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ENERGY MARKET REPORT FOR FEBRUARY 8, 2011

In its Short Term Energy Outlook, the EIA said it expects a continued tightening of world oil markets over the next two years. World oil consumption grows by an annual average of 1.5 million bpd through 2012 while the growth in supply from non-OPEC countries averages about 300,000 bpd this year and remains flat in 2012. World oil demand, which totaled 86.72 million bpd in 2010, is expected to increase by 1.44 million bpd to 88.16 million bpd in 2011 and by 1.63 million

bpd to 89.79 million bpd. The EIA projects non-OPEC oil production will increase by 310,000 bpd in 2011 to 51.78 million bpd but fall by 30,000 bpd to 51.75 million bpd in 2012. OPEC's oil production increased by 400,000 bpd to 29.85 million bpd in 2011 while in 2012 production is expected to increase by 1.18 million bpd to 31.03 million bpd. It expects OPEC surplus production capacity to remain above 4 million bpd during the next two years. Projected OECD stocks are expected to fall by 55 million barrels in 2011 followed by an additional 60 million barrel decline in 2012. The EIA reported that total consumption of petroleum and oil products increased by 360,000 bpd to 19.13 million bpd in

Market Watch

Confidence among small US business owners increased to a three year high in January. The National Federation of Independent Business' optimism index increased by 1.5 points to 94.1, the highest reading since December 2007, when the recession started.

The Labor Department said in its monthly Job Openings and Labor Turnover Survey that US job openings fell in December by 139,000 to a seasonally adjusted 3.1 million. The job openings rate fell to 2.3% from 2.4% in November. Layoffs and discharges fell to 1.84 million from 1.85 million in November.

Richmond Fed President Jeffrey Lacker said the Federal Reserve should seriously consider pulling back on its \$600 billion stimulus program given stronger growth and better employment prospects. He expects the US economy to expand by about 4% in 2011, a rate he believes should be sufficient to increase hiring and lower unemployment.

China's central bank raised its interest rates on Tuesday, its second increase in just over a month. Even though annual inflation fell to 4.6% in December, it is expected to increase in January with food prices increasing.

German industrial output fell unexpectedly in December. Industrial output fell by 1.5% on the month in seasonally adjusted terms compared with an expected 0.3% increase.

Buckeye Partners LP will begin the shift to a new lower sulfur heating oil specification shortly to comply with New York and Pennsylvania regulations. The new sulfur specification for home heating oil will be 15 parts per million in New York by July 1, 2012 and by May 1, 2012 in Pennsylvania. New Jersey will lower its sulfur content in heating oil to 15 ppm by July 1, 2016. The current heating oil sulfur specification is 2,000-3,000 ppm.

Commodities risk at UBS increased for the second consecutive quarter following a series of declines. The bank's average value at risk, VaR, increased to 4 million Swiss Francs or \$4.2 million in the fourth quarter from 3 million in the third quarter. Overall VaR for UBS increased to 66 billion Swiss Francs in the fourth quarter from 58 billion in the previous quarter.

API Stocks

Crude – down 558,000 barrels
Distillate – down 538,000 barrels
Gasoline – up 3.212 million barrels
Refinery runs – up 0.1% at 83.3%

2010. It is expected to increase by 150,000 bpd to 19.28 million bpd in 2011 and by 170,000 bpd to 19.45 million bpd in 2012. Gasoline demand in 2011 is expected to increase by 70,000 bpd to 9.12 million bpd in 2011 and by 70,000 bpd to 9.19 million bpd in 2012. Distillate demand in 2011 is expected to increase by 70,000 bpd to 3.84 million bpd while demand in 2012 is expected to increase by 80,000 bpd to

3.92 million bpd. US domestic crude production increased by 150,000 bpd to 5.51 million bpd in 2010 and is expected to fall by 50,000 bpd to 5.46 million bpd in 2011 and by 190,000 bpd to 5.27 million bpd in 2012. In regards to prices, the price of WTI crude is expected to average \$93/barrel in 2011, up \$14 on the year. In 2012, the price of WTI crude is expected to average \$98/barrel. The price of gasoline is expected to increase from an average of \$2.78/gallon in 2010 to \$3.15/gallon in 2011 and \$3.30/gallon in 2012. On highway diesel fuel retail prices, which averaged \$2.99/gallon in 2010, is expected to average \$3.43/gallon in 2011 and \$3.51/gallon in 2012.

