The Windham Group
Energy Futures Brokerage

*ENERGY RISK MANAGEMENT*

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## ENERGY MARKET REPORT FOR JANUARY 3, 2011

The US EIA reported that the US average retail price of diesel increased by 3.7 cents to $3.331/gallon in the week ending January 3rd. The price of diesel is up 19.1% or 53.4 cents on the year. The EIA also reported that the US average retail price of gasoline increased by 1.8 cents to $3.07/gallon on the week. The price of gasoline is up 15.2% or 40.5 cents above a year ago.

**Market Watch**

The US National Weather Service reported that US heating demand this week is expected to be 0.5% above normal. Demand for heating oil this week will average 4.3% below normal, while heating demand for natural gas is expected to average 0.9% above normal. Last week, heating demand was 2% below normal.

The Institute for Supply Management said the US manufacturing sector grew for the 17th consecutive month in December. Its index of national factory activity increased to 57 in December from 56.6 in November.

The US Commerce Department reported that US construction spending increased a third consecutive month in November. Spending on construction projects increased by 0.4% to a seasonally adjusted annual rate of $810.23 billion compared to the prior month. Spending increased 0.7% in October and 1.2% in September.

**Refinery News**

Colonial Pipeline is freezing nominations for cycles 69, 70 and 71 on Linden Delivery Line L2 as demand nears capacity. Line L2 is a stub line carrying both distillates and gasoline from Linden's main terminal into IMTT terminal in Bayonne, NJ.

Production units at Valero Energy Corp's 235,000 bpd Aruba refinery were restarted late Sunday night. The refinery's operating rates were gradually increasing and are expected to reach planned rates by the end of January. The refinery was shut in July 2009 on concern over an uncertain tax regime and unfavorable economic conditions. Separately, Valero Energy Corp said its fluid catalytic cracking unit at its 87,400 bpd Ardmore, Oklahoma refinery was at planned rates after the unit was restarted late last week.

Tesoro Corp said planned maintenance at its 97,000 bpd refinery in Wilmington, California is expected to end on Wednesday.

Operations at Citgo Petroleum Corp's 167,000 bpd refinery in Lemont, Illinois were not affected by a power failure on Saturday.

| January Calendar Averages |
| --- |
| CL – $91.55 |
| HO – $2.5528 |
| RB – $2.4273 |

Iraq and Jordan have agreed in principle on building a pipeline to supply Jordan's al-Zarqa refinery with crude oil. The two countries also discussed jointly developing a cross border gas fields. In 2008, Iraq agreed to a three year deal to supply Jordan with 10,000 bpd of crude under preferential terms.

**Production News**

ExxonMobil Corp restarted a production platform in the Gulf of Mexico after repairing a small leak that released a half gallon of condensate into the water over the weekend. A pinhole leak on the platform's fuel scrubber was discovered on Saturday.

A report filed with the US National Response Center, an ExxonMobil oil and gas platform in the Gulf of Mexico block West Delta 73 has been shut due to a small leak.

