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ENERGY RISK MANAGEMENT

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ENERGY MARKET REPORT FOR JANUARY 28, 2011

The EIA reported that US oil demand in November increased by 1.7% or 321,000 bpd on the year to 19.074 million bpd. It also reported that gasoline demand averaged 8.901 million bpd, down 5,000 bpd on the year and 53,000 bpd from its previous estimate. The retail price of gasoline averaged \$2.859/gallon in November, up 7.8% on the year. Demand for distillate fuel averaged 3.877 million bpd, up 281,000 bpd or 7.8% on the year. Retail diesel fuel prices averaged \$3.14/gallon in November, up 12.5% on the year. The EIA also

reported that US crude oil imports in November fell by 1.5% or 132,000 bpd on the year to 8.608 million bpd. Canada remained the largest source of crude oil, with imports of 1.975 million bpd. Mexico was the second largest supplier of crude to the US, with imports of 1.229 million bpd while Saudi Arabia was the third largest source of crude, with imports from the country at 1.119 million bpd.

Market Watch

The US Commerce Department said US economic growth accelerated in the fourth quarter of 2010. GDP increased at an inflation adjusted annual rate of 3.2% in the fourth quarter. GDP increased by 2.6% in the third quarter, by 1.7% in the second quarter and by 3.7% in the first quarter of last year. It reported that consumer spending increased at a 4.4% rate in the fourth quarter. The Commerce Department also reported that the price index for personal consumption expenditures or PCE, excluding food and energy, increased by an annualized 0.4% in the fourth quarter. It is down from the third quarter's 0.5% increase. The overall price index increased by 1.8% in the fourth quarter.

US consumer sentiment improved in late January. Thomson Reuters and the University of Michigan's index on consumer sentiment ended January at 74.2 compared with 74.5 in December. It is above a preliminary January reading of 72.7 and median forecast of 73.2. The index of current economic conditions was 81.8 in late January, down from 85.3 in December, but up from 79.8 in the preliminary January report. The survey's gauge of consumer expectations increased to 69.3 from 67.5 in December. The one year inflation expectations increased to 3.4% from 3.3% earlier this month and from 3% in December.

The US Labor Department reported that US labor costs increased less than expected in the final quarter of 2010. The employment cost index increased 0.4% in the fourth quarter. Wages and salaries increased 0.4% while benefit costs were also 0.4% higher than in the previous quarter.

Greece's Prime Minister George Papandreou said European Union government are considering the possibility of allowing EU financial institutions to recapitalize European banks that need funds. Meanwhile, two Euro Zone sources said the EU is considering extending Euro Zone rescue loans to Greece and Ireland to 30 years.

The Wall Street Journal reported that a US hedge fund's gold contract play, worth \$850 million went sour. The fund held gold contracts that in total were worth over 10% of the US futures market.

**January
Calendar Averages**
CL – \$89.44
HO – \$2.6021
RB – \$2.4393

ICAP Shipping estimated that crude oil stored globally in floating storage stood at 37 million barrels in the week ending January 28th, unchanged on the week.

US energy producers are making an investment shift from natural gas production to unconventional oil drilling as natural gas prices stagnate at about \$4/mmbtu. The widening spread between oil and natural gas is driving the investment shift. The oil to gas ratio, which was traditionally 6 to 1, is expected to reach 18 to 1 by November.

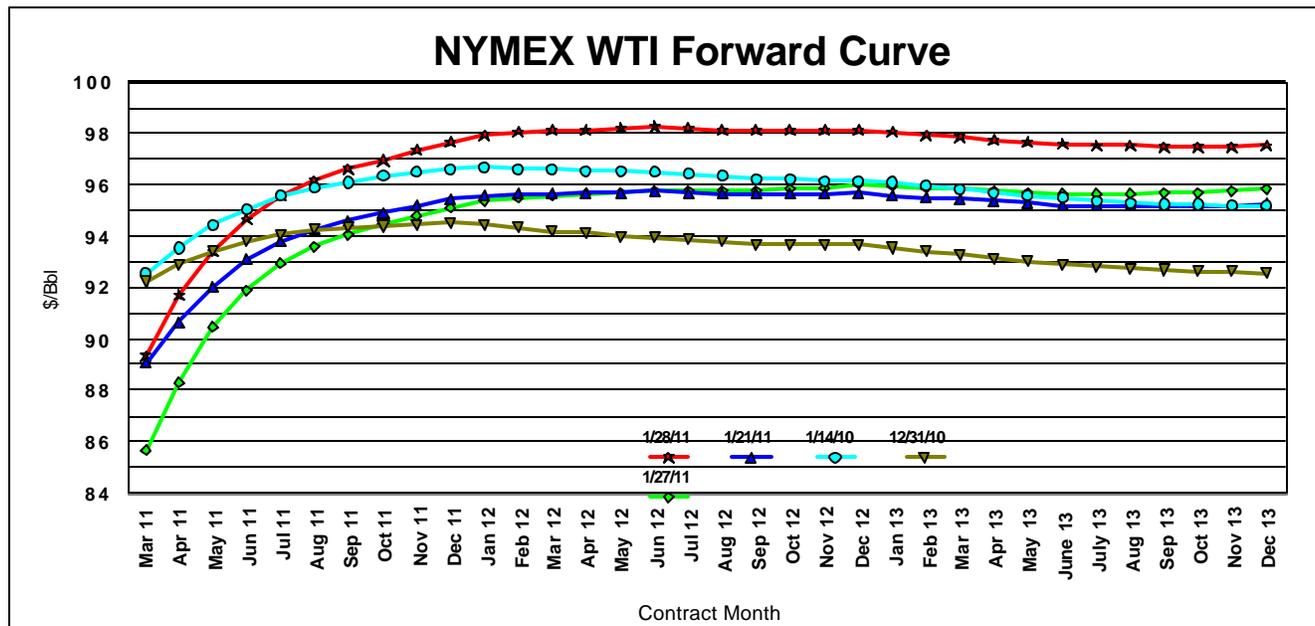
Iran's atomic energy chief Ali Akbar Salehi said the country's first nuclear power plant will be ready to generate electricity on April 9th.

