



ENERGY RISK MANAGEMENT

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ENERGY MARKET REPORT FOR MARCH 8, 2011

In its latest Short Term Energy Outlook, the EIA raised its forecast for the average cost of crude oil to refiners to \$105/barrel in 2011, up \$14 from its previous forecast. The price of WTI has increased about \$15/barrel since mid-February partly in response to the disruption of oil exports from Libya. The EIA increased its 2011 forecast for WTI by \$9/barrel to \$102/barrel. It projects a further increase in oil prices in 2012, with the

refiner acquisition cost for crude oil averaging \$106/barrel and WTI averaging \$105/barrel. The EIA expects the retail price of gasoline to average \$3.56/gallon in 2011, up 40 cents from its previous projection. It expects gasoline prices to average about \$3.70/gallon during the peak driving season from April through September. The EIA expects continued tightening of world oil markets over the next two years. It estimates that world oil demand will increase by 1.74% to 88.2 million bpd in 2011,

API Stocks
Crude – up 3.82 million barrels
Distillate – down 1.473 million barrels
Gasoline – down 3.743 million barrels
Refinery runs – up 1.5% at 79.9%

Market Watch

Goldman Sachs increased its second quarter 2011 Brent crude oil price forecast to \$105/barrel from \$100.50/barrel. It said Saudi Arabia was producing more oil, reducing its spare output capacity.

Merrill Lynch increased its Brent crude price forecast for this year to \$108/barrel from \$88/barrel and for next year to \$95/barrel from \$85/barrel. Its WTI crude price forecast for this year was increased to \$101/barrel, up from its previous forecast of \$87/barrel.

The National Federation of Independent Business' small business optimism index in February increased 0.4 points from January to 94.5. The subindex of expected business conditions in six months fell 1% to 9%.

Kuwait Petroleum Corp said that it plans capital spending of \$270 billion through 2030 to feed growing global energy demand, two thirds of which he predicts will soon come from Asia. Of the total, \$81 billion is slated for the next five years. It expects its refining capacity to increase to 1.4 million bpd from the current level of 930,000 bpd.

Hess Corp said it would not hedge its oil production amid the high prices.

CFTC Commissioner Jill Sommers said the CFTC's proposed rule on how swap trades should be executed is overly restrictive. She said the rule is an overly restrictive reading of the statute and that she hopes the agency adopts final rules that are consistent with other regulators.

China's airlines are expected to see their earnings decline amid the rally in oil prices. An official at China Eastern Airlines admitted that fuel prices could lower its earnings. China's top three carriers, which also include Air China and China Southern, have projected unusually strong earnings for 2010 on higher air travel.

up 40,000 bpd from a previous estimate of 88.16 million bpd. Demand in 2012 is estimated to increase by 1.9% to 89.88 million bpd. The EIA expects non-OPEC supply in 2011 to increase by 160,000 bpd to 51.75 million bpd, up 30,000 bpd from its previous estimate while in 2012 non-OPEC supply is expected to fall by 30,000 bpd to 51.72 million bpd, down 30,000 bpd from its previous estimate. The EIA expects lost

production from Libya will be made up for by both a drawdown in inventories and increases in production from other OPEC countries. OPEC production in 2011 is expected to increase by 70,000 bpd to 29.55 million bpd, down 1.01% from its previous forecast while production in 2012 is expected to increase by 1.9 million bpd to 31.45 million bpd, up 1.35% from its previous forecast. In regards to OECD inventories, the EIA estimated that stocks would fall by about 111 million barrels in 2011 and by an additional 38 million barrels in 2012. Days of forward supply is expected to fall from 57 days at the end of 2010 to 55 days by the end of 2011, which is close to the middle of the previous 5 year range. Total petroleum consumption in the US in 2011 is expected to increase by 130,000 bpd to 19.28 million bpd, unchanged from its previous estimate while demand in 2012 is expected to increase by 180,000 bpd to 19.46 million bpd, up 0.05% from its previous estimate. Gasoline demand in 2011 is expected to increase by 70,000 bpd to 9.10 million bpd while demand in 2012 is expected to increase by 9.16 million bpd. Distillate demand in 2011 is estimated to increase by 60,000 bpd to 3.85 million bpd while demand in 2012 is expected to increase by 10,000 bpd to 3.95 million bpd.

