

**W** The  
Windham Group



## ***ENERGY RISK MANAGEMENT***

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

**www.e-windham.com**

---

### **ENERGY MARKET REPORT FOR APRIL 12, 2011**

---

In its latest Short Term Energy Outlook, the EIA forecast that total world oil consumption would grow by an annual average of 1.5 million bpd in 2011 and 2012. Total oil demand in 2011 is estimated to increase from 86.68 million bpd to 88.2 million bpd, which is unchanged from its previous forecast while demand in 2012 is estimated to increase to 89.76 million bpd, down 0.13% from its previous forecast. Countries outside the Organization for Economic Cooperation and Development would make up almost all of the growth in consumption over the next two years. The EIA forecast

#### **Market Watch**

The Labor Department said US import prices increased in March due to higher petroleum and food prices. The price of goods imported to the US increased by 2.7% in March following a 1.4% increase in February and a 1.5% increase in January. For the year ending in March, import prices increased by 9.7%. During the first quarter of 2011, import prices increased by 5.7%, the largest increase since the second quarter of 2008. The report showed that petroleum import prices increased by 10.5% in March from February, the largest gain since June 2009.

The Commerce Department said the US trade deficit narrowed in February as high prices cut demand for oil and imports from China fell sharply. The US deficit in international trade of goods and services fell by 2.6% to \$45.76 billion from a revised \$46.97 billion the month before. The January trade gap was originally reported as \$46.34 billion. The US trade deficit with China fell 19% to \$18.84 billion from \$23.27 billion in January. Imports fell by \$4.07 billion while exports increased by \$359 million. The US bill for crude oil imports in February fell to \$21.13 billion from \$24.51 billion the month before, despite a \$2.83 increase in the average price per barrel to \$87.17.

Deutsche Bank increased its 2011 Brent crude forecast price from \$107.75 to \$117.50/barrel due to tight supply margins and strong demand. It also increased its Brent forecast for 2015 to \$125/barrel from \$105 after recent informal output increases in OPEC countries left less of a supply cushion. It expects global oil demand to increase by 1.65 million bpd in 2011 while it forecasts OPEC spare capacity would fall from 5 million bpd to 3 million bpd.

The Federal Deposit Insurance Corp, the Federal Reserve and other regulators proposed new margin requirement rules for the swaps market, saying they were confident the regulations would not hamper nonfinancial companies provided that they do not engage in overly speculative bets. Meanwhile, the CFTC voted to propose a rule that would require commercial end users to post margin on swaps deals. The CFTC proposed a rule that would require non-financial companies or end users to be exempted from new margin requirements on swaps deals. Deals with non-financial end users would not require margin, deals between swap dealers would require two way margin and deals between financial institutions and swap dealers would require margin from financial institutions but not the dealers.

The SEC and CFTC said they would receive modest funding increases for fiscal year 2011 under the spending deal that averted a government shutdown. The proposed spending bill agreed to by congressional negotiators increased funding for the SEC by \$74 million from 2010 level to \$1.19 billion. Funding for the CFTC would increase by \$34 million to \$202.7 million. The funding increase is for fiscal 2011, which ends on September 30<sup>th</sup>.

Separately, an agreement was reached between the CFTC, which regulates commodity exchanges and the Federal Trade Commission, which protects consumers from anti-competitive practices in commerce, to share more information on investigations into wrongdoing in the energy markets, including crude and gasoline. The agreement would help the FTC enforce its rules against manipulation in the petroleum markets and assist the CFTC in going after manipulation in the oil markets.

According to minutes of Fed meetings in February and March showed that directors of Federal Reserve Banks in Kansas City and Dallas unsuccessfully sought another 0.25% increase in the rate charged to banks for emergency loans to 1%. The other 10 regional Fed banks wanted no change in the discount rate.

French government sources said Group of 20 finance ministers and central bankers meeting in Washington later this week are expected to reach an agreement on guidelines to identify global economic imbalances.

Air Transport Association estimated that fuel as a percentage of operating expenses could reach 35% to 40% compared with a high of 36% set in the third quarter of 2008. The ATA projects the 2011 first quarter fuel bill will be about \$3 billion higher than for the year ago period, an increase from \$8.8 billion to \$11.8 billion or about 35%.

