



ENERGY RISK MANAGEMENT

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ENERGY MARKET REPORT FOR JANUARY 19, 2010

In its latest report, OPEC said oil prices remain vulnerable to seasonal demand weakness and high oil inventories, reinforcing expectations that the group will keep output steady when it meets in March. OPEC kept its world oil demand forecast nearly unchanged for 2010. Global demand is expected to grow by 800,000 bpd in 2010 to an average 85.1 million bpd. Demand for OPEC crude is expected to average 28.6 million bpd this year, down 100,000 bpd on the year. It is down 20,000 bpd from its previous estimate. In regards to supply, OPEC sees non-OPEC oil supply increasing by 350,000 bpd this year to an average of 51.31 million bpd, up 42,000 bpd from its previous estimate. It said commercial stocks in industrialized nations were stable at 58.9 days worth of demand in November compared to the previous month. OPEC said the 11 members subject to output limits produced 26.68 million bpd in December, up 68,000 bpd from November. Its compliance rate stood at just 56%. OPEC also stated that a cold snap along with seasonal demand and stock draws have supported product market sentiment and increased crack spread and

Market Watch

Goldman Sachs' head of commodities research Jeffrey Currie said talk of \$100/barrel oil prices is premature given the collapse in oil demand in developed economies. He forecast world oil demand would not return to pre-recession levels until the third quarter and added that there is little evidence that mature economies have recovered from recession.

The National Weather Service said US heating oil demand this week is expected to be 23% below normal as temperatures average as much as 10 degrees above normal in the Northeast.

The value of commodity funds look set to increase by a third this year or by as much as \$100 billion as money managers seek better returns, hedges against inflation and diversification away from investments in stocks and bonds. Barclays Capital figures show commodity investments in passive, long-only commodities funds increased by \$93 billion last year to \$255 billion with \$67 billion in new inflows. Fund managers estimate that inflows this year will match or even exceed 2009.

US Senator Byron Dorgan said he did not think the Senate would pass climate change legislation this year but instead would focus on separate energy legislation that would require more electricity supplies to be generated from renewable sources and expand offshore drilling into the eastern Gulf of Mexico.

The head of Colombia's National Hydrocarbons Agency said Colombian guerillas may renew pipeline attacks before presidential elections in an attempt to tarnish government security. Colombia's President Alvaro Uribe, who has not announced whether he will seek a third term, is using military strikes against rebel forces to reduce infrastructure and pipeline sabotage since taking office in 2002. Kidnappings of oil engineers and attacks on oil companies in Colombia have also decreased this decade under President Uribe. Foreign companies' oil investment will likely reach a record \$4 billion a year in 2010 and 2011, rising from between \$3 billion and \$3.5 billion last year. Crude production will increase to 850,000 bpd as early as 2012 from this year's 800,000 barrels. Colombia's Ecopetrol SA will increase spending this year by 11% to \$6.93 billion to increase its oil production.

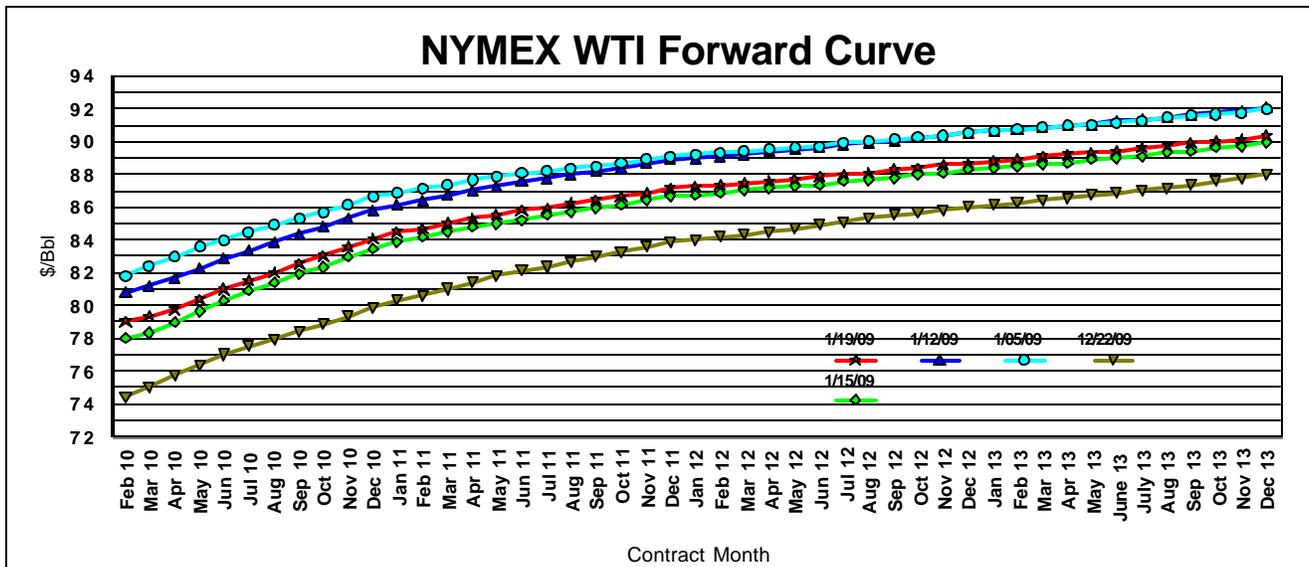
refining margins, especially in the US and Europe. OPEC however warned that support for refining margins may not be sustained beyond the winter. Refining margins for WTI in the US Gulf Coast increased to \$4.57/barrel in December from \$3.16/barrel in November. In Europe's oil refining hub Rotterdam, margins for refining Brent crude increased to \$1.59/barrel in December from about 60 cents in December. December refinery utilization stood at around 80.3% in the US, sharply lower than the norm above 90%. In Europe, ample product stocks also kept refinery runs at around 82%.