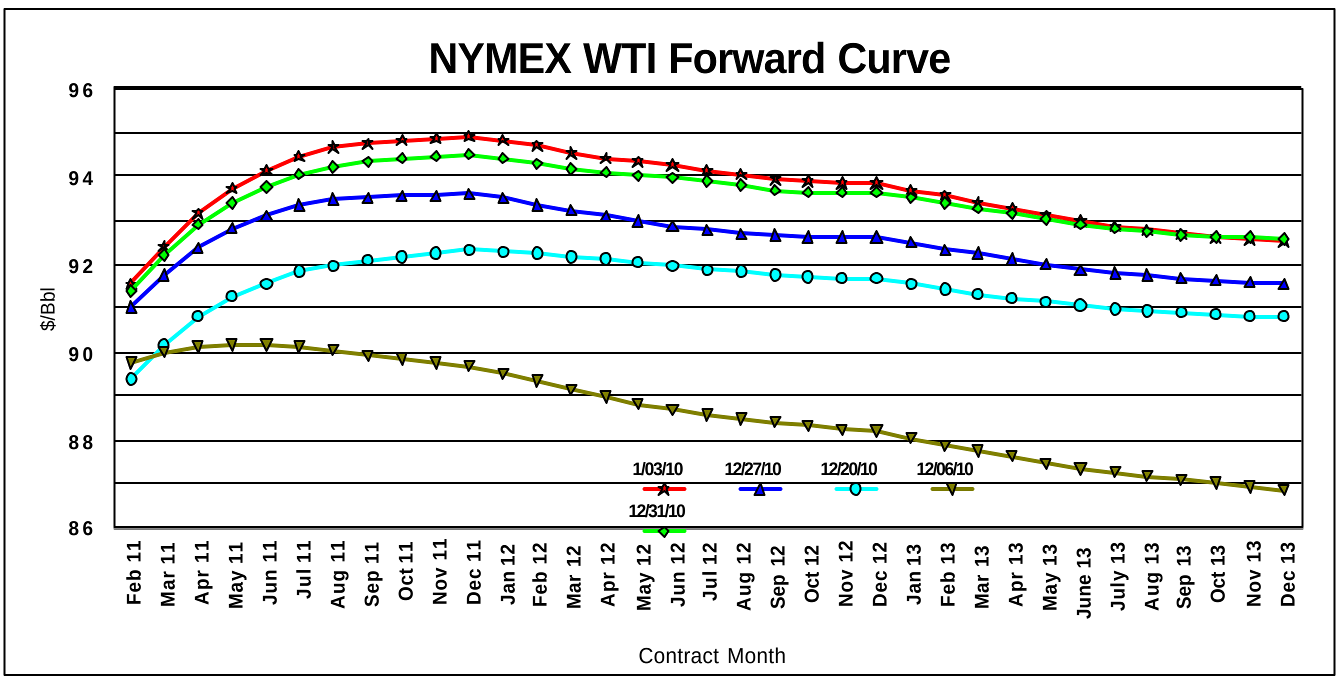
Noble Corp said Marathon Oil Co canceled a four year, $752 million contract for a deepwater rig in the Gulf of Mexico due to a lack of new drilling permits following the BP oil spill. A moratorium on drilling was lifted in October but so far no new deepwater exploration permits have been issued by US regulators.

Mexico's Transport and Communications Ministry reported that the country shut all three of its major oil export terminals due to bad weather conditions. The port of Dos Bocas was shut on Sunday morning, while the Coatzacoalcos and Cayo Arcas facilities were closed on Monday.

Mexico's Pemex reported that it missed its own 2010 target for crude oil production, with its December output averaging 2.573 million bpd. Pemex was targeting 2.6 million bpd in order to at least match its 2009 output level.

Brazil's Mines and Energy Minister Edison Lobao said Brazil's government will hold its first auction of offshore subsalt oil and gas reserves in the second half of 2011. He also said that Brazil will also resume the auctioning of non-subsalt blocs this year. The first subsalt blocks to be auctioned are likely to be from the Libra prospect that has reserves estimated at up to 15 billion barrels of oil equivalent. Brazil's subsalt reserves are estimated to contain 50 billion or more barrels of oil.

Iraq's SOMO reported that the country's oil exports increased by 2% to 1.951 million bpd in



December, up from 1.912 million bpd in November. Iraq exported 1.529 million bpd from the southern oil fields via Basra terminals and about 412,000 bpd through the northern export pipeline via Turkey's Ceyhan terminal.

OPEC's news agency reported that OPEC's basket of crudes increased to an average of $77.45/barrel in 2010, up from the previous year's $61.06/barrel level. It reported that the basket price fell to $88.99/barrel on Friday from $89.47/barrel on Thursday.

