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ENERGY RISK MANAGEMENT

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ENERGY MARKET REPORT FOR JANUARY 29, 2010

Iran's OPEC governor, Mohammad Ali Khatibi said oil prices will not fall below \$60/barrel by July this year.

The US Senate on Thursday approved legislation that would allow President Barack Obama to impose sanctions on Iran's gasoline suppliers and penalize some of Iran's elites. The Comprehensive Iran Sanctions, Accountability and Divestment Act of 2009 would give the Obama administration stronger powers to sanction companies that provide Iran with gasoline, diesel and other refined petroleum fuels and expand current US sanctions for firms and their foreign subsidiaries investing more than \$20 million a year in Iran's energy sector. The US House of Representatives has already passed a similar legislation and the differences between the two bills will be worked out

Market Watch

The US Commerce Department said GDP increased a seasonally adjusted 5.7% annual rate in the fourth quarter of 2009. It is higher than the market expectation of an increase of 4.8%. It was the second consecutive increase after it increased by 2.2% in the third quarter. In all of 2009, GDP fell 2.4%, the largest decline for an entire year since 1946, when GDP fell 10.9%. It also reported that the price index for personal consumption expenditures increased by 2.7% after increasing by 2.6% in the third quarter.

Royal Dutch Shell's chief executive Peter Voser said oil prices will not go back to the 2008 peak levels of more than \$140/barrel are expected to trade in a \$60-\$80/barrel range. He also said he expected refining margins to remain very depressed.

According to ship broker ICAP, volumes of crude oil in floating storage are expected to fall by about 40% by the end of March to about 25 million barrels. Between eight and nine very large crude carriers will unload in February and March. Of the seven vessels set to unload in February, three are currently floating idle in the US Gulf, two in Asia, one off the west coast of Africa and one in the English Channel. An eighth vessel is expected to unload from the US Gulf in March and a ninth could unload from the same region. There are currently 21 vessels carrying 43 million barrels of crude.

Commerzbank said US moves to tighten regulation of speculation in energy and commodities and President Barack Obama's plan to rein in banks may push world prices down in the long term.

Mitsubishi Corp said its British subsidiary Petro Diamond Risk Management Ltd will record losses of about 23.9 billion yen or \$265.1 million in fiscal year ending March 31st due to jet fuel hedging for Japan Airlines. Japan Airlines Corp's bankruptcy protection filing led to the cancellation of existing derivatives contracts relating to jet fuel hedging transactions for the carrier. Mitsubishi booked losses of 800 million yen in the April-September period, about 19.4 billion yen in the third quarter and will book about 3.7 billion yen losses in the January-March quarter. Meanwhile, Sumitomo Corp said it will book 1 billion yen in losses related to derivatives transactions for JAL.

China's National Development and Reform Commission is working out a plan to reform China's natural gas prices and will review details of its oil-product pricing mechanism this year.

**January
Calendar Averages**
CL – \$78.41
HO – \$2.0609
RB – \$2.0452

before the measure becomes law.

The director general of the UN's IAEA, Yukio Amano said the IAEA is still trying to negotiate a uranium enrichment deal amid new Western warnings to Iran over its nuclear program. His comments come a day after US Secretary of State Hillary Clinton said that Western powers were moving toward tougher action against Iran.

Brazil's Foreign Minister Celso Amorim said he held talks with Iran's Foreign Minister, Manouchehr Mottaki in an effort to restart talks over Iran's nuclear program. He said met with his Iranian counterpart on the sidelines of the World Economic Forum in Davos. He said Brazil was not seeking to mediate in the dispute. He added that Brazil shared Western concerns about Iran's nuclear program but added that Brazil respects Iran's right to have its nuclear program for peaceful means.