**January
Calendar Average
CL – \$81.02
HO – \$2.1411
RB – \$2.1032**

The UAE's Oil Minister Mohammed Al-Hamli said crude oil prices are currently at reasonable levels despite the market being oversupplied. Meanwhile, Qatar's Oil Minister Abdullah bin Hamad Al Attiyah said he does not think OPEC will need to increase its output this year. He said the oil market is well supplied.

US officials said the latest talks by the six world powers on the nuclear standoff with Iran were constructive. However State Department spokesman Philip Crowley said that Iran's response to the international community's demands for assurances about its nuclear program have been inadequate. China's Foreign Ministry urged flexibility on the standoff over Iran's nuclear program and a return to negotiations after world powers failed to reach a decision on whether to impose further sanctions against Iran. On Monday, Germany's Chancellor Angela Merkel said that Germany will work on possible new sanctions against Iran in the coming weeks if there is no change in Iran's stance on its nuclear program. The US, Britain, France, China, Russia and Germany met on Saturday to discuss prospects of imposing further sanctions against Iran over a nuclear program. Separately, Israeli Prime Minister Benjamin Netanyahu said the time had come to apply "crippling sanctions" against Iran over its nuclear program.

Meanwhile, Iran's Foreign Minister Manouchehr Mottaki said Iran has exchanged messages with major powers on its nuclear energy program and sees signs of progress, despite Western attempts to impose more sanctions. An Iranian Foreign Ministry official said Iran welcomed what it called the West's newfound "realism" on Iran's nuclear program. Separately, Iran's Defense Minister Ahmad Vahidi threatened to attack Western warships stationed in the Gulf if its nuclear sites are attacked. Iranian officials have repeatedly threatened to deliver a "crushing response" and hit US targets, including its bases in the Gulf and neighboring Iraq and Afghanistan, if Iran's nuclear sites are attacked.



The IEA's Deputy Executive Director Richard Jones said the end of large economic stimulus packages around the world threatens a modest recovery in world oil demand this year. He said the oil market is well supplied, so OPEC is unlikely to change output at its March meeting. He also stated that oil prices will remain between \$70-\$80/barrel in 2010 as energy supply and demand continue to increase slowly.

The IEA said Turkey's oil stock level fell below the IEA's required level in October. However the country expects November data to show its stock levels are back in line with the requirement. According to the IEA's data for October, Turkey's stocks were enough to cover 88 days' net imports, below the 90 days required of its members.

According to a MasterCard SpendingPulse report, US gasoline demand increased by 3.2% to 9.41 million bpd in the week ending January 15th. Gasoline demand for the week increased by 2.3% on the year, while the four week moving average increased by 1.2% on the year. The national average retail price for gasoline increased by 5 cents to \$2.75/gallon on the week.

The EIA said the US average retail price of diesel fell by 0.9 cents/gallon to \$2.87/gallon in the week ending Monday. The drop follows three weeks of gains totaling 15.3 cents. The price is 57.4 cents above a year ago. The EIA also reported that the US average retail price of gasoline fell by 1.2 cents/gallon to \$2.739/gallon on the week. The drop also followed three weeks of gains, which lifted prices by 16 cents.

Somali pirates released a Greek oil tanker after receiving millions of dollars in ransom. The pirates agreed to release the vessel after an aircraft dropped at least 5 million dollars in ransom. The vessel's crew was all safe. The tanker, carrying 2 million barrels of oil, was captured in November on its way from Kuwait to the US.

