



## ***ENERGY RISK MANAGEMENT***

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### **ENERGY MARKET REPORT FOR DECEMBER 13, 2010**

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OPEC Oil Ministers decided to keep their production quotas unchanged, as expected, at their latest meeting on Saturday.

Oman's Oil Minister Mohammad al-Rumhi said Oman sees current oil prices as fair. He added that Oman plans to increase its production to 1 million bpd by 2015. He said the country's oil production stood at 875,000 bpd at the end of November.

ExxonMobil Corp chief executive Rex Tillerson said there is plenty of supply in the oil market. He said

inventory levels in the US are still healthy and OPEC still has about 6 million bpd in spare capacity that is shut in. He however added that a return to drilling in the Gulf of Mexico would still be some time off.

**December  
Calendar Averages  
CL – \$88.34  
HO – \$2.4604  
RB – \$2.3273**

#### Market Watch

The National Weather Service stated that US heating oil demand last week was 23.7% above normal.

Goldman Sachs raised its forecast for returns on the S&P GSCI commodities index over the next 12 months due to the expected strength of returns on agricultural products. It increased its 12 month returns forecast for the S&P GSCI Enhanced Total Return Index to 18% from 16.2%. Its energy returns forecast was lowered slightly to 21% from 24% on recent gains in oil and lower natural gas price forecasts. Goldman Sachs also said that gold prices are expected to increase more than 25% next year before peaking in 2012 and set its 12 month target at \$1,690/ounce.

Moody's Investors Service said a US tax and unemployment benefit package agreed to by President Barack Obama and Republicans last week will increase the likelihood of a negative outlook on the US Aaa rating in the next two years. It said if the bill becomes law, it will adversely affect the federal government budget deficit and debt level. It estimates the cost of funding the proposed tax bill may be between \$700 and \$900 billion, which will increase the ratio of government debt to GDP to 72-73%, depending on the effects on nominal economic growth.

Britain's Financial Services Authority chief executive Hector Sants said Britain is unlikely to go it alone and impose extra capital requirements on big banks if there is no global deal on surcharges. Britain, the US and Switzerland are persuading their partners in the Group of 20 countries that big, systematically important firms should carry extra capital as their failure could destabilize markets and even need taxpayer bailouts. Germany, France and Japan are however opposed, forcing talks on a global package well into 2011.

Total's chief executive Christophe de Margerie said the current oil price at about \$90/barrel is a good price and crude prices over that level will not hurt the world economy.

The EIA reported that the US average retail price of diesel increased by 3.4



China's apparent oil demand reached a record 9.3 million bpd in November.

China's National Bureau of Statistics said China's crude production in November increased by 11.8% on the year to 17.52 million tons. It also stated that China produced a record amount of diesel in November after increasing its refinery runs to a record high amid severe domestic shortages. China's diesel output in November increased by 14% on the year to 14.18 million tons to ease tightness caused by seasonal factors. China's refinery runs totaled 36.65 million metric tons or 8.95 million bpd in November, up 10.3% on the year. China's crude runs in the January-November period increased by 13.6% on the year to 384.6 million tons. Meanwhile, China's gasoline production in November increased by 2.1% on the year to 6.6 million tons while fuel oil production increased by 15% to 1.78 million tons.

Germany's MWV said total sales of oil products in Germany increased by 17% on the year in November to 6.92 million metric tons. Germany's heating gasoil sales increased by 77.5% to 1.92 million tons while its high sulfur fuel oil sales fell by 13.4% to 390,000 tons. Germany's gasoline sales fell by 2.2% on the year to 1.66 million tons while its diesel sales increased by 9.8% on the year to 2.95 million tons.

Shipping on the Rhine River in Germany was operating normally after water levels dropped over the weekend. Navigation was halted near Karlsruhe on Friday following a sharp rise in water levels.

### **Production News**

A fire in a tank associated with a well in Occidental Petroleum's Elk Hills, California was extinguished.

BP said there was a fire at a facility that separates gas from crude oil at its Kinneil plant in Grangemouth, Scotland on Sunday. It said output was unaffected.

