



ENERGY RISK MANAGEMENT

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ENERGY MARKET REPORT FOR JANUARY 20, 2011

Oil Movements reported that OPEC's oil exports are expected to fall by 250,000 bpd to 23.55 million bpd in the four weeks ending February 5th.

According to Genscape, US crude oil inventories at the Cushing, Oklahoma oil terminal increased by 817,537 barrels to 40.55 million barrels in the week ending January 18th. Crude tanks at Cushing were filled to 74% of capacity on Tuesday, up from 73% in the previous week.

A non-oil

Market Watch

The US Labor Department reported that the number of worker filing initial claims for unemployment benefits fell by 37,000 to 404,000 in the week ending January 15th. The previous week's level was revised to 441,000 from 445,000. The four week average of new claims fell by 4,000 to 411,750. The Labor Department reported that the number of continuing claims fell by 26,000 to 3,861,000 in the week ending January 8th. The unemployment rate for workers with unemployment insurance was 3.1% in the week ending January 8th, unchanged from the prior week.

The Conference Board index of leading indicators increased by 1% in December to 112.4 while the coincident indicator increased by 0.2% to 101.9 and the lagging indicator fell by 0.1% to 108.4.

The Philadelphia Federal Reserve said its business activity index, measuring factory activity growth in the US Mid-Atlantic region, fell to 19.3 in January from 20.8 in December.

The National Association of Realtors said sales of existing homes increased more than expected in December. Home resales increased by 12.3% on the month to a seasonally adjusted annual rate of 5.28 million. For all of 2010, about 4.9 million homes were sold, down 4.8% on the year. The median sales price for an existing home fell to \$168,800 in December.

The US Transportation Department reported that US highway travel in November increased by 1.1% or 2.6 billion miles on the year. US highway travel increased by 0.7% in the January-November period.

China's National Bureau of Statistics reported that the country's GDP in the fourth quarter increased by 9.8% on the year following a 9.6% rise in the third quarter. The increase was above market expectations of a 9.2% rise. In 2010, China's GDP grew 10.3%, up from the previous year's growth rate of 9.2%. China's National Bureau of Statistics also reported that China's Consumer Price Index increased 4.6% in December, down from November's 5.1% increase. China's CPI in 2010 increased by 3.3% compared with a 0.7% decline in 2009. China's Producer Price Index increased by 5.9% in December. It said price pressures in China are expected to remain high in the first quarter due to imported inflation.

The Financial Times said CME Group is waiving the fees for dealing in the North Sea crude oil. It is seeking a larger Brent oil market share. The move to encourage Brent trading comes as many investors, including Morgan Stanley and JPMorgan have dropped WTI.

The US National Weather Service reported that there are equal chances of above normal or below normal temperatures in February for the New England states. Meanwhile, temperatures in mid-Atlantic states, Great Lakes and West Coast states are expected to be colder than normal. There are equal chances of above normal or below normal temperatures for February to April for New England, Florida and the rest of the eastern third of the US. It also stated that the La Nina phenomenon is expected to persist at least into the spring of 2011.

Morgan Stanley's commodities risk fell in the fourth quarter. Its Value-at-Risk for commodities stood at \$26 million in the fourth quarter, down 20% on the quarter.

DOE Stocks

Crude – up 2.617 million barrels
Distillate – up 1.038 million barrels
Gasoline – up 4.443 million barrels
Refinery runs – down 3.4%, at 83%

Iranian official said Iran has no intention of using its OPEC presidency as a political tribune and is committed to acting in the best interest of the group's members.

