



## ***ENERGY RISK MANAGEMENT***

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### **ENERGY MARKET REPORT FOR DECEMBER 8, 2010**

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OPEC's President Wilson Pastor said OPEC is unlikely to hold an early meeting before the scheduled session in June despite rising oil prices. He also said the he considers a reasonable price of oil to trade between \$75 and \$85/barrel.

Iran's OPEC Governor, Mohammad Ali Khatibi forecast that world oil demand

would increase next year by 1 million bpd. He said the relative global economic recovery is the main reason for the increase in demand. He said demand for OPEC oil is expected to increase to 28.8 million bpd.

The US Energy Department said higher crude oil prices and stronger global oil demand will see OPEC's earnings from oil exports increase by about 32% to \$750 billion in 2010 from \$571 billion last year. OPEC's oil export earnings are forecast to increase another 13% in 2011 to \$847 billion.

A CFTC commissioner, Bart Chilton said he supported stricter oversight of the high frequency trading market, including measures that would require exchanges to review and monitor the computer programs. He said that traders responsible for high frequency or algorithmic trades that damage the market and consumers should be held accountable. He said the CFTC should require exchanges to

#### **DOE Stocks**

**Crude** – down 3.819 million barrels  
**Distillate** – up 2.154 million barrels  
**Gasoline** – up 3.811 million barrels  
**Refinery runs** – up 4.9%, at 87.5%

#### **Market Watch**

Forecasters at Colorado State University said the 2011 Atlantic hurricane season is expected to show above average activity. The forecast calls for 17 named storms, nine hurricanes and five major hurricanes. The probability of at least one major hurricane making landfall along the Gulf Coast from the Florida Panhandle west to Brownville, Texas is 48% compared with the long term average of 30%. This year, a total of 19 named storms formed.

McGraw-Hill Companies Inc said Platts agreed to acquire Oil Price Information Service (OPIS). Platts said it expected to maintain OPIS' products and services.

The Renewable Fuels Association said an extension of the US ethanol subsidy is part of the deal at the moment in negotiations for an omnibus tax bill. However it said the size and duration of the subsidy are not set yet. The 45 cent/gallon excise tax credit for ethanol is scheduled to expire on December 31<sup>st</sup>. The 54 cent/gallon tariff on imported ethanol and 10 cent/gallon credit for small producers of ethanol is also expected to expire.

have certain due diligence and review the computer programs from the start. He also stated that he supported limits on high frequency trading.

#### **Refinery News**

LyondellBasell expects global refining margins to be flat for the next several years.

The US National Response Center said a leak shut a Chevron oil pipeline in Texas. It said a pinhole leak occurred in an oil field gathering line in Van Zandt County on Monday. A Chevron spokesman said there was no impact to operations. The line has been shut and is undergoing repairs before it resumes operations.

**December  
Calendar Averages**  
**CL – \$88.38**  
**HO – \$2.4590**  
**RB – \$2.3295**

Enbridge increased apportionment on its US Midwest pipeline system last week following an unplanned reduction in flow rates on its 670,000 bpd Line 6A. The cuts resulted in disruptions to service on feeder lines that carry crude to major pipelines from oilfields and oil sands projects.

BP Plc reported emissions at its 437,080 bpd Texas City, Texas refinery amid the restart of an ultracracker unit.

ConocoPhillips reported a unit shutdown at its 239,400 bpd refinery in Lake Charles, Louisiana to repair a leaking pipe.

