



## ***ENERGY RISK MANAGEMENT***

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### **ENERGY MARKET REPORT FOR APRIL 5, 2011**

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Saudi Arabia's former oil minister Sheikh Zaki Yamani said oil prices would rally to \$200 to \$300/barrel if Saudi Arabia is impacted by serious political unrest. He said he saw no immediate sign of further unrest but said that underlying discontent remained unresolved.

Iran's OPEC governor Muhammad Ali Khatibi said OPEC has no plans to hold an emergency meeting due to the higher oil prices. The next ordinary OPEC meeting is scheduled for June 8<sup>th</sup> in Vienna.

UK Energy and Climate Change Secretary Chris Huhne and Saudi Arabia's Oil Minister Ali Al Naimi said that the current high oil prices are mainly driven by speculation and do not reflect supply and demand realities.

#### **Market Watch**

Interior Secretary Ken Salazar said the US government is looking at whether new standards for blowout preventers on drilling rigs are needed in the wake of the BP oil spill in the Gulf of Mexico.

The Institute for Supply Management said its index of non-manufacturing activity fell to 57.3 in March, down from 59.7 in February, a five year high. The business activity/production index fell to 59.7 from 66.9 in February while the new orders index slowed slightly to 64.1 in March from 64.4 in February. The ISM employment index fell to 53.7 from 55.6 in February. The ISM prices index fell to 72.1 in March from 73.3 in February.

The People's Bank of China increased interest rates on Tuesday for the fourth time since October. The benchmark one-year deposit rate was increased by 25 basis points to 3.25% while the one-year lending rate was increased by 25 basis points to 6.31%. The increases take effect starting April 6<sup>th</sup>. The tightening of monetary policy is in addition to six official increases in bank reserves over the same period and follows a declaration by China's top leaders that controlling inflation was their most important task this year.

Kuwait Petroleum Corp will invest approximately \$90 billion over the next five years in its oil and gas businesses and growth strategy. The investments are part of a longer term program that envisions \$340 billion in spending to 2030.

The Organization for Economic Cooperation and Development said central bankers increasingly need to focus on managing inflation. It forecast growth across the G7 group of major economies, excluding Japan, to average 3.2% on an annualized basis in the first quarter and 2.9% in the second quarter. Growth was 2.3% and 2.1% in the third and fourth quarters, respectively. The forecast showed annualized US growth rates of 3.1% and 3.4% in the first and second quarters. The OECD said that while the recovery was becoming self sustained, the central banks of some of its members faced the risk of inflation becoming unanchored.

The European Central Bank is poised to increase interest rates on Thursday and build in room to tighten policy further. It is set to raise rates a quarter point from 1%. It would be the first rate increase since July 2008.

#### **API Stocks**

**Crude** – down 2.797 million barrels  
**Distillate** – down 1.031 million barrels  
**Gasoline** – up 568,000 barrels  
**Refinery runs** – up 0.7% at 84%

Lloyd's List Intelligence said the first tanker in weeks has docked in rebel held eastern Libya and is due to load its cargo on Wednesday. The tanker with a capacity to carry over 1 million barrels of crude was chartered by Vitol Group. It said the crude would be loaded at the Marsa el-Hariga terminal, in

the Tobruk area. The loading if completed would signal a resumption of crude exports after they were halted last month due to the unrest in the country.

**April  
Calendar Averages**  
**CL – \$108.25**  
**HO – \$3.1636**  
**RB – \$3.1738**

A Libyan government official and an energy industry executive said a Libyan owned ship carrying a cargo of imported petrol has docked at a government controlled port, helping to relieve a fuel shortage. The ship, which was carrying 23 million liters of fuel, was unloading its cargo at the port of Zawiyah.