Iran's envoy to the IAEA, Ali Asghar Soltanieh said Iran is ready for talks with major powers on a nuclear fuel swap deal. Separately, Iranian negotiators said they did not have any new

offer to make for a nuclear fuel swap when they meet six world powers on Friday. The Saudi-owned Al Arabiya TV news channel reported that Iran would propose a revised version of a deal agreed in principle in 2009. It said Iran would offer to ship 1,000 kg of its low enriched uranium and 40 kg of other uranium. However Iranian officials denied any such intentions. Meanwhile, Russia said talks should also address prospects for easing sanctions on Iran. Russia's Foreign Minister Sergei Lavrov said they should hold out the possibility of rolling back sanctions in talks with Iran over its nuclear program.

The IEA's chief economist, Fatih Birol said increasing oil prices will be a risk for the global economic recovery, which is still uncertain in Europe and the US.

CFTC Commissioner Michael Dunn said the CFTC is facing a budget crisis as it attempts to carry out the financial reform law with insufficient funds. Separately, the CFTC unveiled a plan on Thursday that would treat agricultural swaps like other over-the-counter derivatives, a move that would open up the market a wider range of participants. Under the plan, the CFTC would remove existing requirements that traders of agricultural swaps have a net worth of at least \$10 million. Instead, participants will be subject to the same regulations as all traders in the swaps market.

JPMorgan Chase revised its average forecast for London Brent and US benchmark WTI crude prices up by about 6% in the first half of 2011. It is estimating an average Brent price of \$95/barrel, up from a previous projection of \$90/barrel and average WTI price of \$93/barrel, revised up from an earlier forecast of \$88/barrel, for the first and second quarters of the year. The full year 2011 Brent crude was revised up to \$95/barrel from \$91.75/barrel and its WTI estimate to \$93/barrel from \$89.75/barrel.

Refinery News

Colonial Pipeline is freezing nominations for its Linden Delivery Line L6 for cycle 2 as demand for space is greater than capacity.

Sunoco Logistics reported to the National Response Center that it suffered a crude spill at a pipeline in Oklahoma on Wednesday morning. The 1,250 barrels spill was in Garvin County in Oklahoma. It said the pipeline was shut after the leak was found in a pipeline running from Eola to Maysville, Oklahoma. It said it did not think any refineries were directly supplied by the line.

Tesoro Corp's 58,000 bpd refinery in Mandan, North Dakota is producing transportation fuels even as the plant operates at reduced levels following a fire at its alkylation unit on Wednesday.

Citgo Petroleum Corp said maintenance activity at its 163,000 bpd Corpus Christi, Texas refinery will last until the end of February.

Supplies of Russian Urals crude to Poland could fall by almost half in February to 1.1 million tons due to maintenance at Poland's top refinery, PKN Orlen.

China's National Bureau of Statistics reported that the country's refineries processed more than 9 million bpd of crude for the first time in December.

**January
Calendar Averages
CL – \$90.30
HO – \$2.5817
RB – \$2.4509**

China's refinery runs in December increased by 12.2% on the year to 38.72 million metric tons or 9.16 million bpd. It reported that throughput in 2010 increased by 13.4% to 422.87 million tons or 8.5 million bpd. China's crude oil production increased by 9% in December to 17.52 million metric tons or 4.14 million bpd. In 2010, China's crude output increased by 6.9% to 203.01 million tons. It also stated that China's diesel production in December increased to a record level of 14.64 million tons, up 10.5% on the year while its gasoline production increased by 4.2% on the year to 6.9 million tons.

