany's economy faced substantial downward risks in 2010 and that economic recovery is likely to be moderate and fragile. The German government is currently more optimistic, predicting that the economy will grow 1.4% this year, which the country's central bank expects an expansion of 1.6%. The IMF expects the German economy to grow by 1.7% in 2011, down from its previous forecast of 1.9%.

US Deputy Secretary of Energy Daniel Poneman said that oil prices should be set by supply and demand and not based on a specific price target.

Italy's minister of economic development Claudio Scajola said that \$60-\$70/barrel was a fair oil price for consumers. Separately, Dutch Energy Minister Maria van der Hoeven said that \$70-80/barrel is a fair price for oil, adding that a range of \$70-\$90 is acceptable.

**March  
Calendar Averages**  
**CL – \$81.18**  
**HO – \$2.0912**  
**RB – \$2.2514**

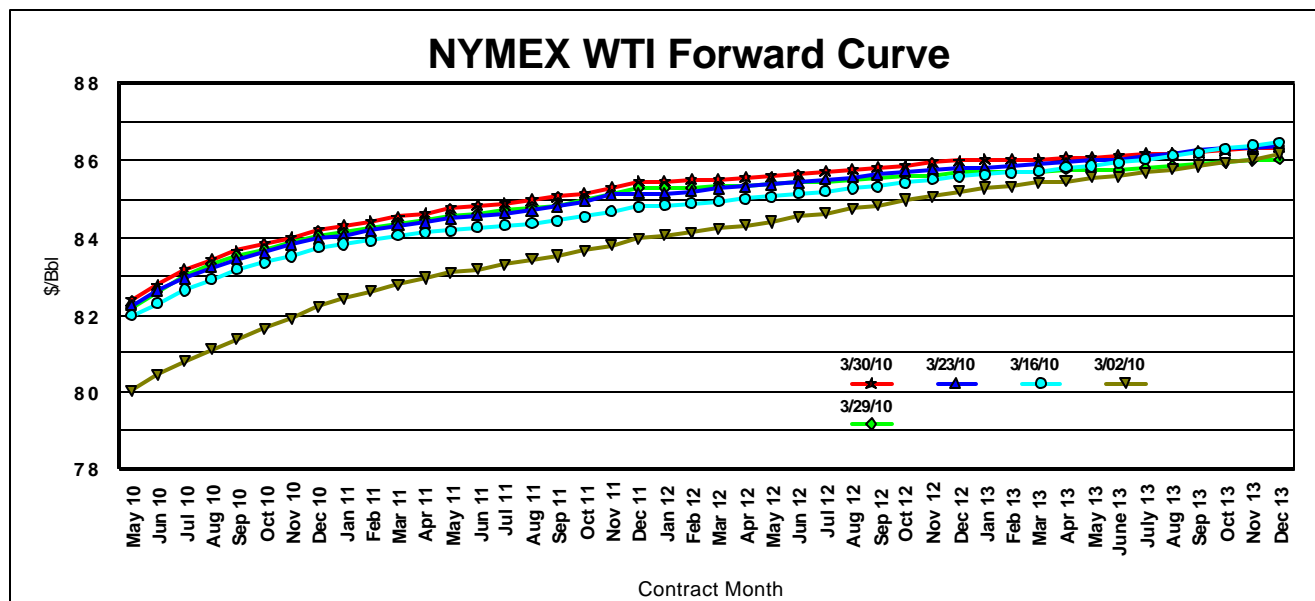
According to a Reuters survey, OPEC members bound by quotas increased their production by 200,000 bpd to 26.93 million bpd in March. The survey implies OPEC has made just 50% of promised cutbacks versus 55% in February. It also reported that total OPEC production increased by 40,000 bpd on the month to 29.25 million bpd in March. Saudi Arabia increased its production by 50,000 bpd to 8.2 million bpd in March while Nigeria increased its production by 30,000 bpd to 2.1 million bpd. Meanwhile, Iraq's oil production fell by 160,000 bpd to 2.32 million bpd.

According to a report by MasterCard Advisors LLC, US gasoline demand fell by 1.3% to 9.531 million bpd in the week ending March 26<sup>th</sup>. Gasoline demand in the week was up 0.3% or 29,000 bpd on the year. In the past four weeks, gasoline demand was 9.582 million bpd, up 215,000 bpd or 2.3% on the year. Year to date gasoline demand is up 1.4% or about 132,000 bpd at about 9.6 million bpd. MasterCard also reported that the average retail price of gasoline increased by 1 cent to \$2.81/gallon, the highest price since October 24<sup>th</sup>.

California's Board of Equalization said gasoline demand in the state fell by 1.5% in 2009 to the lowest level since 2000. Gasoline demand averaged 966,000 bpd, down 14,400 bpd on the year. Meanwhile diesel fuel demand increased by 3.7% or about 6,400 bpd on the year in December.