The Suez Canal has been operating normally over the past three days amid increasing unrest in Egypt. The port city of Suez had gained attention in recent days due to clashes between government forces and protesters demanding the removal of President Hosni Mubarak, who has ruled Egypt for three decades.

Saudi authorities detained dozens of demonstrators on Friday in Jeddah who gathered to protest against poor infrastructure after floods swept through the city. The government has stated that would give all assistance to victims of floods.

Refinery News

Colonial Pipeline allocated Cycle 8 shipments on its Line 20 carrying distillates from Atlanta, Georgia to Nashville, Tennessee as demand for shipping space exceeded line capacity. It also allocated its Line 3, north of Woodbury, New Jersey, for Cycle 9, as nominations on its line exceeded its ability to meet the 5-day lifting cycle.



Coffeyville Resources reported a release of hydrogen sulfide from a flare Thursday afternoon at its 115,700 bpd refinery in Coffeyville, Kansas.

Hovensa LLC began the process of shutting down selected units on the west side of its 500,000 bpd St. Croix refinery. The shutdown will be completed in the first quarter.

Portugal's Galp Energia said the full amount of crude processed for refining in the fourth quarter fell by 15% on the year to 18 million barrels. Fourth quarter oil production increased by 9.7% on the year to 13,400 bpd. Its total sales of refined products fell by 5.1% on the year to 4 million tons.

At least 700,000 tons of January loading fuel oil from Singapore have been fixed for delivery into China, up 20% on the month. The increase was driven by higher demand from China's teapot refiners for fuel oil as feedstock.

Ukraine is expected to transport 1 million tons of Caspian crude to Europe via its Odessa-Brody pipeline this year.

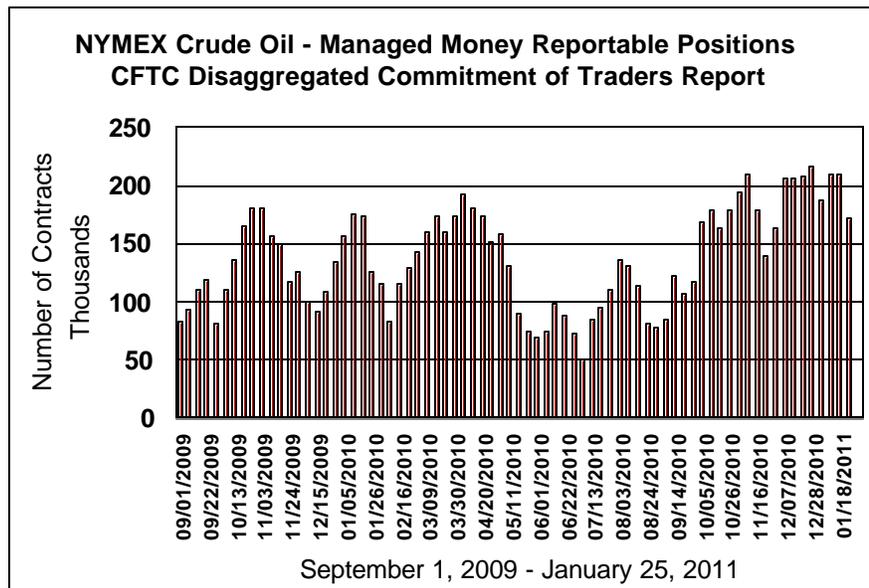
China's National Energy Administration said the country's jet fuel consumption will likely continue to increase due to increasing air travel. Meanwhile growth of gasoline consumption may slow this year as car sales growth is likely to fall.