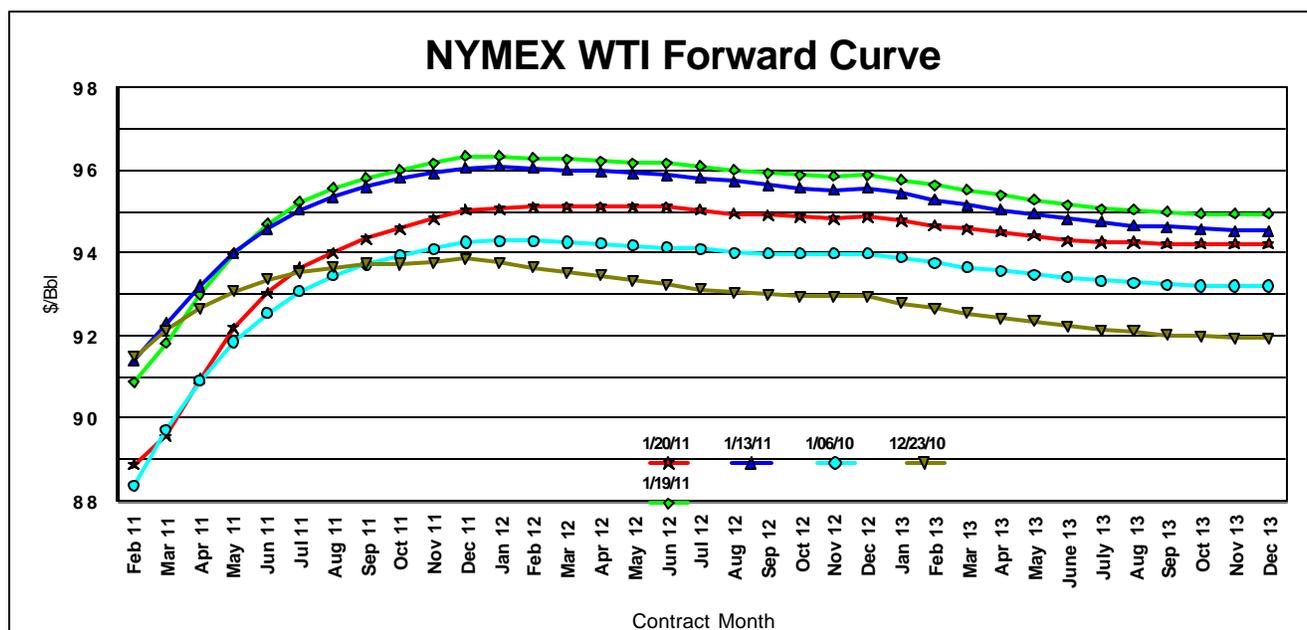
Indonesia's PT Pertamina expects imports of gasoline in January to remain steady at 5 million barrels, unchanged from December. Its imports of diesel in January are expected to total 2.5 million barrels, down from 4 million barrels in December. Indonesia's crude oil shipments for loading in January will total 19.41 million barrels or 626,191 bpd.

Singapore's International Enterprise reported that the country's residual fuel stocks in the week ending January 19th increased by 101,000 barrels to 18.56 million barrels. Singapore's light distillate stocks fell by 78,000 barrels to 10.514 million barrels while its middle distillate stocks built by 1.172 million barrels to 12.852 million barrels.

China's CNPC said the country's crude oil apparent demand is expected to increase 7.2% this year to 471 million metric tons or 9.46 million bpd. Separately, CNPC said China will add 4 million tons of commercial storage for oil products this year. It reported that China's strategic petroleum reserve had 69 million barrels of available storage capacity at the start of 2010 and overall capacity reached 24.38 million tons or 178 million barrels by the end of 2010.

Gasoline stocks held in independent storage in the Amsterdam-Rotterdam-Antwerp area in the week ending January 20th fell by 6.68% on the week and by 24.5% on the year to 684,000 tons. Gasoil stocks fell by 1.06% on the week and by 5.44% on the year to 2.714 million tons while fuel oil stocks increased by 3.33% on the week but fell by 15.24% on the year to 745,000 tons. Naphtha stocks fell by 45.45% on the week and by 40% on the year to 36,000 tons while jet fuel stocks fell by 14.93% on the week and by 29.27% on the year to 638,000 tons.

Germany's MWV reported that total sales of oil products in Germany increased by 8.9% on year in December to 6.75 million metric tons. Its heating gasoil sales increased by 33.2% to 2.2 million tons while its fuel oil sales increased by 19.5% to 520,000 tons. Its diesel sales increased by 2.1% to 2.51



million tons and its gasoline sales fell by 8% to 1.52 million tons.

