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ENERGY MARKET REPORT FOR JANUARY 21, 2011

US Energy
Secretary
Steven Chu said
forecasts that oil
prices could
reach

Market Watch

Belgium's central bank reported that Belgian business sentiment reached its highest level in more than three years in January. The business confidence index increased to 4.5 from 3.1 in December.

\$100/barrel are worrisome. He also stated that he is confident the US can compete with China on clean energy.

ICAP Shipping estimated that crude oil stored globally in floating storage fell to 37 million barrels in the week ending January 21st from 43 million barrels in the previous week.

The API reported that US crude oil demand increased by 1.2% in December to 19.471 million bpd. Total oil demand increased due to higher distillate demand, which increased by 6.9% to 4.128 million bpd in December. It stated that gasoline demand fell by 0.8% on the year to 8.85 million bpd.

The EPA approved a 50% increase of ethanol in gasoline for vehicles built during the 2001 to 2006 model year. The EPA last October approved gasoline with up to 15% ethanol for cars and trucks made during 2007 and later. The 50% increase for cars and trucks built since 2001 would cover more than half of the vehicles now on US highways. Separately, the EPA said it was disappointed with a federal court ruling giving the agency only 30 extra days to issue emission standards for boilers.

The US, China, France, Russia, the UK and Germany started a second round of negotiations with Iran, vowing to urge Iran to take concrete steps to ensure its nuclear activities are peaceful and to justify the continuation of an eight year diplomatic track that has yielded few gains. Iran arrived in Turkey offering no signs that it is willing to respect UN Security Council resolutions and suspend its production of nuclear fuel.

Refinery News

Colonial Pipeline is lifting a freeze notice for its multiproduct Line 04, which runs from Greensboro, North Carolina to Dorsey, Maryland for Cycle 4 due to a reduction in nominations. It said it would closely monitor nominations and re-freeze Cycle 4, Line 4 if warranted.

ExxonMobil Corp experienced a leak at an unnamed process unit at its 149,500 bpd Torrance, California refinery. The cause and the location of the leak at the facility were unknown when Exxon

**January
Calendar Averages**
CL – \$90.22
HO – \$2.5866
RB – \$2.4515

reported excess emissions related to the incident. The refinery continues to operate as the incident did not have any impact on production.

LyondellBasell began an overhaul of its 110,000 bpd fluid catalytic cracking unit at its 270,000 bpd Houston, Texas refinery on Friday morning. The unit will remain shut while the overhaul continues through late March.

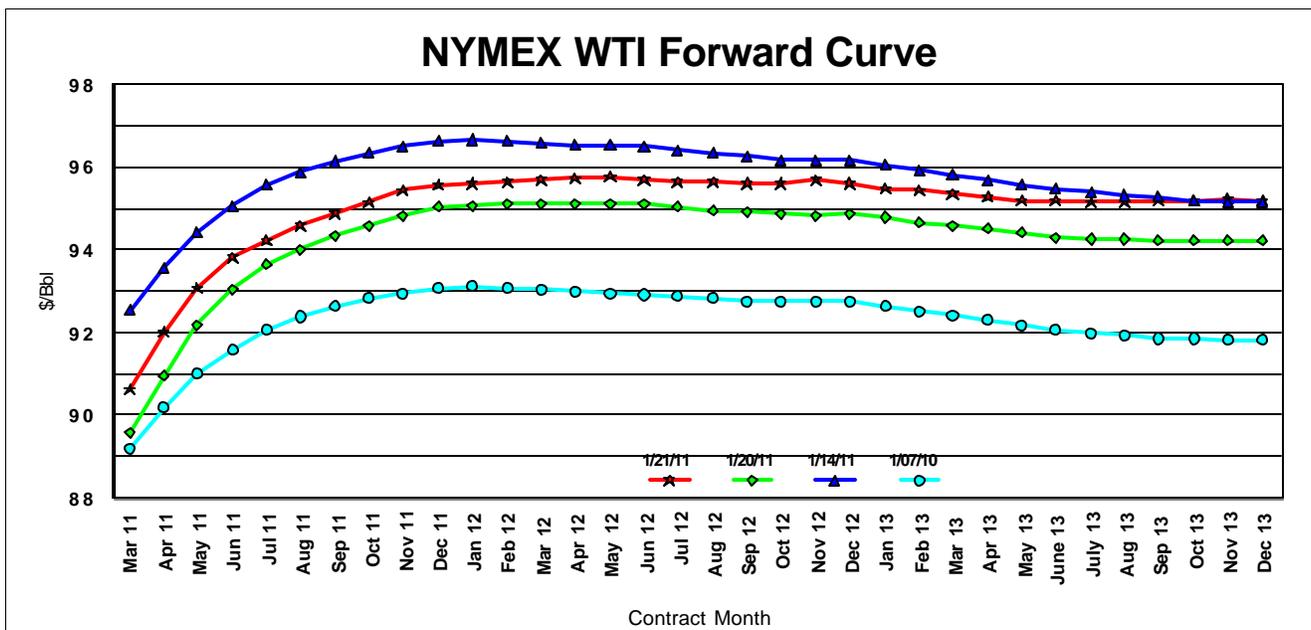
South Korea's GS Caltex returned its 760,000 bpd of crude distillation units and its 94,000 No. 1 residue fluid catalytic cracking unit to normal after the units were shutdown caused by a power outage on Monday.