March Calendar Averages CL – \$103.11 HO – \$3.0494 RB – \$3.0060
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Libyan oil trade has been halted as banks decline to clear payments in dollars due to the US sanctions imposed against the country. This follows a decision by major US oil firms to halt trade with Libya which makes it almost impossible for European firms to buy Libyan oil and supply refineries in countries such as France and Italy.

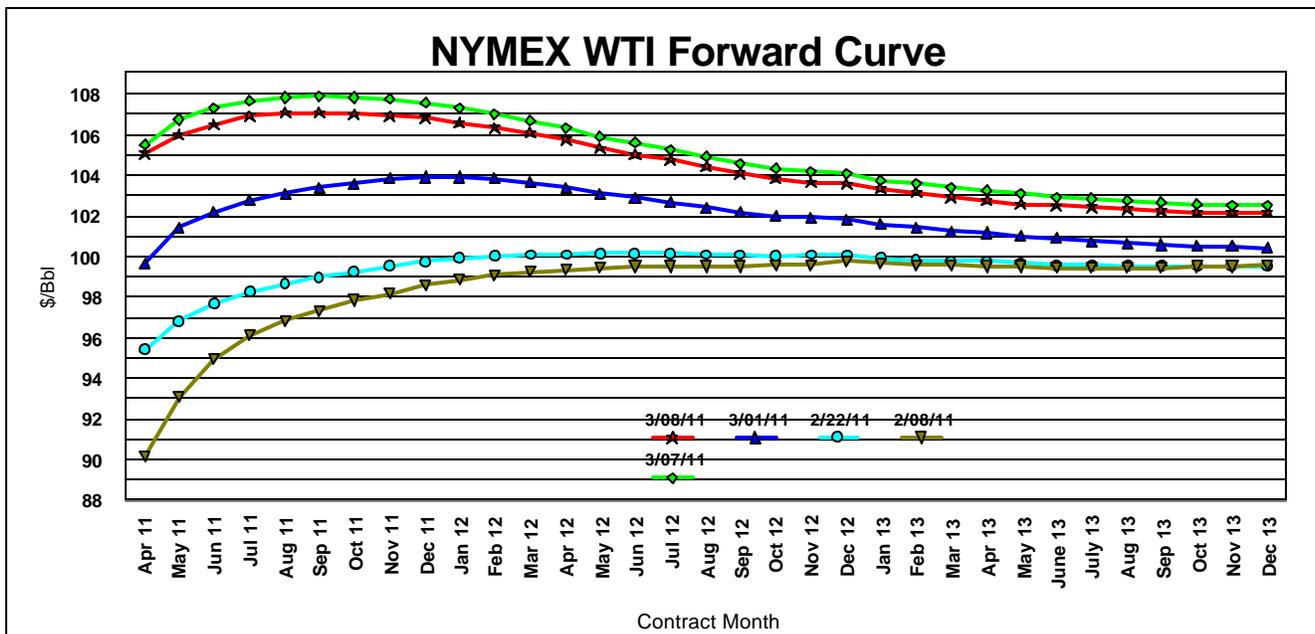
Muammar Gaddafi's forces used tanks and fired rockets to bombard rebels on the frontline between east and west Libya. The forces launched another attack on the town of Zawiyah near the capital but rebels still control the central square. Al Jazeera earlier reported that Gaddafi's forces had launched a barrage of missiles against the oil town of Ras Lanuf. Libyan warplanes launched at least four air strikes on a rebel held town of Ras Lanuf on Tuesday.

Arab foreign ministers are scheduled to hold crisis talks Saturday to discuss imposing a no-fly zone over Libya. The meeting was initially scheduled for Friday but was postponed a day after requests from several foreign ministers.

A senior member of Germany's Chancellor Angela Merkel's conservatives said the country should join any mission to impose a no-fly zone over Libya and support the idea in the UN Security Council. The government has yet to say whether it would support Britain and France in their drive at the UN to prevent Libyan leader Muammar Gaddafi from unleashing air raids on rebel fighters. UK Foreign Secretary William Hague said a no fly zone over Libya is a possibility but needs broad international and legal support.