US Secretary of State Hillary Clinton predicted that the UN Security Council will reach a consensus on imposing new sanctions on Iran over its nuclear program at the end of a meeting of Group of Eight ministers. She said China will play a role in international efforts to impose sanctions against Iran and added that China recognizes the threat of Iran's nuclear program. However a Chinese foreign ministry spokesman said his government opposed Iran acquiring nuclear weapons but stopped short of supporting new sanctions. Separately, Senate Foreign Relations Chairman John Kerry said French President Nicolas Sarkozy favors "very, very strong" energy and financial sanctions on Iran. French President Sarkozy is scheduled to meet with President Barack Obama later on Tuesday.

Foreign Ministers from the Group of Eight will call on Tuesday for stronger action to be taken against Iran over its nuclear program while keeping the door open to further talks. A draft of the final



communiqué from the foreign ministers' meeting urges the international community to take appropriate and strong steps to show its resolve over the nuclear program. The ministers said they want Iran to comply with demands from the UN Security Council and cooperate with the IAEA.

The Israeli military said it scrambled fighters over the northern city of Haifa on Tuesday after several foreign warplanes approached Israeli air space. The military said the fighters returned to base after determining that the foreign aircraft, which approached from the Mediterranean, were not hostile.

### **Refinery News**

Valero Energy Corp hopes to have a deal soon with PBF Investments for the sale of its 210,000 bpd refinery in Delaware City, Delaware. The refinery has been shut since November 2009 due to poor refining economics in the region. The sales contract for the refinery is expected to be signed this month.

The maintenance that BP Plc is conducting at a reformer unit at its 265,000 bpd Carson, California refinery is not expected to impact production. The work is tied to the planned flaring activity March 29-April 20 that the company reported to state environmental regulators.

PDVSA's 320,000 bpd La Isla refinery remains without power and will not restart for at least two weeks until mid-April. The utility that supplies power and steam to the refinery was still seeking to replace air compressors that were damaged by a power outage that forced the refinery to shutdown completely on March 1<sup>st</sup>. The refinery was due to restart by late March.

Poland's PKN Orlen restarted its Lithuanian refinery after two weeks of inspection and repairs.

China Petrochemical Corp or Sinopec shutdown a crude distillation unit at its Wuhai refinery for maintenance on Monday. It also shutdown a catalytic cracking unit and a 100,000 ton polypropylene unit for maintenance.

Japan's Nippon Oil Corp plans to refine 4.75 million kiloliters or 996,000 bpd of crude in April, up 1% on the year. Its March crude refining volume was estimated at 5.02 million kl, down 1% on the year.

Japan Energy Corp plans to cut its crude processing volumes for April-June by 17% on the year to 4.25 million kl or 294,000 bpd. In the first quarter, Japan Energy estimated its crude refining volume at 5.52 million kl, up from its initial plan of 5.49 million kl.

Japan's Cosmo Oil Co plans to refine 5.583 million kl or 386,000 bpd in the second quarter, down 8.3% on the year.

Japan's imports of Iranian crude oil in 2010 are expected to fall to the lowest level in 17 years as lower consumption, high prices and political pressure weaken demand for Iranian crude. Iran is however likely to offset the decline in sales to Japan by increasing its sales to China. Iranian crude imports in Japan in 2010 are expected to fall by 11% to about 374,000 bpd. Japan's total crude imports are expected to fall by 6.5% in 2010.

Royal Dutch Shell Plc plans to purchase more than 1.46 million barrels of ultra low sulfur diesel in 2010 from Japanese, South Korean and Taiwanese refiners, up more than 60% on the year.

Indonesia's Pertamina expects to increase its gasoline imports to 5.9 million barrels in April. It also expects to import 3.2 million barrels of diesel and 280,000 barrels of fuel oil in April.

### **Production News**

Mexico reopened its oil ports of Dos Bocas and Cayo Arcas in the Gulf of Mexico on Tuesday morning as bad weather conditions eased.

Britain's North Sea Flotta crude oil stream is scheduled to load about 43,000 bpd in April, down from 63,000 bpd in March.

Denmark's DUC crude oil stream is scheduled to load about 4.2 million barrels or 140,000 bpd in April, down from about 155,000 bpd in March.

Nexen Inc said Forties production at the 200,000 bpd Buzzard oilfield in the North Sea has returned to normal following recent technical problems. Forties output from the Buzzard oilfield fell slightly last week.

Nigeria's former deputy oil minister Odein Ajumogobia said the country is producing about 2.6 million bpd of oil.

Nigeria is increasing its export program and plans to ship about 2.02 million bpd in May, which is greater than its OPEC quota of 1.673 million bpd.

