



## ***ENERGY RISK MANAGEMENT***

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

**www.e-windham.com**

---

### **ENERGY MARKET REPORT FOR SEPTEMBER 14, 2011**

---

The EIA reported that US summer driving slowed this summer as high pump prices pulled gasoline demand to an eight year low. Gasoline demand averaged 9.17 million bpd from the first week of June to the first week of September. Demand throughout the summer fell 1.8% on the year. The EIA reported that gasoline prices averaged \$3.62/gallon this summer, up \$1 from last year. It also reported that US ethanol production fell by 1.8% or 17,000 bpd in the week ending September 9<sup>th</sup> to 879,000 bpd. Based on a four week rolling average, production volume came in at 892,000 bpd, up 4% on the year. Ethanol stocks totaled 17.16 million barrels, up from 17.1 million barrels the previous week.

Investigators from the Coast Guard and Bureau of Ocean Energy Management blamed the largest offshore oil spill in US history to poor management and failure to

#### **Market Watch**

The US Labor Department said US wholesale prices were flat in August. The Producer Price Index was unchanged in August from July as lower energy costs offset higher food prices. Wholesale prices increased a monthly 0.2% in July and fell 0.4% in June. The report showed that energy goods prices fell 1% in August, the third monthly decline, led by lower costs for liquefied petroleum gas as well as gasoline and diesel fuel. Year over year, overall producer prices in August were up 6.5%, moderating slightly from the 7.2% increase reported in July.

The US Commerce Department reported that US retail sales were flat in August at \$389.5 billion. July retail sales were revised down to a 0.3% increase following an originally estimated increase of 0.5%.

US business inventories in July increased less than expected. The US Commerce Department said business inventories increased by 0.4% to \$1.526 trillion while sales increased by 0.7% in July to \$1.198 trillion. Year over year inventories increased 10.6% since July 2010 and sales increased 12%. The inventory-to-sales ratio fell to 1.27 from 1.28.

The Mortgage Bankers Association said its seasonally adjusted index of mortgage application activity, which includes both refinancing and home purchase demand, increased 6.3% in the week ending September 9<sup>th</sup>. The MBA's seasonally adjusted index of refinancing applications increased 6% while the index of loan requests for home purchases increased 7%.

The European Union's statistics office, Eurostat said Euro zone industrial output rebounded in July after falling in June. Industrial production increased 1% on the month to a 4.2% year on year gain in the 17 countries using the euro. Industrial production fell by 0.8% month on month in June.

A deputy managing director of the IMF, Zhu Min said the world economy will not suffer a second recession however emerging economies must tighten their monetary policies to keep inflation in check.

BNP Paribas cut its oil price forecasts for 2011 and 2012 saying global oil demand may end up lower than expected due to further deterioration in the economic outlook. BNP Paribas cut its 2011 WTI price forecast by \$2 to \$95/barrel and 2012 price forecast by \$6 to \$101/barrel while cutting its Brent forecasts by \$2 to \$112/barrel in 2011 and \$8 to \$116/barrel in 2012.

### DOE Stocks

**Crude** – down 6.704 million barrels  
**Distillate** – up 1.711 million barrels  
**Gasoline** – up 1.94 million barrels  
**Refinery runs** – down 2%, at 87%

respond to critical indicators by companies drilling the Macondo well. They said BP made decisions that increased risks and Transocean misinterpreted a critical test prior to last year's oil spill in the Gulf of Mexico.

Gulf Keystone is confident political differences between Iraq and the semi autonomous region of Kurdistan over an oil law will be resolved by the end of the year. Iraq's central government and Kurdistan have been at odds for years over legislation that would go a long way towards deciding control of Iraq's reserves.

A senior US official said Iran's latest letter to the EU's foreign policy chief does not contain any new commitments by Iran to fully address concerns over its nuclear program. US Ambassador to the UN's IAEA, Glyn Davies said the six major powers were discussing how to react diplomatically to the letter from Iranian nuclear negotiator Saeed Jalili to the European Union's Catherine Ashton, in which he stated that Iran was ready to resume stalled talks.

Libya's former leader Muammar Gaddafi is still in Libya and in good spirits, with a powerful army supporting him, according to his spokesman.

The European Union reached a political deal which would significantly broaden the sanctions on Syria over the country's crackdown on protests against President Bashar al-Assad's regime. One of the sanctions imposed on the country is a ban on European investment in Syria's oil sector.

