



ENERGY RISK MANAGEMENT

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ENERGY MARKET REPORT FOR JANUARY 14, 2010

The US Commodity Futures Trading Commission unveiled a controversial proposal to rein in speculation in the energy markets. The proposal aims to prevent any one trader from holding enough positions to impact prices. The CFTC's proposal seeks to impose trading limits on physically and financially-settled oil, natural gas, heating oil and gasoline futures and options contracts. It is proposing to subject those energy commodities to limits for all months combined, limits in each single month and limits during the month a contract expires. Speculators would be able to hold up to 98,100 oil futures and options contracts on the NYMEX. The limit in the heating oil market would be set at 9,000 while RBOB positions would be capped at 10,100. Combined trading of natural gas on the CME's NYMEX and the ICE would be limited to 132,700. It also outlines a stricter new process for determining when banks that deal in commodity swaps should qualify to receive exemptions from speculative limits. The limits

Market Watch

Goldman Sachs is maintaining its outlook for oil and natural gas futures, with US crude expected to average \$90/barrel in 2010 and natural gas expected to average \$6/mmbtu. It expects US crude prices to increase to an average \$110/barrel in 2011 due to strong emerging market demand.

A fund manager said investors will allocate more money to commodities this year as they seek to spread risk away from more established investments such as equities. Gresham Investment Management LLC said its assets under management in commodities more than doubled last year to over \$7.5 billion. Figures from Barclays Capital show global assets under management in passive, long-only commodities funds increased by \$93 billion last year to \$255 billion.

The US Labor Department reported that the number of initial claims for unemployment benefits increased by 11,000 to 444,000 in the week ending January 9th. The previous week's level was revised to 433,000 from 434,000. The four week moving average fell by 9,000 to 440,750 from the previous week's revised average of 449,750. The number of continuing claims fell by 211,000 to 4,596,000 from the preceding week's revised level of 4,807,000. The unemployment rate for workers with unemployment benefits in the week ending January 2nd fell to 3.5%, down 0.1% from the prior week's revised rate of 3.6%.

The US Commerce Department announced that US business inventories increased 0.4% in November to \$1.3 trillion. November business sales increased 2% from October to \$1 trillion, the highest level since November 2008. The inventory to sales ratio stood at 1.28 at the end of November compared with 1.3 in October and 1.43 in November 2008.

Poet LLC sued the California Air Resources Board on December 23rd over its low-carbon fuel standard. The regulations count the emissions created when corn is planted, harvested and distilled into fuel as part of ethanol's carbon output. The standard may stifle the use of ethanol from Midwestern plants owned by Archer Daniels Midland Co, Valero Energy Corp and Green Plains Renewable Inc. Last month, the two largest ethanol trade organizations sued California over the standard, saying the regulation is unconstitutional because it discriminates against out of state goods and will stem ethanol's growth.

**January
Calendar Average
CL – \$81.58
HO – \$2.1623
RB – \$2.1145**

in the CFTC's proposal are expected to be so high they will only impact a handful of futures traders. Also under the proposal, swap dealers would apply for exemptions, face strict reporting and record-keeping requirements and those who receive exemptions would have their company names publicized. Limits for companies granted exemptions would be capped at two times the federal limit.

According to Oil Movements, OPEC's seaborne oil exports, excluding Angola and Ecuador, will increase by 30,000 bpd to 22.99 million bpd in the four weeks ending January 30th.

Refinery News

Enbridge Energy Partners LP has restarted a section of oil pipeline on its Lakehead system in North Dakota after repairing a leak that it detected on Friday. It said it will run line 2B at 80% of its normal capacity while the company and regulators determine the cause of the break. The pipeline is part of a system that transports the most Western Canadian oil to the US Midwest, Oklahoma and southern Ontario.

