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Windham Group



ENERGY RISK MANAGEMENT

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ENERGY MARKET REPORT FOR FEBRUARY 2, 2010

OPEC Secretary General Abdullah al-Badri said OPEC ministers are unlikely to change its output policy at their March meeting if the current market situation remains unchanged. He said the range of \$75-\$85/\$90/barrel is acceptable. He said the oil market remains well supplied and he does not expect oil demand to increase until the last half of this year. He added that he would like to see tighter adherence in OPEC to its production targets.

The US, Britain, France and Germany hope to blacklist Iran's central bank and firms linked to the Revolutionary Guard Corps in a new round of UN sanctions. Western

Market Watch

The National Association of Realtors' index for pending sales of previously owned homes increased by 1% to 96.6 in December from a revised level of 95.6 in November.

Floating stocks of gas oil off Europe could increase in February from current levels of 70-90 million barrels as traders seek outlets for increasing supplies and winter heating demand tapers off. Two Aframax are scheduled to load about 100,000 tons of gas oil each in mid-February in Asia before heading to Europe.

BP's chief executive Tony Hayward said that more refineries need to close to bring capacity in line with continued weak refining margins. He said refining margins will be subdued by surplus refining capacity for some years to come. However BP has no plans to close any of its plants. Rather, BP will look into further cost reductions. BP's downstream business fell to a replacement cost loss of \$1.9 billion in the fourth quarter of 2009, with its refining margins at their lowest level in about 15 years. Global margins stood at \$1.49/barrel in the fourth quarter, down from \$5.19 a year earlier. He also said that world oil demand is expected to peak between 2020 and 2030, as declining developed world demand balances increasing demand in emerging markets. He said government policies in the developed world were eroding demand at a rate of 1% per year. Separately, BP's chief financial officer Byron Grote said its traders made less money taking speculative bets on oil markets in the fourth quarter of 2009 due to a less steep contango in the crude market.

China's demand for foreign oil will remain near record levels in coming months due to a recovering economy, increasing refining and stockpiling capacity. China's net crude oil imports could increase more than 40% on the year to about 19.5 million tons/month in the next two or three months due to high crude runs and expanding stockpiling facilities. Meanwhile domestic crude oil production is expected to grow slightly to around 15.6 million tons/month due to limited local oil resources and a shorter month of February. Demand for diesel in the next few months is expected to increase by about 15% on year while gasoline demand is expected to increase by 8%. Overall, China's monthly oil demand in the coming two to three months is expected to increase by 14% on the year.

Goldman Sachs said oil demand growth from China and other emerging markets will exceed additional supplies in the next few years. It said the long term issue was still whether producers such as Iraq, Nigeria and Russia will be able to produce enough oil to meet demand from emerging markets. While it expects combined output from these regions to increase in both 2010 and 2011, growth is expected to slow significantly. Goldman Sachs said Iraq's production will fall short of the projected 12 million bpd that it hopes to produce by 2017. Output is expected to increase to 4.8 million bpd from about 2.5 million bpd. Nigeria's output could also fall following renewed attacks by militants on an oil pipeline this weekend.

API Stocks

Crude – up 4.723 million barrels
Distillate – down 1.022 million barrels
Gasoline – down 1.159 million barrels
Refinery runs – up 0.4%, at 78%

powers have called for a fourth round of UN sanctions against Iran for refusing to halt its uranium enrichment activities. The US, Britain, France and Germany want to reach an agreement this month with Russia and China and begin work on a new UN sanctions resolution as soon as possible. However a senior US State Department official denied that the US and the three European countries would

reach a consensus among themselves before turning to Russia and China. Separately, a US intelligence official said Iran has taken steps to soften the impact of possible additional sanctions by seeking out new sources of gasoline in China and Venezuela. The director of national intelligence, Dennis Blair said Iran is keeping open the option to develop nuclear weapons. He however added that existing sanctions have impacted Iran's economy.

