



ENERGY RISK MANAGEMENT

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ENERGY MARKET REPORT FOR JANUARY 26, 2011

The IEA's chief economist, Fatih Birol said that Saudi Arabia's Oil Minister Ali al Naimi's hint that it and other producers could increase their output if oil demand continues to strengthen is a very welcome move. He said that real demand, rather than speculation or loose monetary policy, has been behind the rally in oil prices over the last four months.

Total believes OPEC should increase its

production only when it sees extra demand for oil, even if prices are increasing. Total's chief executive Christophe de Margerie said \$100 is the upper limit and sees \$80-\$90/barrel as a fair price.

Valero Energy Corp's CEO Bill Kleese said strong growth in developing countries and closures at European refineries will encourage US fuel exports this year.

Market Watch

The US Commerce Department reported that new home sales in the US in December increased by 17.5% on the month to a seasonally adjusted annual sales pace of 329,000. For all of 2010, the government's preliminary estimate was that about 321,000 homes were sold, down 14.2% from 2009. The median sales price for a new home sold in December was \$241,500, up 8.5% on the year.

Federal Reserve officials voted to continue purchasing government bonds to support the economy. The central bank officials voted unanimously to push ahead with the \$600 billion purchase plan. They said that while global food and raw material prices have been rising, their preferred gauge for where prices are heading remains within the Federal Reserve's comfort zone. The Fed has already bought about \$200 billion of Treasury to expand its balance sheet and is scheduled to complete the \$600 billion purchase in June. The Federal Open Market Committee said it will maintain the target range for the federal funds rate at 0 to ¼%.

Iraq raised its proposed oil price for its 2011 budget to \$76.50/barrel instead of the \$73/barrel it proposed earlier. Iraq is expected to export an average of 2.2 million bpd in 2011.

The World Gold Council said gold backed exchange traded funds bought 20% more bullion in 2010, increasing their holdings by 361 tons to a record high of 2,167 tons. The 20% increase in ETF tonnage was off the previous year's 52% pace.

DOE Stocks

Crude – up 4.836 million barrels
Distillate – down 140,000 barrels
Gasoline – up 2.404 million barrels
Refinery runs – down 1.2%, at 81.8%

The CFTC announced two rules on Wednesday requiring funds, commodity pools and commodity trading advisors to file reports to regulators on their operations. The CFTC has estimated that between 1,000 and 2,000 businesses could be affected by the new reporting rules. The CFTC would require reports from funds whose assets under management exceed \$150 million, increasing the level of reporting for those funds valued above \$1 billion.

Refinery News

TransCanada Corp said it will transport US crude oil from Cushing, Oklahoma to the US Gulf Coast. It has received sufficient contractual support to proceed with its Cushing Marketlink Project. The project is expected start operations in the first quarter of 2013. It would have the capacity to transport 150,000 bpd of crude production from Cushing to the US Gulf Coast. It said that the combined capacity of Marketlink and Bakken Marketlink would be 250,000 bpd.

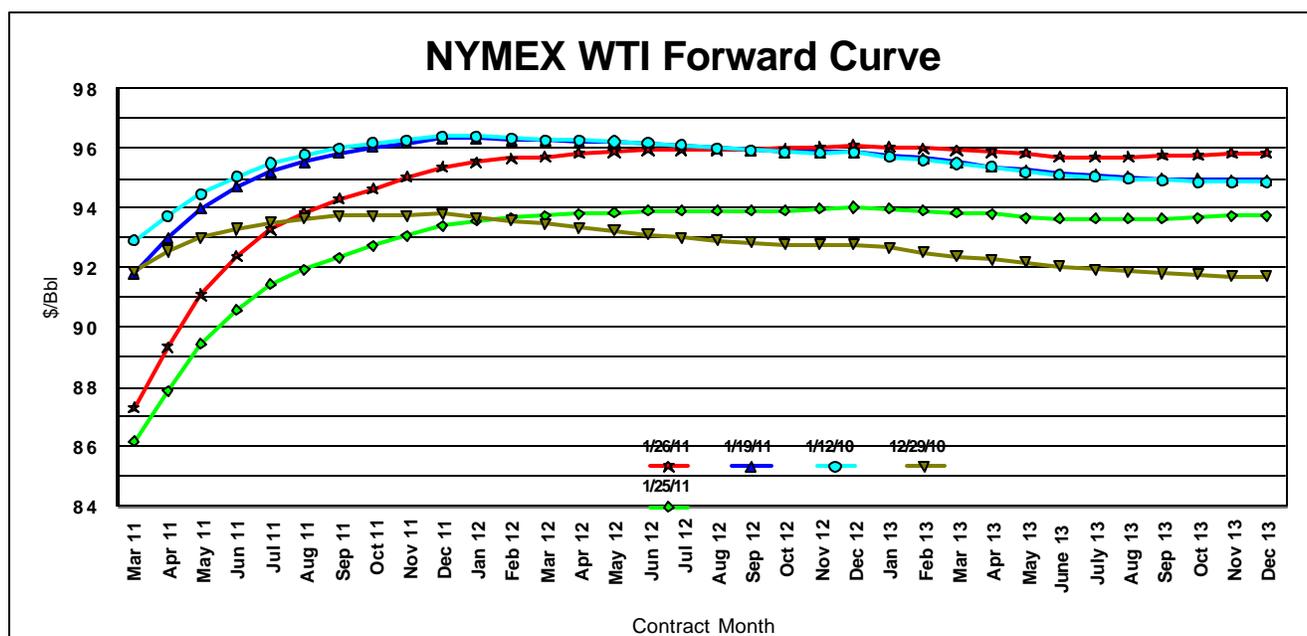
January Calendar Averages CL – \$89.67 HO – \$2.5938 RB – \$2.4416

