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## ***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 11, 2009**

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The IEA said oil supply and demand fundamentals are driving the markets again. It said the oil price correlation with macroeconomic factors and financial market activity that has marked most of 2009 may be weakening as supply and demand fundamentals reassert more control over price direction. The IEA said it expected oil demand growth to put a floor on oil prices, pushing long-dated US crude futures above \$100/barrel. It said world oil demand will increase by almost 1.5

#### **Market Watch**

The US Commerce Department said US retail sales in November increased 1.3%, nearly twice as much as expected. It was the second consecutive increase. October sales were revised down to a 1.1% increase from a previously estimated 1.4% increase. Petrol sales increased 6%. The Commerce Department also reported that US business inventories increased 0.2% in October to \$1.3 trillion, the first increase since August 2008. Business sales totaled \$1 trillion in October, up 1.1% from a revised \$993 billion in September. The inventory to sale rate was 1.3 at the end of October compared with 1.37 in October 2008.

The US Labor Department said US import prices increased a monthly 1.7% in November following an upwardly revised 0.8% increase in October. It was the fourth consecutive increase. The core inflation rate stood at an annual 1.4% in October compared with 1.3% in September.

The Michigan Consumer Confidence Index increased by more than expected to 73.4 in December, up from a revised 67.4 in November.

China's National Statistics Bureau reported that the country's economic recovery gained momentum in November, with industrial production, retail sales and investment posting gains. Industrial output in November increased 19.2% on the year, with the strongest growth in heavy industries such as coal, steel, power generation and autos. The growth was due to increased demand for exports and massive investment in factories and other construction, which increased 32.1% in the first 11 months of the year. November retail sales in China also increased 15.8% on the year. Consumer prices also increased for the first time in 10 months, increasing by 0.6% in November.

The Baltic Exchange's main sea freight index fell to a near one month low on Friday. The index fell 2.51% or 92 points to 3,579 points on Friday, falling for a fifth consecutive session and to its lowest level since November 9<sup>th</sup>. The Baltic's capsize index fell 3.6% on Friday while the panama index fell 3.21% on Friday.

Societe Generale said investors moved into commodities in 2009 as a hedge against inflation risks and a structural decline of the dollar, however a tightening of monetary conditions will cause a decline in the appetite for commodities. It said it does not believe interest rate rises will occur before the start of 2011, which means central bankers will prepare the market for them in the second half of 2010. It said that when this happens, inflation risks should wane and the dollar strengthen, leading investors to reduce their cash injection into commodities.

Russia's Finance Ministry said Russia is likely to cut its oil export duty in January to between \$266 and \$268/ton from \$271/ton in the current month to correspond with a slight fall in oil prices. Export duties on light refined products, such as gasoline and gas oil, are likely to total \$192-\$193/ton, down from the current level of \$194.90/ton. Export duties on heavy refined products, are likely to total \$103-\$104/ton, compared with \$105/ton in December.

**December  
Calendar Average**  
**CL – \$73.84**  
**HO – \$1.9902**  
**RB – \$1.9336**

million bpd or 1.7% in 2010 to 86.3 million bpd. It raised its oil demand growth forecast for 2010 compared with 2009 by 120,000 bpd. The IEA said world oil demand could be as high as 90.9 million bpd in 2014 if annual global economic growth between 2009 and 2014 averages 3.2%. The IEA said non-OPEC supply is expected to increase by 125,000 bpd this year as a result of higher Russian production. However non-OPEC oil supply is expected to fall next year by about 265,000 bpd to 51.6 million bpd. The IEA said OPEC's oil production increased in November by 90,000 bpd, taking its compliance to about 58% from 60% in October. It said demand for OPEC's oil would increase by about 500,000 bpd next year to about 29 million bpd. Oil inventories in the developed countries of the OECD fell slightly but were still historically high and the equivalent of about 59.4 days forward demand cover at the end of October, down from 60.2 days at the end of September. The IEA said conditions in the refining sector continue to deteriorate as margins decline. Global crude runs in the fourth quarter of 2009 are expected to average 72.3 million bpd, down 600,000 bpd from its previous estimate while global throughputs in the first quarter of 2010 are forecast to average 72.7 million bpd, up 1 million bpd on the year. The IEA also reported that the volume of floating refined oil products stocks increased to 98 million barrels at the end of November from 83 million barrels at the end of October.

