



ENERGY RISK MANAGEMENT

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ENERGY MARKET REPORT FOR JANUARY 22, 2010

Russia's Foreign Minister Sergei Lavrov cautioned world powers against rushing towards imposing further sanctions against Iran. He called on Iran to work constructively to allay Western concerns over its nuclear program. He made clear Russia was unhappy with Iran's dismissal of the UN brokered proposal to send uranium to France and Russia for enrichment. Iran's failure to meet an effective US deadline of December 31st to accept the October fuel plan brokered by the IAEA has prompted the US, Britain, France, China, Russia and Germany to start considering possible tougher sanctions against Iran.

Market Watch

The head of commodities at Hermes Fund Managers Ltd said commodities, as measured by the S&P GSCI Light Energy Index, may gain as much as another 10% this year, led by oil, sugar and coffee.

Venezuela's largest power plant, Planta Centro, is operating at less than a fifth of its designed capacity, exacerbating a power crisis. The plant operated at 273 Mw of power on Thursday, or about 14% of its 2,000 Mw capacity. Venezuela is suffering its most severe electricity crisis in six years because of increasing demand and a drought that cut water levels in the hydro dams that provide 73% of the country's power.

Syria ordered a level 4 mobilization of its army reserves for deployment to the Golan Heights on the Israeli border as tensions increase.

Refinery News

ConocoPhillips reported flaring at a compressor in its California refinery.

BP Products North America reported maintenance at a power station at its Texas refinery. The maintenance at the power station No. 4 boiler may last up to four weeks.

According to Euroilstock, oil refinery output in 16 European countries in December fell 10.2% on the year and by 0.6% on the month to 11.395 million bpd. It reported that gasoline production fell by 12.3% on the year but increased by 0.3% on the month to 2.942 million bpd while distillate production fell by 12% on the year and by 0.1% on the month to 5.649 million bpd and naphtha production increased by 4.4% on the year but fell by 1.4% on the month to 752,000 bpd. Crude intake fell by 9.4% on the year but increased by 1.5% on the month to 10.776 million bpd. Capacity utilization increased to 82.26% in December from 81.06% in November.

January Calendar Averages
CL – \$79.97
HO – \$2.1072
RB – \$2.0807

An 800,000 ton/year naphtha cracker in the petrochemical joint venture

between CNOOC and Shell in China's Huizhou is scheduled to shutdown for 40-50 days of maintenance from early March. The Huizhou cracker will be expanded to 1 million tpy during the maintenance outage.

China's National Energy Administration said the country's demand for gasoline, diesel and kerosene will increase by about 4% this year. Apparent demand for the refined oil products in 2009 totaled 207 million tons. It said production of gasoline, diesel and kerosene increased by 1.4% in 2009. China's NEA also estimated that an annual total of 20 million tons or 400,000 bpd of refining capacity will be added this year even as the domestic market continues to face an oversupply.

