



## ***ENERGY RISK MANAGEMENT***

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### **ENERGY MARKET REPORT FOR JANUARY 7, 2011**

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Talks between world powers and Iran on its nuclear program are expected to resume on January 20<sup>th</sup> in Istanbul.

ICAP Shipping estimated that crude oil stored globally in Very Large Crude Carriers fell to 41 million barrels in the week ending January 7<sup>th</sup> from 44 million barrels in the week ending December 24<sup>th</sup>.

#### **Refinery News**

Colonial Pipeline is freezing nominations for gasoline and distillates for Cycle 1

on its Linden Line L6 on Friday as demand for space is greater than capacity. Colonial also issued a nomination freeze for Line 32 for Cycles 71, 72 and 1.

Royal Dutch Shell is restarting its 145,000 bpd Anacortes, Washington refinery after it was shut on Thursday due to problems with the boiler system.

Hovensa LLC sees no impact to production from a leak in one of the sulfur recovery units at its 500,000 bpd refinery in St. Croix.

Flint Hills Resources said it will acquire two Iowa ethanol plants.

#### **Market Watch**

The US economy created fewer jobs than expected in December however the unemployment rate fell to its lowest level in more than 1-1/2 years. The Labor Department said non-farm payrolls increased by 103,000 below an expected increase of 175,000. Private hiring increased by 113,000 while government employment fell by 10,000. However overall employment for October and November was revised to show 70,000 more job gains than previously reported. The unemployment rate fell to 9.4%, the lowest level since May 2009, from 9.8% in November.

The European Union's Statistics office Eurostat said the unemployment rate in the Euro zone was unchanged at 10.1% in November while the unemployment rate for the European Union was also unchanged at 9.6%. Eurostat also reported that third quarter GDP growth in the euro zone was 0.3%, up from a previously reported 0.4% while third quarter GDP growth in the European Union was 0.5%.

Federal Reserve Governor Elizabeth Duke said she is encouraged by signs that economic recovery is starting to gain traction and believes market expectations for a stronger recovery have recently bid up interest rates. She believes the recovery is gaining momentum but that inflation expectations will remain subdued. She said sustained gains in consumer spending and business investment along with an easing of credit conditions will reinforce each other, increasing confidence and reinforcing a recovery that will gradually reduce unemployment over time.



Hess Corp increased its 2011 capital spending plans by 44%, allocating \$1 billion more to field development alone as crude prices increase. Its 2011 capital and exploratory budget is \$5.6 billion, with \$3.1 billion for production, \$1.6 million for developments and \$900 million for exploration. Much of the 2011 field development will occur in the Bakken oil shale in North Dakota and two deepwater fields in the Gulf of Mexico.

Petrobras said oil and gas production from Brazil's Guara-Norte and Cernambi pre-salt fields will be moved up to 2014 with the chartering of two new floating production, storage and offloading vessels. Output from the fields was originally planned to start after 2014. Each platform is expected to have a daily output capacity of 150,000 barrels and 8 million cubic meters of natural gas.

Turkey may introduce new fees on tankers carrying oil and other commodities through its straits to reduce traffic on its waterways. Turkey's government has stated that it wants to cut the amount of cargo travelling through its Bosphorus and Dardanelles Straits by 2013 or 2014 and has met with international oil companies to urge them to back a planned pipeline to the Mediterranean. About 150 million tons of oil and petroleum pass through the channels each year.

