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## ***ENERGY RISK MANAGEMENT***

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### **ENERGY MARKET REPORT FOR JANUARY 4, 2011**

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According to a SpendingPulse report by MasterCard Advisors LLC, US weekly gasoline demand fell by 12.5% in the week ending December 31<sup>st</sup>. Gasoline demand averaged 8.409 million bpd, the lowest level since September 9, 2005. The four week moving average fell by 0.5% on the year to 9.098 million bpd. It reported that the US average retail price for gasoline increased for the fifth consecutive week by 6 cents to \$3.06/gallon.

Iran has invited envoys from China, the European Union and elsewhere to visit the country's nuclear sites in a bid to show its

openness about its nuclear work ahead of talks with major powers later this month. Iran's Foreign Ministry said ambassadors from China, Russia, France, Britain, Germany and the US were invited to

#### **Market Watch**

The US Commerce Department said US factory goods orders unexpectedly increased in November. It reported that orders for manufactured goods increased by 0.7% to \$423.85 billion on the month. Non-defense capital goods orders, excluding aircraft increased 2.6% in November after falling 3.2% in October.

China's central bank chief Zhou Xiaochuan said China's economy likely grew about 10% in 2010. He said he was not confident that China's economy was on a normal growth trajectory because of tepid demand in the developed world.

An Abu Dhabi National Oil Co official said the Middle East is set to surpass North America as the world's leading regional supplier of liquefied petroleum gas or LPG in 2011 and the UAE will supply the majority. The Middle East is expected to surpass North America by the end of 2011 with a potential supply that may reach 61 million metric tons.

The European Union will exceed its target of meeting 20% of its energy demand from renewable sources by 2020. According to a report by the European Wind Energy Association, 25 out of the 27 EU members expect to meet or exceed their national targets.

A CFTC commissioner said he would vote in favor of publishing a commodities position limit plan for public comment, a step that will likely allow the CFTC to move forward on its plan.

CME Group Inc and IntercontinentalExchange Inc said their daily trading volume increased in December. In December, CME's daily volume increased by 15% to an average of 10.5 million contracts, with 83% of the month's total of 232 million being traded electronically. It is down from last month's level of 14.2 million. Energy and metals contract volume each fell by 1% while equity index volume fell by 4%. Meanwhile, the IntercontinentalExchange said its daily average volume increased by 13% to 1.1 million contracts last month from a year earlier. Brent crude futures and options, saw volume increase by 23%.

The NYMEX announced that delivery intentions for the January Heating Oil contract stood at 1,220 contracts while delivery intentions for the January RBOB contract stood at 200 contracts.

### API Stocks

**Crude** – down 7.511 million barrels  
**Distillate** – up 2.162 million barrels  
**Gasoline** – up 5.612 million barrels  
**Refinery runs** – down 0.2% at 85.4%

travel to the country ahead of a scheduled meeting in Istanbul at the end of January. The ambassadors will possibly visit Iran on January 15<sup>th</sup> and 16<sup>th</sup>. Iran's ambassador to the IAEA said the plan was for the group to travel to the Natanz uranium enrichment facility and the Arak heavy water reactor.

Frontline Ltd said demand for oil transport has improved over the past month and was due to increase further in January.

### Refinery News

Colonial Pipeline is allocating Line 3 for Cycle 4, as nominations on the line exceeded the company's ability to meet the 5-day lifting cycle. Colonial is allocating its Linden Delivery Line L2 for Cycle 72. Line 2 carries both distillate fuels and gasoline from Linden's main terminal into Bayonne, NJ.

Enbridge Inc plans to shut its 290,000 bpd Line 6B, the line that ruptured and spilled oil in Michigan last summer, for about one week to make repairs.

Ship traffic at the oil port of Houston, halted by fog for three and a half hours, resumed at mid-morning Tuesday. Three inbound and three outbound vessels were delayed when pilots stopped boarding due to low visibility.

Valero Energy Corp shut down an unspecified unit for unplanned maintenance on Monday afternoon at its 315,000 bpd refinery in Corpus Christi, Texas. It said production was not affected by the unplanned shut down of the unit. Valero said production at its 80,887 bpd Wilmington, California refinery was not materially impacted due to an air products outage at a hydrogen plant which serves the refineries in the region. Separately, Valero said production units at its Aruba refinery were increasing their rates. The refinery is expected to reach planned rates by the second half of the month.

China Petroleum and Chemical Industry Federation said the country's crude processing increased by an annual rate of 7.95% since 2006 to 417.68 million tons or 8.35 million bpd in 2010. It stated that China's crude production was expected to have amounted to 203.494 million tons in 2010, increasing at an average annual rate of 2.43% since 2006.

PetroChina started operations of a 1.8 million ton/year gasoline hydrotreating unit at its Lanzhou refinery in December. It plans to add a 3 million tpy diesel hydrotreating unit this year. The refinery processed a total of 10.3 million tons or 206,000 bpd of crude in 2010 and is likely to increase crude runs this year after the gasoline hydrotreating unit came onstream. It plans to increase its crude runs to 235,500 bpd in January from 219,000 bpd in December.