The Rhine River was partially reopened to shipping after being blocked by a capsized tanker loaded with sulphuric acid. A vessel carrying 2,400 tons of acid capsized on January 13th. The river has been opened to southbound sailings by vessels of up to 135 meters in length following test sailings past the capsized ship.

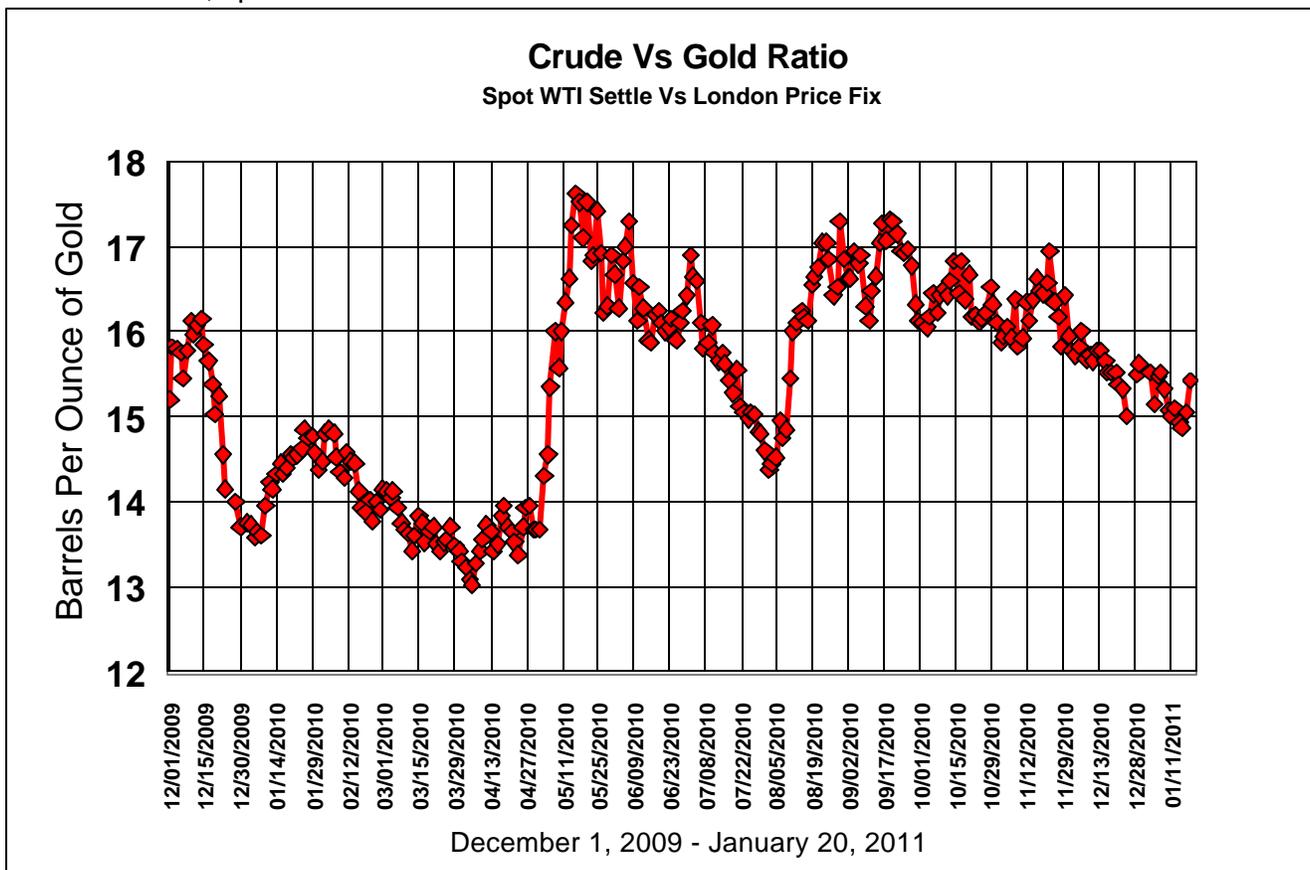
Production News

The Danish Underground Consortium's oil output from Denmark's part of the North Sea in December fell about 2.7% on the month. Oil and condensate output fell to 212,900 bpd in December from 218,700 bpd in November. DUC natural gas exports increased to 590 million cubic meters in December from 570 million in November but down from 710 million meters in December a year ago.

