

W The
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ENERGY RISK MANAGEMENT

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ENERGY MARKET REPORT FOR FEBRUARY 10, 2010

The EIA reported in its latest Short-Term Energy Outlook that the world oil market should gradually tighten in 2010 and 2011, as the world economic recovery continues and world oil demand begins to increase again. It said that the OPEC quotas, as well as lower overall growth in non-OPEC supply over the 2010-2011 forecast period, would also contribute to a firming of crude oil prices to above \$80/barrel this summer. The EIA reported that total oil demand in 2010 will increase by 1.43% to 85.30 million bpd, up

0.14% from its previous estimate while demand in 2011 will increase by 1.83% on the year to 86.86 million bpd, up 0.24% from its previous estimate. Non-OPEC supply is expected to increase by 430,000 bpd to 50.66 million bpd in 2010 but fall by 120,000 bpd to 50.54 million bpd in 2011. The EIA expects OPEC's oil production to increase by 370,000 bpd to 29.47 million bpd in 2010 and by 450,000 bpd to 29.92 million bpd in 2011. It estimates OECD commercial oil inventories were 2.69 billion barrels in 2009 and will increase by 1.23% on the year to 2.723 billion barrels in 2010 but fall by

Market Watch

Federal Reserve chairman Ben Bernanke said the Federal Reserve could begin pulling back its stimulus for the US economy by first removing some cash from the financial system and then raising interest rates. The Federal Reserve has pumped more than \$1 trillion into the economy after it cut benchmark rates to near zero to combat the financial crisis. He said exit steps include the likely widening, soon of the gap between the discount rate the Fed charges banks for emergency loans and the overnight interbank federal funds rate. He said the Fed is not likely to sell any of its purchases of mortgage related debt in the near term at least not until after policy tightening has started and the economy is clearly in a sustainable recovery. It will also return its emergency lending measures to pre-crisis norms, including raising the discount rate and shortening the duration of loans at its emergency lending window.

Venezuela is expected to award the largest oil investment of President Hugo Chavez's 11-year rule on Wednesday. The auction to tap into Venezuela's over 100 billion barrels of reserves looks set to be won by groups led by Chevron and Spain's Repsol. Venezuela's Carabobo oil tender includes three projects expected to produce 1.2 million bpd.

China's exports and imports increased substantially in January year on year. The country's exports increased by 21% while its imports increased by almost 86%. The figures for January are slightly lower than in December however analysts say they show the country's trade with the rest of the world has stabilized.

According to a report compiled by the Industry Taskforce for Peak Oil and Energy Security, a group of private British companies, consumers face a spike in costs for heating, transport, food and other goods. It said the government must acknowledge the risks to the economy and to produce contingency plans for transport, retail, agriculture and alternative power. The report said transportation is vulnerable to rising oil prices. Energy watchdog Ofgen has warned electricity and gas may become unaffordable for an increasing number of households unless drastic action is taken to secure power supplies.

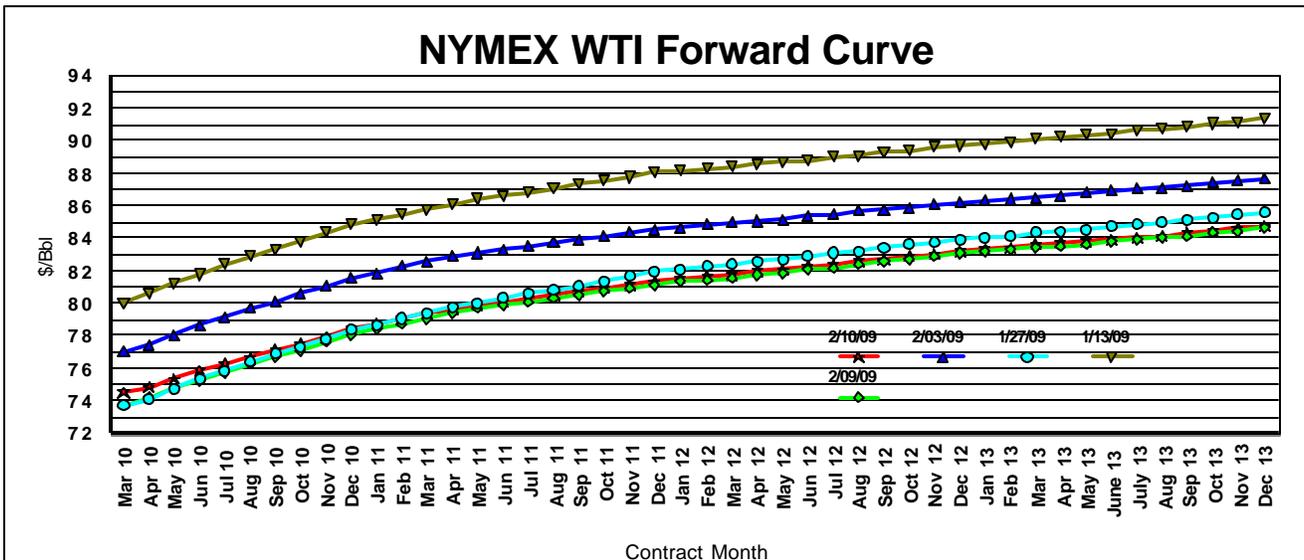
**February
Calendar Averages**
CL – \$74.14
HO – \$1.9482
RB – \$1.9469