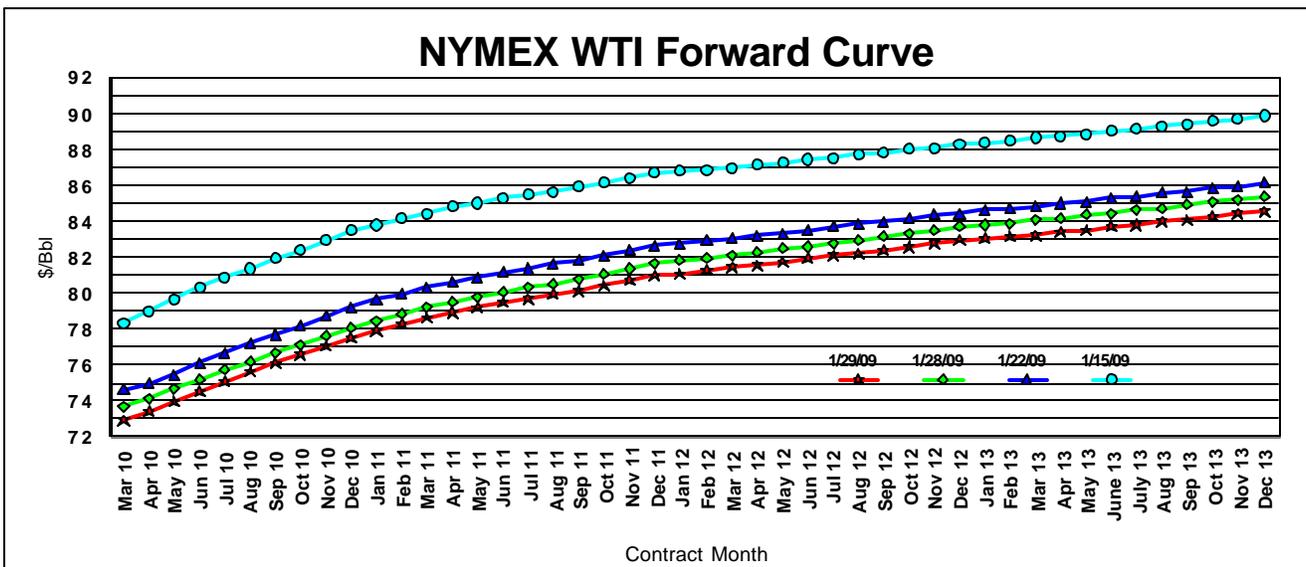
Refinery News

The US Coast Guard hopes to lift restrictions on ship traffic in the Sabine-Neches Waterway within a week. Tankers were moving to the four refineries in Beaumont and Port Arthur, Texas while the cleanup of an oil spill in the waterway continued on Friday. Eight ships were waiting on Friday to move through the waterway. Up to 26 ships, most of them crude tankers, had been held up before the waterway reopened to limited traffic on Wednesday.

BP Plc started the process of restarting a fluid catalytic cracking unit at its 455,790 bpd Texas City, Texas refinery. The unit was taken out of service on Wednesday to facilitate repairs at an associated compressor.

Marathon Oil Corp said its 226,000 bpd Catlettsburg, Kentucky refinery was forced to reduce rates due to the closure of a lock on the Ohio River.

Chevron Corp's fourth quarter earnings fell 37% as it refining and marketing business declined. However its exploration and production segment benefited from higher prices and production. Its global production increased 9% due to the start of new projects. It reported profits of \$3.07 billion, down from \$4.9 billion a year earlier. Chevron also stated that it added about 1.1 billion barrels of net oil-equivalent proved reserves in 2009. Meanwhile, Chevron's chief executive John Watson said it is too early to talk about closing refineries due to poor margins.



Italy's Eni restarted its 90,000 bpd Taranto refinery following a one month maintenance outage.

Nigeria National Petroleum Corp said only two of Nigeria's four refineries are in operation, operating at about 60% of capacity. Nigeria's 125,000 bpd Warri refinery and its 110,000 bpd Kaduna refinery remain shut despite repeated assurances from government officials that it would soon resume production. Separately, NNPC is scheduled to import 24 cargoes of gasoline in February.

