



## ***ENERGY RISK MANAGEMENT***

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### **ENERGY MARKET REPORT FOR DECEMBER 14, 2011**

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OPEC agreed on a group production ceiling of 30 million bpd. It did not agree on individual members' production quotas. A Gulf delegate said some OPEC members that increased output outside the OPEC quota system agreed during the meeting to cut back once Libya returns to full production. OPEC is scheduled to meet next on June 14<sup>th</sup>. The agreement caps output for all 12 OPEC members for the first half of 2012 at levels that should permit a modest rebuilding of global inventories.

#### Market Watch

The US Labor Department reported that US import prices in November increased at the fastest pace since April. The price of goods imported to the US increased by 0.7% on the month. On an annual basis, import prices in November were 9.9% higher than November 2010. Petroleum import prices increased by 3.6% in November compared with October.

The Mortgage Bankers Association said its seasonally adjusted index of mortgage application activity increased by 4.1% in the week ending December 9<sup>th</sup>. Its seasonally adjusted index of refinancing applications increased 9.3% while the index of loan requests for home purchases fell 8.2%.

Industrial production in the euro zone in October fell by 0.1% on the month.

France's foreign minister Alain Juppe said decisions by rating agencies were sometimes subjective and political and that any loss of France's AAA rating would be regrettable but not disastrous.

Saudi Arabia's Oil Minister Ali al Naimi said the country has a production capacity of 12.5 million bpd. However he stated that he did not plan to increase its production capacity to 15 million bpd. He stated that Saudi Arabia would respond to demand for its oil rather than the pace of Libya's increasing oil exports. Separately, a ministerial source said Saudi Arabia is expected to cut oil production if demand declines next month. He said Saudi Arabia would not object to cutting its output to 8 million bpd if demand declines.

The head of the oil markets division at the IEA, David Fyfe said OPEC's decision to set a new collective oil production ceiling of 30 million bpd is sensible and would make the oil market reasonably balanced in 2012. Separately, the IEA's chief economist Fatih Birol said OPEC should keep its output at current levels or increase production due to tight fundamentals and weak economic conditions globally, ahead of OPEC's meeting earlier on Wednesday.

#### DOE Stocks

**Crude** – down 1.932 million barrels  
**Distillate** – up 480,000 barrels  
**Gasoline** – up 3.824 million barrels  
**Refinery runs** – down 2.6%, at 85.1%

Libya's Oil Minister Abdel Rahman bin Yezza said Libya hopes to increase its oil capacity up to 2.2 million bpd in 3-5 years. He confirmed that Libya would resume full pre-crisis production levels by about the second half of next year. Libya's oil production is currently 1 million bpd.

Iran's Oil Minister Rostam Ghasemi said he received assurances by Saudi Arabia's Oil Minister Ali al Naimi that Saudi Arabia would not try to take Iran's oil market share if Europe bans imports of Iranian oil. Separately, Iran's Oil Minister said the country does not intend to close the Straits of Hormuz as part of a military exercise.

<b>December Calendar Averages</b> <b>CL - \$99.45</b> <b>HO - \$2.9453</b> <b>RB - \$2.5876</b>
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Iran dismissed remarks by its own officials against Turkey saying Iran would target NATO's missile shield in its neighbor if threatened.

Diplomatic sources stated that Iran could soon start nuclear work in an underground facility. Iranian experts have carried out necessary preparations at Fordow, paving the way for Iran to begin higher grade uranium enrichment at the site on a former military base. The sources stated that machines, equipment and nuclear material needed have been transferred and installed.

The AAA reported that the number of Americans traveling by car over the Christmas and New Year's holiday period would increase by 2.1% on the year. It said about 83.6 million Americans or 91% of holiday travelers, will take to the roads between December 23<sup>rd</sup> and January 2<sup>nd</sup>. It said nearly 27% of the US population would travel by car over the holidays.