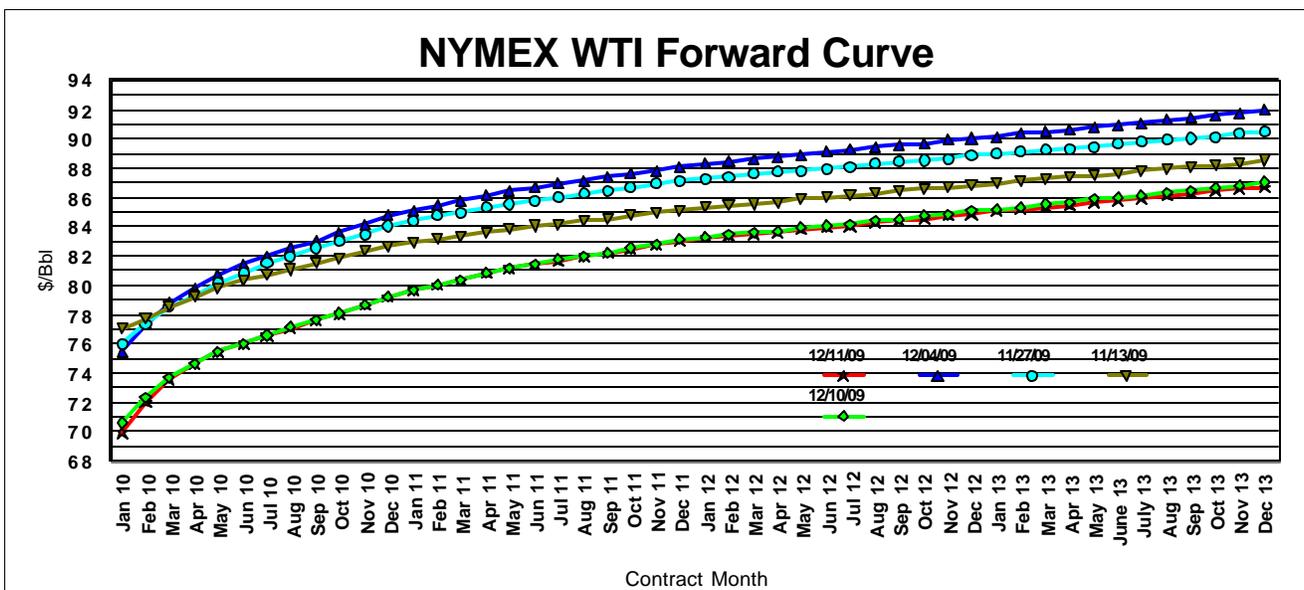
Iraq's Oil Minister Hussein Al-Shahristani said he expects OPEC to leave its output level unchanged when it meets on December 22<sup>nd</sup>. He said there is no need to change its output. He said current oil prices are good and OPEC should concentrate on increasing compliance with existing supply cuts.

According to shipbroker Simpson Spence & Young, a total of 25 tankers storing about 44 million barrels of crude oil are anchored offshore worldwide by the end of November. The largest concentration of vessels is off the coastline of the UK, with nine tankers storing crude, while eight are storing in the US Gulf. Supplies are also being held off the coasts of West Africa and Singapore and in the Mediterranean. It estimates that 136 tankers are holding about 98 million barrels of oil products offshore, mainly distillates.

US Defense Secretary Robert Gates said he expects significant new sanctions to be imposed on Iran over its nuclear program.

**Refinery News**

Valero Energy Corp said flaring at its 170,000 bpd Benicia, California refinery on Thursday was not a result of any production upset at the refinery.



Alon USA Energy Inc reported flaring from a sulfur recovery unit at its 70,000 bpd Big Spring, Texas refinery. A filing with the Texas Commission for Environmental Quality said that operational adjustments were made to the unit but did not specify whether the incident impacted production rates at the plant.

Indian Oil Corp expects to restart its 40,000 bpd crude unit at its Koyali refinery by the end of December following a maintenance shutdown. The unit and its attached downstream units were shut from November 27<sup>th</sup>.

Japan Energy Corp plans to shut a crude distillation unit for planned maintenance in 2010. It also plans to conduct maintenance next year at Kashima's 63,500 bpd condensate splitter.

South Korea's SK Energy plans to shut some of its crude distillation units between May and July next year.

According to Reuters, China's implied oil demand increased by about 20% on the year.

China's National Bureau of Statistics said Chinese refiners increased their crude runs in November to an average of 8.15 million bpd, up 21% on the year. China's crude oil production in November fell by 1.1% on the year to 15.67 million tons or 3.83 million bpd. In the first eleven months of the year, China's crude oil production fell 0.5% on the year to 173.6 million tons. China's gasoline and diesel production in November remained at high levels after refineries increased their runs. China's gasoline production increased by 11% to 6.33 million tons while its diesel production increased by 14% to 12.41 million tons. China's kerosene production increased by 33% on the year to 1.3 million tons in November.