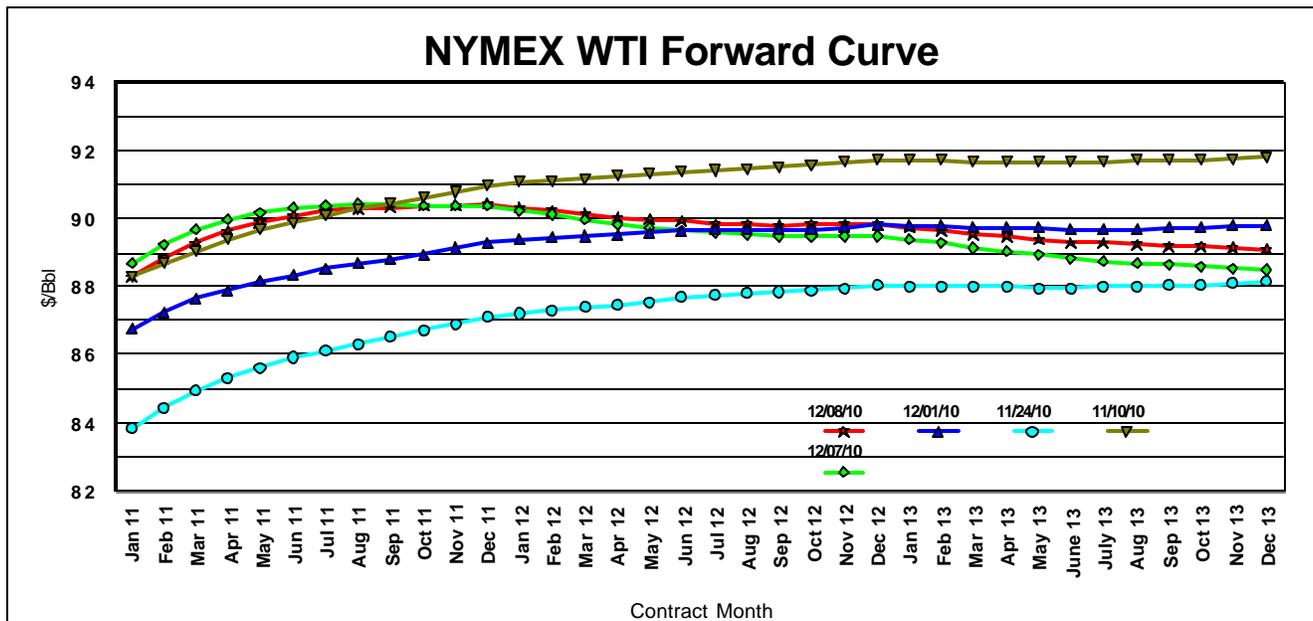
Motiva Enterprises reported release of ethylene and nitrogen oxide via flare due to a unit upset at its 234,700 bpd Norco refinery in Louisiana on Tuesday.

Valero Energy Corp is performing planned maintenance at its 65,000 bpd fluid catalytic cracking unit at its 145,000 bpd Houston, Texas refinery. The maintenance outage, which is expected to be short, started on Tuesday. Separately, Valero Energy Corp said its fluid catalytic cracking unit returned to planned rates at its 180,000 bpd refinery in Memphis, Tennessee. The unit has been shut since November 28<sup>th</sup>.

ExxonMobil Corp said operations at its 149,500 bpd oil refinery in Torrance, California returned to normal following maintenance last week at an unspecified process unit.

Japan's Cosmo Oil Co said operations at its 125,000 bpd Yokkaichi refinery was halted on Wednesday due to an electricity outage. It is not yet clear when operations will resume.

PetroChina started trial operations of a crude oil storage terminal in southern Guangxi region. The 42 crude oil tanks, each with a capacity of 100,000 cubic meters, were part of PetroChina's first phase of



10 million cubic meters of storage tanks in a bonded area in Qinzhou. PetroChina has stored 520,000 tons or 3.8 million barrels of West African crude in some of the storage tanks.

Saudi Aramco expects to have enough gasoline supplies once its two new refineries come online. The company is building two new refineries, one in Jubail and one in Yanbu, each with a capacity to produce 90,000 bpd of gasoline. The Jubail refinery is expected to start operations in 2013 while the Yanbu refinery is expected to start operations in 2014.

Swiss trading firm Mercuria canceled its fixture to ship about 100,000 tons or 745,000 barrels of high-sulfur gas oil from Asia to the West, scheduled for loading later this month. Instead, it will likely store most of the high sulfur gasoil cargoes it has purchased on time chartered vessels anchored in South East Asian waters for now. Mercuria has accumulated a total of 4.1 million barrels of 0.5% sulfur diesel.