Iran's parliament speaker Ali Larijani condemned plans by the US to increase its defenses in the Gulf against potential Iranian missile attacks, insisting Iran is no threat to the its neighbors. He was responding to reports that the US administration is placing specialized ships with missile targeting capabilities off Iran's coast and anti-missile systems in Bahrain, Kuwait, Qatar and the UAE. Meanwhile, Iran's President Mahmoud Ahmadinejad accused the West of seeking to weaken Gulf countries in a meeting with visiting Qatari Crown Prince Sheikh Tamim bin Hamad al-Thani. He however later stated that he saw no problem in delivering Iran's low-enriched uranium to Western powers to be converted into nuclear fuel for a research reactor in Tehran.

The Movement for the Emancipation of the Niger Delta said a Shell oil pipeline damaged on Saturday was blown up with explosives, not damaged by oil thieves and warned it would attack the line and other oil facilities in coming weeks. It said it was not directly responsible for the sabotage of the Trans-Ramos pipeline that forced Shell to shutdown three pumping stations but it denied assertions that the disruption had been caused by thieves tapping into the line.

Marathon Oil Corp said the decline in US diesel demand has reached a bottom and is starting to see some improvement.

According to MasterCard Advisors LLC, US gasoline demand increased by 0.5% to 9.419 million bpd in the week ending January 29th. Demand is up 47,000 bpd from a week earlier and was 319,000 bpd or 3.5% above a year ago. Demand on a four week basis was up 2.1% on the year. The US average retail price of gasoline fell by 4 cents to \$2.68/gallon. It is up 45.7% on the year.

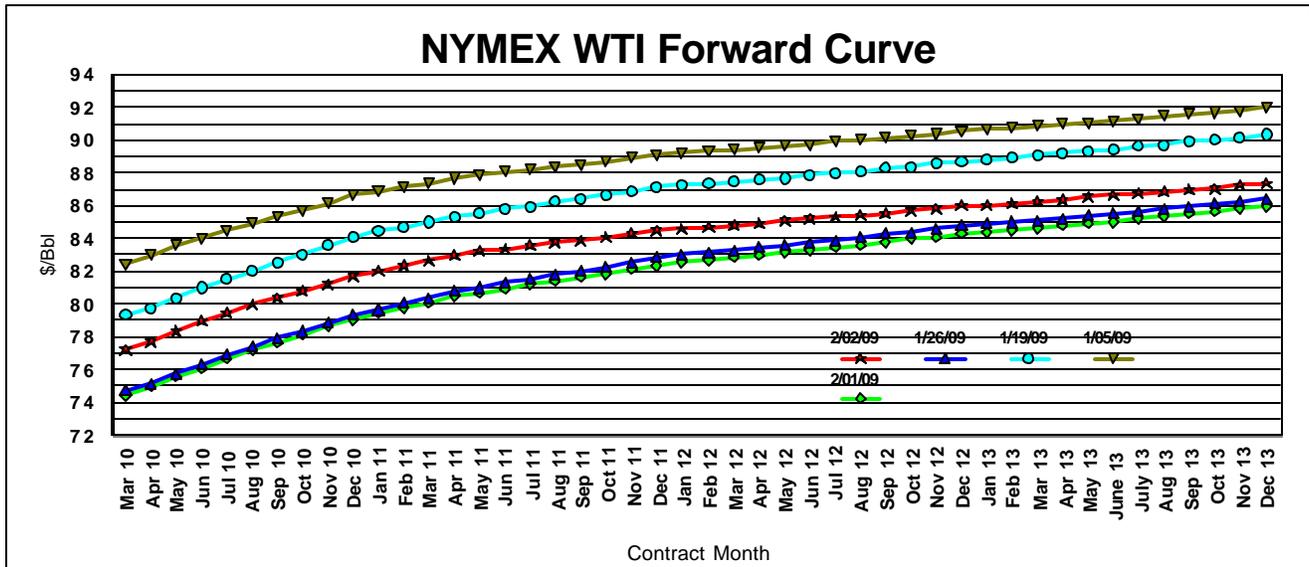
Refinery News

Valero Energy Corp said a hydrocracker unit at its 340,000 bpd Corpus Christi, Texas refinery is restarting following the completion of planned maintenance. Separately, Valero said its 265,000 bpd Jean Gaulin Ultramar refinery near Quebec City was damaged by a fire early Tuesday, shutting a 66,000 bpd fluid catalytic cracking unit. The unit will be off line for an indefinite period following the fire. The cause of the fire is under investigation.