Euroilstock reported that oil refinery output in 16 European countries in December increased by 0.1% on the month and by 2.5% on the year to 11.539 million bpd. It also stated that gasoline production increased by 2.9% on the month but fell by 4.9% on the year to 2.761 million bpd, middle distillate production increased by 0.3% on the month and by 4.2% on the year to 5.896 million bpd and fuel oil production increased by 3.7% on the month but fell by 2% on the year to 1.344 million bpd. Crude intake fell by 1% on the month but increased by 3.8% on the year to 11.098 million bpd and capacity utilization fell to 84.72% in December from 85.6% in November.

China's Sinopec Corp refined 211.13 million metric tons or 4.24 million bpd of crude in 2010, up 13% on the year. Its crude oil production increased by 0.05% to 330.38 million barrels while its natural gas production increased by 48% to 441.39 billion cubic feet.

China has renewed agreements to import crude from Iran in 2011, keeping the volume relatively unchanged from last year at about 460,000 bpd. China's Zhuhai Zhenrong Corp agreed with National Iranian Oil Co to buy 240,000 bpd while Sinopec Corp agreed to buy 220,000 bpd of Iranian crude.

China sharply increased its net diesel imports in December due to domestic shortages of the fuel however imports will likely fall in the first quarter of 2011 in line with seasonal demand trends and as more supplies are available. China National Petroleum Corp reported that apparent diesel will increase by 6.2% to 164 million tons in 2011. China imported 460,628 metric tons of diesel and exported 171,991 tons. CNPC also reported that China cut its gasoline exports in December by 62% on the year to 364,765 tons. It forecast that apparent gasoline demand will increase 5.9% to 74.6 million tons in 2011. China's kerosene imports in December fell to 855,000 tons in December from



861,388 tons in November. Separately, China reported that its oil product stocks increased by 8.7% at the end of December. China's commercial diesel inventories in December increased by 16% on the month while its gasoline inventories increased by 3% and its kerosene stocks increased by 5.6% on the month. China's commercial crude oil stocks increased by 0.5% in December. CNPC said China will pump up about 10 million tons or 73 million barrels of import crude into its storage facilities in 2011. China is expected to import 264 million tons or 5.27 million bpd of crude oil in 2011.

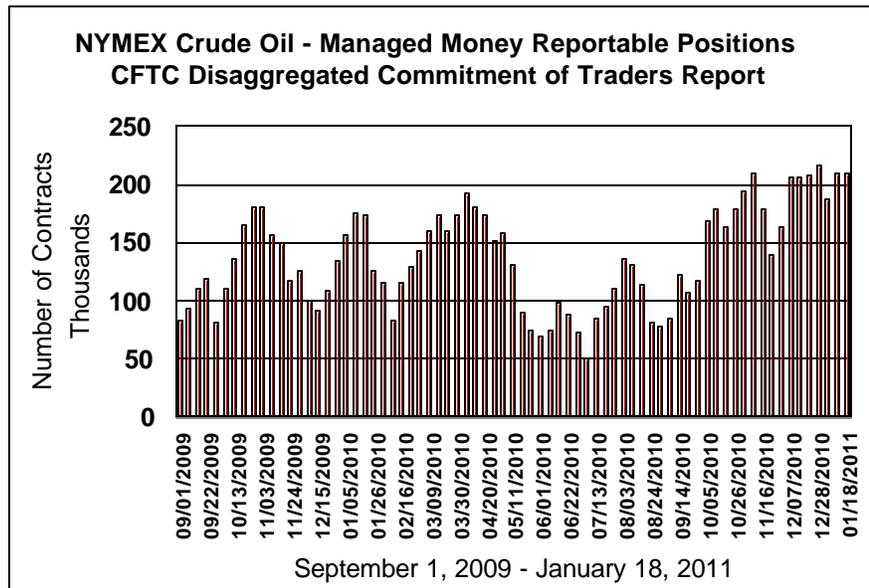
South Korea's Korea National Oil Corp said the country imported 77.67 million barrels or 2.51 million bpd of crude in December, up 10.1% on the year. South Korean refineries processed 79.14 million barrels of crude in December, up 12.5% on the year and up 4.1% on the month. The country's commercial crude oil stocks increased by 5.1% on the year to 7.61 million barrels.