### **API Stocks**

**Crude** – up 1.187 million barrels  
**Distillate** – down 3.686 million barrels  
**Gasoline** – down 4.598 million barrels  
**Refinery runs** – down 5.1% at 78.9%

that non-OPEC production would increase by 550,000 bpd to 52.17 million bpd in 2011 and by 230,000 bpd to 52.4 million bpd in 2012. Meanwhile OPEC oil production is expected to increase by 130,000 bpd to 29.57 million bpd in 2011 and by 1.14 million bpd to 30.71 million bpd in 2012. It projects that OPEC's surplus capacity would fall from 4.2 million bpd at the end of 2010 to 3.4 million bpd at the end of 2011 followed by

a further decline to 2.7 million bpd by the end of 2012. Projected OECD stocks are estimated to fall by 78 million barrels to 2.577 billion barrels in 2011 and by 43 million barrels to 2.534 billion barrels in 2012. In regards to US oil demand, the EIA stated that demand in 2011 is expected to increase by 210,000 bpd to 19.36 million bpd, up .41% from its previous estimate. Demand in 2012 is expected to increase by 150,000 bpd to 19.51 million bpd, up 0.26% from its previous estimate. Gasoline demand in 2011 is expected to increase by 50,000 bpd to 9.08 million bpd, down 0.22% from its previous estimate while demand in 2012 is expected to increase to 9.15 million bpd, down 0.11% from its previous estimate. Distillate demand in 2011 is expected to increase by 90,000 bpd to 3.88 million bpd, up 0.77% from its previous estimate while demand in 2012 is expected to increase by 80,000 bpd to 3.96 million bpd, up 0.25% from its previous estimate. During the summer season, projected motor gasoline consumption increases by 0.5% over last summer. Distillate demand this summer is projected to average 3.81 million bpd this summer, up 2.3% from last summer. The EIA said the volume of fuel ethanol blended with gasoline would be 5% higher during the peak spring-summer driving season this year than it was a year ago. It said ethanol blending during April through September would average 912,000 bpd. In regards to prices, the EIA stated that it expects regular gasoline retail prices, which averaged \$2.76/gallon last summer, to average \$3.86/gallon during the current driving season. Gasoline prices are expected to peak this year at \$3.91/gallon in early summer. Diesel fuel prices, which averaged \$2.98/gallon last summer, are projected to average \$4.09/gallon this summer. The price of WTI crude is expected to average \$106/barrel in 2011 and \$114/barrel in 2012, up \$5/barrel and \$9/barrel, respectively from last month's estimate.

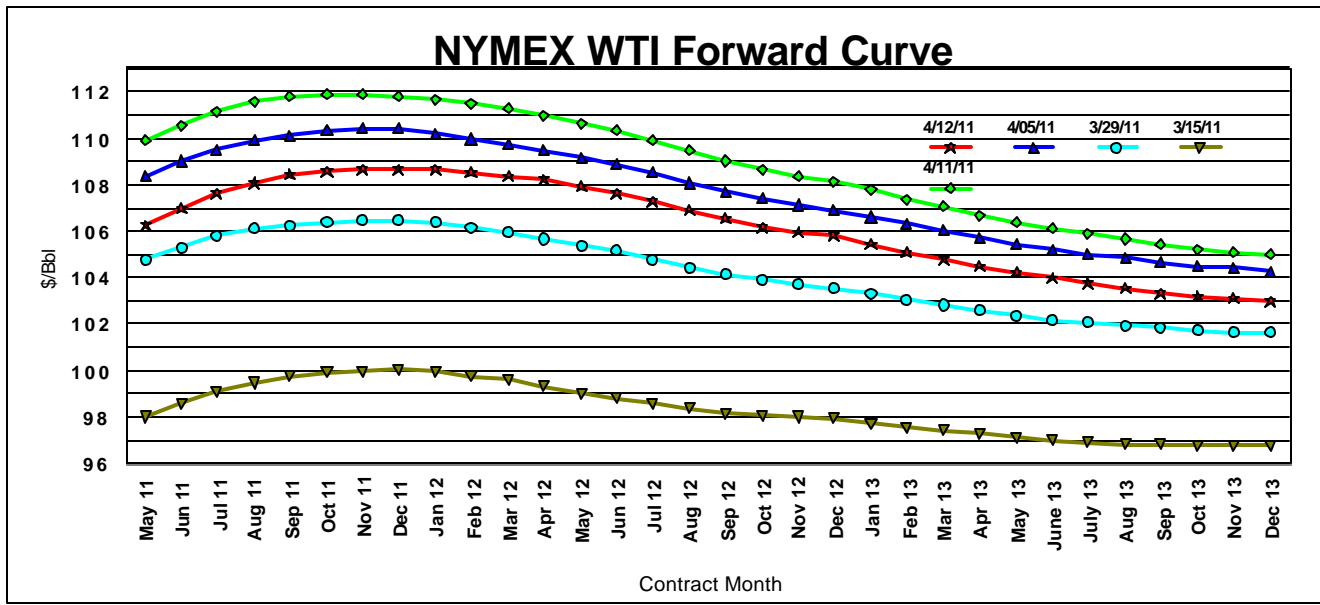
The IEA said high oil prices are starting to impact oil demand growth. It said prices could ultimately moderate through a global economic slowdown. It kept its 2011 global oil demand growth forecast unchanged at 1.4 million bpd or 1.6%. It said tight global supply was its other major concern as the global oil output fell by about 700,000 bpd in March to 88.27 million bpd due to unrest in Libya. OPEC's crude oil production fell by 880,000 bpd alone. The IEA also stated that OPEC's spare capacity stood at a comfortable level of 3.91 million bpd, with Saudi Arabia accounting for 3.2 million bpd alone.