BP Plc along with Iraq's South Oil Co has awarded three deals to drill 49 wells as part of the program to develop Iraq's Rumaila oilfield. Weatherford International Ltd will drill seven wells while Schlumberger Ltd and Daqing Oil Field Co Ltd will drill 21 wells each. Seven further wells will be awarded to the company that shows the most progress and most efficient working practices. BP and China National Petroleum Corp, which both signed a 20 year technical service contract in November to develop Rumaila, are planning to increase production from the field by 160,000 bpd by the end of the year or early next year. The field is currently producing 1.07 million bpd.

Separately, a senior Iraqi oil official said technical teams from Lukoil OAO and Iraq's South Oil Co met in Basra on Sunday to start the approval process for a preliminary development plan and initial budget for the West Qurna Phase 2 oilfield in southern Iraq. The field has estimated proven oil reserves of about 13 billion barrels.

Qatar has notified at least two Asian term buyers that it will supply Qatar Marine crude at full contracted volumes for May, unchanged for April.

Indonesia's BPMIGAS said the country's oil production fell slightly in March to 821,600 bpd from 824,100 bpd in February. Indonesia's condensate production however increased to 140,000 bpd in March from 135,000 bpd in February.

Kazakhstan's President Nursultan Nazarbayev said the country may double its crude supplies to Slovakia to 6 million tons this year. Kazakh oil supplies to Slovakia were disrupted this year when Ukraine sought to increase tariffs. Kazakhstan responded by sending shipments on an alternative route through Poland. He did not say what route Kazakhstan would use for its supplies to Slovakia.

Separately, Kazakhstan said it would increase its gasoline and diesel fuel export duties by 23% to \$82.96 from \$67.29/ton starting April 28<sup>th</sup>. The export duty for fuel oil would increase to \$55.31/ton from \$44.86/ton.

Libya's national oil company has set the official selling price for its crude blends for March loading. It cut the price of its Es Sider crude by 25 cents to dated BFOE minus 30 cents/barrel in March.

Algeria's Sonatrach has set its official selling price for Saharan Blend crude for April loading at dated Brent plus 20 cents/barrel, down 60 cents on the month.

OPEC's news agency reported that OPEC's basket of crudes increased to \$77.77/barrel on Monday from \$76.80/barrel on Friday.

**Market Commentary**

Crude oil slightly extended yesterday's gains as it reacted to the euro-dollar relationship. As the dollar weakened and the euro strengthened, crude oil bounced up and down, unable to surpass yesterday's high. Market participants await the release of the DOE numbers tomorrow, which are calling for a slight build in crude oil inventories and draws in both gasoline and heating oil, a seasonal scenario. Despite the mover higher in this market, the overall shape of the forward curve has not changed. We view this as an indication that this market is being influenced by investor interest rather than a shift in the underlying fundamentals of the market. It appears that prices are at a level of comfort and that the established trading range of \$69.00 - \$84.00 is acceptable. Our near term upside objective is still \$83.18 and we would not discount a test at the previous high of \$83.95.

Crude oil May 10 324,963 +7,043 June 10 179,280 +89, July 103,735 +5,893 Totals 1,297,331 +8,090 Heating oil APR10 14,543 -5,694, May 10 99,915 +4,869 June10 51,599 Totals: 322,775 +2,552. Gasoline APR10 16 12,457 -4,431, May 10 122,871 +3,003 Totals 316,128 -37

The API reported a smaller than expected build in crude stocks of over 400,000 barrels on the week. It reported that crude stocks in Padd 2 built by 2.733 million barrels while stocks in Padd 3 fell by 2.027 million barrels on the week. It reported the build in crude stocks despite the decline in imports as the previous week's import level was revised up by 293,000 bpd. Also crude runs increased by 244,000 bpd to 14.08 million bpd. The API reported a draw in distillate stocks of just over 1 million barrels on the week, with draws of 556,000 barrels in Padd 2 and 703,000 barrels in Padd 5. It reported that distillate production fell by 50,000 bpd or 1.3% to 3.681 million bpd. It however showed that apparent demand fell by 5.5% on the week to 4.061 million bpd and apparent demand fell by 1.6% on the week to 4.17 million bpd. Gasoline stocks fell by 946,000 barrels on the week as production fell by 61,000 bpd or 0.6% on the week to 9.329 million bpd and imports fell by 58,000 bpd or 35.6% on the week to 105,000 bpd. Apparent demand however fell by 2.7% to 9.569 million bpd while apparent demand basis its three week moving average fell by 1.1% on the week to 9.752 million bpd.

<b>Crude Support</b>	<b>Crude Resistance</b>
79.75-79.51, 78.43, 76.72, 75.00, 72.60, 71.31, 70.42, 69.50, 65.05, 64.70, 63.38, 62.70, 61.61, 60.95	83.18, 83.95, 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>
2.1460, 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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