The Petroleum Association of Japan reported that the country's crude oil inventories in the week ending December 4<sup>th</sup> increased by 270,000 barrels on the week and 5.23 million barrels on the year to 96.43 million barrels. It also reported that Japan's gasoline stocks fell by 260,000 barrels on the week but increased by 370,000 barrels on the year to 13.97 million barrels while its kerosene stocks increased by 230,000 barrels on the week but fell by 3.07 million barrels on the year to 17.58 million barrels and its naphtha stocks fell by 310,000 barrels on the week to 12.51 million barrels. It also reported that total oil product sales increased by 16% on the week and by 9.9% on the year to 3.2 million bpd. Japan's gasoline sales increased by 21% on the week and by 4% on the year to 1.01 million bpd while its gasoil sales increased by 17% on the week and by 18.1% on the year to 670,000 bpd and its kerosene sales increased by 21.1% on the week and by 0.4% on the year to 420,000 bpd. Naphtha sales increased by 12.1% on the week and by 64.8% on the year to 460,000 bpd and its jet fuel sales fell by 71.1% on the week and by 51.6% on the year to 37,000 bpd.

### **Production News**

Venezuela's Oil Minister Rafael Ramirez ordered oil companies including Chevron, Repsol, BP and Petrobras to increase production at more than 20 joint ventures. In a letter, he gave the companies 30 days to present a new production plan. The joint ventures have a combined output capacity of 400,000 bpd.

Repair work on the BP-led Baku-Tbilisi-Ceyhan pipeline is near completion after it was damaged during a bid to steal oil on Monday night. The pipeline is expected to resume operations on Wednesday evening.

An oil pipeline operated by Eni SpA's Agip unit in Nigeria's Niger Delta was attacked late Tuesday, according to a member of the community where the attack occurred. However a source close to Eni downplayed the statements. The attackers are demanding that Agip hire local youths. The youths were also protesting against pollution from the pipeline.

China National Petroleum Corp expects to produce 85 million tons or 1.7 million bpd of oil equivalent in crude oil and gas from its overseas assets this year.

Russia's Energy Minister Sergei Shmatko said Russia approved a 2010 budget of \$2.7 billion for the ExxonMobil-led Sakhalin-1 oil project, which is significantly less than what the operator asked for. The Sakhalin-1 project is expected to produce 156,000 bpd of oil next year.

Russia said it may revive the practice of production sharing agreements for new oil and gas project, similar to the PSAs signed with companies ExxonMobil Corp and Royal Dutch Shell Plc in the 1990s.

Russia's Prime Minister Vladimir Putin and his Belarussian counterpart Sergei Sidorsky failed to reach an agreement on oil export terms on Wednesday. The dispute centers on export duties, which are set to be scrapped between Russia, Belarus and Kazakhstan as part of a recently formed Customs Union.