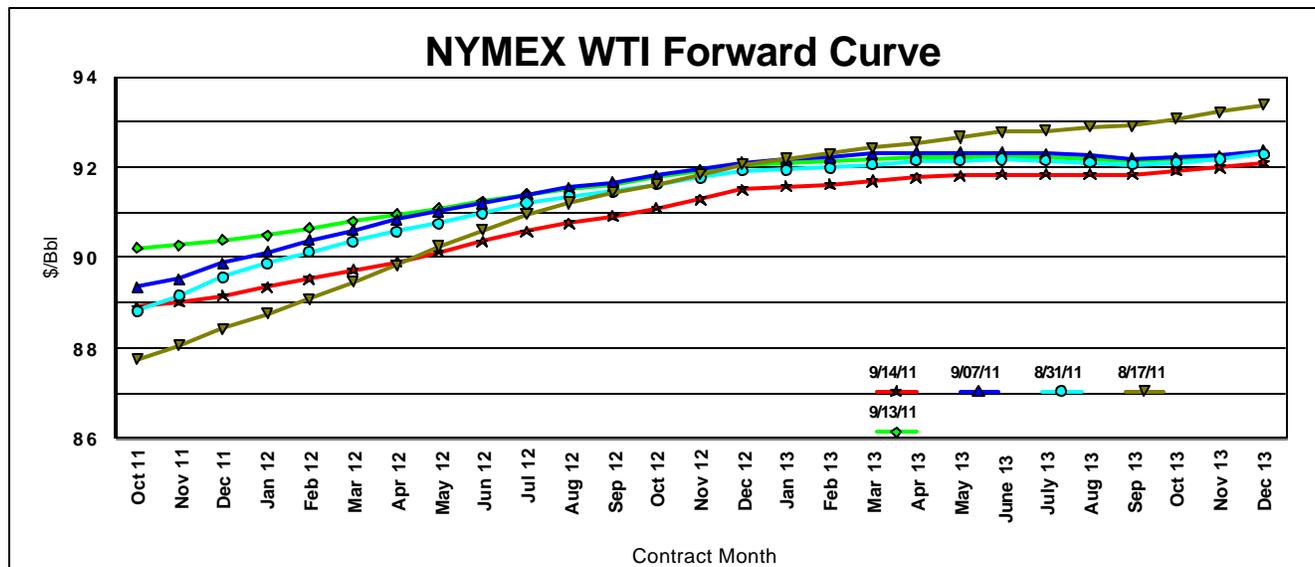
**September  
Calendar Averages**  
CL – \$88.26  
HO – \$2.9993  
RB – \$2.8139

### Refinery News

Colonial Pipeline restarted its pipelines in Alabama following a shutdown due to an earthquake Tuesday evening. It said the impact to customers should be minimal.

Royal Dutch Shell Plc said it is considering expanding its pipeline system. It is considering building a new pipeline segment to move crude from St. James, Louisiana to the Golden Triangle area of Texas. The Westward Ho pipeline is expected to begin operations by early 2015. The pipeline could enable the distribution of about 900,000 bpd of crude across the region. The pipeline would most likely be used to feed Saudi Arabian crude into the Port Arthur, Texas refinery.

Valero Energy Corp reported an equipment malfunction at its 132,000 bpd Benicia, California refinery. It said a problem with its compressor caused gases to be released. The problem had no material



impact on production.

Citgo Petroleum reported that a pipe leak caused a compressor shutdown at its 167,000 bpd Lemont, Illinois refinery on Tuesday. It said the incident had no impact on its operations.

PDVSA's 130,000 bpd Petroanzoategui heavy crude upgrader will shutdown for planned maintenance on September 21<sup>st</sup>.

Formosa Petrochemical Corp aims to restart its No.1 naphtha cracker at its Mailiao refinery this week. It restarted three 180,000 bpd crude distillation units at the refinery.

Vitol is offering 1 million barrels of Libyan crude in the spot market. The crude offered is Sarir and is expected to load between October 1<sup>st</sup> and 10<sup>th</sup>.

India's Bharat Petroleum Corp bought about 3 million barrels of West African crude via tender.

Singapore's PT Pertamina plans to import about 7.5 million barrels of gasoline and 5 million barrels of medium-sulfur gasoil in October. The volume is higher than Pertamina's usual monthly imports of 5.5 million-6.5 million barrels of gasoline and about 2.5 million barrels of gasoil.

The Petroleum Association of Japan reported that the country's commercial crude inventories in the week ending September 10<sup>th</sup> increased by 4.15 million barrels on the week and by 1.64 million barrels on the year to 93.3 million barrels. It reported that Japan's gasoline stocks increased by 720,000 barrels on the week and by 2.2 million barrels on the year to 14.3 million barrels while kerosene stocks increased by 640,000 barrels on the week and by 4.97 million barrels on the year to 19.98 million barrels and naphtha stocks increased by 160,000 barrels on the week but fell by 700,000 barrels on the year to 10.66 million barrels. Japan's crude runs increased by 30,000 bpd on the week but fell by 310,000 barrels on the year to 3.43 million bpd. Refinery utilization increased by 0.8% on the week but fell by 0.1% on the year to 80.6%. The PAJ also reported that total oil sales fell by 11% on the week and by 13.8% on the year to 2.54 million bpd.