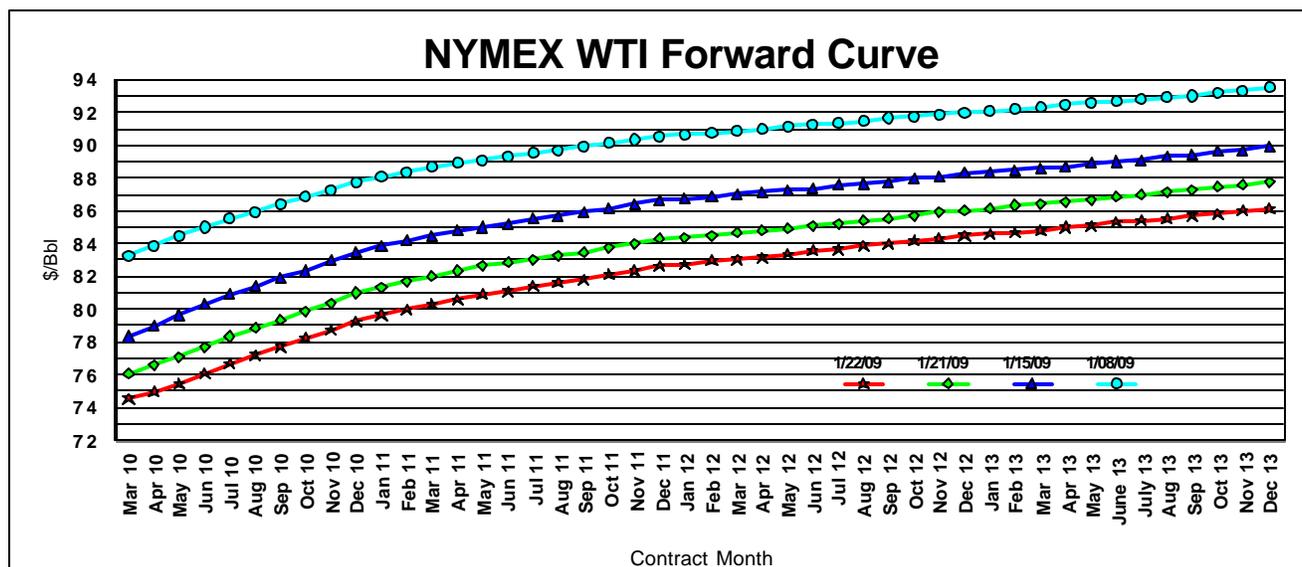
India's refiners processed 3.21 million bpd of crude oil in December, up 0.9% on the year. India's crude oil production increased by 1.1% on the year to 686,900 bpd in December from 679,500 bpd a year earlier.

Indian Oil Corp is seeking 30,000 tons of gasoline for February to meet increasing domestic demand.

India's Reliance Industries expects better refining margins in 2010. It reported that refining margins fell to \$5.90/barrel in its fiscal third quarter, from \$10/barrel a year earlier.

South Korea's SK Energy, GS Caltex, S-Oil Corp, Hyundai Oilbank and KNOC imported 70.6 million barrels of crude in December, down 5.9% from 75 million barrels imported the previous year. For the full year 2009, South Korea's crude imports fell by 3.4% to 835 million barrels. The country's oil product exports in December totaled 27.6 million barrels while its imports totaled 23.4 million barrels. South Korea's private oil stocks at the end of December fell by 12% to 49.3 million barrels, as crude inventories fell by 32% to 7.3 million barrels. South Korean refineries processed 70.32 million barrels of crude in December, down 6.3% on the year and up 4.6% on the month. Total crude processing volume in January is expected to increase by 0.4-2% from December.

Russia plans to export 4.8 million tons or 1.26 million barrels of Urals crude in February from its Baltic Sea port of Primorsk. February's volume is lower than the normal level of about 6 million tons, partly due to planned maintenance on February 10-11. Russia plans to export 33 cargoes or 3.26 million tons of crude from the Black Sea port of Novorossiisk and four 78,000 ton cargoes of Siberian Light from Tuapse. It also plans to export eight 100,000 ton cargoes of ESPO crude from the Far East port of Kozmino in February and one 100,000 ton cargo and one 145,000 ton cargo for early March.



Ukraine's Fuel and Energy Ministry reported that the country's oil transportation fell by 5.9% on the year to 38.535 million tons in 2009.

Production News

Baker Hughes reported that the number of rigs searching for oil and natural gas this week increased by 34 to 1,282. The number of rigs searching for oil increased by 12 to 437 while the number of rigs searching for natural gas increased by 22 to 833.

The North Dakota Mineral Resources Department reported that North Dakota increased its forecast for oil output on growth in and around the Bakken Shale formation. It said output may reach 300,000-400,000 bpd by mid-2011 and remain at the level for 10-15 years. Its previous estimate was 220,000-280,000 bpd.

Iraq signed a final contract with a group led by Italy's Eni to develop the 4 billion barrel Zubair oilfield. Eni and its partners, Occidental Petroleum Corp and South Korea's KOGAS, set an output target for the field of 1.2 million bpd. The consortium plans to invest about \$20 billion over the 20 year life of the contract, which has a possible extension to 25 years.

