



ENERGY RISK MANAGEMENT

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ENERGY MARKET REPORT FOR FEBRUARY 3, 2011

The IEA said oil prices of \$100/barrel are to due to stronger than expected global demand and a drawdown of oil inventories in industrialized countries and not due to market speculation. It warned that the global economy could be slowed if current international oil prices remain around \$100/barrel.

The head of the EIA, Richard Newell said there is one in three chances that the price of oil will be above \$110/barrel at the end of 2011.

Genscape reported that US crude oil inventories at the Cushing, Oklahoma terminal increased by 780,236 barrels to a record 40.84 million barrels in the week ending February 1st.

Market Watch

The Commerce Department said new orders received by US factories increased in December and shipments of finished products were stronger. It said total factory orders increased 0.2% to a seasonally adjusted \$426.8 billion, contrary to forecasts for a 0.5% decline.

The US Labor Department reported that US productivity posted its second consecutive gain in the final quarter of 2010. Nonfarm business productivity increased at a 2.6% annual rate in the fourth quarter after increasing by a revised 2.4% in the third quarter. The report showed that unit labor costs fell at a 0.6% annual rate in the fourth quarter compared with a 0.1% decline in the third quarter.

The US Labor Department also reported that the number of US workers filing initial claims for unemployment benefits fell by 42,000 to 415,000 in the week ending January 29th. The previous week's figures were revised to 457,000 from 454,000. It reported that the number of continuing claims fell to 3,925,000 in the week ending January 22nd, down 84,000 on the week. The unemployment rate for workers with unemployment insurance was 3.1% in the week ending January 22nd, down 0.1% on the week.

The Institute for Supply Management said the US services sector grew in January at its fastest pace since August 2005. Its index of national non-manufacturing activity increased to 59.4 in January from 57.1 in December. Its prices paid component increased to 72.1 from 69.5 while new orders increased to 64.9 from 61.4. The employment component increased to 54.5 from 52.6.

The China Federation of Logistics and Purchasing said China's purchasing managers index for the non-manufacturing sector eased to 56.4 in January from 56.5 in December. The new order sub-index for the property sector fell for the fourth consecutive month to 42 in January.

European Central Bank President Jean-Claude Trichet said inflation risks were broadly balanced, damping prospects for higher interest rates.

German Chancellor Angela Merkel said Europe will not allow its common currency to fail, calling on countries that share the euro to increase competitiveness.

**February
Calendar Averages**
CL – \$90.72
HO – \$2.7684
RB – \$2.5071

Iraq's Deputy Prime Minister Hussain al-Shahristani said he expects oil prices to stabilize after a recent increase due to unrest in Egypt. He said there was no shortage in global oil supplies and he does not expect a recent price increase to affect output.

Kuwait's Finance Minister Mustapha al-Shamali is hoping that oil prices will not fall below \$75/barrel, the break-even point for the country's 2011/12 budget.

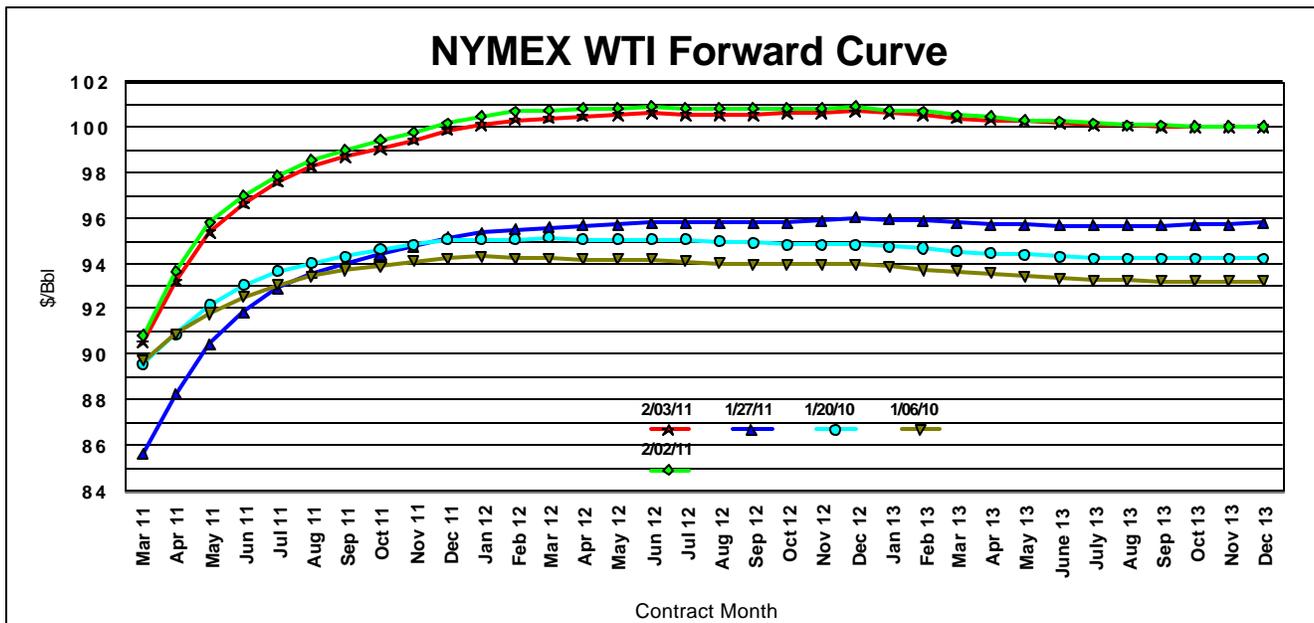
Oil Movements reported that OPEC's oil exports increased by 410,000 bpd to 24.16 million bpd in the four weeks ending February 19th.