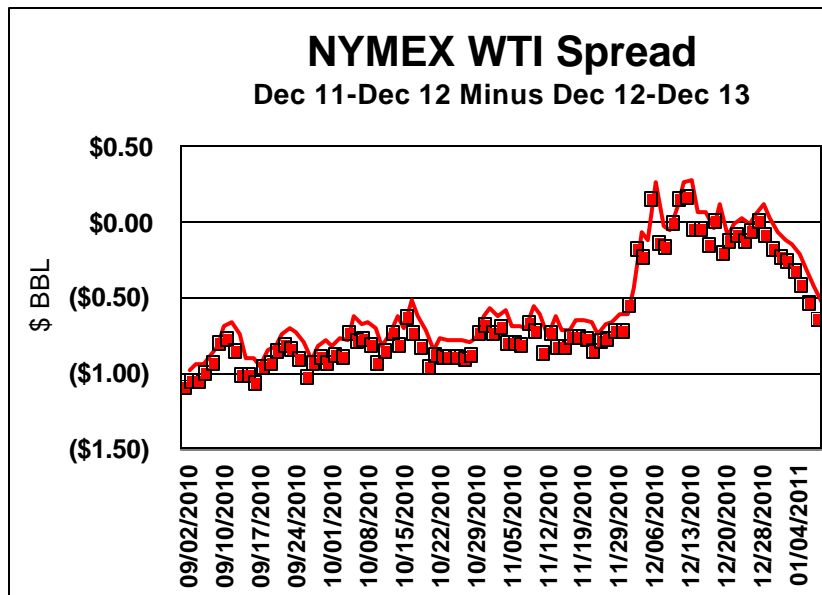
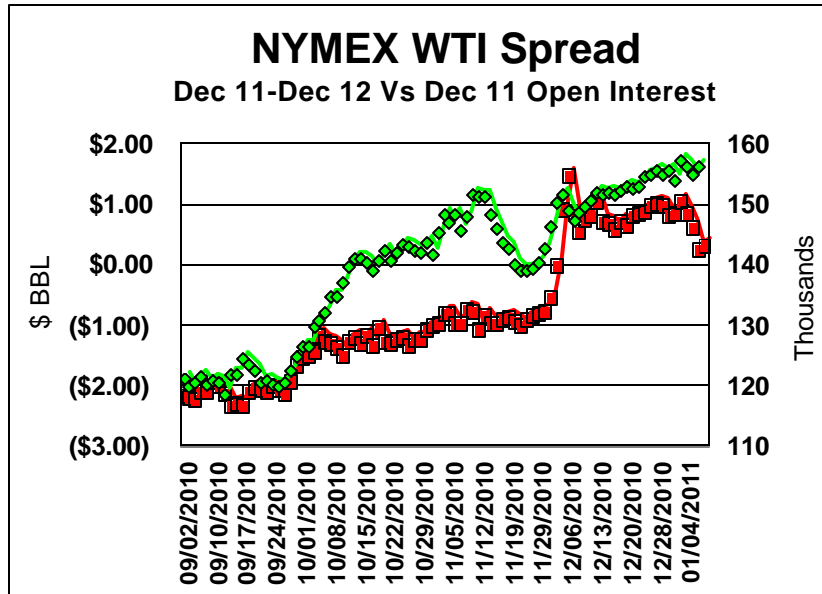
### **Market Commentary**

Crude oil rose early in the session in response to Canadian Natural Resources Ltd. shutting its Horizon oil sands project. These early gains were erased, with crude oil hitting a three week low, declining on a report that showed U.S. employers added fewer jobs than expected for the month of December. The shutting of the Canadian Natural Resources Ltd. could lead to a shortage of supply directly into Cushing, OK, the NYMEX delivery point. Based on the possibility of this, the front end of the curve moved out and the front month spread gained 18 cents. Back in the middle of December, we saw a significant move in the December 11/December 12 spread in comparison to the December 12/December 13 spread, whereby the front spread gained against the deferred. Since then, the Dec 11/Dec 12 has fallen back into negative territory versus the Dec 12/Dec 13 spread. Although we are late in profiting from this move, we believe that another opportunity may be presenting itself. The difference between the two spreads is approaching an area of congestion between the -\$0.65 and -\$1.00 level. We would be looking for this butterfly spread to trade back within the aforementioned congestion area, waiting for an opportunity to buy the Dec 11, sell the Dec 12 and buy the Dec 13 crude oil within this range, believing that the front spread would once again gain against the deferred spread. We would be comfortable putting on this position around the -\$0.80 to -\$0.85 level, looking to take profits between flat and \$0.20.

The Commitment of Traders report showed that non-commercials in the crude market cut their long position by 13,084 contracts to 149,466 contracts in the week ending January 4<sup>th</sup>. The combined futures and options report showed that the funds cut their net long position by 11,515 contracts to 201,275 contracts on the week as the market traded off its highs. Meanwhile, the disaggregated futures and options report showed that managed money funds cut their net long position by 29,638 contracts to 187,408 contracts on the week. Producers/merchants cut their net short position by 22,044 contracts to 155,914 contracts while swap dealers increased their net short position by 14,962 contracts to 86,085 contracts on the week.

Crude oil: Feb 11 28,938 -13,683 Mar 11 237,037 +15,972 April 11 101,075 +5,099 Totals 1,501,066  
Heating oil: Feb 11 96,756 -6,306 Mar 11 64,247 +416 Apr 11 27,652 Totals 299,211 -4,600 Rbob:  
Feb 11 91,192 -2,777 Mar 11 56,971 +2,490 Apr 11 30,498 -422 Totals 274,536 +1,980.

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



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