China's General Administration of Customs reported that the country imported 17.12 million tons or 4.18 million bpd of crude oil in November, down from 19.34 million tons in October. China exported 420,000 tons of crude in November. It also reported that China exported 2.24 million tons of oil products in November. Its total exports in the first 11 months increased by 42% to 21.36 million tons.

Indonesia's Pertamina expects to import less gasoline and diesel in January due to lower demand forecasts. It estimated it would import between 3-3.5 million barrels of gasoline and 600,000 barrels of diesel in January. It previously stated it would import about 5.2 million barrels of gasoline in December and 2.5-3 million barrels of diesel.

Singapore's Petral, the trading arm of Pertamina, bought 1.55 million barrels of sweet crude for February via tender, down from 2.4 million barrels for January.

Russia will supply between 8 million and 9 million tons of oil to Belarus duty free in 2010.

### **Production News**

Baker Hughes reported that the number of rigs searching for oil and natural gas this week increased by 20 to 1,161. The number of rigs searching for oil increased by 10 to 393 while the number of rigs searching for natural gas increased by 9 to 757.

Iraq's Oil Minister Hussein al-Shahristani said two out of five contracts up for auction were awarded. A consortium comprising Royal Dutch Shell Plc and Malaysia's Petronas was awarded the contract to develop the Majnoon oil field while the contract to develop the Halfaya oil field in southern Iraq was awarded to a consortium led by China National Petroleum Corp, Petronas and France's Total SA. Royal Dutch Shell and Petronas proposed a per barrel fee of \$1.39 and a plateau production target of 1.8 million bpd for the Majnoon oil field, compared with a current level of 46,000 bpd. The consortium

led by China's CNPC said its plateau production target for the Halfaya oil field is 535,000 bpd, up from a current level of 3,000 bpd and offered a remuneration fee of \$1.40/barrel. The international companies that took part in the bidding process did not submit bids for the East Baghdad and Eastern fields. Iraq's Oil Minister said Iraq will find ways to develop oilfields that are not awarded to international oil firms. He said Iraq will develop the fields either as a national administration or by other means that will be decided later by the ministry. He expects Iraq's oil production to reach 10 million bpd in six to seven years.

The Bosphorus Strait was closed to shipping early on Friday due to strong current.

According to the IEA, Venezuela's oil production in November totaled 2.22 million bpd, down 20,000 on the month.

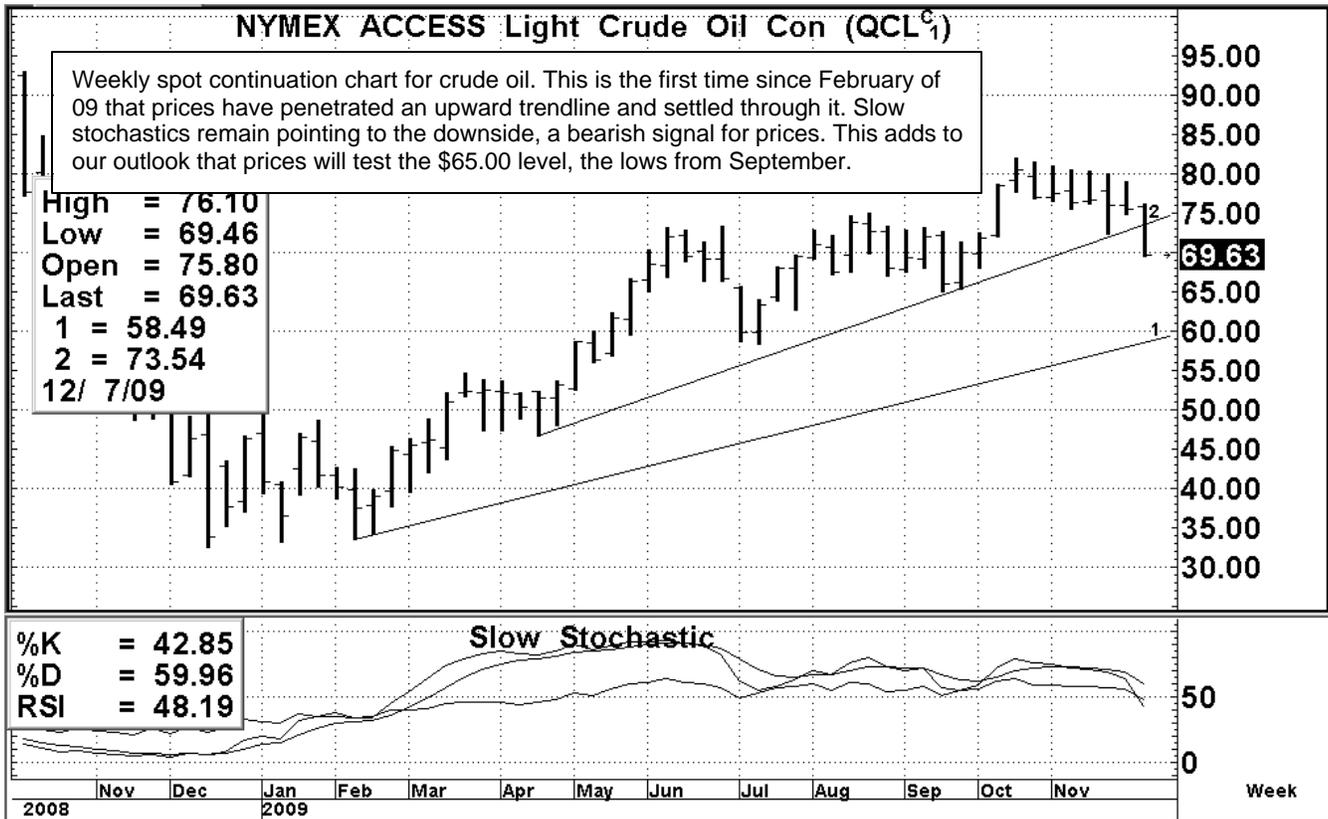
OPEC's new agency reported that OPEC's basket of crudes fell by \$2.27 to \$71.43/barrel on Thursday from \$73.70/barrel on Wednesday.