Egypt's President Hosni Mubarak said that wants to leave office but fears there would be chaos if he resigned immediately. He said his government was not responsible for the violence that broke out Tuesday in Cairo's central Tahrir Square. Instead he blamed the Muslim Brotherhood, a banned political party. Egypt's President also said it was never his intention to have his son follow him into office. Egypt on Thursday raised the casualty toll to eight dead and nearly 900 injured in two days of fighting between supporters and opponents of President Hosni Mubarak. Clashes erupted Wednesday when Mubarak supporters showed up at the square with rocks and sticks to confront the anti-government demonstrators. The fighting continued into Thursday afternoon with Molotov cocktails and gun fire. Egypt's new vice president gave a candid assessment on Thursday of the damage the country has suffered in the last week, saying the tourism industry, the security forces and the president's legacy had all been harmed.

UN Secretary General Ban Ki-moon voiced concern about the increasing violence in Egypt and called for restraint. Earlier, gunmen fired an anti-government protestors in Cairo, where fighting killed six and wounded over 800 and prompted new calls on Thursday from Western powers for President Hosni Mubarak to start handing over power immediately. The US State Department condemned what it called a concerted campaign to intimidate journalists covering the protests in Egypt.

Egypt's Prime Minister Ahmed Shafiq said the Suez Canal is operating normally despite the unrest in the country.

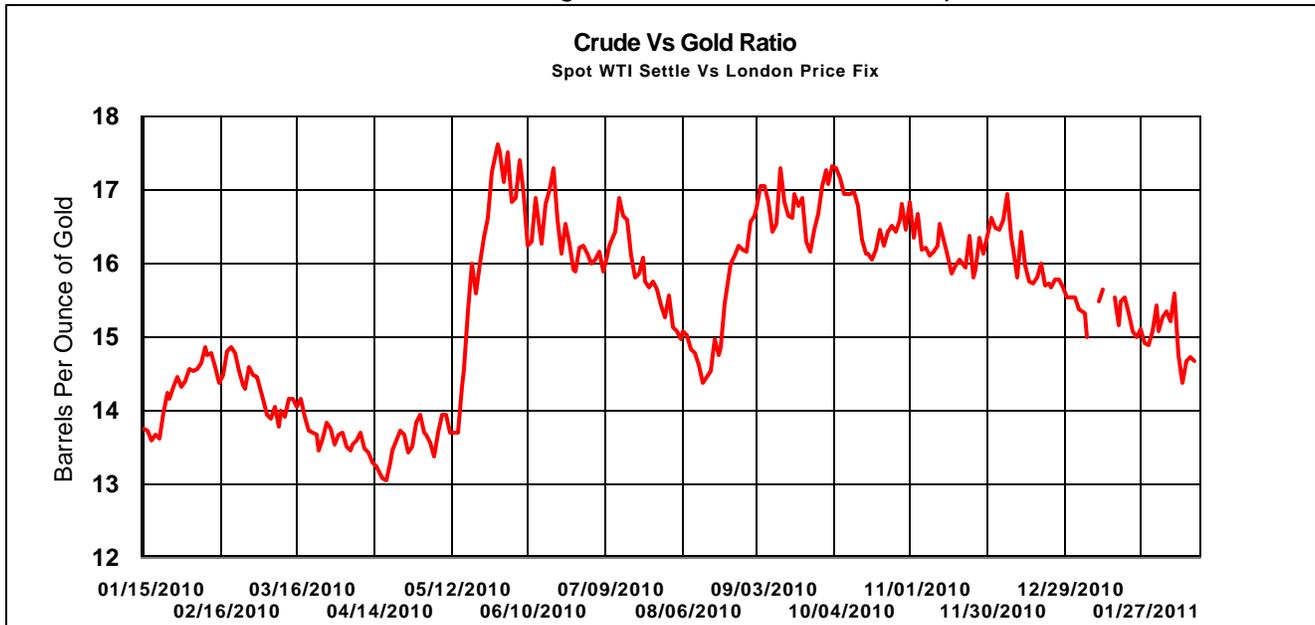
A.P. Moller-Maersk said it reopened its Maersk Line, Safmarine and Damco shipping offices in Egypt. It said it has limited vessel operations at Port Said terminal and at Egyptian ports of Damietta and