Taiwan's CPC Corp plans to bring its 100,000 bpd No. 9 crude distillation unit in Dalin back on line in early February to replenish stocks of petroleum products amid recovering refining margins.

Indian Oil Corp plans to import 500,000 tons of Euro III diesel in the next six months.

India's Chennai Petroleum Corp Ltd plans to double the capacity of its Manali refinery to 390,000 bpd by 2014 from 190,000 bpd. The company is however considering an option of a smaller expansion that would increase its capacity to 330,000 bpd.

Russia's seaborne crude exports are expected to fall by 1.3% in February from January's initial program of 2.66 million bpd.

Japan's Ministry of Economy, Trade and Industry reported that the country's total oil product sales fell by 6.9% to 1.216 billion barrels in 2009. Refined product sales in December fell by 1% to 3.868 million bpd. Its gasoline sales fell by 1.4% to 1.058 million bpd while its kerosene sales fell by 1.3% to 667,000 bpd and its naphtha sales increased by 21.2% to 865,000 bpd. Japan's crude imports fell by 2.6% on the year to 4.056 million bpd in December. Its oil product imports increased by 3.8% to 519,779 bpd while its oil product exports fell by 20.4% to 493,044 bpd. Its refinery output fell by 5.1% to 3.68 million bpd in December. Japan's METI also reported that the country's crude oil inventory at the end of December stood at 92.55 million barrels, down 14.6% on the year and its product stocks fell by 11.8% to 71.734 million barrels.

Tokyo Electric Power Co plans to consume 4.87 million kiloliters of oil in the financial year ending in March, less than 50% of its initial plan of 10.8 million kl it announced last March. Of the total, fuel oil will account for 3.47 million kl and crude oil will account for 1.4 million kl. The downward revision reflects the ongoing weakness in overall demand for oil, an increase in the use of other fuels and the restart of the Kashiwazaki-Kariwa nuclear plant.

Traders said about 240,000 tons of naphtha provisionally booked for February lifting from the West to Asia have failed due to weakening regional demand. They also stated that another 220,000 tons provisionally booked may not result in actual shipments. Demand has declined ahead of heavy cracker maintenance scheduled in March.

Production News

Baker Hughes reported that the number of rigs searching for oil and natural gas in the US this week increased by 35 to 1,317. The number of rigs searching for oil increased by 7 to 444 while the number of rigs searching for natural gas increased by 28 to 861.

Chevron Corp said that about 20,000 bpd of its Nigerian production is currently shut in due to sabotage claimed by militants.

The Nigerian joint venture company operated by Royal Dutch Shell Plc agreed to sell its 30% interest in three oil production licenses to a consortium led by local companies for an undisclosed sum. The area includes about 30 wells with a production capacity of about 50,000 bpd of oil equivalent. The deal is subject to the approval of the Nigerian government and national oil company. Meanwhile,

France's Maurel & Prom said oil production is expected to resume in mid-February at three Nigerian oil leases purchased from Royal Dutch Shell. The three oil fields have been shut since late 2008 due to a damaged export pipeline.

According to a Reuters survey, production from the OPEC-11 will average 26.71 million bpd in January, up from a revised level of 26.65 million bpd in December. The survey implies OPEC has complied with 55% of its quota in January compared with 57% in December. Total OPEC production increased to 29.2 million bpd, the highest level since December 2008 due to a small increase in Iraq's production of 40,000 bpd to 2.49 million bpd. The Reuters survey showed that Saudi Arabia increased its production by 20,000 bpd to 8.18 million bpd. Angola's production also increased by 40,000 bpd to 1.89 million bpd in January.

Iraq's oil exports from its main Basra terminal were restored to 1.56 million bpd on Friday after falling to 840,000 bpd on Thursday due to bad weather. A shipper said two tankers were loading 2 million barrels each while another vessel was waiting to be loaded.

Syncrude Canada Ltd said it had unplanned maintenance during January. Syncrude's production averaged 360,000 bpd during December.