Suncor Energy Inc said repairs to a fire damaged oil sands upgrader are complete and the unit is currently in start-up mode. Suncor Energy also said it expects to begin routine planned maintenance at its Commerce City, Colorado refining complex starting February 28th. It will shut its 32,000 bpd No. 2 crude and 10,500 bpd reformer units on February 28th, with the restart of the crude unit seen on March 3rd and the reformer on March 9th. It will also shut a cryo unit in Plant 1 for maintenance on March 20th and restart on April 4th.

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| February Calendar Averages CL – \$75.83 HO – \$1.9933 RB – \$1.9750 |
|--|

Shell Oil Co said a crude distillation unit at its 236,400 bpd Motiva Enterprise



joint venture refinery in Norco, Louisiana will restart in early April following a January 22nd fire.

Alon USA Energy Inc said the refining industry is near a cyclical bottom. Alon's chief executive Jeff Morris said industrial demand is showing signs of a slow recovery and should increase demand for diesel. The US utilization rate has been hovering at just above or below 80% since early October. He said that increased Corporate Average Fuel Economy or CAFE, standards will cut 1 million bpd of gasoline under the Obama administration's accelerated program. It implies a shutdown of 2 million bpd or more than 10% of US refining capacity.

A fire on Monday caused a brief interruption at Venezuela's 200,000 bpd Petro Cedeno oil upgrader in the Orinoco heavy crude region. It said the fire was under control and that the remainder of the complex was working normally with no impact to production.

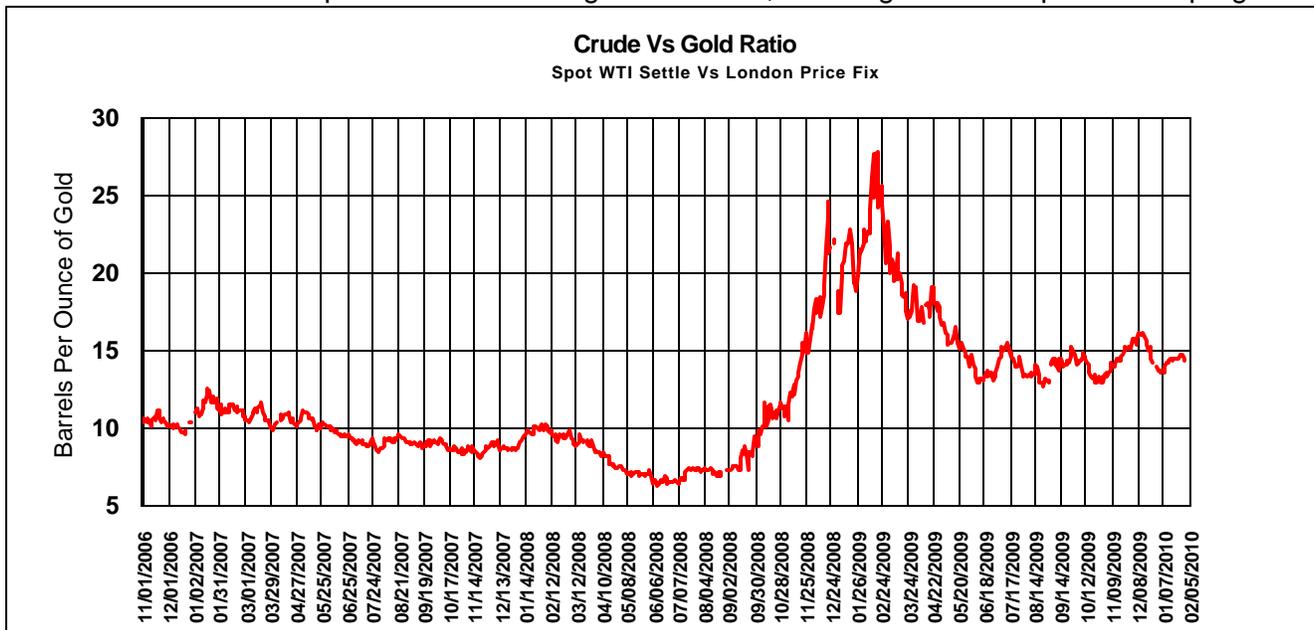
The head of Italy's Unione Petrolifera said up to five out of Italy's 16 oil refineries face closure due to lower demand for oil products. Oil product demand in Italy fell 16% between 2004 and 2009. Italy's refineries operated at 82% of capacity last year compared with an average of 95% between 2005 and 2008. Overall energy consumption in Italy fell by 4.9% in 2009.

