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## ***ENERGY RISK MANAGEMENT***

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### **ENERGY MARKET REPORT FOR NOVEMBER 29, 2010**

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OPEC's President and Ecuador's Energy Minister, Wilson Pastor said oil prices could increase to \$90/barrel without endangering the world economy if a recovery takes hold. He however stated that he expects the

price of crude to remain at \$75 to \$85/barrel next year, a range he called comfortable for consumers.

The EIA reported that US oil demand in September increased by 4.9% on the year to 19.507 million bpd. It is up 259,000 bpd or 1.3% from the preliminary estimate. September was the eighth consecutive monthly increase in year on year demand even as demand fell by 0.9% or 183,000 bpd on the month. Demand in the third quarter averaged 19.492 million bpd, up 769,333 bpd or 4.1% on the year. Gasoline demand in September averaged 9.163 million bpd, up 1% from its previous estimate and 2.8% or 252,000 bpd above a year ago. Distillate demand averaged 3.89 million bpd, up 2.4% from its previous estimate and 9.3% or 330,000 bpd on the year.

Genscape reported that oil inventories at Cushing, Oklahoma increased by 1.1 million barrels to 37.13 million barrels in the week ending November 23<sup>rd</sup>. Genscape data showed Cushing crude tanks were filled to 71% of capacity, up 2% on the week.

An Iraqi government spokesman said one of the priorities of the new Iraqi government is to enact a long awaited hydrocarbon law in order to reassure international oil companies that signed large oil deals with Iraq. The new law would be designed to resolve an impasse between the central government and that of the semi-autonomous region of Kurdistan in northern Iraq. He said oil contracts signed by the Kurdistan Regional Government with international oil companies need to be consistent with the new law. Meanwhile the spokesman said that Iraq's Kurdish region will face financial penalties should it fail to reach oil production targets. He said starting in 2011, the KRG should produce 150,000 bpd and if it isn't produced it will be deducted from the 17.5% share of total Iraqi oil revenues which are apportioned to the region.

#### Market Watch

The Federal Reserve Bank of Dallas' Texas monthly manufacturing index stood at 16.2.

The US EPA said renewable fuels must account for at least 8.01% of gasoline sold in 2011 to comply with a federal mandate. At that pace, sales would meet the requirement set in a 2007 law for biofuels use to amount to 13.95 billion gallons in the new year compared with 12.95 billion gallons this year.

Brazil's cane industry association Unica said the country's center-south crushed 24.3 million tons of cane in the first half of November, down 16.7% on the year.

**November  
Calendar Averages**  
**CL – \$84.33**  
**HO – \$2.3356**  
**RB – \$2.1835**

Separately, a senior Iraqi official said Iraq's government is hoping to revive the idled Iraq-Saudi oil export pipeline. Iraq first started exporting oil through the 1.7 million bpd pipeline in 1989 however Saudi Arabia shut in the pipeline the following year after the start of the Gulf War. It has remained shut since.

Iran's President Mahmoud Ahmadinejad said Iran has accepted a date for talks with the major powers. The six powers hope the talks will focus on Iran's disputed nuclear program, however Tehran has stated that its uranium enrichment activity will not be up for negotiation.

The EIA reported that the US average retail price of diesel fell by 0.9 cents to \$3.162/gallon in the week ending November 29<sup>th</sup>. It is up 38.7 cents or 13.9% on the year. It also reported that the US average retail price of gasoline fell by 2 cents to \$2.856/gallon on the week. The price of gasoline is up 22.7 cents or 8.6% above a year ago level.