OPEC slightly downgraded its annual forecast for global oil demand for the first time this year. In its monthly report, OPEC cut its world oil demand forecast for 2011 by 50,000 bpd. It forecast world demand would grow by 1.39 million bpd in 2011. It said demand for OPEC crude this year would average 29.9 million bpd.

According to a SpendingPulse report released by MasterCard Advisors LLC, US weekly gasoline demand fell by 1.8% to 9.018 million bpd in the week ending April 8<sup>th</sup>. It was the third consecutive decline. Gasoline demand was down 3% on the year. The four week gasoline demand fell by 1.9% on the year to 9.202 million bpd. It reported that the price of regular gasoline increased by 11 cents to \$3.72/gallon, up 31% on the year.

The European Union added 26 energy firms to its Libya sanctions list, a move that Germany said amounted to a de facto oil and gas embargo. The 27 nation bloc had already imposed sanctions on Libya's main oil group, the national oil firm NOC and four of its subsidiaries in a bid to cut off funding from industry to the Libyan government.

**April  
Calendar Averages  
CL – \$109.11  
HO – \$3.2041  
RB – \$3.1908**



Libyan television reported that NATO warplanes bombed the edge of the rebel held city of Kikla, killing police and civilians.

The UK and France called on NATO allies to pull their weight in the bombing mission in Libya. Under criticism from Libyan rebels over the pace of air strikes, the 28 nation alliance has increased its strikes in recent days, destroying dozens of regime tanks threatening the besieged cities of Misrata and Ajdabiya since Friday. Separately, an official with the rebel National Transition Council, forces loyal to Libyan leader Muammar Gaddafi have killed 10,000 people during the unrest in Libya, with an additional 30,000 wounded and 20,000 missing.

Libyan former foreign minister Moussa Koussa is leaving the UK to travel to Qatar for talks ahead of meeting of an international contact group on Libya. An official with the rebel National Transition Council said the former foreign minister would not represent the rebels during the talks. Libyan rebels attending the meeting would accept nothing short of Muammar Gaddafi's departure from Libya.

Turkey's Foreign Minister Ahmet Davutoglu is scheduled to attend Wednesday's international talks on Libya in Qatar and seek support of its roadmap to end the conflict in Libya. Turkey last week proposed a roadmap to end the unrest in Libya, urging an immediate ceasefire, the lifting of sieges of rebel held towns, the creation of humanitarian corridors and the initiation of a process that would lead to free elections.

### Refinery News

ConocoPhillips expects to begin flaring activity at its Carson, California refinery at the start of next week. It did not disclose the cause of the event.

BP's hydrocracking unit at its 265,000 bpd refinery in Carson, California resumed operations following a two month overhaul. The unit restarted over the weekend.

A crude unit at Sunoco Inc's 335,000 bpd Philadelphia refinery was operating at 140,000 bpd on Tuesday as the restart process continues. Sunoco expects to complete the restart of the unit by the end of the week.

Tesoro Corp said there was no impact on operations from a release at its 166,000 bpd refinery in Martinez, California.

Holly Corp said flaring at its 85,000 bpd Tulsa, Oklahoma refinery was caused during maintenance of a boiler unit. It said the problem was corrected and the units were operating at normal rates.

Flint Hills Resources finalized a deal to receive Eagle Ford Shale crude and condensate into its facilities in Corpus Christi from Anadarko Petroleum Corp's holdings. Harvest Pipeline said a new 12 inch pipeline will initially carry 50,000 bpd of liquids from Eagle Ford, with an ultimate capacity of 90,000 bpd.

Royal Dutch Shell plans to close the Clyde refinery, the smaller of its two refineries in Australia and turn it into a fuel terminal before mid-2013 as it can no longer compete with Asia's major refineries. It said its 75,000 bpd Clyde refinery in Sydney, which accounts for 10% of Australia's operating refining capacity, would need a large investment, including major maintenance mid-2013, if it were to continue operating.

Workers at Greece's Hellenic Petroleum SA will suspend their strike that has cut production. The strike, which started on April 3<sup>d</sup> and which unions had initially decided to extend until April 19<sup>th</sup>, will end to give negotiations with the company's management a chance. Talks between workers and management are scheduled to be held on Wednesday and Thursday.