Traffic was closed on Turkey's Dardenelles Strait and a tanker's northbound schedule on the Bosphorus Strait was cancelled due to bad weather conditions and poor visibility. A shipping and logistics agent, GAC did not say when the straits were expected to reopen as bad weather was set to continue. In the Dardenelles, 17 vessels were awaiting passage while 13 vessels were waiting to pass through the Bosphorus Strait.

Vitol Holding BV booked an oil tanker to ship its first purchase of Russian ESPO-blend crude to Hawaii. It booked the Bunga Kelana 4 for \$1.1 million to \$1.2 million to load a 100,000 ton cargo on February 15-16 from Kozmino. Russia plans to export eight 100,000 ton cargoes or 210,000 bpd from Kozmino in February.

Saudi Arabia is expected to purchase up to 28,333 bpd of gasoline for delivery in February, up from 8,333 bpd in January after it halted exports in December. The rising imports were due to anticipated demand from the central part of the country and seasonal maintenance at the joint venture refinery in Yanbu. Saudi Aramco and ExxonMobil are scheduled to shut their joint venture refinery for scheduled maintenance for about 45 days from mid-March.

According to a final loading program, Angola will export 56.45 million barrels or 1.82 million bpd of crude in March. It will export a total of 59 cargoes in March, unchanged from its provisional programs.



Total has lifted a force majeure on Angola's Girassol crude after three days. Traders said the force majeure was lifted on Monday but slight delays for cargo loading scheduled in February and March are likely. Traders said swordfish punctured part of an oil pipeline, causing the three day delay to tanker shipments of Girassol crude.

The Caspian Pipeline Consortium said Kazakh and Russian oil exports via the CPC increased by 5% to 796,100 bpd in January from 757,900 bpd in December.

Georgia's Black Sea port of Batumi shipped 574,719 tons of crude and refined products in January, up from 447,677 tons last year but down from 724,974 tons in December. The terminal shipped a total of 6.4 million tons of crude and oil products in 2009, down from 7.2 million tons in the previous year.

South Korea's GS Caltex is expected to export 300,000 barrels of spot diesel in March, steady on the month.