Mexico's Pemex reported that Mexico's oil production in December increased by 2.4% on the month to 2.615 million bpd. It exported 1.29 million bpd of crude in December, up from 1.22 million bpd in November but down from 1.33 million bpd a year earlier.

The Norwegian Petroleum Directorate is urging Statoil to build a new platform for its Snorre field. Statoil and its field partners are skeptical of the need for the investment and at odds with the government agency's requests for a new development plan for Snorre and the Tampen area in the North Sea.

Venezuela's Oil Ministry said it ended efforts to work with France's Total or Norway's Statoil ASA to develop the Junin 10 block, which could produce 300,000 bpd of crude.

The US Geological Service said that Venezuela's Orinoco Belt holds 513 billion barrels of recoverable oil which is more than the previously estimated 230 billion to 300 billion barrels.

Brazil's OGX Petroleo e Gas Participacoes said it found signs of hydrocarbons in well 1-OGX-5-RJS, in the southern part of the offshore Campos Basin.

Brazil plans to build stocks of ethanol in 2010 to head off a possible decline in prices once the new season starts in April. Ethanol production in the main center-south cane region is forecast to fall to 23.4 billion liters from 25.1 billion liters in 2008/09.

The head of Russia's Finance Ministry's tax department Ilya Trunin said Russia should eliminate the new differentiated tax regime for oilfields, under which some East Siberian fields are liable to zero export duties, to minimize fiscal risks.

OPEC's news agency reported that OPEC's basket of crudes fell by 76 cents to \$74.54/barrel on Thursday from \$75.30/barrel on Wednesday.

Market Commentary

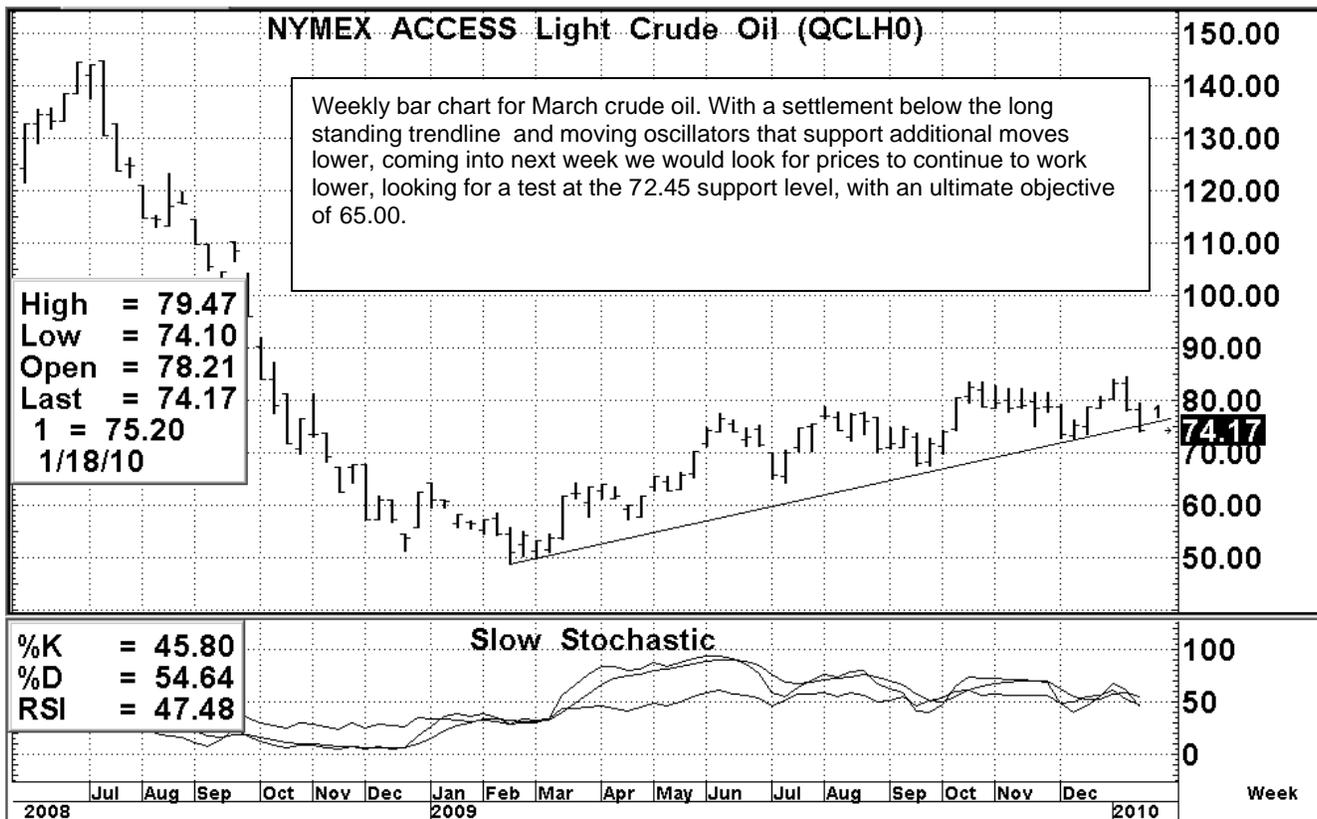
Focused on the Obama administration's proposed restrictions on risk taking by financial institutions and China's possible rise in interest rates, the energy markets tumbled again today. Inventories remain high and demand is still weak adding to the downward pressure on prices. This proposal by the Obama administration may force investors to limit their exposure in the market, forcing them to