BP Plc reported a unit upset at its 405,000 bpd refinery in Whiting, Indiana on Tuesday.

Tesoro Corp said it was trying to do a safety shutdown of its 58,000 bpd Salt Lake City, Utah refinery after a power loss led to sulfur dioxide emissions on Tuesday afternoon. It also said it began restarting its process unit that malfunctioned on January 25th at its 96,860 bpd Wilmington, California refinery. Tesoro Corp also stated that repairs will be necessary for the heater at its alkylation unit at its 58,000 bpd Mandan, North Dakota refinery.

Valero Energy Corp is scheduled to perform maintenance at its 100,000 bpd crude and coker unit at its Port Arthur, Texas refinery in February for 51 days. It is also scheduled to perform maintenance at its 90,000 bpd crude unit at its Houston, Texas refinery for 24 days in February. In March, Valero is scheduled to perform 56 days of turnaround at its alkylation unit at its St. Charles, Louisiana refinery and a complete turnaround at its 90,000 bpd refinery in Ardmore, Oklahoma. In April, Valero plans to perform 24 days of turnaround at its 30,000 bpd hydrocracker unit at its McKee, Texas refinery. It has already shut its 170,000 bpd refinery in Benicia, California refinery for 42 days of turnaround. Separately, Valero said it was seeking a partner to bring needed investment to its 235,000 bpd Aruba refinery.

The 500,000 bpd Hovensa refinery in St. Croix announced that it is permanently reducing crude oil throughput by shutting certain older units in the first quarter in an effort to improve performance in tough economic conditions. It is reducing crude distillation capacity by 30% to 350,000 bpd. Certain process units will be shutdown at the West side of the refinery but will have no impact on the capacity of its coker or fluid catalytic cracking unit.



Eni SpA's 110,000 bpd Taranto refinery in Italy is scheduled to undergo partial planned maintenance in September. The turnaround, which would include work on a residue hydro conversion and hydrocracking units, is expected to last about 35-40 days.

France's CGT union is calling for rolling strikes at all French ports from Friday January 28th. It said would decide on future action on January 31st. Since January 12th, different categories of workers in French ports have taken turns to stage 24 hour rolling strikes to force the government to include measures taking into account harsh working conditions in an ongoing port reform.

The Petroleum Association of Japan reported that Japan's crude oil inventories in the week ending January 22nd fell by 95,923 kiloliters to 15.869 million kl. It also reported that Japan's gasoline stocks built by 34,144 kl to 1.825 million kl while its gasoil stocks fell by 41,687 kl to 2.075 million kl and its kerosene stocks fell by 204,411 kl to 1.944 million kl. Its naphtha stocks fell by 40,191 kl to 1.825 million kl and its jet fuel stocks built by 964 kl to 795,847 kl. The PAJ also reported that crude runs fell by 20,000 bpd to 3.98 million bpd and refinery rates fell by 0.5% to 88.1% on the week.

Production News

Chevron Corp is shutting in oil production at its Barrow Island and Thevenard Island fields offshore northwest Australia ahead of Tropical Cyclone Bianca. It has initiated cyclone readiness plans at the two fields as a precautionary measure.

Mexico's Communications and Transport Ministry reported that the Cayo Arcas and Dos Bocas oil ports were closed on Wednesday as a cold front moved into the Gulf of Mexico.

Hess Corp aims to double its production in the Bakken Shale in North Dakota in 2011 as it invests a significant portion of its capital budget there. It will invest \$1.8 billion in 2011 to increase production in the Bakken Shale to an average of 40,000 bpd of oil equivalent in 2011.

Occidental Petroleum Corp said it expects its output in the first quarter to total 740,000-750,000 bpd of oil equivalent. It expects to drill 28 exploration wells in California in 2011 and 107 shale wells. Occidental also stated that it expects Iraq's Zubair field to produce more than 300,000 bpd by the end of 2011.