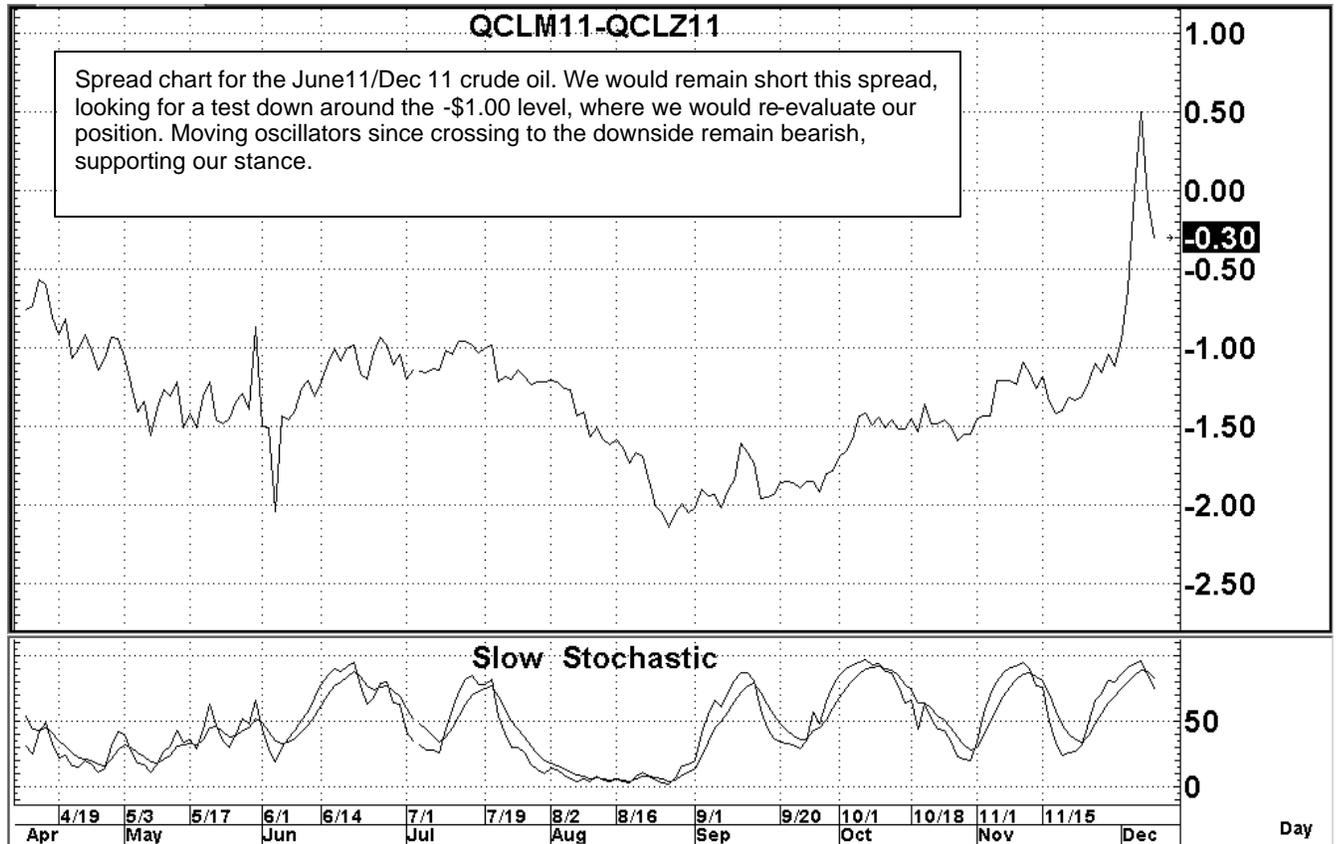
Mexico said it will allow private companies to explore for oil in the country for the first time in 70 years. The change came as a result of a ruling by the country's high court late Tuesday.

**Market Commentary**

Crude oil fell for the second straight day as the dollar strengthened and product inventories swelled. As is expected for this time of year, crude oil inventories decreased, having little impact on prices. With the possibility of interest rate hikes in China, thoughts of decreasing demand in that region also added pressure to this market. Front-end weakness was once again evident on the forward curve as traders gave up more of their long positions and refrained from buying the deferred. As mentioned in our wire of yesterday, we liked selling the June11, buying the December 11 crude oil. This spread traded at a deeper discount, finishing the day at -38 cents. We remain comfortable being short this spread and still have our eyes set on the -\$1.00 level. As for flat price, with the inability for the January contract to sustain itself above \$90.00, we would look for continued moves lower, with our initial downside objective being \$83.55.

Crude oil: Jan 11 266,057 -33,620 Feb 11 164,778 +17,011 Mar 11 145,973 +12,903 Totals 1,367,119 -2,240 Heating oil: Jan 11 102,706 -4,687 Feb 11 50,684 +1,431 Mar 11 37,533 +2,481 Totals 318,630 +265 Rbob: Jan 11 84,892 -5,455 Feb 11 49,473 +4,436 Mar 11 33,654 +733 Totals 269,059 +119

Crude Oil		Heating Oil		Rbob	
Support	Resistance	Support	Resistance	Support	Resistance
8600		23685	26712		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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