OPEC has no plans to hold an extraordinary meeting. The group has had consultations on the possibility of holding such a meeting but at the moment there are no plans to hold a meeting. Algeria's Oil Minister Yousef Yousfi said there are no plans for an extraordinary meeting of OPEC members at this time.

The Financial Times reported that OPEC members are joining Saudi Arabia in raising crude output to calm fears of a supply crunch in the West. It reported that Kuwait, the UAE and Nigeria are expected to increase their production by as much as 300,000 bpd in coming weeks. The production increase, expected by early April, would almost make up the shortfall in supply due to declining Libyan exports. Kuwait's Oil Minister said OPEC was in talks to increase production for the first time in more than two years following a surge in oil prices. Separately, Nigeria's state oil company NNPC said Nigeria would increase its crude oil production if OPEC requested higher output.



Meanwhile, Saudi Arabia's Oil Minister Ali al Naimi said the world oil markets were sufficiently supplied and added that the country currently holds 3.5 million bpd of spare capacity to meet any shortages. Qatar's Oil Minister Mohammed Al Sada said OPEC will address oil supplies if there is a real problem but added that he does not see the need to increase its production. Iran's OPEC Governor Mohammad Ali Khatibi said there is no need for OPEC to increase its oil production because consumer concerns over supply are mostly psychological and not based on any real shortage in the market.

The head of the rebel National Libyan Council, Mustafa Abdel Jalil said rebels will not pursue Libyan leader Muammar Gaddafi over crimes they say he has committed if he steps down from his post in the next 72 hours. He said the deadline would not be extended beyond 72 hours. Meanwhile, Libya's government has denied holding talks with rebels. It dismissed as "rubbish" reports that it offered to hold peace talks with Libyan rebel leaders.

The European Union agreed on Tuesday to impose new sanctions on Libya's leader Muammar Gaddafi's regime, notably targeting the Libyan Investment Authority, the overseas investment vehicle for the country's oil revenues. EU officials also stated that representatives of the Libyan opposition will meet the European Union's foreign policy chief Catherine Ashton before addressing the European Parliament.

Kuwaitis demonstrated outside parliament for the prime minister's ouster. Six members of the Kuwaiti youth group Kafi gave watermelons to a few lawmakers as a signal of their political dissatisfaction in the country.

Three Bahraini Shi'ite groups said they had formed a coalition aimed at toppling the Sunni monarchy and setting up a republic. The new "Coalition for a Republic" made up of Al Haq, Wafa and the Freedom movement, called for peaceful change through a decentralized movement of civil disobedience and resistance. The new coalition risks splitting the broader Shi'ite opposition movement that is demanding an elected government and a true constitutional monarchy as well as better access to jobs within the system.

Iranian security forces fired teargas to disperse anti-government protesters in Tehran on Tuesday. The authority warned against any illegal gatherings by the opposition after websites called for rallies.

The UAE is stable despite a wave of Arab protests that has reached other Gulf Arab countries and is not considering new initiatives to reinforce security. The UAE is seen as the Gulf states least vulnerable to the political unrest.

Colombia's Defense Minister Rodrigo Rivera said Marxist guerrillas freed 22 of the 23 oil workers for Canadian energy firm Talisman Energy Inc who were kidnapped late Monday.

According to a SpendingPulse report, US gasoline demand fell by 1.8% to 8.953 million bpd in the week ending March 4th. The drop of 165,000 bpd in the week is unusual for the first week in March and appears to be tied to the increase in retail prices. The four week moving average of gasoline demand stood at 8.846 million bpd, up 1.6% on the year. It reported that the US average retail price of gasoline increased by 19 cents to \$3.43/gallon on the week.

Refinery News

Colonial Pipeline said it was lifting allocations on Cycles 12 through 14 for Line 32 due to a reduction in nominations.

ExxonMobil said it is restarting units that were shut for a five week overhaul at its 149,500 bpd Torrance, California refinery.