Alexandria.

Royal Dutch Shell said a lack of volatility and an unfavorable structure in the oil market cut its 2010 trading profits. On Tuesday, BP Plc also blamed a lack of volatility for reduced trading profits.

The International Institute for Strategic Studies said Iran could make a nuclear weapon in a little as one or two years if it wished but added that industrial sabotage and the Stuxnet computer worm had probably slowed its progress. It said evidence showed beyond reasonable doubt that Iran was seeking the capability to produce nuclear weapons. It said Iran's current stockpile of low enriched uranium would, if further enriched, be enough for one or two nuclear weapons.



A Nigerian militant faction, the Niger Delta Liberation Force, threatened to mount new attacks on oil facilities in the Niger Delta after peace negotiations with the military collapsed.

Refinery News

Explorer Pipeline restarted its pipeline carrying gasoline and diesel from Texas to Tulsa, Oklahoma on Thursday after a cold weather related shutdown. It resumed normal operations.

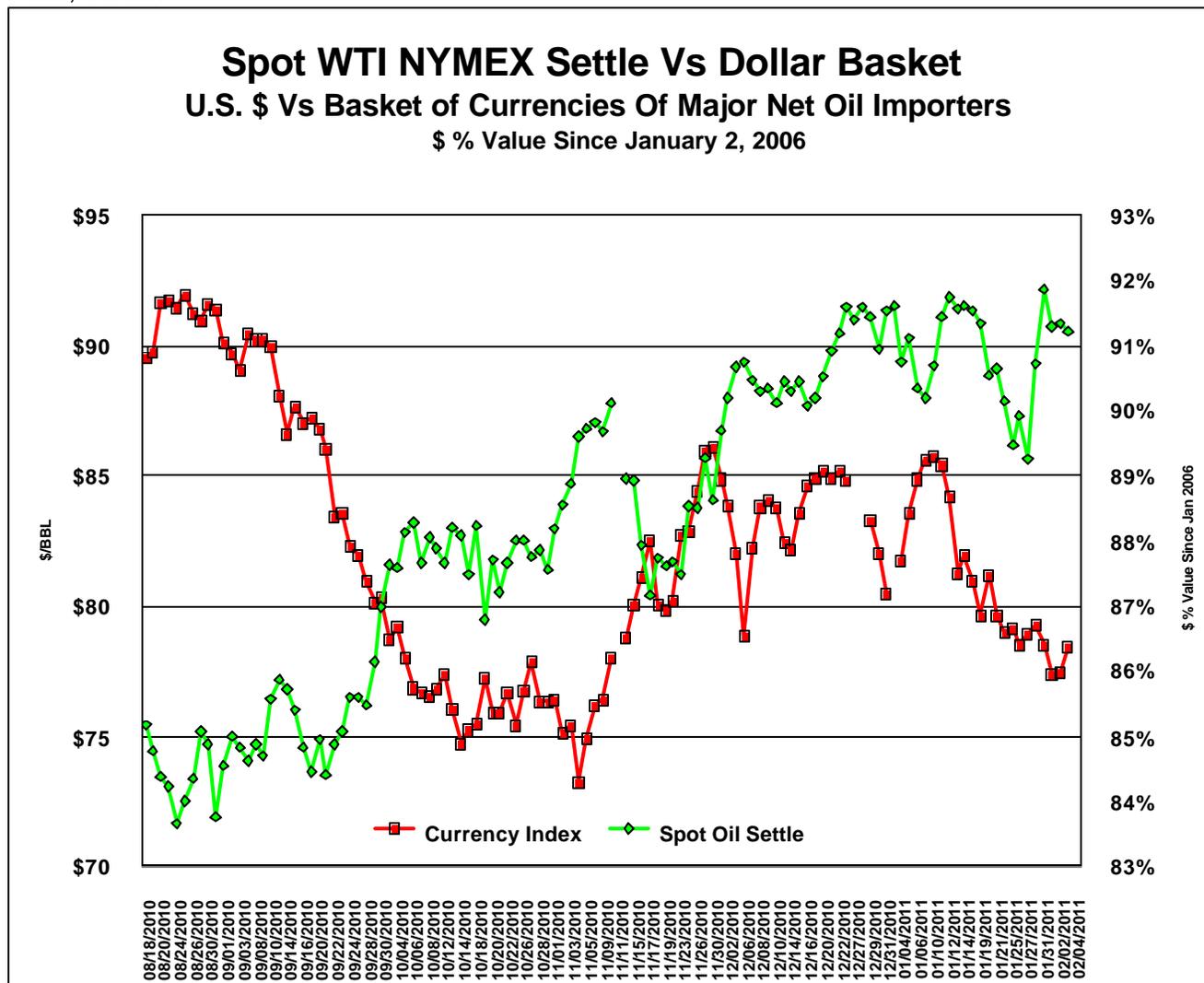
Poseidon Pipeline in the Gulf of Mexico has 13 days of maintenance planned in March. Industry sources said all production will not be lost and shipper schedulers are working to minimize the impact on supply.