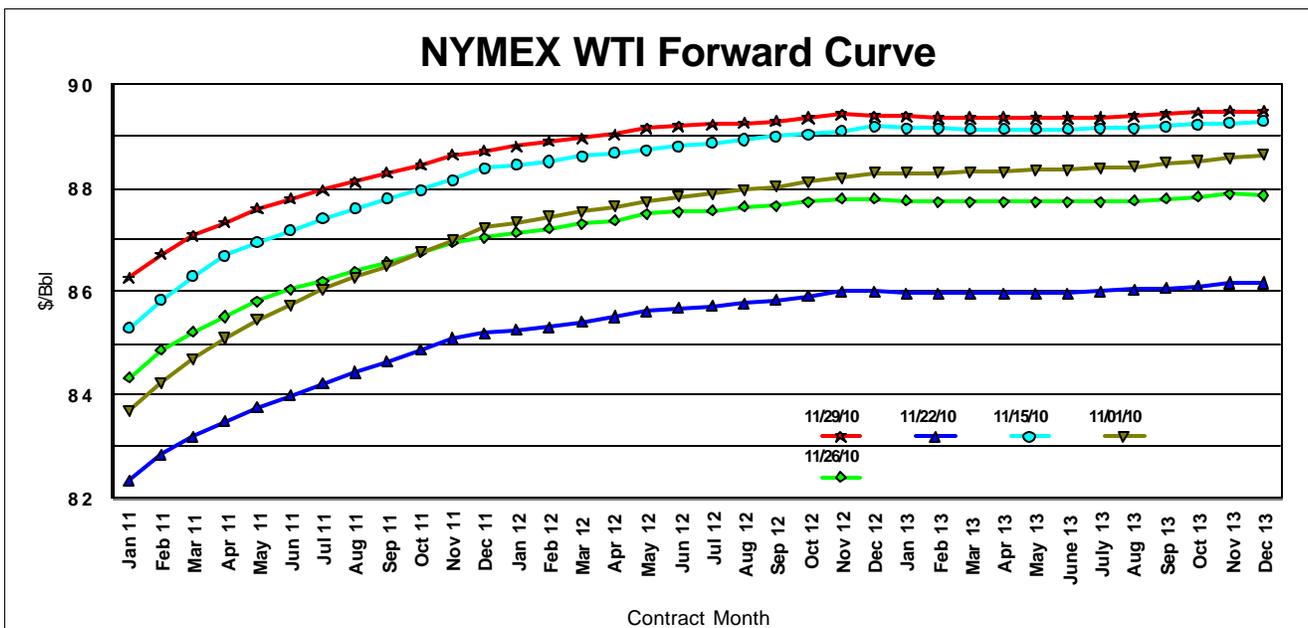
**Refinery News**

Credit Suisse said US refined products margins fell in most regions last week. Refining margins in the Northeast fell by \$1.18 to \$8.94 while margins in the Midwest fell by \$2.11 to \$7.30. Margins in the Gulf Coast fell by 58 cents to \$8.14 while margins in the Rockies fell by \$1.85 to \$16.85 and margins in the West Coast increased by 88 cents to \$15.84/barrel.

Los Angeles wholesale gasoline rallied to 11 cents over NYMEX RBOB due to problems at ExxonMobil Corp's Los Angeles refinery and Tesoro Corp's Washington state refinery. ExxonMobil reported a unit shutdown at its 150,000 bpd Torrance, California refinery on Friday. Trade sources said the unit was a 100,000 bpd fluid catalytic cracking unit. Tesoro Corp shut a crude unit at its 120,000 bpd Anacortes, Washington refinery.

Valero Energy Corp reported the start up of the west plant of its 142,000 bpd Corpus Christi, Texas refinery following maintenance on its boiler feed water system. It expects no impact on production from the startup. Later, Valero reported that it shut its butamer unit No. 36 for maintenance. It said the unit is too small to impact Gulf Coast gasoline supply and the unit is expected to shutdown for a short time.

ConocoPhillips reported an emissions event at its refinery in Sweeny, Texas due to an upset at Unit



27. The unit was previously identified as a fluid catalytic cracking unit.

Venezuela's PDVSA said the 180,000 bpd Petropiar heavy crude upgrader resumed operations after an unplanned closure for a week. Separately, PDVSA's 310,000 bpd Cardon refinery halted operations on Monday due to electrical faults caused by a storm. Its 645,000 bpd Amuay refinery was also affected, with four unspecified units down.

Japan's Cosmo Oil Co halted the 75,000 bpd No. 6 crude distillation unit at its Yokkaichi refinery for minor repair work. The unit is scheduled to restart in a day or two.

India's oil product sales increased 9.5% on the month in October to 11.65 million tons. India's diesel sales increased by 18.3% in October to 4.96 million tons from 4.19 million tons in September while its gasoline sales increased by 5.5% to 1.19 million tons. India's jet fuel sales increased by 9% to 434,100 tons.

### **Production News**

According to a Reuters survey, OPEC's 11 quota bound members produced an average of 26.7 million bpd in November, down from 26.79 million bpd in October. The survey found that the 11 members met 56% of their promised supply reduction in November, up 2% on the month. OPEC's total oil production fell by 70,000 bpd to 29.07 million bpd. Saudi Arabia cut its output by 20,000 bpd to 8.25 million bpd while Iran increased its production by 30,000 bpd to 3.69 million bpd. Iraq's oil production increased by 20,000 bpd to 2.37 million bpd in November.

Iraq's former Oil Minister Thamir Ghadban said the country's crude production capacity could increase to 8 million barrels within six to seven years. Iraq's average oil output in 2010 to date stood at 2.35 million bpd while its average oil exports stood at 1.87 million bpd.

Kuwait Oil Co plans to start producing heavy oil in the fiscal year of 2015/2016 at a rate of 60,000 bpd. By 2030, it aims to increase its heavy oil production to 250,000-270,000 bpd.

Mexico's President Felipe Calderon inaugurated the country's first biodiesel fuel production plant. The plant processes seeds from the jatropha shrub into biodiesel. The project, jointly set up by the federal and state governments, will produce up to 30,000 liters/day of the fuel.

OPEC's news agency reported that OPEC's basket of crudes fell by 21 cents to \$82.34/barrel on Friday from \$82.55/barrel on Thursday. It also reported that OPEC's basket of crudes fell by 60 cents to \$81.43/barrel in the week ending November 26<sup>th</sup>.

### **Market Commentary**

An economically promising holiday season, the bailing out of Ireland from its financial crisis and power outages idling Venezuelan refineries combined to push crude oil to its highest level in two weeks. The January contract traded above \$85.00 a barrel in spite of a strong dollar, which typically puts pressure on dollar denominated commodities. The January crude oil contract has gained over 62% of the move from \$85.93 to the recent low of \$80.06. With several supportive factors holding this market up, we would look for additional moves higher, however with the dollar remaining strong, we believe that moves to the upside will be limited and therefore would look for a selling point. We would look to sell the January contract on failures to trade above the \$86.00 level, looking for it to dip and test the \$80.00 level once again.

Crude oil: Jan 11 339,956 -3,219 Feb 11 112,537 +2,926 Mar 11 122,405 +2,931 Totals 1,333,267 +5,213 Heating oil: Dec 10 24,153 -2,802 Jan 11 97,927 +1,222 Feb 11 41,674 +1,097 Totals

315,650 +1,650 +1,367 Rbob: Dec 10 15,432 -4,567 Jan 11 104,376 -29 Feb 11 36,026 +785 Totals  
 274,576 -3,724

Crude Oil		Heating Oil		Rbob	
Support	Resistance	Support	Resistance	Support	Resistance
7993	86.00	22040	24680		22800
7871	8890	21860	24950	20300	23050
7783	9050	21375	26740	20130	24880
7671	9100	21140		18750	27085
7601	9385	20702		18240	
				<b>16010</b>	

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