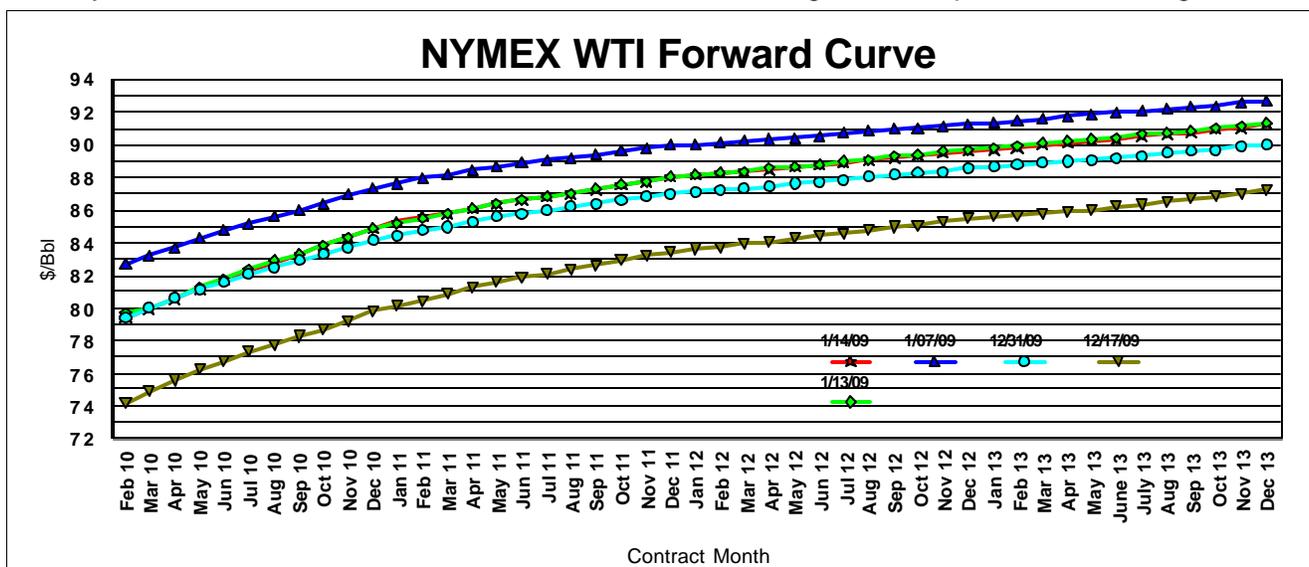
Husky Energy said its 160,000 bpd Lima, Ohio refinery is operating over 120,000 bpd. The refinery has been running at reduced rates following a fire in November.

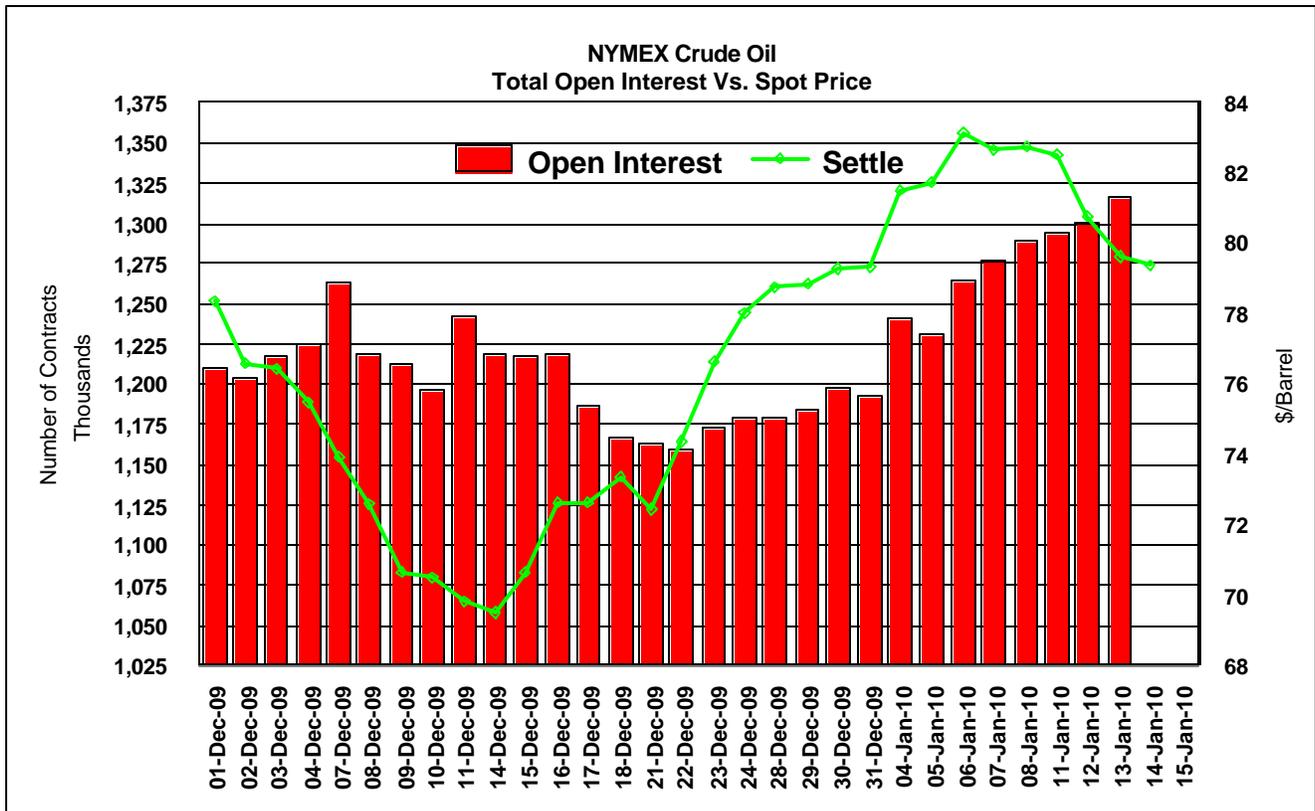
BP Plc announced a \$400 million project to upgrade its 160,000 bpd Toledo, Ohio refinery to be able to produce more gasoline. Three older refinery units will be replaced with a 42,000 bpd reformer unit. The work should be finished by 2012.