Enbridge Inc could have a new line in operation by late 2012 to deplete crude supplies at the Cushing, Oklahoma storage hub. Enbridge aims to have enough shipper support by the end of June to take the proposed Monarch pipeline to the Houston area from Cushing to the regulatory stage. It previously stated that the pipeline would initially ship 150,000 bpd and be expandable to 350,000 bpd.

Chevron Corp restarted a Colorado-to-Utah oil pipeline shut since December due to a leak in Salt Lake City. The line from Colorado's Rangely oilfield to Chevron's 177,000 bpd Salt Lake City refinery restarted Wednesday night.

ExxonMobil anticipates some impact on production at its 344,500 bpd refinery in Beaumont, Texas. It reported an equipment failure to state regulators earlier.

NuStar Energy said all pipelines along the US Gulf Coast were operating at planned rates despite cold temperatures in the region, including a pipeline running from its 177,000 bpd McKee refinery to El Paso, Texas.



Valero Energy Corp's 171,000 bpd McKee, Texas refinery is operating at reduced rates due to issues with crude supply via pipeline.

ConocoPhillips said planned maintenance is underway at its 247,000 bpd Belle Chase, Louisiana refinery.

Citgo Petroleum Corp reported emissions due to a faulty release valve at its 429,500 bpd refinery in Lake Charles, Louisiana.

Flint Hills Resources reported emissions due to inclement weather conditions and leaking equipment at its 290,078 bpd refinery in Corpus Christi, Texas. It reported the unplanned shutdown of a hydrotreater unit at the refinery.

Delek US Holdings said abnormally cold weather caused a level gauge malfunction at its 60,000 bpd Tyler, Texas refinery.

Lion Oil shutdown its 75,000 bpd El Dorado, Arkansas refinery. It said it was working to restart the refinery as quickly as possible.

Tesoro Corp said its seven refineries would run between 80% and 86% of their combined capacity of 665,000 bpd in the first quarter. The refineries are expected to run between 535,000 bpd and 575,000 bpd in the first quarter. Separately, Tesoro said a fire last month at its 58,000 bpd Mandan, North Dakota refinery had a minimal impact on production. Repairs are expected to be completed in March. It said the refinery is currently operating at 90% of capacity.

The turnaround of a sulfur recovery unit at Hovensa's 500,000 bpd refinery in St. Croix is nearly complete. Hovensa reported an upset of the unit on January 7th.

Petroplus plans to shut operations at its 85,000 bpd Reichstett refinery in France early in the second quarter. Separately, a group of UK motorists plan to blockade Petroplus' 172,000 bpd Coryton refinery on February 5 to protest rising petrol prices. The demonstration aims to block the road to the refinery to disrupt fuel distribution.

Royal Dutch Shell said a major unit at its 412,000 bpd Pernis refinery is still shut and will not restart until at least the end of February.

