



ENERGY RISK MANAGEMENT

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ENERGY MARKET REPORT FOR JANUARY 13, 2011

The Trans Alaska Pipeline will shut down for a day and a half this weekend so that a new pipe segment can be installed ahead of a full restart. The shut down and installation are expected to take about 36 hours. If all proceeds as planned, the pipeline could be in a position to restart by late Sunday or early Monday. Crude oil flow through the pipeline was restored to 400,000 bpd, about two thirds of its normal capacity.

A delegate from a Gulf OPEC member state said OPEC will only hold an emergency meeting if oil increases to

Market Watch

The US Labor Department reported that US producer prices increased in December due to higher energy and food costs. The Producer Price Index increased a seasonally adjusted 1.1% in December. It was the largest monthly gain since January and the sixth consecutive monthly increase. In 2010, wholesale inflation increased by 4% following a 4.3% increase in 2009. The core PPI increased by 0.2% in December. For all of 2010, the core PPI increased by 1.3% following a gain of 0.9% in 2009. The report showed that energy prices increased by 3.7% in December while food prices increased 0.8%.

The US Labor Department also reported that the number of US workers filing initial unemployment claims increased by 35,000 to 445,000 in the week ending January 8th. The previous week's level was revised to 410,000 from 409,000. It reported that the four week average increased by 5,500 to 416,500. The number of continuing claims fell by 248,000 to 3,879,000 in the week ending January 1st from an upwardly revised 4,127,000 the previous week. The unemployment rate for workers with unemployment insurance was 3.1% in the week ending January 1st, down from 3.3% the prior week.

The Commerce Department reported that the US trade gap fell to \$38.3 billion in November from \$38.4 billion in October. November's deficit was the lowest since January 2010.

The Philadelphia Federal Reserve stated that factory activity growth in the US Mid-Atlantic region accelerated less in December than originally reported. Its factory activity index in December was 20.8 compared with the originally reported 24.3. The employment index stood at 4.3 compared with the originally reported 5.1. The new orders index was revised down to 10.6 from 14.6.

Federal Reserve Chairman Ben Bernanke said the US economy should grow around 3-4% this year. He however said that was not enough to lower unemployment. He also said the risk of deflation fell in recent months.

Marathon Oil Corp's board said it approved advancing plans to spin off the company's refining and sales operations. The split will see the creation of Marathon Petroleum Corp, expected to be the fifth largest US refiner.

China's National Development and Reform Commission said the country will launch new measures to control prices if inflation remains high in the first quarter.

Goldman Sachs recommended going long euro against the dollar as European sovereign debt tensions will ultimately ease. Its initial target is \$1.37 with a one day stop on a close below \$1.285.

**January
Calendar Averages**
CL – \$90.14
HO – \$2.5546
RB – \$2.4427

\$100/barrel and remains there, although the Gulf members could informally increase supply if needed.

According to Oil Movements, OPEC's oil exports are expected to fall by 210,000 bpd in the four weeks ending January 29th to 23.51 million bpd.

Genscape reported that US crude oil inventories at Cushing, Oklahoma fell by 719,072 barrels to 39.73 million barrels in the week ending January 11th. Crude tanks in Cushing, Oklahoma were filled to 73% of capacity on Tuesday, down from 74% in the previous week.

The head of the Interior Department's Bureau of Ocean Energy Management, Michael Bromwich said he would be surprised if no new deepwater drilling permits were approved during the first half of the year.

