



## ***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 DECEMBER 7, 2010**

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In its latest Short Term Energy Outlook, the EIA estimated that total world oil demand will increase by 2.02 million bpd in 2010 to 86.35 million bpd, up 200,000 bpd from its previous estimate. Demand in 2011 is estimated to increase by 1.43 million bpd to 87.78 million bpd, up 100,000 bpd from its previous estimate. The EIA projects that total non-OPEC

supply will increase by just over 1 million bpd to average 51.52 million bpd in 2010 but fell by 280,000 bpd to 51.24 million bpd in 2011. OPEC's oil production is expected to increase by 290,000 bpd to 29.39 million bpd in 2010 and increase further by 400,000 bpd to 29.79 million bpd in 2011. OPEC surplus capacity should remain close to 5 million bpd compared with 4.3 million bpd in 2009 and 1.5 million bpd in 2008. Commercial inventories held by OECD countries at the end of 2010 are estimated at 2.73 billion barrels or 58 days of forward supply and about 94 million barrels more than the 5 year average. The EIA estimated that US oil demand in 2010 will increase by 320,000 bpd to 19.09 million bpd, up 50,000 bpd from its previous estimate. Demand in 2011 is expected to increase by 150,000 bpd to 19.26 million bpd, up 100,000 bpd from its previous estimate. US gasoline demand in 2010 is expected to increase by 40,000 bpd to 9.04 million bpd, up 10,000 bpd from its previous estimate while demand in 2011 is expected to increase by 70,000 bpd to 9.11 million bpd, up 30,000 bpd from its previous estimate. Distillate demand is expected to increase by 150,000 bpd to 3.78

million bpd in 2010, up 30,000 bpd from its previous estimate while demand in 2011 is expected to increase by 60,000 bpd to 3.84 million bpd, up 60,000 bpd from its previous estimate. US crude oil production is estimated to increase by 140,000 bpd to 5.5 million bpd in 2010 but fall by 30,000 bpd to 5.47 million bpd in 2011. In regards to prices, the EIA expects the price of WTI crude to average \$84/barrel this winter, up \$6 from last

#### Market Watch

The Institute for Supply Management said the US manufacturing and services sectors are expected to grow in 2011, with manufacturing revenue expected to increase by 5.6%. Revenue in the non-manufacturing sector, which comprises mostly service sector businesses, is expected to increase by 3.4% next year. It stated that manufacturing sector capital investment should increase by 14.5% in the year while non-manufacturing sector capital investment is expected to increase by 3.7%.

The Bank of Canada held its key interest rate steady on Tuesday, as expected. The central bank maintained its overnight lending target at 1% for the second consecutive time after increasing rates three times between June and September.

British manufacturing output increased twice as fast as anticipated in October while wider industrial production unexpectedly fell. Manufacturing output increased 0.6% in October, according to the Office for National Statistics. Industrial production however fell 0.2% on the month following September's 0.4% increase.

#### API Stocks

**Crude** – down 7.338 million barrels

**Distillate** – up 1.744 million barrels

**Gasoline** – up 4.795 million barrels

**Refinery runs** – up 4.2% at 86.1%

winter. Projected WTI prices are expected to increase to \$89/barrel by the end of 2011, up \$2/barrel from last month's estimate. It also estimated that gasoline prices will average \$2.88/gallon this winter, up 22 cents on the year while diesel prices are expected to average \$3.14/gallon this winter, up 35 cents on the year.

<b>December Calendar Averages</b>
<b>CL – \$88.40</b>
<b>HO – \$2.4587</b>
<b>RB – \$2.3345</b>

According to a SpendingPulse report, US gasoline demand increased by 1.1% to 9.437 million bpd in the week ending December 3<sup>d</sup>. Gasoline demand was down 0.1% on the year. In the last four weeks, gasoline demand averaged 9.272 million bpd. Year to date gasoline demand is increasing by 0.4%. It also reported that the US average retail price of gasoline increased by 1 cent to \$2.87/gallon.

Iran's OPEC governor Mohammad Ali Khatibi described the world oil market as balanced. He believes the world faces great uncertainties in security of energy supply and that the price of crude is still undervalued and set to reach \$100/barrel in the short term.