Venezuela's President Hugo Chavez said the government received two bids in the Carabobo oil drilling round auction. He did not mention what companies submitted bids but Chevron Corp has confirmed its participation. Results of the bidding are expected to be announced February 10th.

Brazil's Petrobras returned to its net oil exporter status in 2009. It reported a surplus in oil and derivatives volume of 156,000 bpd in 2009. It said oil and derivatives exports increased by 4.8% in 2009 to 705,000 bpd on rising domestic oil production. In addition, derivatives imports, especially diesel fuel, fell by 23% on the year.

Ecuador's Central Bank said the country exported 741,000 barrels in November 2009, down 51% from 1.5 million barrels exported a year earlier. Its export revenue in November fell by 3.6% to \$54 million from \$56 million reported a year earlier.

Colombia's Ecopetrol SA said a well drilled in the Pijao-Potrerrillo area yielded 1,000 bpd of crude. Ecopetrol produced an average of 514,000 bpd of oil equivalent in the third quarter of 2009.

China's Sinopec Group reported that its crude output in 2009 reached 55.21 million metric tons.

OPEC's news agency reported that OPEC's basket of crudes fell to \$71.40/barrel on Thursday, down from \$71.87/barrel on Wednesday.

Russia has increased its oil export duty to \$270.70/ton starting February 1st from the current level of \$267/ton. The export duty on light petroleum products will increase to \$194.70/ton from the current level of \$192.20/ton while the duty on heavy petroleum products will increase to \$104.90/ton from the current \$103.50/ton level.