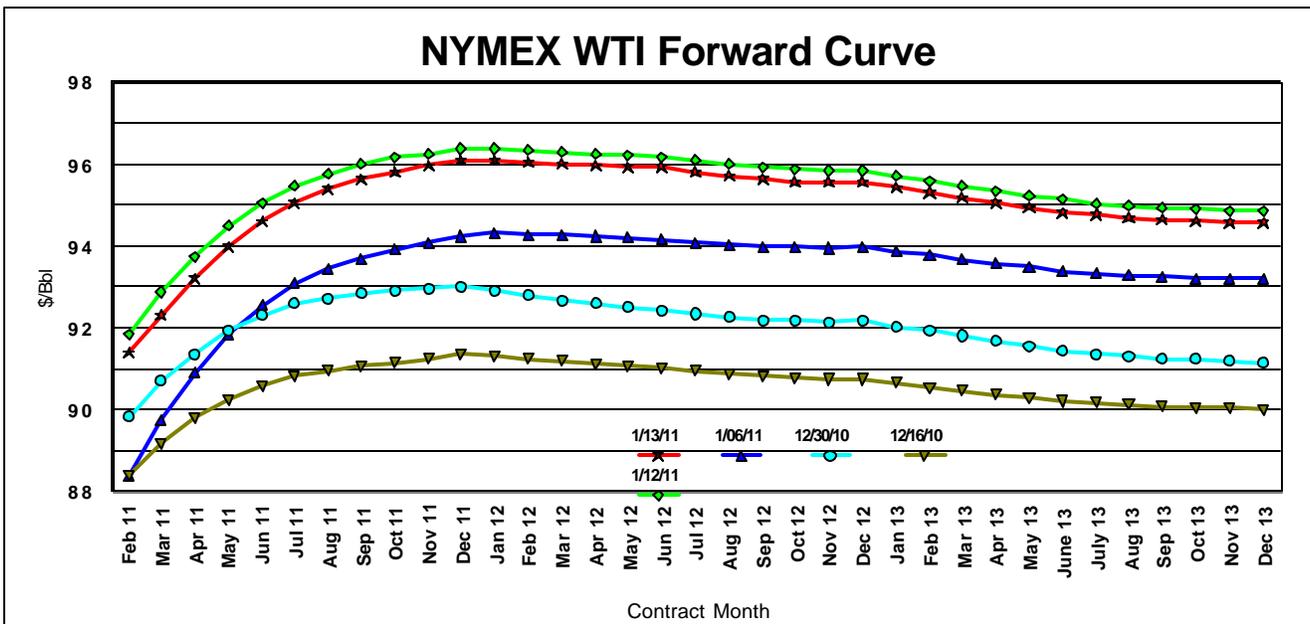
Iran's deputy nuclear negotiator Ali Bagheri held talks with China's Vice Foreign Minister Zhang Zhijun and Assistant Foreign Minister Wu Hailong on Wednesday as Iran prepares to open its nuclear facilities to foreign guests. The two sides exchanged views on China, Iranian bilateral relations as well as the Iranian nuclear issue.

The CFTC revived its proposal to prevent large speculators from distorting commodity markets. The CFTC is voted to open up the proposal for public comment. After 60 days of comment, the five CFTC commissioners will need to vote again to finalize the plan, which would put in place trading limits in certain futures contracts immediately but phase broader caps over other forward months as the agency receives more data on the over-the-counter swaps market. CFTC Commissioner Scott O'Malia said he does not object to taking action on limits before rules are in place.

Refinery News

Refining capacity at Marathon Oil Corp's Garyville, Louisiana refinery is 464,000 bpd, up from 436,000 bpd. Last year, Marathon completed a \$3.9 billion expansion that added 180,000 bpd capacity to the Garyville refinery.

China National Petroleum Corp processed more than 150 million tons or 3 million bpd of crude oil last year in its refineries in China and abroad. It produced 163 million tons of oil equivalent in domestic



fields in 2010.

India's Essar Oil Ltd said it is still talking to Royal Dutch Shell Plc about potentially buying the Stanlow oil refinery in the UK.

Mexico plans to invest about 334 billion pesos or \$27.6 billion over the next 15 years to increase Pemex's refining capacity, particularly for gasoline. Imports of gasoline have increased on local demand and because Pemex's outdated refineries produce too little gasoline and too much fuel oil per barrel of crude. It expects to increase its gasoline production to 735,000 bpd by 2016 and 750,000 bpd by 2025.

Gasoline inventories held in independent storage in the Amsterdam-Rotterdam-Antwerp area in the week ending January 13th increased by 5.77% on the week but fell by 19.72% on the year to 733,000 tons. Gas oil stocks fell by 1.15% on the week and by 1.33% on the year to 2.743 million tons while fuel oil stocks fell by 0.96% on the week and by 3.09% on the year to 721,000 tons. Naphtha stocks fell by 34.65% on the week and by 9.59% on the year to 66,000 tons while jet fuel stocks increased by 1.49% on the week but fell by 16.76% on the year to 750,000 tons.

Singapore's International Enterprise reported that the country's residual fuel stocks fell by 1.367 million barrels to 18.459 million barrels in the week ending January 12th. It also reported that the country's light distillate stocks built by 1.217 million barrels to 10.592 million barrels and middle distillate stocks fell by 643,000 barrels to 11.68 million barrels on the week.