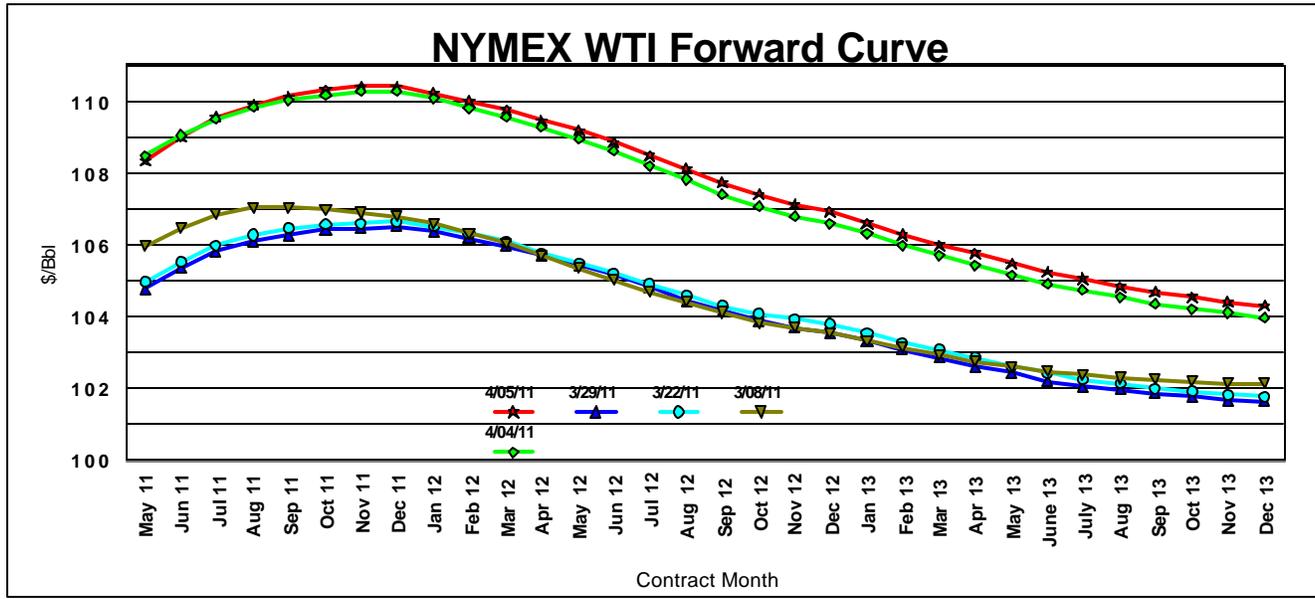
Turkish officials, seeking to broker a ceasefire in Libya, said there was no breakthrough in sight with the two sides disagreeing over whether Libya's leader Muammar Gaddafi should stay or leave. Meanwhile, British junior foreign minister Alistair Burt stressed there would be absolutely no foreign occupation or invasion in Libya.

An air strike destroyed two government military vehicles on Tuesday in the east Libyan oil town of Brega, where rebels have clashed with Muammar Gaddafi's forces for five days. The North Atlantic Treaty Organization estimated that allied air attacks had taken out 30% of Muammar Gaddafi's military capacity. Meanwhile Libyan rebels feared further setbacks in their fight to oust Muammar Gaddafi after his forces drove them back towards their stronghold of Benghazi with sustained rocket and mortar fire, in the sixth day of fighting for the oil port of Brega. The insurgents said western air strikes have become less effective since NATO took control from a coalition of France, Britain and the US on March 31<sup>st</sup>. NATO denied air power had become less effective.

The International Criminal Court prosecutor said the UN Security Council is responsible for any political decisions on Libya, noting his role is limited to investigating crimes.

Algeria is concerned by an increased al Qaeda presence in Libya and worried militant groups could lay their hands on weapons circulating in the country

Security forces and armed men opened fire during protests in the Yemeni city of Taiz on Tuesday, a day after clashes there killed 15 people. Meanwhile, Yemen accepted an invitation by Gulf Arab states to hold talks on its political crisis in Saudi Arabia in a bid to end the crisis amid calls for President Ali Abdullah Saleh's departure. The Gulf Cooperation Council invited the Yemeni government and opposition representatives to talks but a date has yet to be set. Yemen's opposition demanding President Ali Abdullah Saleh's departure is ready to hold talks but only to discuss a



transfer of power.