Russian oil product exports through the Primorsk and Novorossiisk ports in August increased by 51% on the year to 1.51 million tons.

### **Production News**

Chevron Corp said about 15,000 bpd of its Gulf of Mexico crude oil production was off line due to the shut in of a pipeline off the Louisiana Coast. It expects to restart production in the next 24 hours. Chevron reported a leak on a riser at the Main Pass 299 pipeline system, which delivers crude oil from the Main Pass area to a common carrier pipeline system. It moves about 9,000 bpd of oil production. Chevron Corp said it is evaluating options to repair the crude oil pipeline off the Louisiana Coast.

Mexico's Pemex said late Tuesday that the passage of Tropical Storm Nate shut in 1.331 million barrels of crude oil but added that production at its Ku-Maloob-Zaap complex was back to normal as of Monday. It said bad weather caused by the storm interrupted loading of crude oil to tankers at its oil export terminals in the southern Gulf of Mexico beginning last Wednesday.

Nexen Inc said production at the Buzzard field varies day to day due to the commissioning of a new platform. It said the commissioning of platform 4 at the field is in its final stages. A spokesman for Nexen declined to estimate current production at the field.

Italy's Eni said Iraq's Zubair oilfield will reach its peak output target of 1.2 million bpd by the beginning of 2017. A group of companies led by Eni plans to spend about \$18 billion to upgrade the oilfield in southern Iraq. Output projections for the Zubair oilfield is 300,000 bpd at the end of 2011, 400,000 bpd at the start of 2013, 600,000 bpd at the start of 2014, 800,000 bpd in 2015 and 1 million bpd by the start of 2016.

Royal Dutch Shell's Brent Charlie platform has been shut in since July after the UK offshore regulator issued the company with two warnings for safety incidents at the platform in the North Sea. One of the warnings is a serious prohibition notice, which indicates there is an elevated risk of injury while the other is an improvement notice, which gives an operator a period of time to correct a potential risk.

Iraq and BP Plc have not yet reached an agreement on reimbursement of costs to build an oil field water injection system in southern Iraq. BP is seeking to start reimbursing the costs of the project when foreign firms increase output from the fields by 10% while the ministry wants to pay back costs when they increase output by 20%.

The Iraqi cabinet has approved a contract with Italy's Saipem SpA worth \$468.5 million to build an oil measuring and control platform at the country's major export terminals in Basra. Saipem should complete the engineering, procurement and construction of the project within 22 months.

Kazakhstan's State Statistics Agency reported that country increased its oil and gas condensate production by 1.5% on the year to 53 million tons in the first eight months of the year. It reported that its crude oil production in August fell by 1% on the year to 5.716 million tons while its gas condensate production increased by 8.8% on the year to 1.024 million tons.

Thailand's Energy Minister Pichai Nariphaphan said the country plans to become a Southeast Asian center of ethanol trade, encouraging producers to increase production for exports as domestic demand declines with car users switching back to pure fossil fuels. Thailand has exported 60 million liters of ethanol so far this year, up from 45 million liters shipped for the whole of 2010 to major buyers such as South Korea, Japan, Singapore, the Philippines and China.

India's Oil Secretary G.C. Chaturvedi said India is not considering a change in diesel prices.

OPEC's news agency reported that OPEC's basket of crudes increased to \$108.42/barrel on Tuesday from \$107.86/barrel on Monday.

### **Market Commentary**

Fuel demand was the defining factor in price movement today, pushing energy prices lower. Product inventory numbers increased despite a drop in refinery runs, making traders leery about market direction. This was enough to pressure crude oil, forcing a settlement below the key resistance level of \$90.00. It appears that market participants are happy with crude oil trading within the \$90.00-\$85.00 range as they await any new news in regards to the global economic situation. This leaves us with the opinion that dips and bounces off of \$85.00 should be bought, with failures to trade above \$90.00 sold.

Crude oil: Oct 11 156,552 -33,848 Nov 11 260,924 +14,341 Dec 11 198,776 -3,743 Totals 1,462,207  
-26,740 Heating oil: Oct 11 74,535 -9,117 Nov 11 64,482 +7,518 Dec 11 52,466 -287 Totals 324,202  
+2,108 Rbob: Oct 11 69,441 -2,538 Nov 11 57,296 +3,056 Dec 11 45,897 +2,536 Totals 272,622  
+3,359

Crude Oil		Heating Oil		Rbob	
Support	Resistance	Support	Resistance	Support	Resistance
8500	9057	27020	32777	25145	33369
7552	9122	26680	33370	24240	35915
7487	9726	27375	33510	23631	36310
7365	9872	23685		23414	
6423	10071	22960			
6394	10222				
6119					

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 written permission is prohibited.