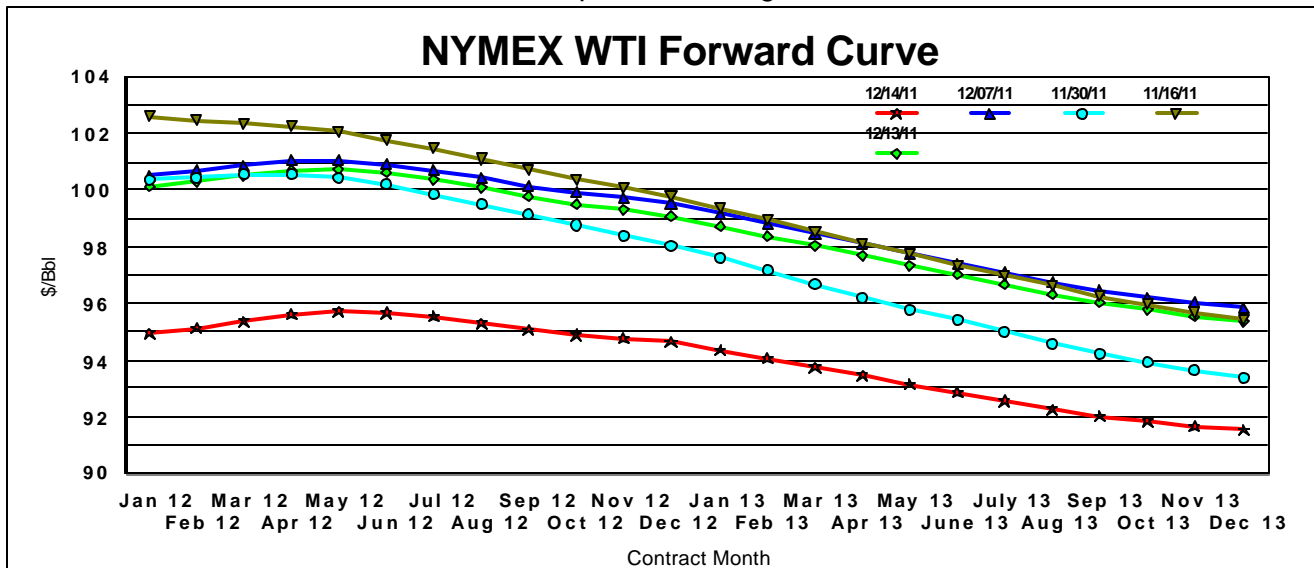
**Refinery News**

The Houston Ship Channel will reopen to traffic at noon Wednesday after it was closed since Tuesday morning because of fog and a collision. A dispatcher for the channel said about 30 ships were waiting for enter the channel and 20 more were waiting to leave.

Kinder Morgan Energy Partners announced an investment of about \$130 million in a new condensate processing facility. It said construction on its pipeline started this week and is expected to start operations in the second quarter of 2012. The pipeline is expected to transport crude/condensate from Eagle Ford Shale in south Texas to the Houston Ship Channel. The facility would have an initial throughput of 25,000 bpd and could expand up to 100,000 bpd.

ConocoPhillips is scheduled to conduct maintenance at its 146,000 bpd Borger, Texas refinery starting on Wednesday. The maintenance expected to last six days would concentrate on the electrostatic precipitators and affect the fluid catalyst converter unit.

Traders said refineries in Northwest Europe are looking to switch to North Sea crudes including



Forties crude as fears of a potential EU Iranian oil embargo have made Russian Urals crude expensive. The switch is likely to increase demand and prices for Forties crude.

Iran's crude exports to China's Sinopec Corp in January are expected to fall by about 30% or 165,000 bpd on the month amid a contract dispute. Iran is attempting to sell its oil at higher prices and on tougher terms.