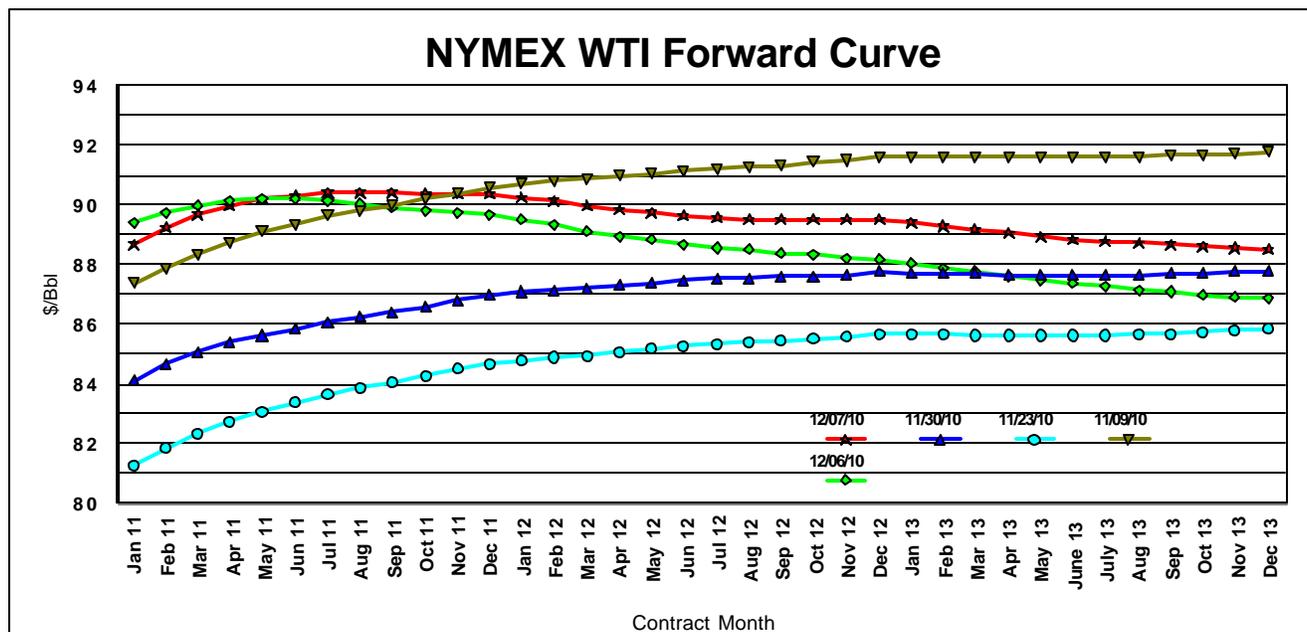
Iran's chief negotiator Saeed Jalili said that world powers and Iran agreed only to further talks based on cooperation and that everything else was not true. He said Iran will not discuss its nuclear rights or agreed to suspend uranium enrichment at an upcoming meeting with world powers in Istanbul contrary to what was suggested by the European Union's top diplomat Catherine Ashton. The European Union's top diplomat said the talks between world powers and Iran on Tehran's nuclear program were detailed and substantive. Meanwhile, Gulf leaders appealed to Iran to respond positively to talks with world powers about the country's nuclear program.

**Refinery News**

Colonial Pipeline allocated Cycle 70 shipments on its Line 20 carrying distillates from Atlanta, Georgia to Nashville, Tennessee as demand for shipping space exceeded line capacity.

Operations at Citgo Petroleum Corp's 167,000 bpd refinery in Lemont, Illinois were not affected by instrumentation issues on Sunday. The refinery is operating at normal rates.

Valero Energy Corp said a fluid catalytic cracking unit was approaching planned rates at its 180,000 bpd refinery in Memphis, Tennessee. The unit was shut on November 28<sup>th</sup> to fix a wet gas compressor. Separately, Valero said its 72,000 bpd fluid catalytic cracking unit was shut temporarily for repairs at its 144,000 bpd Benicia, California refinery. Valero does not expect any supply issues.



Tesoro Corp said a process unit problem at its 120,000 bpd Anacortes, Washington refinery resulted in visible flaring. It did not indicate what unit or units were involved in the upset. Tesoro said it does not expect the problem to have an impact on the refinery's ability to meet its supply commitments.

Chevron Corp reported nitric oxide release on Tuesday at its 265,500 bpd refinery in El Segundo, California.

PDVSA's 310,000 bpd Cardon refinery was operating at 70% of capacity after halting operations last week due to electrical faults caused by a storm. Its 645,000 bpd Amuay refinery and the 146,000 bpd El Palito refinery resumed normal operations after operations at the two refineries were also cut by heavy rains.

Japan's Idemitsu Kosan Co shut its 33,000 bpd residue fluid catalytic cracking unit at its 140,000 bpd Hokkaido refinery on Saturday for unplanned maintenance. It expects the maintenance to take about two weeks to complete.

South Korean refiners' total crude processing volume in December is expected to remain unchanged on the month at 2.53 million bpd or 89% of total capacity due to firm demand.

Indonesia's Pertamina plans to buy spot crude oil on the Platts trading window for the first time to increase transparency.

### **Production News**

OPEC's news agency reported that OPEC's basket of crudes increased by \$1/barrel to \$88.13/barrel on Monday.

### **Market Commentary**

For the first time in 26 months, crude oil traded above \$90.00 a barrel. Early in the session, crude oil reacted to cold weather forecasts, a weak dollar and expectations that the Obama administration would extend tax cuts put in place when Bush was president. This move was short lived however, as traders became eager to turn a profit. The January contract, which peaked the session at \$90.76, settled 69 cents lower on the day. Pressure was evident on the front end of the curve, with today's market activity giving back some of the backwardation seen yesterday. The June11/Dec11 crude oil spread, which has been climbing steadily and more aggressively recently, succumbed to pressure falling off 44 cents on the day. This spread which settled at 39 cents yesterday, settled at -05 cents. Today's price correction will most likely continue, erasing even more of the gains the aforementioned spread has been experiencing. We like selling the June 11 and buying the December 11, looking for deeper contango, with dips back to the -\$1.00 level.

Crude oil: Jan 11 299,677 -14,156 Feb 11 147,767 +4,065 Mar 11 133,070 -1,480 Totals 1,369,359  
-16,699 Heating oil: Jan 11 107,393 +1,393 Feb 11 49,253 -189 Mar 11 35,052 +1,047 Totals 318,365  
+4,242 Rbob: Jan 11 90,347 -2,379 Feb 11 45,037 +749 Mar 11 32,921 +98 Totals 268,940 -1,206.

Crude Oil		Heating Oil		Rbob	
Support	Resistance	Support	Resistance	Support	Resistance
8600		23685	26712	22850	24880
7993	9076	22960	27070	22560	27085
7871	9100	22013	29500	22050	
7783	9385	21860	30955	21600	
7671		21140		20300	
7601		20702		20130	

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