**Market Commentary**

After falling from its record high of $147.27 to a low of $32.70, crude oil has been steadily climbing higher, retracing 50% of this move. For the year of 2010 there had been several factors affecting prices. Among these factors was the global economic outlook, increasing demand in both the U.S. and China, the BP oil leak in the Gulf of Mexico, unusually cold weather in Europe and the U.S. and the changing face of commodities as investors increasingly utilize them as a financial hedge. As we approach the New Year, the overall sentiment for crude oil has turned from uncertainty to bullishness as optimism regarding the economy, especially that of the U.S. increases. Evidence of this optimism can be seen in the U.S. S&P Index, which has increased by 6.6% during the month of December and an almost $10.00/barrel increase in the price of Brent.

Standing behind higher prices is OPEC's stance that it will not increase output, which has been on a two-year curb. According to Sadad al-Husseini, Saudi Arabia's former top official at Saudi state oil giant, Saudi Aramco, "Given the still abundant oil inventories, it wouldn't make sense for OPEC to over-react on what may be a very transient condition." This statement comes despite the fact that global demand has the potential to reach 88.8 million barrels a day. OPEC appears to be concerned about the downside potential should winter demand disappear by the time extra barrels hit the market. This may or may not lead to a supply/demand deficit.

What has been a major factor in the run-up in oil prices is China, the world's second largest consumer of oil. China's consumption of oil was one of the main driving forces behind this market that took crude oil to its highest level since October of 2008. According to the National Development and Reform Commission, China's top economic planner, in the first 11 months of 2010, China consumed 15.2 percent more oil than that of the previous year, with demand increasing by 11 percent. This figure includes both domestic production and imports minus exports. China's domestic crude oil output on a year on year basis rose 6.7 percent, with imports rising by 18.3 percent on the year. With the Chinese government looking to stave off inflation, efforts to keep its economy under control have been put into place. Car sales in China continued to grow with the month of November posting year-on-year gains of 29% and December already showing additional increases. The government, in an effort to control traffic congestion, announced that only 240,000 new autos would be issued license plates in 2011. This comes on the heels of new car sales in 2010 hitting almost 800,000. Should aforementioned these steps impact demand in that region; it will surely affect the oil industry.

Lastly, there are expectations that the global economy, which showed signs of improvement in the fourth quarter of 2010, will continue to improve as we enter 2011. The manufacturing sector has already shown signs of improvement, with the service sector starting to improve as well. In the U.S. unemployment will be key. The prior to week's jobless claims indicated that applications for unemployment fell 24,000 to 388,000, making this the lowest level since July 2008. Focus is now on this week's release and that of the following week as we come out of the holiday season. As with employment in the U.S. showing signs of improvement so has household spending and investing.

All the aforementioned may seem like a mix of emotions but it appears that the first quarter of 2011 will see crude oil make a run for the $100.00 level. Whether or not it will be able to maintain this level is yet to be seen.

Crude oil: Feb 11 311,738 -851 Mar 11 202,030 +2,515 April 11 90,547 +2,044 Totals 1,430,155 +5,719 Heating oil: Feb 11 106,300 +551 Mar 11 57,657 02,085 Apr 11 28,572 +824 Totals 300,637 +894 Rbob: Feb 11 94,856 –1,428 Mar 11 48,799 +1,909 Apr 11 32,151 -43 Totals 266,724 –1,545

| Crude Oil | | Heating Oil | | Rbob | |
|---|---|---|---|---|---|
| Support | Resistance | Support | Resistance | Support | Resistance |
| 9100 | 9385 | 23685 | 26712 | | 24880 |
| 8826 | 103.85 | 22960 | 27070 | 22560 | 27085 |
| 8590 | 111.65 | 22013 | 29500 | 22050 | |
| 8350 | | 21860 | 30955 | 21600 | |
| 7945 | | 21140 | | 20300 | |
| 7900 | | 20702 | | 20130 | |
| 7871 | | | | | |