

W The
Windham Group



ENERGY RISK MANAGEMENT

Howard Rennell, Pat Shigueta,
& Karen Palladino
(212) 624-1132 (888) 885-6100

www.e-windham.com

ENERGY MARKET REPORT FOR FEBRUARY 4, 2011

A senior Kuwait official said oil prices could exceed \$110/barrel if the turmoil in Egypt continued while Venezuela said prices could

Market Watch

Iraq increased its proposed 2011 budget to 96.6 trillion Iraq dinars or \$81.86 billion compared with last year's budget of \$71.3 billion due to a recent increase in oil prices. The Iraqi cabinet in an emergency meeting Sunday decided to increase its 2011 oil prices estimates to an average of \$76.50/barrel compared with a previous estimate of \$73/barrel. The budget estimates revenue from oil sales in 2011 to total \$68.5 billion compared with a total of \$52.2 billion the country earned in 2010.

more than double to \$200 if the Suez Canal closed. Iran, which holding the rotating presidency of OPEC, said it saw no need for an emergency OPEC meeting even if oil prices reached \$120/barrel.

The Energy Department said the final one million barrels in the US' Northeast East emergency heating oil reserve will be sold through online bidding on Thursday. The sale is part of a program to drain the nearly 2 million barrel reserve of high sulfur heating oil and replace it with ultra low sulfur distillate fuel in response to moves by several Northeast states to require the use of cleaner burning fuel for home heating oil. Last week, the Energy Department sold 984,253 barrels of heating oil to three companies in contracts valued at about \$113 million. The upcoming sale will be for 250,000 barrels of heating oil stored at Hess Corp's terminal in Groton, Connecticut and 750,000 barrels in the Magellan terminal in New Haven, Connecticut.

The EIA reported that the US average retail price of diesel increased by 7.5 cents/gallon to \$3.513/gallon in the week ending Monday. It also reported that the US average retail price of gasoline increased by 3.1 cents to \$3.132/gallon on the week.

According to the Lundberg Survey, the average retail price of gasoline in the US increased from \$3.11/gallon to \$3.13/gallon in the two weeks ending February 4th.

Iraq's Deputy Prime Minister Hussain al-Shahristani said Prime Minister Nuri al-Maliki was misquoted as saying the central government would honor Kurdish production sharing oil contracts.

Diplomats and experts said Iran has resumed amassing enriched uranium at a steady pace after possible cyber sabotage and a brief halt in its nuclear activities late last year. Technical problems, stricter international sanctions and the Stuxnet computer worm may all have hampered Iran's nuclear progress, potentially pushing back estimates for when it may be able to assemble a nuclear weapon if it decided to do so. Despite the problems, Iran is proceeding with its disputed nuclear energy program and its stockpile of low enriched uranium is continuously growing.

**February
Calendar Averages**
CL – \$89.74
HO – \$2.7456
RB – \$2.4814

A 25 km long oil spill off Iran’s Gulf shore will take at least two months to clean up and could do irreparable damage to the local marine environment. The Oil Ministry declined to comment on the spill, which reports said was caused by an explosion in a corroded pipeline last week at the port city of Daylam in Bushehr province.

Refinery News

Colonial Pipeline said it was allocating its main gasoline and distillate lines north of Collins, Mississippi for Cycle 10 as nominations on its line exceed the company’s ability to meet the 5 day lifting cycle.

Enbridge said it will replace seven pipeline segments in Livingston County, Michigan during the shutdown.

ExxonMobil Corp’s 348,500 bpd refinery in Beaumont, Texas was operating at planned rates after equipment failure affected production on February 3^d. ExxonMobil also reported that it began planned work at its 504,500 bpd refinery in Baton Rouge, Louisiana on Saturday.

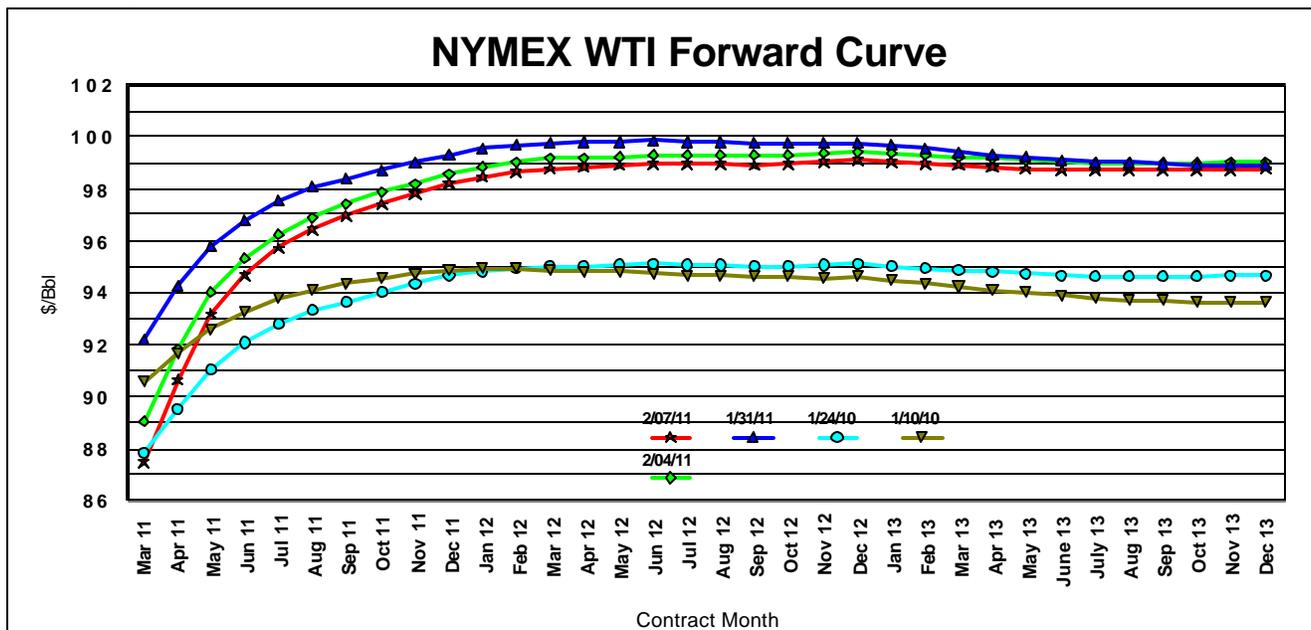
A boiler and a fluid catalytic cracking unit in the west plant of its Flint Hills Resources’ 290,078 bpd Corpus Christi, Texas refinery shutdown on Friday due to extreme cold weather.