ConocoPhillips said it plans to continue shifting its production in North America from natural gas to oil and expects to spend \$2 billion to \$3 billion acquiring assets in the Gulf of Mexico this year. Its shift from natural gas to oil production reflects the company's view that gas prices will remain depressed in the near future. It plans to drill 140 to 150 wells in the Eagle Ford shale in Texas, 50 to 60 in the Bakken Shale in North Dakota and about 30 to 40 wells in the Barnett Shale in Texas. It expects its production to fall by 2% to 1.7 million bpd of oil equivalent this year. In its fourth quarter earnings report, ConocoPhillips reported that its production from its exploration and production segment was 1.73 million bpd of oil equivalent in the fourth quarter, down from 1.83 million bpd of oil equivalent in the fourth quarter of 2009. It also stated that its worldwide refining capacity utilization rate stood at 85%.

Some exports of Nigerian Qua Iboe crude will be delayed by about a week next month due to lower than expected production. Twelve 950,000 barrel cargoes of Qua Iboe crude were due to load in February. However the last four cargoes have been delayed by between six and nine days.

Saudi Arabia is expected to increase contract crude sales by 10% to China's Sinopec this year. Saudi Arabia is increasing its exports to China for the third consecutive year. It is unclear whether Saudi Arabia is increasing its overall production to supply more to Sinopec or diverting supplies from

customers elsewhere. Sinopec is expected to import more than 550,000 bpd from Saudi Arabia in 2011 and China's total term contract volume would increase to a new record of at least 970,000 bpd.

The UAE's Abu Dhabi National Oil Co said it will reduce March Murban crude oil term supply to Asian customers by 10%. It will also export 10% less than the contracted volumes of its Lower Zakum grade, 5% less for Umm Shaif and 10% less for Upper Zakum, in line with its commitments as a member of OPEC.

Iraq's Oil Ministry reported that the country's crude oil exports averaged 1.89 million bpd in 2010, down 0.8% on the year due to bad weather at export terminals and acts of sabotage against pipelines. It exported a total of 689.9 million barrels in 2010, down from 695.5 million barrels in 2009. Despite the decline in volume, Iraq's oil revenues increased by 26.3% to \$52.2 billion. Oil exports from the southern terminals in Basra stood at 524.1 million barrels, down from 539.3 million barrels in 2009 while exports from northern oil fields in 2010 reached 150.6 million barrels, down from 171.4 billion barrels in 2009.

Ecuador's central bank reported that the country's average crude oil production in January through November 2010 fell by 1% to 485,000 bpd from 488,000 bpd in the same period of the previous year. Petroecuador's average oil production in January through November stood at 297,000 bpd while private companies' oil production stood at 188,000 bpd.

Royal Dutch Shell Plc said the proportion of operational oil spills in 2010 from the Niger Delta fell below the five year average to 20% of the total spillage amount. Spills caused by sabotage or theft in 2010 accounted for the remaining 80%, up from the five year average of 70%. The total amount of oil spilled into the Delta due to sabotage or theft totaled between 1,500 and 2,000 metric tons in 2010 compared with 13,900 tons in 2009.

Mexico's Pemex reported that the country's crude oil exports in 2010 totaled 1.361 million bpd, up from 1.233 million bpd in 2009.

OPEC's news agency reported that OPEC's basket of crudes fell by \$1.40/barrel to \$91.80/barrel on Tuesday from \$93.20/barrel on Monday.

Market Commentary

Responding to several supportive factors, crude oil and its products traded higher throughout most of the session. With the DJIA trading higher than 12,000 for the first time since June 2008, new homes sales in the U.S. rising better than forecasted and distillate inventories showing signs of draws, demand once again was at the forefront of this move. Initial reaction to the 4.84 million barrel build in crude inventories saw this market making failed attempts to trade through the \$86.00 level. Support is forming down around the \$86.00, making this our target to break through. This move higher appears to be a bit of a price correction. As long as prices remain below the \$88.00 level, we remain with our view that the crude oil will attempt to trade between the \$85.00 and \$80.00 area. Brent continues to gain premium against the WTI while stock levels in Cushing remain strong. It appears that Brent's premium to the WTI is more a functionality of stock levels at Cushing, OK, than the NYMEX delivery point for crude oil. Not until we see stock levels in Cushing showing continued decreases do we think the spread between the two will narrow.

Crude oil: Mar 11 408,392 -1,252 April 11 114,147 -4,177 May 11 94,117 -1,525 Totals 1,499,599 -3,409 Heating oil: Feb 11 28,108 -9,336 Mar 11 108,161 +2,069 Apr 11 46,308 +4,219 Totals 314,495 -236 Rbob: Feb 11 23,098 -5,589 Mar 11 98,404 +1,119 Apr 11 41,388 +1,483 Totals 282,934 +133

Crude Oil		Heating Oil		Rbob	
Support	Resistance	Support	Resistance	Support	Resistance
	8800	23685	26712		24880
8612	9385	22960	27070	22560	27085
8590	103.85	22013	29500	22050	
8387	111.65	21860	30955	21600	
8161		21140		20300	
7945		20702		20130	
7900					

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