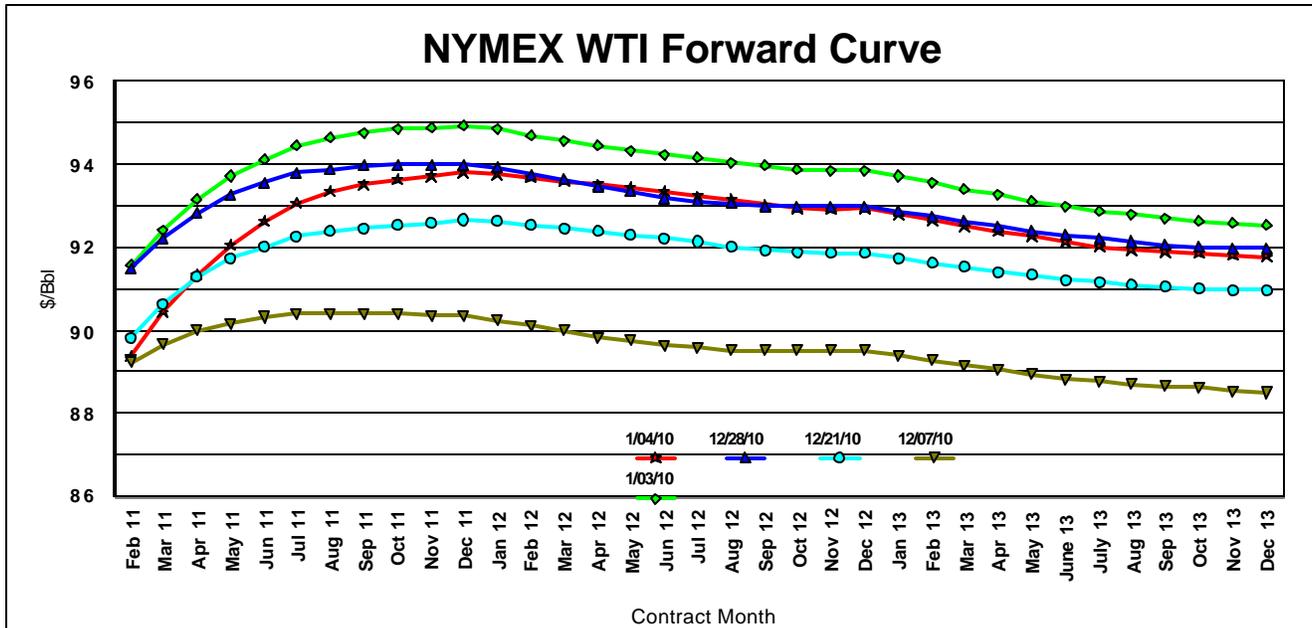
### Production News

Mexico reopened the last of its three main oil ports in the Gulf of Mexico on Tuesday. The Dos Bocas port, which was closed on Sunday due to bad weather, was reopened on Tuesday. The port of Cayo Arcas and Coatzacoalcos/Pajaritos were reopened on Monday.

Devon Energy Corp's Canadian heavy oil production returned to normal after the company cut back output by 10,000 bpd in December to cope with outages on the Enbridge Inc pipeline system. It expected to lose a cumulative 300,000 barrels of production in the fourth quarter because of disruptions to feeder pipelines that tie into the Enbridge network.

<b>January Calendar Averages</b> <b>CL – \$90.47</b> <b>HO – \$2.5297</b> <b>RB – \$2.4207</b>
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Iran has offered a stop-gap plan for oil supplies to India for January however a



lasting solution to the dispute over how to pay for future supplies may take weeks. It proposed a temporary payment channel through a bank based in Germany. India's central bank said last week payments to Iran could no longer be done through a longstanding clearinghouse system run by central banks, prompting fears India's \$12 billion annual oil imports from Iran could be threatened. A source said Indian officials will visit Iran in mid-January to work out a long term solution at the central bank level for oil payments. If the impasse continues it could potentially cut India's 400,000 bpd imports from Iran.

Nigeria is scheduled to export about 2.06 million bpd of crude oil in February, down from 2.13 million bpd in January.

Abu Dhabi National Oil Co increased the December retroactive official selling price of its Murban crude to the highest level in 28 months. It lifted the price by \$6.20 to \$91.85/barrel.

OPEC's news agency reported that OPEC's basket of crudes increased to \$89.79/barrel on Monday, up from \$88.99/barrel on Friday. It also reported that OPEC's basket of crudes increased by 8 cents to \$89.89/barrel in the week ending December 31<sup>st</sup>.

Brazil's center-south 2010/11 cane season is nearly finished, with 552.5 million tons of cane crushed by December 16th, up 7.2% on the year.

### **Market Commentary**

The end of the year rise in commodities was met by a beginning of the year sell-off as the dollar strengthened on speculation that a global economic recovery would bring investors to the currency and equities markets. After reaching its highest level in 27-months, crude oil declined as commodities across the board tumbled on profit taking. With the February crude oil contract declining 2.4 percent, the intra-day WTI/Brent spread widened out to \$4 a barrel Brent premium. This is the widest this spread has traded in two weeks. A break below \$4.01 sets this spread up for a test at the \$4.60 level. With the recent rally in prices being driven by economic optimism, we believe that today's sell-off is a technical correction and that prices will once again turn to the upside. There are several economically based reports due out and expectations are for them to show continued signs of improvement as the U.S. factory orders report did today. Hedge funds continue to remain bullish on this market and will most likely hold on to longs with crude oil above the \$80.00 a barrel level.

Crude oil: Feb 11 315,022 +3,284 Mar 11 210,607 +8,577 April 11 92,486 +1,939 Totals 1,455,898 +25,743 Heating oil: Feb 11 108,958 +2,658 Mar 11 58,425 +768 Apr 11 28,287 -285 Totals 304,025 +3,388 Rbob: Feb 11 94,671 -185 Mar 11 50,905 +2,106 Apr 11 32,053 -98 Totals 269,213 +2,489

Crude Oil		Heating Oil		Rbob	
Support	Resistance	Support	Resistance	Support	Resistance
	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					

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