



ENERGY RISK MANAGEMENT

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ENERGY MARKET REPORT FOR JANUARY 10, 2011

The Trans Alaska Pipeline was shut on Saturday after a leak at the start of the pipeline in Prudhoe Bay, forcing oil companies to cut production to 5% of their daily average of 630,000 barrels. The shutdown of the pipeline, which runs from the Prudhoe Bay oilfield to the tanker port of Valdez, has not yet affected shipments and tankers are being loaded on schedule at Valdez. Oil produced during the shutdown will be stored at Prudhoe Bay until the pipeline reopens. The pipeline shutdown poses a minor threat to US crude supplies, however any delay in restarting the pipeline could cause West Coast refiners to scramble for substitute crude supplies. The US

Market Watch

Shipping sources stated that a VLCC was booked to store crude oil in the US Gulf and another tanker is awaiting completion of a floating storage deal. Separately a third tanker has been fixed to discharge its cargo in the US Gulf and then sail to West Africa to begin floating storage there for 10 months.

Business activity in the US Midwest expanded less than expected in December. The Institute for Supply Management-Chicago said December's revised business barometer index reading registered 66.8, less than the 68.6 it originally reported last month. The ISM-Chicago said its employment index was 58.4 in December, below the 60.2 previously reported. New orders registered a revised 68.7 compared with the 73.6 reported earlier.

According to ShopperTrak, US retail sales increased by 4% in the 2010 holiday season and should increase 2.2% in the first quarter. It stated that despite the overall sales increase, shopper traffic in November and December was flat as shoppers made fewer trips to malls but spent more on each visit. It expects shopper traffic to increase 2.8% in the first quarter.

The US Federal Reserve's \$600 billion bond buying program launched last year helped solidify an economic recovery. Atlanta Federal Reserve Bank President Dennis Lockhart said he remained comfortable with his decision early in November to support the quantitative easing program.

There is currently up to \$100 billion invested in commodities funds, a level last seen three years ago before the financial crisis. As of the end of September, about \$85 billion to \$90 billion was estimated to have been invested in commodity funds and strategies tracking the index. The rally in commodities prices during the fourth quarter increased the value of those investments by at least 10%, bringing them to between \$90 billion and \$100 billion by the end of the year. The S&P Goldman Sachs Commodity Index finished up 50% in 2010. Its crude oil component however increased by just 15%.

Iraq's Finance Minister Rafie al-Esawi said Iraq proposed a 2011 budget of 94 trillion Iraqi dinars (\$80 billion) compared with last year's budget of \$71.3 billion. The draft budget is awaiting parliamentary approval. On Saturday, Iraq announced that its crude production capacity increased by 300,000 bpd to 2.7 million bpd.

The official China Association of Automobile Manufacturers said automakers in China shipped a record 13.8 million passenger cars to dealers in 2010, up 33.2% on the year. In December alone, car sales increased 18.6% to 1.3 million units.

Transportation Department's Pipeline and Hazardous Materials Safety Administration said it is working with Alyeska to restart the major pipeline. However it did not give a timetable for when the pipeline would be operating again. It said Alyeska does not need the agency's approval to restart or reroute its pipeline. Separately, Tesoro Corp said two cargoes of Alaskan North Slope loading this week out of Valdez, Alaska for February delivery will come from available inventory. Trade sources said Tesoro has contracted to buy 900,000 barrels in total of Alaskan North Slope crude for February.

January Calendar Averages CL – \$89.48 HO – \$2.5259 RB – \$2.4328

The US Energy Department said that no refineries have asked for emergency oil loans from the SPR due to the shutdown of the Trans Alaska Pipeline.

OPEC's President and Iranian Oil Minister Masoud Mirkazemi said the group will not need to hold an emergency meeting if oil prices increase above \$100/barrel. OPEC's next scheduled meeting is on June 2nd.