Russia's Prime Minister Vladimir and his Belarussian counterpart on Thursday failed to resolve a dispute that has cut oil product exports to Europe and contributed to a sharp increase in diesel prices. Russian companies stopped supplying crude to Belarussian refineries, which have a capacity of 360,000 bpd, on January 1st.

Japan Petroleum Exploration Co said it started oil output from the Pagerungan Utara oil field in the Kangean block, in offshore Indonesia. It said output started on January 4th at 6,000 bpd.

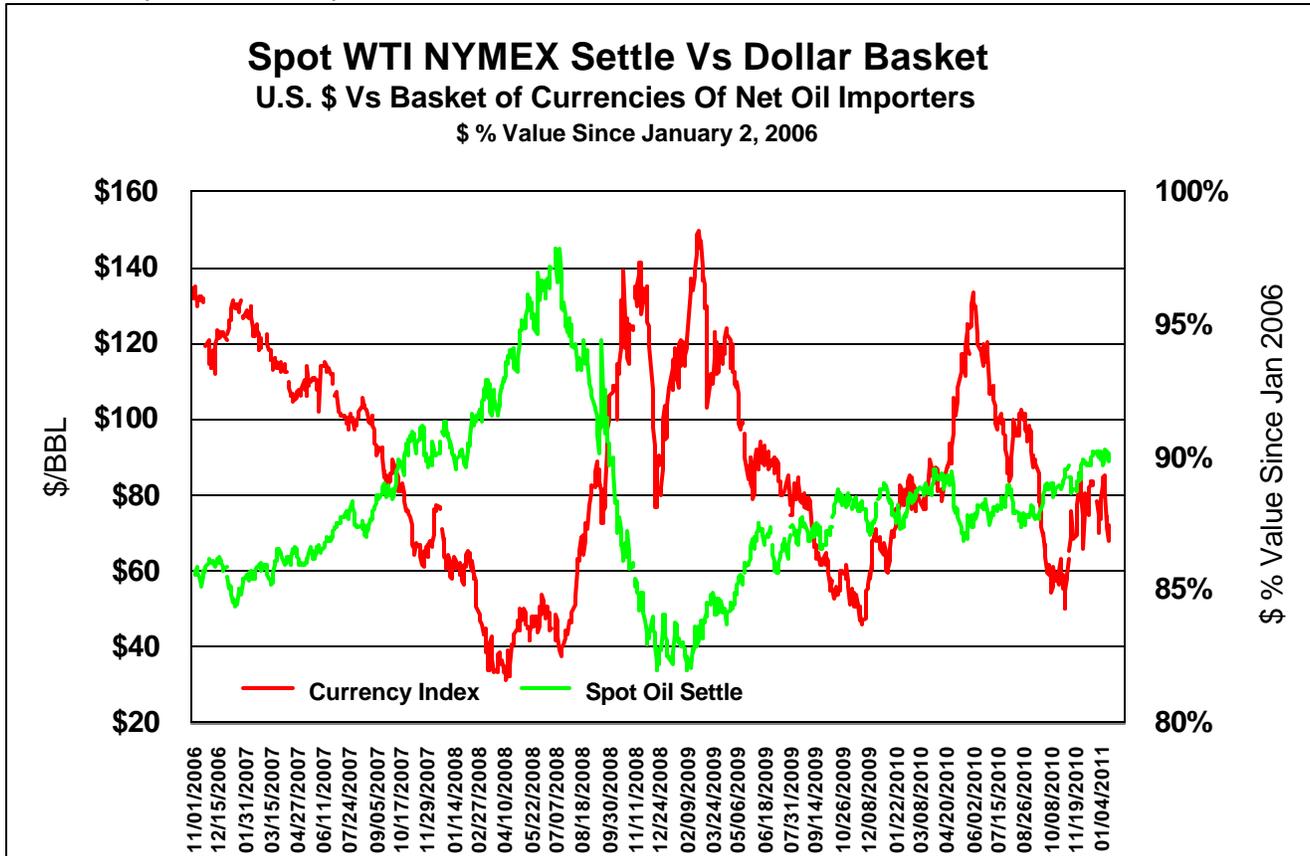
Ecuador's Central Bank reported that the country exported 112.9 million barrels of crude in the first 11 months of 2010, up 4% from the 108.11 million barrels in 2009.