The Petroleum Association of Japan reported that gasoline stocks held by Japanese refiners increased by 111,030 kiloliters to 2.16 million kl in the week ending January 8th. Japan's crude stocks fell by 1.160 million kiloliters to 15.56 million kl or 97.9 million barrels on the week.

The Rhine River in Germany was closed to shipping after a vessel carrying 2,400 tons of sulphuric acid capsized.

Production News

Norway's Petroleum Directorate cut its undiscovered oil and gas resource estimate by 21% to 2.6 billion cubic meters of oil equivalent. Norway's oil production in 2010 fell by 9.6% to about 104.4 million cubic meters/day or 1.8 million bpd and is expected to fall a further 5.8% to 98.3 million cubic meters in 2011 and 88.9 million cubic meters by 2015. It also reported that Norway's gas sales increased by 3% to 105.6 billion cubic meters in 2010 and are expected to increase to 109.1 bcm in 2011 and 112.2 bcm in 2015.

Separately, Norway's government may decide in March whether to do an impact assessment study on allowing oil and gas activities in the Lofoten archipelago in the Arctic.

Venezuela's Energy Ministry reported that the country's oil production fell to 2.69 million bpd in November from 2.8 million bpd in October. It also reported that Venezuela's total oil exports in 2010 stood at 2.32 million bpd.

Russia's OAO Transneft is planning to conclude talks on oil supply with neighboring Belarus by the end of the week. Russia suspended crude oil deliveries to Belarus on January 1st due to a pricing dispute. It expects supplies to Belarus to return to normal by Monday or Tuesday. Separately, Transneft said Russia will review a proposal to raise oil pipeline tariffs by 2%-3% in April and May. The company previously asked the Federal Tariff Service to raise oil transportation tariffs but no decision has been made yet.

Russia's OAO Lukoil Holdings said its 2010 oil output fell by 1% on the year due to the depletion of the Western Siberian fields. It produced 96 million metric tons of oil in 2010 compared with 97 million tons a year earlier. Natural gas production stood at 20 billion cubic meters, up from 17.5 bcm in 2009.

Libya's National Oil Co said the two new oil discoveries in the Murzuq Basin made in partnership with Turkish Petroleum Overseas Co should be commercially viable by 2014. Libya plans to increase its oil production capacity to 3 million bpd by 2017.

OPEC's news agency reported that OPEC's basket of crudes increased by \$1.31/barrel to \$94.23/barrel on Wednesday.

Market Commentary

The oil market settled lower today following three consecutive days of gains following less than supportive economic news. The Labor Department reported that initial claims for unemployment benefits increased by 35,000 to 445,000 in the week ending January 8th compared with market expectations that jobless claims would fall by 2,000 to 407,000. The crude market, which posted an inside trading day, bounced off an early low of \$91.12 as the weakness in the dollar limited the market's losses. It rallied to a high of \$92.37 late in the morning. However the market, which failed to test its previous high of \$92.39, sold off to a low of 90.91 in a late bout of selling. The oil market settled down 46 cents at \$91.40. Similar to the crude market, the product markets also settled in negative territory, with the heating oil market settling down 95 points at \$260.91 and the RBOB market settling down 1.72 cents at \$244.59. While the market may retrace some of today's losses during Friday's trading session, the crude market's gains are still seen limited. Resistance is seen at its high of \$92.39, \$92.58 followed by \$93.12 and \$96.33. Support is seen at \$90.91 followed by \$90.79, \$88.93, \$88.13 and \$87.25.

Crude oil: Feb 11 169,217 -26,513 Mar 11 333,001 +24,022 April 11 111,112 +7,127 Totals 1,516,692 +15,104 Heating oil: Feb 11 81,704 -5,380 Mar 11 70,136 +3,494 Apr 11 32,316 -270 Totals 298,254 -73 Rbob: Feb 11 69,374 -7,938 Mar 11 75,130 +5,661 Apr 11 28,305 -71 Totals 276,789 +496.

Crude Oil		Heating Oil		Rbob	
Support	Resistance	Support	Resistance	Support	Resistance
9091	9239	26059	26343	24496	24808
9079	9258	26000	26712	24350	24883
8893	9312	25451	27070	24126	25023
8813	9633	24930	27639	23945	27085
8725		24678			

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