Market Commentary

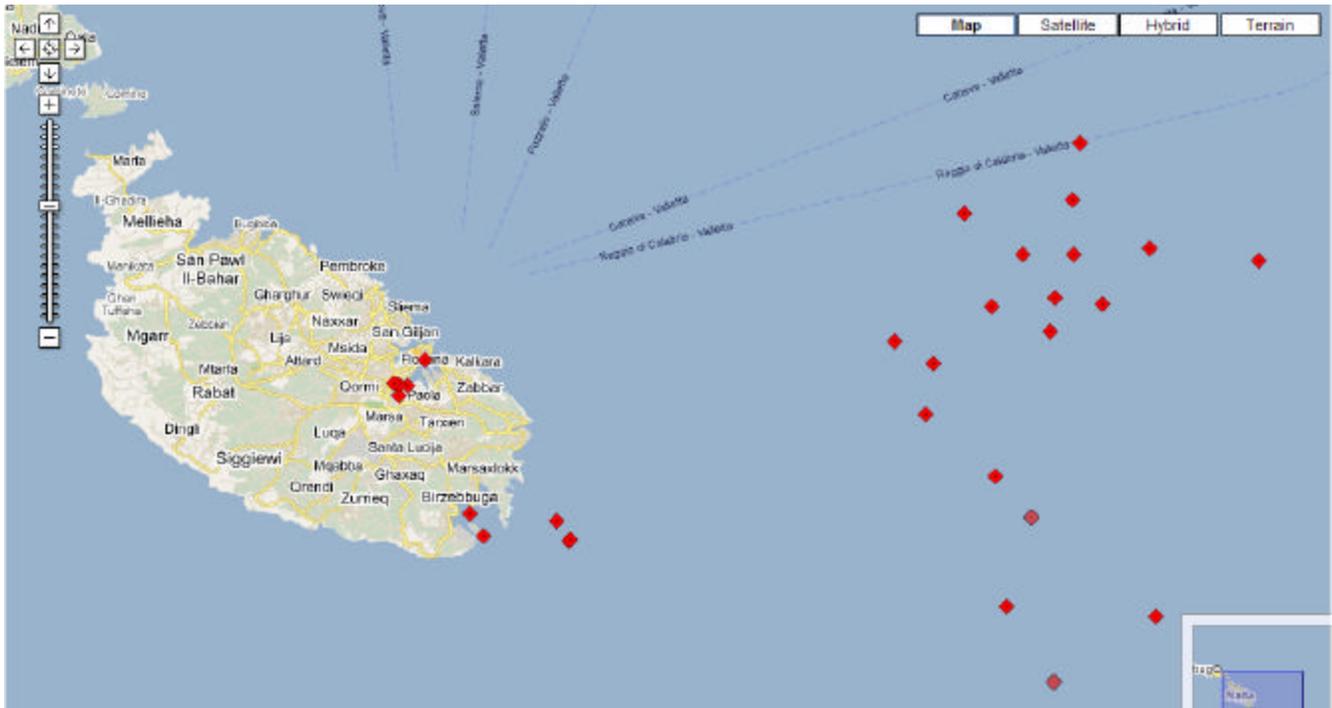
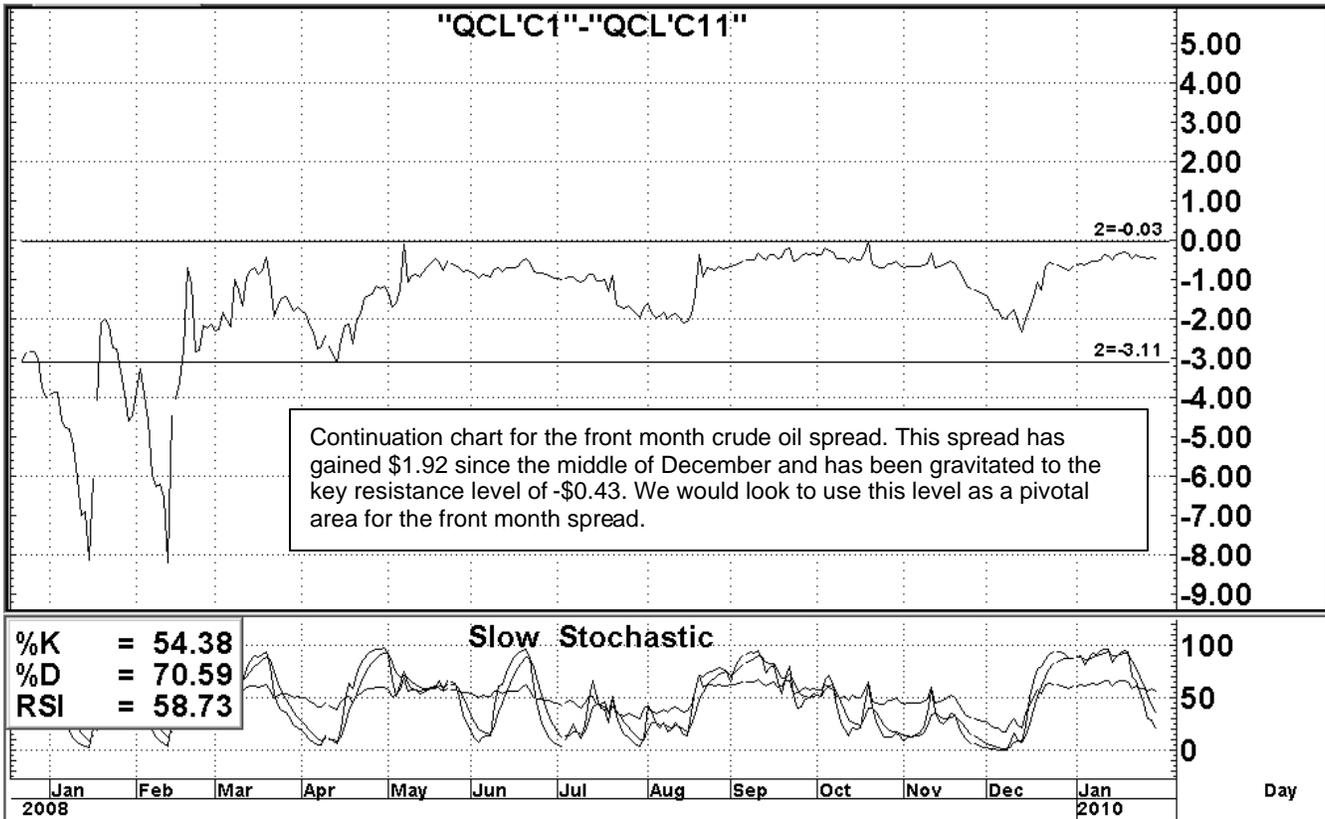
Despite a stronger than expected fourth quarter postings for the U.S. GDP, which grew 5.7 percent, energy markets could not hold on to early strength. Outside influences such as a stronger dollar and weaker equities market coupled with struggling demand, helped to push the energy markets into a late session sell-off. Having experienced an outside trading session, the March crude oil made a failed attempt to take out the \$72.33 200-day moving average, based on a spot continuation chart. The March contract remains within the descending channel, with slow stochastics set low in oversold