Shell is shutting down several units, including a hydroprocessor, a gas oil hydrotreater, a catalytic reformer and platformer at its Deer Park, Texas refinery on Thursday for planned maintenance expected to last longer than a month.

Valero Energy Corp announced that it closed on its purchase of two ethanol plants from ASA Ethanol Holdings, LLC. Valero plans to restart the facilities in the next three to six months. The plants, located in Linden, Indiana and Bloomingburg, Ohio, each have an annual production capacity of 110 million gallons.

A CGT union official said the two day strike at Total's refineries is posing no immediate risk of oil product supply shortages as the company is supplying its oil products from storage sites. Total said a two day strike at five of its six French refineries has had no significant impact on its refining activities.





The strike started late on January 12th over possible permanent closure of Total's Dunkirk refinery. Workers are on strike at the Donges, Grandpuits, Gonfreville, La Mede and Dunkirk refineries. Meanwhile, Total confirmed it has called for a meeting of its European Works Council on February 1st over the future of its Flanders refinery in northern France. Workers at the Flanders refinery have decided to continue their industrial action until February 1st. Operations at the Flanders refinery were halted in September due to a drop in demand for refined products in Europe. The company is likely to permanently cease refining activities at the site and redevelop the facility as a storage depot.

Brazil's Petrobras will start the construction of its Maranhao refinery. Work on the refinery is expected to be completed in September 2013. The refinery is one of two so-called premium fuels plants that will process oil from recently discovered offshore deposits. The Premium 1 refinery will have installed capacity to process 300,000 bpd in its initial phase. The second phase will double its capacity to 600,000 bpd by September 2015.

Lukoil Holdings said Russian oil shipments to Belarus are flowing despite a disagreement over pricing between the two countries. It has seen no disruptions of either supplies to Belarussian refineries or transit through the country's pipeline system to European refineries. Lukoil is awaiting the outcome of official negotiations between Russia and Belarus.

Kuwait Petroleum Corp shut its newly commissioned aromatics plant on Thursday due to an outage.

Iran's January gasoline imports is expected to increase by 23% on the month to 128,000 bpd as the country continues to build stocks amid the threat of stricter sanctions.

Iraq has purchased about one million barrels of gasoline via a biannual term supply contract. The supply contract will run from January through June this year.

China's CNOOC has been granted a license for refined fuel exports, providing an outlet for its new refinery. The permit will allow the company to export refined fuel barrels from the 240,000 bpd Huizhou refinery that it started 10 months ago. Under the license, CNOOC is expected to receive a quota to conduct fuel exports under a special processing deal that waives a 17% value added tax for overseas shipments. China is facing surplus supply of both gasoline and diesel this year, after adding at least 700,000 bpd new refining capacity last year.

Gas oil inventories in independent storage in the Amsterdam-Rotterdam-Antwerp area in the week ending January 14th increased by 1.79% on the week and by 15.16% on the year to 2.78 million tons. Gasoline stocks fell by 2.35% on the week but increased by 5.06% on the year to 913,000 tons while fuel oil stocks fell by 20.43% on the week but increased by 11.71% on the year to 744,000 tons. Naphtha stocks fell by 17.98% on the week and by 32.41% on the year to 73,000 tons while jet fuel stocks increased by 2.15% on the week and by 10.69% on the year to 901,000 tons.

The Petroleum Association of Japan reported that the country's crude oil inventories in the week ending January 9th fell by 3.57 million barrels on the week and by 18.97 million barrels on the year to 89.16 million barrels. Its gasoline stocks built by 940,000 barrels on the week and by 500,000 barrels on the year to 13.59 million barrels while its kerosene stocks fell by 1 million barrels on the week and by 1.72 million barrels on the year to 15.77 million barrels and naphtha stocks fell by 470,000 barrels to 9.19 million barrels. Crude runs in Japan increased by 80,000 bpd on the week and by 40,000 bpd on the year to 3.94 million bpd. The PAJ also reported that Japan's total oil product sales increased by 19.7% on the week but fell by 9.1% on the year to 3.33 million bpd. Japan's gasoline sales fell by 7.9% on the week and by 7.2% on the year to 930,000 bpd while naphtha sales fell by 2.2% on the week but increased by 40.7% on the year. Its kerosene sales increased by 8.7% on the week but fell by 6.3% on the year to 660,000 bpd while gas oil sales increased by 64.9% on the week but fell by 24.9% on the year to 480,000 bpd.