### **Market Commentary**

Crude oil dipped below \$70.00 to a two-month low as it reacted to a stronger dollar. As the dollar rises, the appeal of commodities as an investment hedge lessens, leaving investors looking for other alternatives. A stronger dollar, weak demand and overflowing storage in the U.S. have kept a lid on oil prices, forcing weak longs to liquidate and shorts to enter the market. Despite the cold weather that is stretching across the northern part of the U.S., supplies of distillate fuel, which includes heating oil, are currently 25 percent higher than that of last year. There are concerns among industry sources, that even if demand was to increase, the supply overhang will be sufficient, thereby adding to the pressure on prices. The Brent gained against the WTI, a move that most likely can be attributed to the weakness in the crude oil market. With the January/February spread losing value, we would think that the appeal to store crude oil would narrow the spread between WTI and Brent. Coming into next week, the targeted objective for the January crude oil remains \$65.00

Crude Jan. 10 188,681 -46,895 FEB.10 198,870 +28,578 MAR.10 133,771 +6,631 Totals: 1,197,587  
-15,153 Heating oil Jan.10 61,087 -4,961 FEB 10 54,425 +1,804 MAR.10 42,441 +1,762 Totals  
306,471 -2,208 Gasoline JAN.10 62,181 -8,434 FEB.10 44,743 +3,304 MAR. 10 38,366 +1,091  
Totals: 234,710 -2,046

The latest Commitment of Traders report showed that non-commercials in the crude market cut their net long position by 8,576 contracts to 67,817 contracts in the week ending December 8<sup>th</sup>. The combined futures and options report showed that the funds cut their net long position by 7,974 contracts to 141,550 contracts on the week. It showed that the funds cut their total long position by 9,871 contracts to 242,245 contracts on the week. The combined futures and options disaggregated report showed that producers/merchants increased their net short position by 2,002 contracts to 215,387 contracts while swap dealers increased their net long position by 5,792 contracts to 49,003 contracts on the week. Managed money funds cut their net long position by 26,109 contracts to 100,447 contracts while other reportable increased their net long position by 18,135 contracts to 41,102 contracts on the week. Meanwhile the combined futures and option report also showed that non-commercials in the heating oil market also cut their net long position by 810 contracts to 25,800 contracts on week while non-commercials in the RBOB market cut their net long position by 10,868 contracts to 46,680 contracts on the week.



<b>Crude Support</b> 65.05, 64.70, 63.38, 62.70, 61.61, 60.95	<b>Crude Resistance</b> 75.85, 76.15, 80.50, 84.83, 85.40, 86.60, 88.80
<b>Heat Support</b> 1.8570, 1.8280, 1.7670, 1.7565	<b>Heat resistance</b> 2.1580, 2.2110, 2.2575, 2.4200
<b>Gasoline support</b> 1.7900, 1.7200 1.6600	<b>Gasoline resistance</b> 2.1100, 2.1600, 2.3350

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