The Petroleum Association of Japan reported that the country's crude inventories in the week ending December 10<sup>th</sup> increased by 2.86 million barrels on the week and by 3.02 million barrels on the year to 97.42 million barrels. Gasoline stocks increased by 80,000 barrels on the week but fell by 500,000 barrels on the year to 13.19 million barrels while kerosene stocks increased by 170,000 barrels on the week and by 5.31 million barrels on the year to 22.31 million barrels and naphtha stocks fell by 380,000 barrels on the week and by 460,000 barrels on the year to 10.37 million barrels. Japan's crude runs increased by 150,000 bpd on the week but fell by 350,000 bpd on the year to 3.57 million bpd, with the refinery utilization rate at 86.4%. The PAJ reported that total oil sales increased by 7.2% on the week but fell by 4.8% on the year to 3.25 million bpd.

**Production News**

BP Plc halted its output from the southern half of the Rumaila oil field in Iraq after a bomb blast hit pipelines in the area late Tuesday. Production at the Rumaila field is estimated at about 1.4 million bpd. Meanwhile, an Iraqi Oil Ministry spokesman said Iraq's oil exports will not be affected by the bomb attack. He said repair work would take at least a week.

Azerbaijan's state statistics agency reported that the country produced 42.2 million metric tons of crude in January to November, down 10.4% on the year. The government expects oil production in 2011 to total 51.55 million tons.

Libya's National Oil Corp said the country's oil exports are expected to increase to over 500,000 bpd in December from 227,000 bpd in November. It plans to export 24 cargoes in December.

Gulfsands said sanctions on Syria's oil sector is squeezing the country in the short term however production and exports are likely to resume once Syrian oil companies find new Asian partners to buy their oil.

The head of the Norwegian Petroleum Directorate said the large North Sea oil find that has revived the prospects of an oil region is unlikely to be repeated in this area. The Aldous/Avaldsnes oil discovery made earlier this year may be the third largest find ever made off Norway and could produce 800,000 bpd.

**Market Commentary**

OPEC's decision to increase its production target pushed the spot month crude oil below \$95.00. The target of 30 million barrels per day is not far from OPEC's current output level, and is the highest it's been in three years. The January contract traded below key support set at \$94.99, and settled at \$94.95. Both the fundamental and the technical outlooks are pointing towards lower numbers. For now, we would look for the January contract to test the 50-day moving average of \$93.90

Crude Oil		Heating Oil (Jan)		Rbob (Jan)	
Support	Resistance	Support	Resistance	Support	Resistance
9713	9499	2		24988	25939
9591	9591	29288	30937	24734	26283
9499	10337	28800	31956	24516	

9251	10753	26850		24480	
8916	11483			23803	
8581					
<b>50-day MA</b>	<b>93.90</b>				
<b>100-day MA</b>	<b>90.06</b>				
<b>200-day MA</b>	<b>95.86</b>				

	CRUDE (NYMEX)				WTI (ICE)				BRENT (ICE)			
	O.I	YEST O.I	Change	% OF TTL	O.I	YEST O.I	Change	% OF TTL	O.I	YEST O.I	Change	% OF TTL
JAN	206704	185021	21683	15.351%	45776	52123	-6347	10.552%	45036	67831	-22795	4.993%
FEB	131740	159333	-27593	9.784%	69129	66372	2757	15.935%	177974	174150	3824	19.730%
MAR	138379	127648	10731	10.277%	32672	34387	-1715	7.531%	145928	135605	10323	16.178%
Dec-12	170775	171157	-382	12.683%	62756	62950	-194	14.466%	96654	97443	-789	10.715%
Dec-13	74620	73952	668	5.542%	37947	38139	-192	8.747%	45330	45421	-91	5.025%
TOTAL	1346495	1325786	20709		433813	437448	-3635		902040	910497	-8457	

	HEATING OIL				RBOB			
	O.I	YEST O.I	Change	% OF TTL	O.I	YEST O.I	Change	% OF TTL
DEC	94102	92100	2002	34.818%	54451	57494	-3043	19.865%
JAN	38207	38657	-450	14.137%	44855	41305	3550	16.364%
FEB	29833	27657	2176	11.038%	42551	40669	1882	15.524%
Dec-12	18547	18045	502	6.862%	13352	13383	-31	4.871%
TOTAL	270267	271199	-932		274100	271597	2503	

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