Bahraini companies fired more than 1,000, mostly Shi'ite Muslim, workers who went on strike to support pro-democracy protesters. Bahrain's unions called a general strike on March 13<sup>th</sup> to support Shi'ite protesters against the Sunni led government who for weeks occupied a square in the capital until security forces moved in on March 16<sup>th</sup>. The strike was called off on March 22<sup>nd</sup>. In Geneva, the International Labour Organization denounced the mass sackings and other repressive measures.

India has agreed to stop paying for its Iranian oil imports via Germany. The decision to phase out the route was a result of consultations between Berlin and New Delhi and not pressure from Chancellor Angela Merkel at home or abroad to disrupt the payment scheme. A high ranking government official said confirmed reports indicating that billions of euros of payments to a Hamburg based bank handling international trade with Iran had been halted.

Russia and France, the current holder of the presidency of the Group of 20 nations, called on Tuesday for coordinated international action to curb volatility on global commodities markets. Following a meeting between Russia's Foreign Minister Alexei Kudrin and France's Foreign Minister Christine Lagarde, Russia's Foreign Ministry said sharp fluctuations in raw materials prices destabilize markets and require coordinated measures to be taken at an international level.

MasterCard Advisors' SpendingPulse report showed that US gasoline demand fell last week by 1.2% on the week to 9.19 million bpd. Demand fell by 3.6% on the year. It also reported that retail gasoline prices increased by 5 cents on the week to \$3.61/gallon.

### **Refinery News**

Colonial Pipeline allocated Cycle 21 shipments on its Line 20 carrying distillates from Atlanta, Georgia to Nashville, Tennessee.

ExxonMobil completed its turnaround of a fluid catalytic cracking unit at its 504,500 bpd refinery in Baton Rouge, Louisiana. Exxon started 52 days of overhaul on the fluid catalytic cracking unit and associated units at the refinery on February 8<sup>th</sup>.

Sunoco Inc's 178,000 bpd Marcus Hook, Pennsylvania refinery is expected to be fully back online on Thursday following the restart of its fluid catalytic cracking unit. Sunoco had originally planned to restart the unit on Tuesday after it was shut due to a power outage.

Tesoro Corp expects the restart of an unspecified process unit to be completed later Tuesday at its 96,860 bpd Wilmington, California refinery following maintenance.

Shell Oil Co has not yet restarted its crude distillation unit at its 340,000 bpd refinery in Deer Park, Texas. Shell shut the unit after discovering a leak of light naphtha on Thursday.

ConocoPhillips is scheduled to shut its 185,000 bpd refinery in Trainer, Pennsylvania for turnaround in late September or early October. The refinery is expected to shut down for five to six weeks.

Saudi Arabia's PetroRabigh said it planned to shut its 400,000 bpd refinery and petrochemical complex on April 21<sup>st</sup> for about two months of planned maintenance. The company, which has built up stocks to meet 30 days of demand during the shutdown, expects its sales to fall as a result of the shutdown. Units at the refinery are expected to start resuming operations after 45 days.

Pertamina said a fire at the third storage tank, which was extinguished earlier in the day, flared up again due to strong winds. The company decided to shut down two crude distillation units at the 348,000 bpd facility on Saturday evening as a precaution. The shutdown could take about five days.

Kuwait is in talks with BP Plc and other energy companies over a possible role in its \$9 billion refining joint venture with Sinopec in China. The refinery and petrochemical project was approved by Beijing last month and is part of Kuwait's aim of more than doubling crude exports to China to 500,000 bpd. The project consists of a 300,000 bpd refinery and a 1 million ton/year ethylene cracker.

Western arbitrage fuel oil shipments to East Asia for April are expected to fall to about 3 million tons after reaching a 6 year high of 4.2-4.3 million tons a month earlier. An additional 2.6-2.7 million tons have been booked for May arrival.