India's Reliance Industries Ltd said its plans to conduct a maintenance and inspection shutdown of its fluid catalytic cracking unit at its Jamnagar refinery. It will shutdown on February 7 for about 5 weeks.

Japan's Cosmo Oil Co shut a 24,000 bpd fluid catalytic cracking unit at its 100,000 bpd Sakai refinery on January 29th for repairs.

The Rhine River is open to northbound sailings but closed to shipping sailing south on Thursday as salvage work on a capsized tanker continues.

Production News

Mexico's three Gulf of Mexico oil ports were closed on Thursday due to bad weather conditions. The port of Cayo Arcas, Dos Bocas and Coatzacoalcos were closed due to increased wind and wave action.

Royal Dutch Shell Plc has abandoned plans to drill offshore Alaska in 2011 but still hopes to have permission to drill there in 2012. The reason for the delay is that Shell still lacks an environmental permit.

Iraq's North Oil Co started exporting crude on Thursday from the Kurdish region's Tawke oilfield through the pipeline to Turkey. A company official said exports from Tawke were expected to increase to 50,000 bpd in the next two to three days.

Norway's DNO International is carrying out tests on crude oil exports from Kurdish oil field, Tawke, at 10,000 bpd.

Azeri Railways said Azerbaijan increased its oil and oil products shipments by rail in 2010 by 15% on the year to 11.8 million tons.

India's Oil Ministry reported that India has resolved a payments dispute with Iran over oil shipments by allowing a domestic bank to handle payments in euros with a Germany-based counterpart. There is a backlog of about \$2 billion in payments following the impasse, which started in December when the Reserve Bank of India said the two sides could no longer use a clearing system run by regional

central banks. The State Bank of India will organize the payments, which will be in euros, with Iran-owned Frankfurt-based bank EIH.

Japan's Cosmo Oil Co said that one of its subsidiaries were granted a 30 year extension on stakes in oilfields in the UAE as well as a new concession area nearby. The agreement grants Abu Dhabi Oil extensions on the Mubarraz, Umm Al Anbar and Neewat Al Ghalan fields. It said it will be able to secure an estimated total of 40,000 bpd from all four fields if and when production starts at the newly granted area.

OPEC's news agency reported that OPEC's basket of crudes increased further to \$97.66/barrel on Wednesday from \$96.39/barrel on Tuesday.

Market Commentary

Oil prices fell as the dollar strengthened against the euro in response to positive economic news. According to a report by The Institute for Supply Management, the U.S. service sector grew at its fastest pace in five years, while initial jobless claims were said to have fallen 42,000. This gave strength to the dollar, which makes dollar denominated commodities such as crude oil cheaper. Brent traded higher again today, topping \$103 a barrel. Fear that the uprisings in Egypt would spread beyond Egypt's borders and impact the shipment of crude oil in that region was the catalyst behind Brent's strength. While the energy world focuses their attention on the situation in Egypt and the possibility of it spreading, one must take into account several factors. While the region as a whole is a possible flash point, most oil producing countries are quite wealthy and have deep rooted militaries and security forces. Large portions of the population in these countries share in their wealth. Steady prices rises will assure that current sovereignty is maintained, thereby avoiding conflict. The Suez Canal, which is deemed by the U.S. to be a major thoroughfare, is important to Egypt. Approximately \$4 billion a year is generated by Egypt through the canal. Should the government of Egypt shift; the new regime will be quick to resolve any complications out of concern for monetary losses. At this point in time it is safe to guess that the upheaval has already been factored into the price of crude oil. Although we cannot ignore the possibility of a spread in uprising in the Middle East, we would not look for long-term disruptions in supply. We would continue to look for volatile trading to occur, but still believe that prices will dip back into the \$83.00 range.

Crude oil: Mar 11 381,561 -8,341 April 11 141,683 +4,910 May 11 108,734 +1,615 Totals 1,541,705 +9,763 Heating oil: Mar 11 109,335 -3,928 Apr 11 47,762 +1,724 May 11 26,372 +98 Totals 310,746 +4,530 Rbob: Mar 11 100,336 -5,266 Apr 11 40,498 -2,940 May 11 32,921 +1,330 Totals 273,002 -6,744.

Crude Oil		Heating Oil		Rbob	
Support	Resistance	Support	Resistance	Support	Resistance
8780		27070		24837	
8612		26712		22560	27085
8387	9385	23685	29500	22050	
8161	103.85	22960	30955	21600	
7945	111.65	22013		20300	
7900		21860		20130	
		21140			
		20702			

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