Refinery News

Colonial Pipeline Co extended restrictions to 6th and 7th cycle distillate shipments to the Northeast as nominations continue to exceed the pipeline's capacity and the company's ability to meet its five day lifting schedule. It issued a Capacity Allocation Freeze Notice early Tuesday stating that there will be no additional nominations to Cycle 6 and 7 accepted and that shippers will have until the close of business Tuesday to confirm or resubmit nominations.

Marathon said its 72,000 bpd Texas City, Texas refinery is undergoing maintenance work and repairs. It said there was no estimate available as to when the turnaround would be finished.

Alon USA Energy Inc made operational adjustments at its 70,000 bpd Big Spring, Texas refinery to minimize flaring.

Husky Energy Inc is operating its 160,000 bpd Lima, Ohio refinery at its target rate of 140,000 bpd. The refinery has been operating at reduced rates following a fire in November.

BP will perform planned maintenance work on its 405,000 bpd Whiting, Indiana refinery during the first quarter of 2010.

On Monday, Valero Energy Corp said it will restart a coker unit at the East Plant of its 315,000 bpd Corpus Christi, Texas refinery.

BP resumed normal operations after it shut a sulfur recovery unit at its 475,000 bpd Texas City, Texas refinery Sunday due to an upset. The upset caused acid gas flaring and BP is investigating the cause.

Chevron Corp plans to restructure its refinery operations, cutting some jobs and exiting some markets, which has not yet been determined. Chevron has not decided whether to close any of its refineries. The company operates more than 1 million bpd of refining capacity in the US, including major plants at Pascagoula, Mississippi and El Segundo and Richmond in California as well as refineries in Singapore, Thailand, South Korea and Wales.

Saudi Arabia's Oil Minister Ali al-Naimi said Saudi Aramco has been instructed to quickly build the Jizan refinery. The refinery is expected to start operations in the first quarter of 2015 at a capacity ranging between 250,000 and 400,000 bpd.

Saudi Aramco has offered its first fuel oil cargo from the Ras Tanura refinery in three months, indicating a 45 day shutdown of its 550,000 bpd plant ended on schedule. The refinery's 325,000 bpd crude distillation unit was shutdown in early December and was restarted a few days ago.

Sinopec started construction work to increase the crude processing capacity of the Anqing refinery by 60% to 8 million metric tons/year or 160,700 bpd. The expanded refinery will produce an additional 2.7 million tons of gasoline and diesel a year. The expanded refinery is expected to come on line in September 2012.

Sinopec's Tianjin refinery will export its first diesel cargo of 30,000-40,000 metric tons at the end of January, down from its previously planned level of 70,000 metric tons.

China's Xinhua News Agency reported that China's crude oil and oil product stockpile at the end of December may have increased. Record high imports of crude oil in December are expected to have increased stocks and raised the month's crude runs to an all-time high. Gasoline and diesel inventories held by the country's two largest fuel suppliers are expected to have increased 2% and 4%, respectively. This year, China's crude oil imports may increase 15% and by 2011, its crude oil storage capacity is expected to reach 44.6 billion cubic meters or 35.7 million tons.

The Rotterdam port authority said shipping demand for gas oil at the port increased by 20% in 2009 to 302,607 tons. This was despite a 6% fall in the total amount of oil products, mainly fuel oil, used in the shipping sector over the year, as the world recession cut demand. Total shipping demand for oil products in Rotterdam was 12.17 million tons of which 11.73 million tons was the traditional fuel oil.

Germany's MWV reported that total sales of oil products in Germany fell by 13.5% on the year in December to 6.2 million tons. Its gas oil sales fell by 37.4% on the year to 1.65 million tons while its gasoline sales fell by 5.3% to 1.62 million tons. Germany's diesel sales increased by 6.8% on the year to 2.51 million tons while its fuel sales fell by 10.8% to 420,000 tons.

German residential heating oil stocks stood at 61% of capacity on January 1st, down from 65% on December 1st and down from 63% from last year.

China's power usage this year is forecast to increase 7% to 3.9 trillion kilowatt hours. China's Electricity Council said overall domestic power supplies will be relatively sufficient this year but added that power supply will be tight in some areas and over particular periods.

Sunoco gas station operators in Ontario are suing Suncor Energy Inc for up to \$194 million, claiming the company breached franchise agreements by terminating about 300 contracts. The class action lawsuit follows Suncor's internal announcement last week that it will terminate franchise agreements with about 200 operators and rebrand the sites under the Petro-Canada name with different

operators. Suncor has also agreed to sell its remaining 98 service stations in Ontario to Husky Energy Inc.