### **Production News**

Trade sources said Trafigura is looking to export a crude oil cargo from the Libyan port of Brega. It would load Sarir grade crude sourced from eastern Libya. Separately, Vitol has shipped a cargo of gasoline to the rebel held Libyan port of Benghazi in recent days. The cargo was shipped from Malta to Benghazi.

Qatar said it has so far marketed 1 million barrels of crude oil for the Libyan rebels and has delivered four shipments of oil products to the city of Benghazi. Two other shipments were also transported from Tobruk, the main oil hub in the east of Libya.

Saudi Arabia cut its oil production by 500,000 bpd, reversing a previous increase in response to the Libyan crisis, due to weak demand. Saudi Arabia cut its production back to about 8.5 million bpd. The country encountered only limited interest from buyers, due in part to high prices and reduced Japanese demand following the earthquake and tsunami. On Monday, Saudi Arabia told buyers in Europe and Asia it would keep contractual supply steady in May. It said it could still meet long term supply contracts and has sold at least 2 million barrels of a special blend of crude it said was a substitute for light sweet Libyan crude in March. It said it is ready to sell more of its new crude oil blend if needed.

Apache Corp restarted crude production at its Van Gogh field offshore Western Australia following two weeks of maintenance. The company performed unscheduled maintenance at the facility following a disruption to oil production.

Norway's Statoil said its Njord and Visund oil and gas fields, closed for inspection after gas leaks, will resume production within a month if no serious problems are discovered. The company said the production stoppages would not prevent Statoil from achieving its overall production targets, assuming the stoppages are not long term. Separately, Statoil submitted a development plan to begin production at the Vigdis North-East subsea development in the North Sea in December 2012. Recoverable reserves in the development are estimated at 33 million barrels of oil equivalent. Oil and

gas from the north-east Vidgis development would be transported in a new pipeline to the Snorre A field.

OGX Petroleo & Gas Participacoes expects to produce 60,000 bpd of oil equivalent next year. It is expected to begin production in September from its offshore oil fields. Production would increase to 1.4 million bpd in 2020.

Crude oil production from Ghana is currently at about 70,000 bpd and is expected to reach 75,000-80,000 bpd by next week. It should reach its 120,000 bpd target by August.

Mexico's Pemex said it evacuated 638 workers from the Flotel Jupiter platform, a semi-submergible dormitory platform, after it started to lean to one side. It said the since the platform is used only for housing and not for production, the incident did not cause any leakage of hydrocarbons.

The heads of Royal Dutch Shell and OAO Gazprom met on Tuesday in Moscow to discuss potential joint projects in Russia and outside Europe. They discussed the implementation of joint projects in western Siberia and in eastern Russia.

Brazil's Petrobras will increase domestic gasoline prices if international oil prices remain unchanged. Petrobras' chief executive said current gasoline prices in Brazil were based on oil trading at about \$65-\$85/barrel.

### **Market Commentary**

Today's market activity was once again linked to Goldman Sachs, who has been calling for a considerable correction to the downside. Brent continues to retreat from its 2 ½ year high of \$127.02 as it becomes apparent that the perceived supply/demand tightness is not in existence at the moment. The May Brent contract has retraced almost 50% of its move from \$112.23 to \$127.02. This 50% retracement level is \$119.53. The WTI extended yesterday's losses, at one point losing over \$4.00 from yesterday's close. This market which is still in overbought territory, could easily slip to \$100.00 given the amount of exposed length still left and the fact that the IMF cut its growth forecast for the U.S and Japan. With Japan having a long road to recovery in front of it, economic growth will surely suffer, impacting its demand for oil. This could very well have a ripple effect, especially with China, Japan's biggest trading partner. For now prices will most likely continue to correct themselves

Crude oil: May 11 209,195 -41,294 June 11 245,531 +24,426 July 11 160,209 +9,239 Totals 1,567,492 -6,184 Heating oil: May 11 88,823 -6,095 June 11 61,540 +2,633 July 11 38,487 +1,028 Totals 310,480 +385 Rbob: May 11 84,725 -6,569 June 11 58,185 +1,850 July 11 37,173 +3,781 Totals 290,154 -1433.

Crude Oil		Heating Oil		Rbob	
Support	Resistance	Support	Resistance	Support	Resistance
	10880	30810			35915
10484	10750	27980		30130	36310
10281	10695	26680	33510	26965	
10136	11563	27375		26300	
10000	11703	23685		25683	
9622	12126	22960		25145	
9540	14933			24240	
9267				23631	
9635				23414	

The information contained in this letter is taken from sources, which we believe to be reliable, but is not guaranteed by us as to accuracy or completeness and is sent to you for information purposes only. The Windham Group bases its market recommendations solely on the judgment of its personnel. Reproduction in whole or part or other use without permission is prohibited.