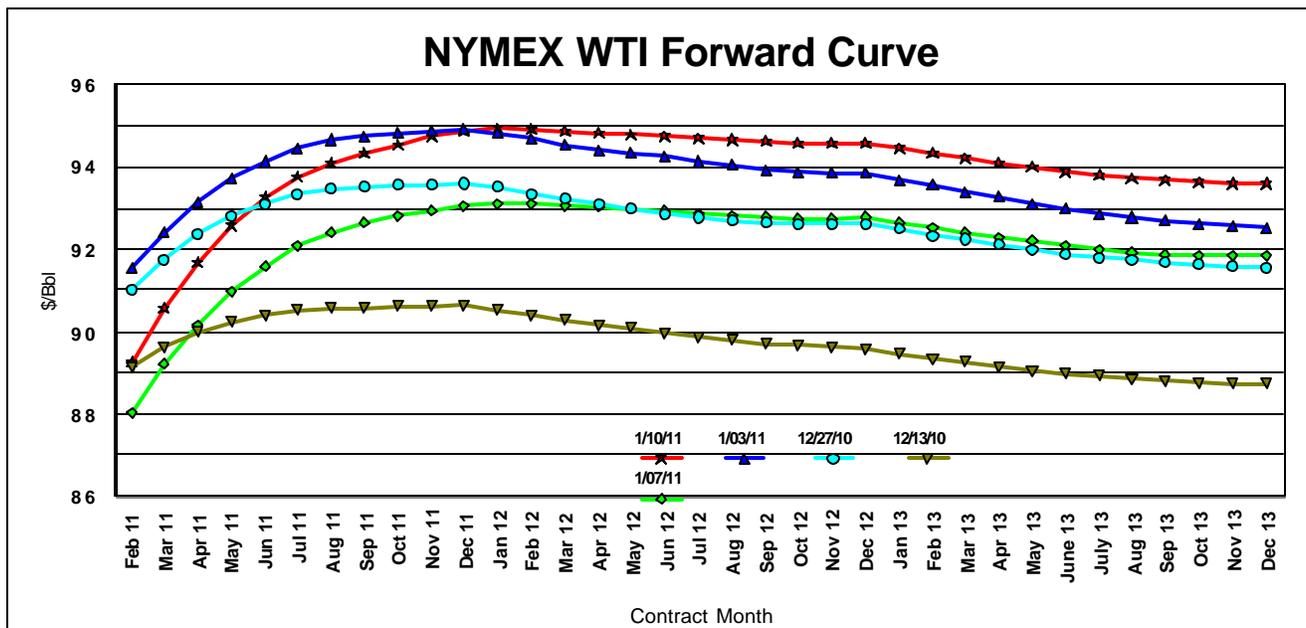
The EIA reported that the US average retail price of diesel increased by 0.2 cents to \$3.333/gallon in the week ending January 10th. The EIA also reported that the US average retail price of gasoline increased by 1.9 cents to \$3.089/gallon on the week.

US Secretary of State Hillary Clinton said international sanctions have made it much more difficult for Iran to pursue its nuclear program.

French President Nicolas Sarkozy is expected to broach his campaign for greater global food price and currency stability during his meeting with US President Barack Obama this week. France's President is seeking to use his run at the G20 helm in 2011 to start, if not finish, reforms of the monetary system. He is also seeking international efforts to impose greater transparency in commodity markets trading and pricing and for tougher regulation of commodity derivatives.

Refinery News

Colonial Pipeline is allocating its Line 32, servicing deliveries from Dorsey Junction to Curtis Bay, for Cycle 2, as nominations on this pipeline exceed the company's ability to meet the five day delivery cycle.



Credit Suisse reported that US refined products margins ended stronger last week. Margins in the Gulf Coast increased by \$2.49 to \$12.28/barrel while margins in the Midwest increased by 67 cents to \$10.89/barrel and margins in the Rockies region increased by \$1.85 to \$13.99/barrel. Margins in the Northeast fell by 41 cents to \$8.37 while margins in the West Coast fell by \$2.40 to \$13.13/barrel.

Valero Energy Corp restarted its 40,000 bpd crude unit at the west plant of its 142,000 bpd Corpus Christi, Texas refinery. It said there was no material impact to production due to a leaking exchanger.

A small crude unit at Motiva's 285,000 bpd refinery in Port Arthur, Texas resumed operations following the closure of all vacuum distillation units and a coking unit last week following a crane collapse. A crane collapsed while lifting pipe last week, knocking out electrical power lines and striking a pipeline to the vacuum units. Its fluid catalytic cracking unit is operating at normal rates after operating at reduced rates last week on feedstock shortages.

Delek reported emissions at its 60,000 bpd Tyler, Texas refinery on Sunday afternoon due to a mechanical failure.

Shell Oil Co said most of the units at its 145,000 bpd Anacortes, Washington refinery restarted and were operating by Monday morning following an unplanned shutdown on Thursday. All of the units are expected to resume normal operations on Tuesday.

PetroChina Co agreed with Ineos Group Holdings PLC on the basic principles of a joint venture that will engage in crude oil refining and trading using assets at Scotland's Grangemouth refinery and France's Lavera refinery.

China imported 20.86 million metric tons or 4.93 million bpd of crude oil in December. It imported 239.31 million tons of crude in 2010, up 17.5% on the year. China's General Administration of Customs reported that December imports of refined oil products increased by 12.5% to 3.96 million tons while oil product exports fell by 9.1% to 1.89 million tons.

Germany's state economics and foreign trade agency BAFA reported that the country's crude oil imports bill in November was 462.74 euros or \$597.30/ton, up 21.2% on the year. Germany's crude oil import bill for January- November increased by 29.8% to 37.5 billion euros. Total crude imports in the 11 months fell by 5.7% on the year to 85.1 million tons.

India's power output increased an annual 4.34% in December to 66.88 gigawatts due to improved operations at coal based plants and better demand from states.

Production News

Canadian Natural Resources Limited, which halted production at its northern Alberta oil sands mine following a fire on Thursday, said it is conducting repairs to the damage caused by the fire.