Production News

Iraq's Oil Ministry will finalize by the end of this month seven deals for oil fields won in Iraq's second round of bidding held in December after all winning companies have agreed to new amendments. A consortium of Royal Dutch Shell and Petronas finalized an agreement on Sunday to develop southern Iraq's Majnoon oil field. Also, a consortium led by Eni SpA has accepted Iraq's amendments to a service contract to develop the Zubair oil field. Eni and its partners, Occidental Petroleum and Korea Gas Corp, are expected to finalize the deal in Baghdad on Friday, January 22nd. A consortium led by ExxonMobil Corp will sign a final agreement to develop the 8.7 billion barrel West Qurna Phase One oil field on January 25th.

The Minister for Natural Resources at the Kurdistan Regional Government, Ashti Hawrami said the government is ready to start talks regarding oil contracts with the Kurdistan Region. Kurdistan Regional Government is ready to immediately restart the process of oil exports from the Kurdistan Region's fields at a rate of no less than 100,000 bpd. He said it will also work to increase production to more than 200,000 bpd this year.

ConocoPhillips said it will proceed with the second phase of its Surmont project, a major new investment in the Canadian oil sands. Construction of the second phase will begin this year and quadruple its production capacity to 110,000 bpd when the second phase is complete in 2015.

Maersk Oil said DUC oil and condensate production in December totaled 230,900 bpd, up from 222,400 bpd in November but down from 248,800 bpd in December 2008.

Norway's Ministry of Petroleum and Energy awarded 38 new oil and gas production licenses in the North Sea, Norwegian Sea and Barents Sea to 42 companies. Most of the licenses are in mature areas where oil and gas has already been explored for or produced.

Petrobras said that overall daily oil and gas production reached an average 2.551 million barrels of oil equivalent in December. It is down 0.2% from 2.557 million boe/d in November. In Brazil, Petrobras' domestic oil production fell 0.2% to an average of 1.987 million bpd in December, down from November's output of 1.991 million bpd. World oil demand fell slightly in December to 150,300 bpd on average, down from 150,900 bpd in November.

Colombia's Sugar Cane Producers Association said the country's ethanol production in November increased by 78% to 29.212 million liters from 16.444 million liters a year earlier. Colombia's ethanol production in the first 11 months of the year increased by 26% to 296.024 million liters from 234.216 million liters in the January-November period of 2008.

Twelve oil companies have confirmed interest in Venezuela's auction of its Carabobo oilfield, with at least four consortiums formed. Total, Chevron, Mitsubishi, Inpex, Jorgmec, Suelopetrol and Repsol have all formed consortiums.

Angola plans to export 59 cargoes of crude oil in March, with a total of 565.45 million barrels or 1.82 million bpd. The country will export seven Cabinda, eight Dalia, one Gimboa, seven Girassol, five Hungo, seven Kissanje, one Kuito, three Mondo, eight Nemba, two Palanca, seven Plutonio, three Saxi cargoes in March.

Oil lifting and berthing operations at the port of Novorossiisk were closed on Sunday due to poor weather conditions. Eight tankers were waiting to load, including three 80,000 ton deadweight oil

tankers and one 60,000 ton deadweight oil tanker. Another four 30,000 ton deadweight refined product tankers are also awaiting the resumption of loading operations.

OPEC's news agency reported that OPEC's basket of crudes fell by 78 cents to \$75.79/barrel on Monday from \$76.57/barrel on Friday. It also reported that the OPEC's basket of crudes fell by \$1.31/barrel to \$78.13/barrel in the week ending January 15th.

Market Commentary

Once again crude oil defied the true fundamentals, as prices followed the equities markets higher. Despite overflowing supply and stagnant demand, crude oil ended three consecutive days of sell offs. Hedge fund traders took advantage of the higher move in equities to invest in commodities, which appears to be the New Year trend, based upon open interest growth. While this move higher brings with it hopes of improving demand, we do believe that the underlying fundamentals will outweigh outside influences and that prices will trade lower. A return to mild weather in the U.S. combined with high inventories and expected supply increases should be enough to stammer any moves to the upside. From a technical standpoint, we would look for prices to work a little higher, where we would look for a selling point. Basis the March crude oil contract, we would look for a possible test up around the \$81.00 level, where we would like to be sellers of this market.

Crude FEB.10 68,799 -32,626 MAR.10 343,424 + 4,404 APR. 96,117,013 +5,052 Totals 1,330,155 - 17,247 Heating oil FEB 10 59,037 -8,903 MAR.10 76,963 +3,652 APR10 34,368 +149 Totals: 315,789 -5,416 Gasoline FEB.10 55,279 -7,340 MAR. 10 78,008 +2,283 APR10 40,459 -155 Totals: 269,948 -3,467.

Crude Support Based on February	Crude Resistance Based on Feb
76.85, 75.00, 73.50, 72.91, 72.60, 70.00, 65.05, 64.70, 63.38, 62.70, 61.61, 60.95	81.00 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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