India's newly appointed Oil Minister S. Jaipal Reddy said India is not currently looking at an increase in diesel prices. India's government intended to increase diesel prices in December after approving

the move in principle in June but delayed implementation because it feared voter anger at a time when inflation was increasing sharply.

OPEC's news agency reported that OPEC's basket of crudes increased to \$93.99/barrel on Wednesday from Tuesday's \$93.80/barrel level.



Russia's Deputy Finance Minister Sergey Shatalov said Russia may fix a unified export duty on light and heavy oil products at 66% in April.

The Trans Alaska Pipeline System reported that it has been pumping oil at an average rate of 605,000 b/d over the last 24 hours, returning to near normal levels after its restart from its outage on Monday.

Market Commentary

Crude oil settled 2.4 percent lower on the day, posting its largest fall in nine weeks. Concerns regarding China and actions it would take to slow its economy, coupled with inventory gains across the board, pressured prices despite positive U.S. economic news. Technically speaking, there appears to be more room to the downside left in this market. Moving oscillators have crossed over, which is bearish for prices. With the February contract expiring and March becoming the new front month, \$87.25 presents a target area. We would look for the March to test this level, buying bounces off of this number and selling successful penetrations.

While China has been touted as the catalyst behind the upsurge in commodities across the board, according to a report by Hedge Fund Research, hedge funds have increased their assets to a record \$149 billion in the last quarter of 2010. HFR reported that hedge funds around the globe currently invest \$1.917 trillion, with 13.1 billion in new funds coming in during the last three months of 2010. A total of \$55.5 billion in new money has been invested by pension funds, endowments and wealthy investors. This is the highest annual total since 2007. With investors looking for ways to hedge

against inflation, according to open interest levels, commodities appear to be attracting their attention. This, we believe has changed the face of commodities and contributed to the rise in prices, stretching from the energy markets to the softs markets. With this in mind, one has to wonder when the rug may be pulled out from under this bullish move in crude oil. Given the supply/demand scenario, the price of a barrel of crude oil and its relative value to foreign currencies, is over priced. Back in 2008, the last time crude oil was priced around the \$90.00 level the world's economy was a lot stronger. Based upon the current level of the basket of currencies, we would look for crude oil to encounter additional pressure and test between \$85.00 and \$80.00 a barrel.

Crude oil: Mar 11 411,835 +11,942 April 11 112,002 +86 May 11 88,167 +3,233 Totals 1,482,573 – 9,423 Heating oil: Feb 11 61,546 –6,371 Mar 11 89,685 +7,254 Apr 11 38,112 +1,615 Totals 313,178 +3,922 Rbob: Feb 11 48,475 –6,223 Mar 11 92,219 +5,381 Apr 11 39,798 +4,182 Totals 291,905 +4,759.

Crude Oil		Heating Oil		Rbob	
Support	Resistance	Support	Resistance	Support	Resistance
8725		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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