Singapore's International Enterprise reported that the country's residual fuel stocks in the week ending January 13th built by 1.396 million barrels to 20.403 million barrels. It also reported that the country's light distillate stocks fell by 547,000 barrels to 10.565 million barrels and its middle distillate stocks built by 521,000 barrels to 15.385 million barrels on the week.

Production News

The API said US drilling activity in 2009 fell by 37% on the year amid the weak oil and gas prices. In the fourth quarter, 10,609 oil and gas wells and dry holes were completed, up 19% on the quarter and 6% higher from the second quarter. In total, there were 39,068 wells drilled in 2009. The estimated number of exploratory wells completed in 2009 fell by half to 1,887 wells. Oil well completions fell by 35% to 16,108 wells while natural gas well completions fell by 42% to 18,269.

The loading rate for the nine main North Sea crude streams is expected to average 2.173 million bpd in February, up from 2.13 million bpd in January. The Brent crude stream is expected to load 150,000 bpd in February, up 29.3% on the month while the Forties crude stream is expected to load 600,000 bpd in February, up 3.27% on the month, the Oseberg crude stream is scheduled to load 195,000 bpd, up 4.28% on the month and the Ekofisk crude stream is scheduled to load 375,000 bpd, down 3.6% on the month. Denmark's DUC crude oil stream is scheduled to load 150,000 bpd in February, down 13.79% on the month. The Flotta crude stream is scheduled to load 70,000 bpd in February, up 66.67% on the month, the Gullfaks crude stream is scheduled to load 214,000 bpd in February, down 13.71% on the month, the Staffjord crude stream is scheduled to load 183,000 bpd, down 5.18% on the month and the Troll crude stream is scheduled to load 236,000 bpd, up 18% on the month.

China's power rationing has cut into Sinopec's crude oil production at its Shengli Oilfield, which produced 554,800 bpd in 2008. The country's ongoing power crunch has been most prominent in

central Chinese provinces where hydropower output falls in the winter and coal shipments from north China to local power plants have been restricted by weather and transportation capacity.

An official from China's Ministry of Land and Resources said China will cut imports and accelerate domestic oil and gas exploration this year. China imported a record 21.3 metric tons of crude oil in December, with imports for 2009 totaling 204 million tons. Imported crude oil accounted for 52% of the country's total oil consumption last year.

Gulf Keystone Petroleum Ltd said an independent evaluation has increased its oil estimates for its Shaikan-1 well in Iraq's Kurdish region. It said oil in place estimate for the Shaikan-1 well was increased to gross at 1.9 billion to 7.4 billion barrels.

UK oil explorer Premier Oil expects oil and gas production to remain flat in 2010. Its oil and gas production averaged 44,200 boe/d in 2009. It said its medium term output target is 75,000 boe/d.

OPEC's news agency reported that OPEC's basket of crudes fell further to \$77.15/barrel on Wednesday from \$79.08/barrel on Tuesday.

Market Commentary

Indications of a slow economic recovery, which were evident in the release of U.S. retail sales and a jump in jobless claims, sent crude oil lower. Today's follow through selling sent prices to \$78.92, the 38% retracement between the range of \$83.95 and \$70.83. February options expired today also adding to today's volatile trading, however open interest in the \$80.00 calls was only 7,401 contracts, with puts set at 6,986. We do not view this as a significant enough amount to sway the market. The shape of the forward curve is indicative of a market that is oversupplied and lacking demand. The February/March crude oil spread continues to trade close to the long-standing gravitational area of -.43. With the supply/demand situation being what it is and technical indicators signaling further downside potential, we would look for this spread to come under pressure and for the contango market condition, whereby the front months trade at a discount to the deferred, to deepen. Prices appear to be range bound for the time being and we would look for prices to trade within the range of \$80.00 to \$70.00 until it can find a definitive direction.

Crude FEB.10 140,073 -49,598 MAR.10 303,670 +47,955 APR. 96,182 +6,154 Totals 1,316,280 +15,413 Heating oil FEB 10 72,003 -7,243 MAR.10 72,340 +857 APR10 72,340 Totals: 326,399 -6,009 Gasoline FEB.10 68,844 -6,606 MAR. 10 67,775 +2,993 APR10 39,088 +1,563 Totals: 269,434 +3,851.

Crude Support Based on February	Crude Resistance Based on Feb
78.95, 77.85, 75.00, 73.50, 72.91, 72.60, 65.05, 64.70, 63.38, 62.70, 61.61, 60.95	82.00, 84.83, 85.40, 86.60, 88.80, 89.88
Heat Support	Heat resistance
1.8570, 1.8280, 1.7670, 1.7565	2.2270, 2.2575, 2.4200
Gasoline support	Gasoline resistance
1.7900, 1.7200 1.6600	2.1930, 2.2270, 2.3350,

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