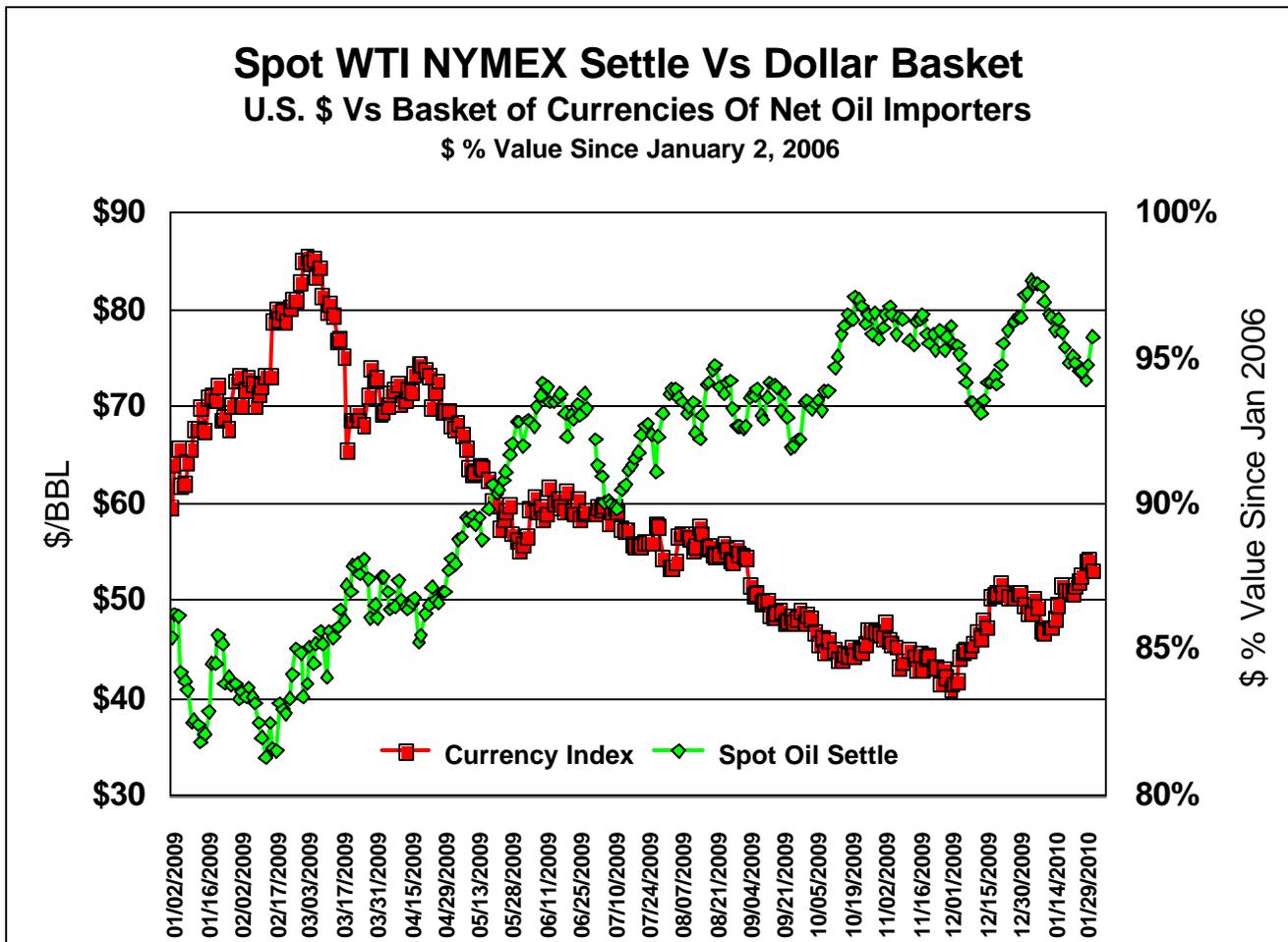
Brazil's Foreign Trade Ministry reported that the country's ethanol exports in January fell to 152.9 million liters from 191 million liters a year earlier. Brazil exported 124.3 million liters in December 2009.

Production News

Russia's Energy Ministry reported that Russia's oil production fell to 10.04 million bpd in January, down 0.1% from 10.05 million bpd in December. Meanwhile, Russia's natural gas production increased by about 2% to 2.06 billion cubic meters/day from 2.02 bcm in December. The Energy Ministry also reported that Russia's seaborne crude oil exports supplied to ports by Transneft fell to 2.71 million bpd or 11.478 million tons in January from 2.78 million bpd in December. Exports via pipeline monopoly Transneft fell by 0.8% to 4.25 million bpd.

BP Plc expects its oil and gas production to fall in 2010 but resume growth in 2011 in line with the company's target of a 1-2% annual increase.

China's CNOOC Ltd plans to increase its oil and gas output in 2010. It aims to produce 275-290 million barrels of oil and gas equivalent compared with a 2009 estimated output level of 226-228 million boe. It added that it is planning nine new development projects to come on stream in 2010.