Output of the four benchmark North Sea crude oil streams is due to increase in February to about 1.22 million bpd, up from about 1.1 million bpd in January. The February loading program for North Sea Forties crude is scheduled at 14.8 million barrels, up 400,000 barrels from a revised program of 14.4 million barrels in January. It is equivalent to 528,571 bpd compared with 464,516 bpd in January. The February loading program for North Sea Oseberg crude is scheduled at 4.2 million barrels or 150,000 bpd. It is up from 135,000 bpd in January. The February loading program for North Sea Ekofisk crude is scheduled at 10.45 million barrels, down 700,000 barrels from 11.15 million barrels in January. The volume is equivalent to 373,214 bpd compared with 359,677 bpd in January.

The February loading program for North Sea Gullfaks crude is scheduled at 5.13 million barrels, down 855,000 barrels on the month. It is equivalent to 183,214 bpd compared with 193,065 bpd in January. The February loading program for North Sea Statfjord crude is scheduled at 4.275 million barrels, down 855,000 barrels on the month. It is equivalent to 152,679 bpd, compared with 165,484 bpd in January. The February loading program for North Sea Alvheim crude is scheduled at 3.9 million barrels, down 780,000 barrels on the month. The volume is equivalent to 139,286 bpd compared with 150,968 bpd in January. The February loading program for North Sea Grane crude oil is scheduled at 4.2 million barrels, unchanged on the month. It is equivalent to 150,000 bpd compared with 135,484 bpd in January.

Saudi Aramco is expected to supply steady amounts of crude in February to its regular customers. It said it will maintain full contracted volumes to Asian refiners in February, with some refiners continuing to get higher than contracted supplies of lighter grades.

Woodside Petroleum resumed operations at the Enfield oil field off the coast of Exmouth in Western Australia on January 8th after gale force winds led to production being halted at oil fields at the start of the year. Production of heavy sweet Enfield crude was at about 25,000 bpd in 2010.

India's Oil Secretary S. Sundareshan said India hopes to resolve an oil payment dispute with Iran when officials travel to Iran this week. The two countries have not been able to find a solution on how to pay for oil after India's central bank said payments to Iran could no longer be settled through a clearing house system run by central banks.

Norway's oil production is seen falling in 2011 and throughout the coming decade if now new big finds are made soon. Norwegian authorities are scheduled to release their annual forecasts for Norway's output expected to show that oil production will fall for the tenth year in a row while gas output will continue to increase.

Iraq's Deputy Prime Minister for Energy Affairs Hussain al-Shahristani said the country plans to invite international oil companies to develop the Nassiriya oilfield in a bidding round later this year.

Belarus Economy Ministry reported that the country will increase its tariff for Russian oil transit to Europe by 12.5% from February 1st. Russia currently pays \$1.64 to transport one ton of oil 100 km.

OPEC's news agency reported that OPEC's basket of crudes fell by \$1.23/barrel to \$90.81/barrel on Friday from \$92.04/barrel on Thursday. It also reported that OPEC's basket of crudes increased by 80 cents to \$90.96/barrel in the week ending January 7th.

Market Commentary

The oil market rallied higher at the opening of the Globex session on Sunday night in light of the news that Alyeska Pipeline Co shut in the Trans Alaska Pipeline following the discovery of a leak. The closure of the pipeline forced BP Plc, Exxon Mobil Corp and other oil companies to shut nearly all of their oil production in Alaska's North Slope. The market retraced little more than 50% of its move from a high of \$92.58 to a low of 87.25 as it rallied to a high of \$89.98. The market however erased its gains on the prospect of a quick restart of the pipeline and traded to a low of 88.13 in early morning trading ahead of the opening of the open outcry session. It later retraced some of its losses and settled in a range from \$89.76 to \$88.61 during the session. The market was also supported by weakness in the dollar index. The crude market settled up \$1.22 at \$89.25. The product markets were also well supported, with the heating oil market settling up 6.98 cents at \$255.61 and the RBPB market settling up 4.12 cents at \$245.43. As mentioned on Friday, the difference between the Dec11/Dec 12 crude spread and the Dec12/Dec 13 spread was approaching an area of congestion. The difference between the spreads was -\$0.70 today. We are still looking for -\$0.80 to \$0.85 level.

Technically, the oil market is seen finding support at \$88.61, \$88.13, \$87.25, \$86.80 and \$84.09. Resistance is seen at \$89.98, \$90.54, \$90.71-\$90.84 and \$92.58.

Crude oil: Feb 11 251,299 -37,639 Mar 11 247,954 +10,920 April 11 98,814 -2,261 Totals 1,473,979 -27,027 Heating oil: Feb 11 91,097 -5,659 Mar 11 67,267 +3,020 Apr 11 29,822 +2,170 Totals 299,898 +687 Rbob: Feb 11 84,014 -7,178 Mar 11 61,053 +4,082 Apr 11 30,838 +340 Totals 272,517 -2,019.

Crude Oil		Heating Oil		Rbob	
Support	Resistance	Support	Resistance	Support	Resistance
8861	8998	25340	25635	24376	24700
8813	9054	25200	25881	24126	24880
8725	9071	24930	26712	23945	27085
8680	9084	24710	27070	23688	
8409	92.07	24678	29500	23597	
8334	92.58	24059			

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