lighten up on positions and limit the amount of new risk. This may impact the daily moves in the market and put a cap on upside potential. Open interest in crude oil and gasoline decreased yesterday, while that for heating oil increased. We take this as an indication that longs have exited both crude oil and gasoline and shorts have entered into heating oil. Overall volume remains light. The March crude oil contract, based upon a weekly bar chart, settled below a long-term trendline that dates back to January of 2009. This is the first time that the March contract has settled below this line. Slow stochastics have crossed to the downside, a bearish signal for prices. With today's settlement below this trendline and the aforementioned fundamentals looming in the background, we would not be surprised to see prices dip as low as \$65.00.

The Commitment of Traders report showed that non-commercials in the crude market cut their net long position by 1,288 contracts to 134,381 contracts in the week ending January 19th. The combined futures and options report showed that non-commercials cut their net long positions by 1,981 contracts to 206,752 contracts on the week. The funds have likely continued to cut their net long position as evidenced by the recent decline in open interest. The combined disaggregated report showed that producers/merchants increased their net short position by 3,273 contracts to 236,922 contracts while swap dealers cut their net long position by 1,251 contracts to 10,343 contracts. Managed money funds cut their net long position by 2,423 contracts to 173,317 contracts while other reportable increased their net long position by 442 contracts to 33,435 contracts on the week. Meanwhile, the combined futures and options report showed that non-commercials in the product markets also cut their net long positions. The funds in the heating oil market cut their net long position by 10,156 contracts to 35,681 contracts while non-commercials in the RBOB market cut their net long position by 2,432 contracts to 72,767 contracts

Crude Oil MAR.10 366,528 -6,425 APR 135,093 +2,046 May 74,065 2,396 Totals 1,327,105 -5,426
 Heating oil FEB 10 47,298 -628 MAR.10 83,275 +2,758 APR10 38,659 +532 Totals: 314,626 +3,731
 Gasoline FEB.10 37,623 -8,084 MAR. 10 91,442 +1,784 APR10 23,286 +1,644 Totals: 275,632 -3,519

Crude Support Based on February	Crude Resistance Based on Feb
73.50, 72.91, 72.60, 70.42, 65.05, 64.70, 63.38, 62.70, 61.61, 60.95	76.50, 79.15, 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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