Sunoco Inc reported that it extinguished a fire in a vacuum tower at its Philadelphia refinery on Monday afternoon.

Alon USA Energy Inc said it signed a supply and off take agreement with J. Aron & Co. It said the agreement has an initial term that expires on May 31, 2016. J. Aron is expected to sell Alon up to 70,000 bpd of crude oil to process at its Big Spring, Texas refinery.

Italy's Eni plans to perform partial maintenance at its Venice refinery this week. Operations to begin the partial shutdown started on March 2nd.

China's Sinopec Corp started giving its plants 770 to 800 yuan or \$117.50-\$122.10 for each tone of extra gasoline produced. It is also limiting exports as domestic supplies of the fuel tighten. It said it stopped exporting gasoline in March.

Neste Oil will likely operate its new biodiesel plant in Singapore below its full rate this year. It will commission a new 800,000 ton a year biodiesel plant in Rotterdam in the summer of 2011, in addition to the Singapore plant.

Pertamina said it would invest \$2.5 billion to build three new refineries, which would be able to produce high octane gasoline by 2017.

China's Sinochem Group signed an agreement with the Zhuhai municipal government to build an oil berth and oil storage tanks. Sinochem and Zhuhai Port Holdings Group Co are expected to jointly develop pipelines, an oil berth for vessels of up to 300,000 deadweight tons and oil storage tanks with a total capacity of 3 million cubic meters.

Production News

Libya's Waha Oil Co's output has been to less than a third of its normal level as ships avoid Libya, halting exports and as looters damaged its facilities. Output at Waha has fallen to 100,000 bpd from 380,000 bpd.

Caraweek-Total said the unrest in the Middle East is not a big concern for oil and gas production.

Marathon Oil Corp said it hopes to more than double its oil output from an Alberta oil sands project in the near future. Currently, Marathon with partners Royal Dutch Shell and Chevron Corp produce about 155,000 bpd at the Athabasca oil sands project.

India's imports of Iranian crude are at risk from April when payments for January cargoes are due. India's central bank said in December payments to Iran could no longer be settled using a clearing system run by regional central banks. India paid 1.5 billion euros or \$2.08 billion to clear dues for Iranian oil delivered before the dispute started. However a permanent solution to the impasse is yet to be found.

Turkey shut its Bosphorus Strait to tanker traffic on Tuesday due to heavy winds.

OPEC's news agency reported that OPEC's basket of crudes increased further to \$112.03/barrel on Monday from \$111.42/barrel on Friday.

Market Commentary

Word of discussions among OPEC members as to whether or not they should raise output levels sent crude oil retreating from a 29-month high. This comes on the heels of reports that the U.S. may release oil from its strategic reserves. The spread between Brent and WTI narrowed to as much as \$8.14, after peaking at \$19.54 on February 21. This is the fifth straight day in a row that this spread has narrowed and today makes it the narrowest it has been since January. It appears that those taking bets on this spread widening have begun to take profits. There is more profit taking to be made on this spread and as a result we would look for it to continue to narrow, with possibilities of reaching the resistance level of -\$2.60. As for flat price in crude oil, the April contract bounced off of support set at \$103.39, settling at \$105.42. Technically, this market is overbought and is due for a correction. We would look for continued dips, buying bounces off of the \$103.39 support area and adding to shorts below.

Crude oil: April 11 262,242 -13,321 May 11 235,586 15,527 June 11 148,445 +2,253 Totals 1,578,407 +10,312 Heating oil: Apr 11 84,927 -4,599 May 11 53,722 +1,083 June 11 51,973 +1,286 Totals 305,861 -2,123 Rbob: Apr 11 78,176 -7,115 May 11 60,999 +2,090 June11 37,200 +1,712 Totals 275,271 -1,889

Crude Oil		Heating Oil		Rbob	
Support	Resistance	Support	Resistance	Support	Resistance
103.39	10880	29300			
9973	111.65	27980		28755	30300
9635		26680		26965	31970
9245		27375		26300	32450
9150		23685	31525	25683	35915
8772		22960	33510	25145	36310
8647		22013		24240	
8387		21860		23631	
8231		21140		23414	
				22560	

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