Mexico's Transport Ministry reported that the country closed the third of its three main Gulf of Mexico oil terminals on Monday morning due to bad weather. Its Dos Bocas, Cayo Arcas and Coatzacoalcos/Pajaritos oil ports were closed.

The January loading program for North Sea Flotta crude is scheduled at 1.85 million barrels, down 1.4 million barrels on the month. The volume is equivalent to 59,677 bpd compared with 104,839 bpd in December. Meanwhile, the January loading program for North Sea Troll crude is scheduled at 9.2 million barrels, up 1 million barrels on the month. The volume is equivalent to 296,774 bpd compared with 264,516 bpd in December.

Oman's Ministry of Economy reported that the country's oil output in the first ten months of 2010 increased by 6.6% on the year to 261.7 million barrels while exports increased by 10.4% on the year to 220.2 million barrels.

Mexico's Pemex said crude oil production in the first 12 days of December increased to 2.579 million bpd on average from an average of 2.512 million bpd for all of November. For the first ten months of the year, Pemex's total crude output averaged 2.582 million bpd.

Brazil's Petrobras will declare the Tupi field commercial by the end of the year. Tupi estimated to hold recoverable reserves of between 5 billion and 8 billion barrels of oil equivalent. The Cidade de Angra dos Reis floating production, storage and offloading vessel or FPSO, is producing about 14,000 bpd from the field. Oil production will increase as additional wells are attached to the FPSO.

Crude oil exports through the Caspian Pipeline Consortium are scheduled at 2.644 million metric tons in January, down 3.5% from December's 2.739 million tons.

Russia's Energy Ministry reported that the country's liquefied petroleum gas exports increased by an estimated 15% this year to 2.7 million-2.8 million tons while its output increased by 5% to 11.6-11.7 million tons.

An Indian ministerial panel headed by Finance Minister Pranab Mukherjee may meet on December 22 to consider a INR1-INR2/liter increase in diesel prices due to increasing global oil prices. India's state-run oil marketing companies are losing about INR750 million/day on sale of diesel at state set prices.

OPEC's news agency reported that OPEC's basket of crudes fell by 26 cents to \$87.65/barrel on Friday from a revised price of \$87.91/barrel on Thursday. It also reported that OPEC's basket of crudes increased by \$2.90 to \$87.80/barrel in the week ending December 10<sup>th</sup> from \$84.90/barrel the previous week.

**Market Commentary**

OPEC's decision to keep output at unchanged, gave strength to crude oil, sending the January contract above the \$89.00 level. With sub-zero temperatures stretching across Europe and colder than normal temperatures in parts of the U.S. and Asia, demand has been greater than the norm for this time of year, further supporting prices. All this may temporarily push prices higher and back above the \$90.00 level. One must keep in mind that China, the world's second largest consumer of energy, is experiencing economic concerns and has already put into place some initiatives to fight inflation. China has already experienced a 5.1 percent increase in inflation for the month of November and traders are closely monitoring any policy moves by Chinese authorities. A shift in policy could easily lead to a sell-off in commodities across the board, pulling the plug on the price of crude oil. Producers continue to sell crude oil for future delivery up around the \$90.00 level, further eroding the contango market conditions. The December 11/December 12 crude oil spread, which has been gaining steadily, increased 21 cents on the day, settling at \$1.05 premium to the December 11 contract. With producers looking to lock in \$90.00 a barrel crude oil and hedge funds and large speculative traders continuing to increase long positions, this spread should test its recent high of \$1.84.

Crude oil: Jan 11 162,480 -32,073 Feb 11 235,661 +25,245 Mar 11 161,369 +8,995 Totals 1,360,088 +9,934 Heating oil: Jan 11 82,385 -5,850 Feb 11 57,782 +3,368 Mar 11 41,621 +1,400 Totals 306,601 -1,831 Rbob: Jan 11 64,391 -9,325 Feb 11 55,677 +3,786 Mar 11 37,869 Totals 261,140 -3,666

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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