Motiva Enterprises said it did not shut down its 285,000 bpd Port Arthur, Texas refinery on Sunday afternoon contrary to a notice the company filed with Texas pollution regulators.

Valero Energy Corp shut down its 235,000 bpd Aruba refinery after a fresh water tank collapsed, spilling water that knocked out pipelines carrying petroleum products. Valero Energy Corp’s 171,000 bpd McKee refinery in Sunray, Texas returned to normal operating rates over the weekend.

Delek US Holdings reported normal operations resumed its 60,000 bpd refinery in Tyler, Texas after a mechanical equipment malfunction on Saturday due to abnormally cold weather.

Holly Corp’s Navajo refinery in Artesia, New Mexico was expected to return to normal rates in about another week. The refinery lost power on January 26th due to an interruption in electricity from its local utility.



Japan's Cosmo Oil Co shut a 30,000 bpd residual desulphurizer unit at its 110,000 bpd Sakaide refinery on February 4th due to a problem. It has not set a restart date.

Thailand's Department of Energy Business said demand for oil products in the country fell by 2.9% in December on the year to 600,870 bpd.

Russian and Kazakh oil exports via the Caspian Pipeline Consortium fell in January due to maintenance work and bad weather on the Black Sea. The pipeline group shipped an average of 741,864 bpd in the first month of the year, down 6.8% on the year.

Vitol has chartered a tanker to store up to 1 million barrels of gas oil in Europe. It has leased the tanker to begin loading operations later this week. About 2.5 million barrels of the 10 ppm fuel has already been shipped from Asia to the West.

The Rhine River in Germany will be open to northbound sailings again on Monday but closed southbound for most of the day as salvage work on a capsized tanker continued.

Production News

The March loading program for North Sea Brent crude is scheduled at 4.2 million barrels, down 600,000 barrels on the month. The volume is equivalent to 135,484 bpd compared with 171,429 bpd in February.

The North Sea Forties crude oil stream will load about 523,000 bpd in March, down from 529,000 bpd in February.

The March loading program for Danish North Sea DUC crude oil is scheduled at 5.4 million barrels, up 1.8 million barrels from February. It is equivalent to 174,194 bpd compared with 128,571 bpd in February.

Husky Energy Inc said the Lloydminster heavy oil upgrader is operating at reduced rates following a small fire on February 2nd.

Oman's Economy Ministry said the country's oil output in 2010 increased by 6.4% on the year to 315.6 million barrels while exports increased by 10.6% on the year to 268.7 million barrels.

China North East Petroleum Holdings Ltd said its oil production in 2010 totaled 723,154 barrels. Its oil production in the 2010 fourth quarter was 161,279 barrels.

SOCAR Trading will use a storage tanker for its Azeri Light crude blend export in the Asia region. The new storage tanker with 150,000 to 160,000 deadweight tons will be anchored in Singapore.

Newfield Exploration Co forecast higher average production for 2011 of 312-323 billion cubic feet equivalent, up 8-12% over 2010.

Petroecuador said oil production in January reached 136,000 bpd.

OPEC's news agency reported that OPEC's basket of crudes fell to \$96.85/barrel on Friday, down from Thursday's \$97.71/barrel level. It also reported that OPEC's basket of crudes increased by \$3.81/barrel to \$96.83/barrel in the week ending February 4th.

Market Commentary

A decline in demand and the highest stock levels at Cushing since 2004, combined to put pressure on prices, with the March contract falling as much as 1.8% during today's trading session. Egypt's government appears to be trying to get their financial system back on track, holding talks with opposition leaders. Banks reopened and the sale of Treasury bills resumed. With gasoline supplies at an 18-year high and crude oil levels in Cushing swelling, the fundamental outlook for crude oil is not that supportive for flat price. Our objective is for crude oil on an outright basis to continue to slip, with the near term objective remaining within the \$84.50 and \$80.00 level. The spread between the Brent oil contract and that of the WTI appears to be encountering support around the -\$11.50, based upon a spot continuation chart. We would keep a watchful eye on stock levels at Cushing, looking for signs of depletion to show. Should we begin to see stock levels starting to decrease, we would look to buy the May11 WTI contract and sell the May11 Brent contract. This spread is currently encountering support at -\$7.25; there is resistance up around -\$5.05 on this spread. We would add to any length with a settlement above this level and would look to exit any longs should bounces occur.

Crude oil: Mar 11 365,414 -10,431 April 11 157,165 +4,266 May 11 115,187 +4,968 Totals 1,562,364 +1,971 Heating oil: Mar 11 100,790 -6,421 Apr 11 51,354 +1,647 May 26,582 +206 Totals 311,700 -3,187 Rbob: Mar 11 87,850 -9,160 Apr 11 41,634 +124 May 11 33,081 +784 Totals 263,230 -6,694.

Crude Oil		Heating Oil		Rbob	
Support	Resistance	Support	Resistance	Support	Resistance
8668					
8612	8955	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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