Iraqi Kurdistan's Natural Resource Minister Ashti Hawrami said Kurdistan will start producing 100,000 to 150,000 bpd of crude and should be able to produce as much as 1 million bpd of oil within three years.

Nigeria's special adviser to the president on energy, Emmanuel Egbogah said the country plans to sell onshore and offshore oilfield assets of at least 2 billion barrels by the end of the year. He said the bidding round will include oil licenses relinquished by Western oil firms.

OPEC's news agency reported that OPEC's basket of crudes increased by 1 cent to \$71.02/barrel on Monday from \$71.01/barrel on Friday.

Market Commentary

Sparked by predictions of cold weather, a weaker dollar and strong manufacturing data released yesterday, the energy markets continued yesterday's rally. Heating oil made a late season debut, gaining 4% from yesterday's close and posting its largest one-day gain since January 1st. With expectations calling for a slight draw down in inventories, we could see heating oil continue its move higher, working towards key resistance set at \$2.0665. With faint signs of an economic recovery, hopes for greater demand fueled the gasoline market, which ended the day up 4.4%. The March crude oil broke out of and settled above the descending channel mentioned in our wire of yesterday.

This breakout sets prices up for a test at the projected target of \$77.99, which is only 58 cents from today's high. A point worth mentioning is the weakness of the dollar. Despite its weakness, the dollar is relatively stronger than it was when crude oil was last at this level. With the dollar being as strong as it is, one must wonder whether or not this move is substantiated when comparing crude oil's relationship with the dollar. This may very well be a correction prior to the previous trend resuming. We will have to wait until tomorrow's release of the DOE numbers to get a clearer picture of where this market is headed.

The API reported a larger than expected build in crude stocks of over 4.7 million barrels on the week, with a build of 6.071 million barrels in Padd 3 alone. It reported the build in stocks as imports increased by 158,000 bpd to 8.471 million bpd. It however showed that crude runs increased by 87,000 bpd to 13.594 million bpd on the week. The API reported a draw in distillate stocks of 1.022 million barrels on the week, with a draw of 1.14 million barrels in Padd 1. It reported the draw in distillate stocks as production fell by 102,000 bpd or 2.8% to 3.553 million bpd while imports fell by 211,000 bpd or 39.7% to 320,000 bpd. It however showed that apparent distillate demand fell by 10.1% on the week and by 12% on the year to 4.019 million bpd while apparent demand basis its three week moving average increased by 3.5% on the week but fell by 8.8% on the year to 4.263 million bpd. Meanwhile, the API reported an unexpected draw in gasoline stocks of 1.159 million barrels on the week, with a draw of 781,000 bpd in Padd 1. It reported the draw in stocks as apparent gasoline demand increased by 3.8% on the week and by 4.2% on the year to 9.196 million bpd and apparent demand basis its three week moving average increased by 4.2% on the week but fell by 0.3% on the year to 9 million bpd. It reported that gasoline production fell by 15,000 bpd or 0.2% on the week to 8.906 million bpd while imports increased by 55,000 bpd or 79.7% to 124,000 bpd.

Crude oil MAR.10 338,307 -4,621, Apr. 10 137,375 +4,385, May 10 93,357 +4,073 Totals 1,325,051 +5,120 Heating oil MAR.10 101,907 +2,703, APR10 40,380 +1,702 May 10 28,814 +1,444 Totals: 312,497 +5,404 Gasoline MAR.10 87,572 -1,559 APR10 42,123 +2,012 May 10 27,165 +239 Totals: 251,348 +3,837

| Crude Support Based on February | Crude Resistance Based on Feb |
|---|--|
| 72.49, 72.00 , 70.42, 65.05, 64.70, 63.38, 62.70, 61.61, 60.95 | 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 |
| 1.9750, 1.8903, 11.8890, 1.8700, 1.8570, 1.8280, 1.7670, 1.7565 | 2.0445, 2.0665, 2.2270, 2.2575, 2.4200 |
| Gasoline support | Gasoline resistance |
| 1.8800, 1.8650, 1.85.65, 1.7900, 1.7200 1.6600 | 2.1930, 2.2270, 2.3350, |

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