According to a SpendingPulse report by MasterCard Advisors LLC, US weekly gasoline demand fell by 3% to 8.732 million bpd in the week ending February 4th. The decline of 272,000 bpd follows three consecutive weeks of gains. Gasoline demand was up 3.1% on the year. Gasoline demand during the last four weeks averaged 8.836 million bpd, up 2.7% on the year. It reported that gasoline prices were steady at \$3.10/gallon, the highest level since October 10, 2008.

A senior official said strikes by workers in companies in the Suez Canal zone will not affect Suez Canal operations and movement of ships. About 3,000 workers in companies owned by the Canal authorities went on strike on Tuesday over pay and conditions.

Refinery News

Colonial Pipeline is allocating its Line 3, north of Woodbury, New Jersey for Cycle 11, as nominations on its line exceed the company's ability to meet the 5 day lifting cycle.

A loss of steam pressure late Monday at Valero Energy Corp's 310,000 bpd Port Arthur, Texas refinery resulted in the shutdown of a fluid catalytic cracking unit.

ExxonMobil reported emissions at its 504,500 bpd refinery in Baton Rouge, Louisiana due to a leak in a line at the facility. It said it contained a leak on an unspecified unit.

Alon USA Energy's 67,000 bpd refinery in Big Spring, Texas is ramping up to maximum rates. The refinery reported a unit upset on February 4th.

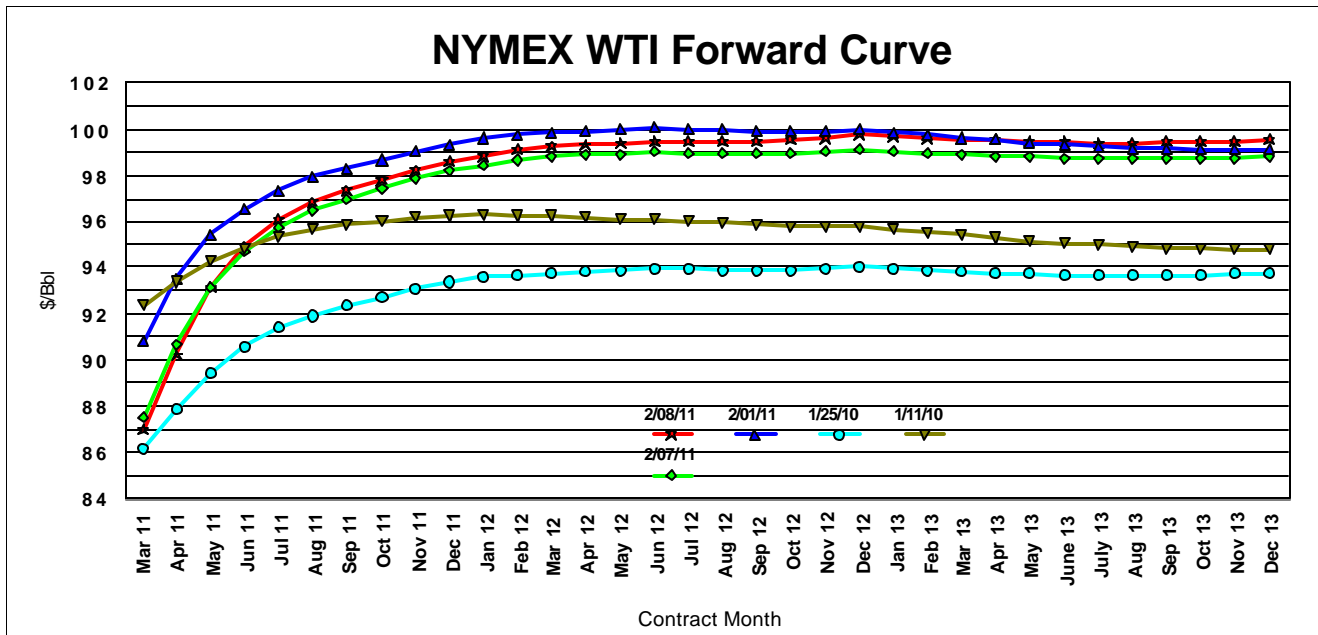
Tesoro Corp's 93,500 bpd Kapolei, Hawaii refinery is operating at targeted levels after its operations were cut due to a process upset.

Czech refinery Ceska Rafinerska is scheduled to shut its Litvinov refinery for five weeks of regular upgrades in September. The shutdown should not impact market trading due to increased production ahead of the shutdown.