### **Production News**

International oil companies operating in Gabon expect their crude production to return to normal within days after the ONEP oil workers' union agreed to end a four day strike. The union reached an agreement with the government over local hiring requirements. The strike started on Friday and halted an estimated 240,000 bpd of production by Saturday afternoon. A Total spokesman said its 67,000 bpd production in Gabon would resume full capacity on Tuesday after restarting late Monday. Royal Dutch Shell expects its oil production in Gabon to return to normal within days. Tullow, which in the first half of 2010 had an average working interest production of 12,700 bpd, said operations were resuming after the strike.

Colombia's oil licensing agency ANH said the country's oil production in March increased by 14% on the year to 884,000 bpd mainly due to improved security and large inflows of foreign investments.

An Iraqi government official said Iraq and Kurdistan are likely to reach an agreement on revenues from crude oil exports in the second half of 2011. Oil exports from Kurdistan are currently about 80,000 bpd and could increase to 200,000 bpd by the end of the year.

Russia's Deputy Finance Minister Sergei Shatalov said Russia may fix a unified export duty for light and heavy oil products from July 1<sup>st</sup>. Russia plans to reduce the export duty on crude oil to 60% while a unified export duty on heavy and light oil products would be set at 66%.

OPEC's news agency reported that OPEC's basket of crudes increased further to \$115.07/barrel on Monday from \$113.36/barrel on Friday.

Saudi Aramco cut the prices of its crude grades bound for Europe and Asia while it increased some of the prices of its crudes bound for the US. The price of its Extra Light crude bound for Northwest Europe was set at BWAVE minis \$1.75, down 65 cents on the month; the price of its Light crude was set at BWAVE minus \$4.50, down \$1.10; the price of its Medium crude was set at BWAVE minus \$7.15, down \$1.25 and the price of its Heavy crude was set at BWAVE minus \$9.75, down \$1.30. The price of its Super Light crude bound for Asia was unchanged at the Oman-Dubai average plus \$6.05; the price of its Extra Light crude was set at the Oman-Dubai average plus \$3.85, down 10 cents; the price of its Light crude was set at the Oman-Dubai average plus \$1.65, down 30 cents; the price of its Medium crude was set at the Oman-Dubai average minus \$1, down 55 cents and the price of its Heavy crude was set at the Oman-Dubai average minus \$3.45, down 90 cents. Meanwhile, the price of its Extra Light crude bound for the US was set at the Argus Sour Crude Index plus \$3, up 40 cents; the price of its Light crude was set at the ASCI plus 20 cents, up 20 cents; the price of its Medium crude was set at ASCI minus \$2.20, unchanged and the price of its Heavy crude was set at ASCI minus \$4.20, down 30 cents.

**Market Commentary**

Crude oil retreated from its highest level in 2-1/2 years in response to China raising interest rates. There is concern that the 25 basis point increase by China may have a negative impact on demand in the world's second largest consumer of oil. Adding to the pressure was expectations that inventories will reflect an increase of 2 million barrels. Brent futures edged higher trading at a \$14.03 premium to the WTI, up from yesterday's \$12.59 differential. The spot month WTI spread is showing signs of weakness, settling 7 cents weaker from yesterday's close. With the weakness in this spread, we would look for prices to perhaps trade in a period of consolidation, prior to working higher. Although we aren't comfortable with prices at current levels, we cannot discount the situations in the Middle East and Japan. Today's inside trading session, followed by a lower close should open tomorrow's session with lower prices.

Crude oil: May 11 331,396 -6,988 June 11 173,403 +6,040 July 11 129,908 +2,795 Totals 1,560,098 +12,376 Heating oil: May 11 105,840 -1,277 June 11 56,709 +370 July 11 34,608 -360 Totals 305,621 -2,638 Rbob: May 11 103,527 +876 June 11 47,938 -653 July 11 27,816 +1,351 Totals 284,984 +4,044

Crude Oil		Heating Oil		Rbob	
Support	Resistance	Support	Resistance	Support	Resistance
10695		30810		30130	
10136		27980		26965	31970
10000	10880	26680	33510	26300	32450
9622	111.65	27375		25683	35915
9540	11563	23685		25145	36310
9267	121.26	22960		24240	
9635				23631	
8385				23414	



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