The Rhine River was partially reopened to shipping on Friday as salvage work on a capsized tanker loaded with sulphuric acid continued. The river had been closed to shipping traffic at the salvage site on Wednesday and Thursday.

Production News

According to a Reuters survey, OPEC's oil production increased in January to the highest level since December 2008. OPEC's total oil production averaged 29.49 million bpd in January, up from 29.14 million bpd in December.

Royal Dutch Shell Plc had become the first company to complete a Gulf of Mexico deepwater exploration plan under new requirements adopted by federal officials following the Deepwater Horizon spill. The company's exploration plan includes three exploratory wells about 130 miles off the coast of Louisiana.



Chevron Corp said it is restarting its offshore Western Australian oil fields after the passage of tropical cyclone Bianca earlier this year. On Wednesday, Chevron shut in production at its Barrow Island and Thevenard Island oil fields, evacuated non-essential workers and tied down equipment in preparation for the cyclone.

Norway's DNO said it discovered oil in an unexplored area of the Iraqi Kurdistan, south of its Tawke field. It said

the oil flow from a well called Bastora-1 was encouraging as the company awaits word on an Iraqi political settlement that would permit it to begin exports. It said its working interest production from Kurdistan and Yemen would likely reach 28,000 bpd in January, up 34% on the month.

A senior Indian government source said the impasse over payments to Iran for crude shipments to India is likely to be resolved in the next few weeks. Iran has assured India that it would sort out the last remaining issue in a new proposed payments mechanism, which could involve settlement in euros. A source at National Iranian Oil Co said Iran would continue supplying India with crude oil. Last month, the Reserve Bank of India said Iran could no longer be settled using a clearing house system run by regional central banks.

Brazil's Petrobras is increasing production and expects demand for oil products in the country to increase by 5% this year. It expects to increase its production by an average of 7% a year over the next four years.

Petroecuador exported 9.11 million barrels in December, up 2% from 8.94 million barrels exported last year.

ExxonMobil Corp has drilled a well has a record horizontal reach of 7.13 miles from a land based rig to the Odoptu field offshore far east Russia. The well, part of the Sakhalin-1 project, underscores the difficulty oil companies increasingly need to overcome to tap oil and gas reserves.

Chevron Corp reported earnings of \$5.3 billion for the fourth quarter of 2010 compared with \$3.1 billion in the fourth quarter of 2009. Full year 2010 earnings were \$19 billion, up from \$10.5 billion in 2009. It reported that it added about 240 million barrels of net oil equivalent reserves in 2010. Worldwide net oil-equivalent production was 2.79 million bpd in the fourth quarter of 2010, up from 2.78 million bpd in the fourth quarter of 2009. It said company wide production base decline rate is in the 3-4% range.

OPEC's news agency reported that OPEC's basket of crudes increased further to \$93.42/barrel on Thursday from \$92.58/barrel on Wednesday.

Market Commentary

Tensions in Egypt coupled with an economically promising fourth quarter GDP number in the U.S; pushed crude oil to a 4 percent higher close. The situation in Egypt worsened coming into Friday, heightening fears that passage in the Suez Canal might be compromised and that tension may spread beyond Egypt's borders. Crude oil detached from the movement in the S&P, despite stockpiles mounting in Cushing as imports from Canada accumulate and refinery maintenance leave stock levels untouched. The front month spread rebounded despite the aforementioned. It is difficult to think that prices will be able to sustain momentum to the upside for a long period of time given the supply predicament. Should the situation in Egypt quell over the weekend, crude oil will fall as quickly as it ran up today. For the time being, we would look to buy and sell at the listed support and resistance numbers.

The Commitment of Traders report showed that non-commercials in the crude market cut their net long position by 23,234 contracts to 143,317 contracts in the week ending January 25th. The combined futures and options report showed that the funds cut their net long position by 24,075 contracts to 201,174 contracts on the week as the market traded lower. Meanwhile, the disaggregated futures and options report showed that managed money funds cut their net long position by 38,551 contracts to 172,013 contracts on the week. The producers/merchants cut their net short position by 7,556 contracts to 163,014 contracts on the week while swap dealers also cut their net short position by 11,780 contracts to 86,852 contracts on the week.

Crude oil: Mar 11 407,802 -2,828 April 11 122,679 +3,542 May 11 102,464 +6,387 Totals 1,516,579 +8,236 Heating oil: Feb 11 16,001 -6,250 Mar 11 113,521 +2,373 Apr 11 46,767 -83 Totals 311,972 -5,036 Rbob: Feb 11 12,081 -5,389 Mar 11 102,978 -612 Apr 11 40,432 +1,099 Totals 283,115 +253

Crude Oil		Heating Oil		Rbob	
Support	Resistance	Support	Resistance	Support	Resistance
8780	9020	23685	26712		24880
8612	9180	22960	27070	22560	27085
8387	9385	22013	29500	22050	
8161	103.85	21860	30955	21600	
7945	111.65	21140		20300	
7900		20702		20130	

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