Thailand's PTT Pcl plans to lease a supertanker from Titan Petrochemicals to store crude oil for its refineries and for trading. The vessel would be the company's third VLCC used to store crude oil. The latest tanker would join the other two located offshore Malaysia, increasing its total storage capacity to about 5 million barrels.

February Calendar Averages CL – \$89.27 HO – \$2.7433 RB – \$2.4836
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Pirates took control of an Italian tanker in the Indian Ocean on Tuesday after firing shots at the vessel.



Production News

A Gulf of Mexico oil platform feeding Poseidon Pipeline is down, reducing flows on a system that contributes about one-eighth of Gulf oil output. Shippers have been notified the pipeline will undergo maintenance for as many as 13 days in March. The maximum capacity of the pipeline is more than 300,000 bpd but it is running at just under 200,000 bpd currently.

The North Sea Oseberg crude oil system will load about 135,000 bpd in March, down from 150,000 bpd in February.

ConocoPhillips said it expects its onshore US shale production to grow 10% to 18% annually between 2010 and 2014. The Eagle Ford Shale and North Barnett Shale in Texas and the Bakken Shale in North Dakota will be the drivers behind its expected increase in shale production in the US. Its shale production in the US is expected to increase to more than 100,000 bpd of oil equivalent by 2013.

Mexico's Communications and Transport Ministry reported that two oil export ports were closed on Tuesday due to choppy seas. The Cayo Arcas and Dos Bocas ports were closed due to high winds and wave action.

Colombia's 48,000 bpd Transandino oil pipeline has been halted by two suspected rebel bomb attacks but exports have not been affected.

Ecuador's central bank said the country's crude oil exports increased by 4% to 124.15 million barrels in 2010. Private companies operating in Ecuador exported 30.91 million barrels while Petroecuador exported the remaining oil. In December, Ecuador exported 11.25 million barrels of crude oil compared with 11.45 million barrels a year earlier.

Iran's Oil Ministry reported the country's oil production increased by 110,000 bpd with the start of the second phase of the south-western Darkhovin oil field. The field contains an in-place reserve estimated at 5 billion barrels, of which 1.28 billion barrels are recoverable.

Iran's ambassador to India said Iran and India could consider a bilateral trade arrangement if a new mechanism to pay for oil imports from Iran does not work. The two countries have yet to finalize a

solution on how to pay for oil after India's central bank said payments to Iran could no longer be settled through a long standing clearing house system run by central banks.

The BP led Baku-Ceyhan pipeline will increase exports of Azeri Light crude in March to 25.4 million barrels from 20.9 million barrels in February. March exports from the Turkish port of Ceyhan are estimated to total 820,000 bpd, up 10% on the month.

OPEC's news agency reported that OPEC's basket of crudes fell by 83 cents to \$96.02/barrel on Monday from \$96.85/barrel on Friday.

TransCanada announced today that it has started making commercial oil deliveries to the Cushing, Oklahoma storage hub on Tuesday from a newly completed extension of its Keystone pipeline system. On the entire line the company is looking for some 450,000 b/d of capacity. The company continues to await government approval for the final leg of its system which could move crude from Cushing to the Gulf of Mexico.

Market Commentary

Crude oil traded lower again today, bouncing off of the lower trend line of the ascending channel on a weekly spot continuation chart. The forward curve is indicative of front-end weakness, which in turn further pressured the Brent/WTI spread. As mentioned in yesterday's wire we would keep a watchful eye on the front spread and stock levels at Cushing as an indication when we should see the Brent/WTI spread start to strengthen to the WTI. This week makes the seventh week that prices have flirted with previously mentioned trend line since its inception. With current expectations calling for additional builds in inventories, prices should find enough stamina to penetrate this trend line, making attempts towards the \$83.00 area. Despite expectations calling for draws in gasoline stocks, gasoline futures surged today, gaining strength on some refinery glitches. Supplies are still generous but recent refinery issues may begin to take a bite out of supply. This is also another situation to keep an eye on.

Crude oil: Mar 11 334,518 -30,896 April 11 162,530 +5,365 May 11 122,951 +7,764 Totals 1,545,261 -17,103 Heating oil: Mar 11 95,382 -5,408 Apr 11 51,927 +573 May 27,728 +1,146 Totals 306,078 -5,622 Rbob: Mar 11 81,873 -5,977 Apr 11 42,430 +796 May 11 33,799 +718 Totals 260,440 -2,790.

Crude Oil		Heating Oil		Rbob	
Support	Resistance	Support	Resistance	Support	Resistance
8588					
	8955	26680		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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