Indonesia's Pertamina is expected to import 5 million barrels of premium gasoline in February, unchanged on the month. Its imports of diesel are expected to double to 4 million barrels.

Production News

All four platforms within Royal Dutch Shell's North Sea Brent field will remain shut for several weeks. Production at the Brent Bravo, Alpha, Charlie and Delta fields was halted on Saturday after a fender fell from the Bravo platform. It said work on the Bravo platform is progressing but is expected to take several weeks. The three other platforms will also remain closed as a safety requirement.

Mexico's Communications and Transport Ministry reported that two of Mexico's three main oil ports were closed on Friday as a cold front moved into the Gulf of Mexico. The Cayo Arcas and Dos Bocas ports were shut due to adverse weather conditions.



Norway's Statoil expects its Visund South oil and gas field to begin operations in 2012. Oil resources are estimated at 3.5 million standard cubic meters and its gas resources are estimated at 6.2 billion standard cubic meters.

Canadian Natural Resources Ltd said Alberta investigators cut the size of the restricted area at its Horizon oil sands project. Alberta health and safety officials reduced the area covered by a stop-work order to

a tenth of its former size. Its coker, the site of a January 6th fire, is still covered by the stop work order.

Russia has increased its crude oil flows to ports in Primorsk, Gdansk and Novorossissk as exports to Belarus remain halted due to a pricing dispute. Transneft has redirected about 1.5 million tons of oil from the Belorussian refineries to the three ports and to refineries in Russia and Ukraine.

Nigeria plans to export nine cargoes of its Qua Iboe crude in March, down from 11 cargoes scheduled for February. Nigeria also plans to export seven 950,000 barrel cargoes of its Bonny Light crude in March, up one from February.

Nigeria increased its official selling price for Bonny Light and Qua Iboe crude for February loading to a premium of \$1.90/barrel over Dated Brent compared with a \$1.75/barrel premium in January.

India's Oil & Natural Gas Corp resumed production at its oil and gas wells that were shut earlier in the day after a leakage at a crude oil pipeline off India's west coast. It said the leakage at Mumbai Uran trunk oil pipeline has been stopped and the oil spill will be dispersed within 48 hours. The leakage led to a loss of about 25,000 barrels. India's Oil Secretary S. Sundareshan said the leak will be plugged soon.

OPEC's news agency reported that OPEC's basket of crudes fell by \$1.04/barrel to \$92.95/barrel on Thursday from \$93.99/barrel on Wednesday.

Market Commentary

Today's weakness in the dollar was overshadowed by yesterday's inventory builds, which continued to put pressure on the March crude oil contract. This is the fourth straight day that prices have fallen, making it the longest period in nine weeks. Speculation that China will increase interest rates coupled with inventory builds appear to have tamed some of the bulls that were betting crude oil would reach \$100 a barrel. While we look for this market to remain economically sensitive, we believe that a correction to the downside is due and therefore stick with our objective for this market to trade lower, targeting the \$85.00 - \$80.00 range. The Dec11/Dec12/Dec13 butterfly spread we had referenced previously is within the -\$0.70 to -\$0.85 range we would like to enter by going long the Dec11, short the Dec12 and long the Dec 13. Our goal is for the Dec 11 to strengthen, widening out this butterfly spread to between flat and \$.20.

The Commitment of Traders report showed that non-commercials in the crude market cut their net long position by 2,534 contracts to 166,551 contracts in the week ending January 18th. The combined futures and options report also showed that the funds cut their net long position by 1,278 contracts to 225,249 contracts on the week. Meanwhile the disaggregated futures and options report showed that the managed money funds increased their net long position by just 795 contracts to 210,564 contracts on the week. The producer/merchants cut their net short position by 3,020 contracts to 170,570 contracts while swap dealers increased their net short position by 11,247 contracts to 98,632 contracts on the week.

Crude oil: Mar 11 410,592 -1,243 April 11 120,896 +8,894 May 11 94,363 +6,196 Totals 1,485,345 +2,772 Heating oil: Feb 11 52,346 -9,200 Mar 11 93,945 +4,260 Apr 11 39,310 +1,198 Totals 311,627 -1,551 Rbob: Feb 11 40,756 -7,719 Mar 11 94,542 +2,323 Apr 11 41,974 +2,176 Totals 290,082 -1,823.

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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