territory. We remain bearish on this market and would look to sell against the listed support and resistance numbers, selling breaks below the aforementioned channel, which is set between the range of \$74.62 and \$70.70 coming into next week. Demand destruction should continue to have an impact on both the heating oil and gasoline. Should it continue to struggle, prices will fall.

The Commitment of Traders report showed that non-commercials in the crude market cut their net long position by 34,761 contracts to 99,620 contracts in the week ending January 26th. The combined futures and options report showed that the funds cut their net long position by 39,622 contracts to 167,130 contracts on the week. They cut their total long position by 36,117 contracts to 259,101 contracts on the week. The combined futures and options disaggregated report showed that producers/merchants cut their net short position by 17,106 contracts to 219,816 contracts while swap dealers increased their net long position by 15,328 to 25,671 contracts. It also reported that managed money funds cut their net long position by 47,519 contracts to 125,798 contracts while other reportable increased their net long position by 7,897 contracts to 41,332 contracts on the week. Meanwhile, the combined futures and option report showed that non-commercials in the heating oil cut their net long position by 9,743 contracts to 25,938 contracts while non-commercials in the RBOB market cut their net long position by 10,928 contracts to 61,839 contracts on the week.

Crude oil MAR.10 341,430 -5,369 APR 129,217 +4,902 May 88,782 +7,271 Totals 1,315,927 +9,014
 Heating oil FEB 10 9,918 -8,002 MAR.10 96,530 +553 APR10 39,012 +1,006 Totals: 310,886 -3,703
 Gasoline FEB.10 6,773 -6,438 MAR. 88,917 -3,703 APR10 39,759 -593 Totals: 250,010 -8,687

Crude Support Based on February	Crude Resistance Based on Feb
72.60, 72.00 , 70.42, 65.05, 64.70, 63.38, 62.70, 61.61, 60.95,	74.62, 75.75, 76.50, 78.36, 79.25-50, 81.00, 82.00, 84.83, 85.40, 86.60, 88.80, 89.88
Heat Support	Heat resistance
1.8903, 11.8890, 1.8700, 1.8570, 1.8280, 1.7670, 1.7565	1.9690, 2.0445, 2.2270, 2.2575, 2.4200
Gasoline support	Gasoline resistance
1.8800, 1.8650, 1.85.65, 1.7900, 1.7200 1.6600	2.0045, 2.0110, 2.1930, 2.2270, 2.3350,



SNAP SHOT OF TANKERS MOORED OFF THE COAST OF MALTA

The last time we checked the number of tankers that were moored off the coast of Malta was back on January 8th. At that time there were 26 tankers, down from 33 the month before. There are currently 19 tankers moored off the coast of Malta. With the front month crude oil spread narrowing as it has, the incentive to hold on to floating storage has decreased. This spread has narrowed from -\$2.35 to -\$0.43 since December 14th. The -\$0.43 level has grown to be a significant gravitational area for the front month crude oil spread. According to a Reuters report, floating storage is set to drop by 40 percent.