1.79% on the year to 2.675 billion barrels. In regards to US oil demand, the EIA estimated that total petroleum demand will increase by 0.9% on the year to 18.85 million bpd in 2010, which is up 0.27% from its previous forecast. Total demand in 2011 is expected to increase by 1.17% on the year to 19.07 million bpd, down 0.21% from its previous forecast. Gasoline demand is expected to increase by 0.66% on the year to 9.05 million bpd in 2010, unchanged from its previous forecast. Gasoline demand in 2011 is expected to increase by 0.77% on the year to 9.12 million bpd, also unchanged from its previous estimate. Distillate demand is expected to increase by 1.37% on the year to 3.66 million bpd in 2010, down 1.08% from its previous estimate while demand in 2011 is expected to increase by 2.66% on the year to 3.76 million bpd, down 0.27% from its previous estimate. In regards to prices, the EIA expects crude prices to average \$81/barrel over the second half of the year and \$84/barrel in 2011. It forecast that the annual average retail gasoline price will increase from \$2.35/gallon in 2009 to \$2.84/gallon in 2010 and \$2.97/gallon in 2011. The average retail diesel price is expected to average \$2.95/gallon in 2010 and \$3.16/gallon in 2011.

OPEC said in its latest monthly report that the slow pace of world economic recovery will put pressure on oil consumption this year. It said world oil demand will increase by 810,000 bpd in 2010, down 10,000 bpd from its previous forecast. World demand is estimated to average 85.1 million bpd. The report states that the volatile economic recovery path, particularly in developed countries, is increasing uncertainty over oil demand. OPEC also reported a further increase in production by the 11 OPEC member bound by quotas. They produced 26.8 million bpd of oil in January, up 150,000 bpd on the month. It cut its compliance to 53% in January from 57% in December. OPEC raised its demand forecast for its crude oil by 160,000 bpd to 28.75 million bpd. OPEC also reported that Venezuela’s oil production in January increased by 105,000 bpd to 2.36 million bpd, the first increase since August 2009.

Iran dismissed as “not logical” a plan by the US that would allow Iran to obtain medical isotopes in return for a halt to its program of enriching uranium to 20% purity to produce fuel for its Tehran reactor. Iran’s Foreign Ministry spokesman Ramin Mehmanparast said shutting down the reactor or stopping the production of medicine is not the solution. US State Department spokesman Philip Crowley said the US would propose to the IAEA an alternative means for Iran to obtain the medical isotopes needed.

Meanwhile, Russia’s Deputy Foreign Minister Sergei Ryabkov said new sanctions on Iran have



become more realistic following Iran's decision to increase its uranium enrichment.

Nigeria's main militant group, the Movement for the Emancipation of the Niger Delta, said it was monitoring developments after Vice President Goodluck Jonathan assumed presidential powers but declined to comment further. Last month, the group said it was ending a unilateral ceasefire and threatened renewed attacks on the country's oil and gas industry amid delays to an amnesty program caused partly by the absence of President Umaru Yar'Adua. Separately, the JRC, a coalition of ex-militants and community leaders in the Niger Delta, warned of further unrest in the Niger Delta, saying that Vice President Goodluck Jonathan's assumption of power as acting president was illegal.

Refinery News

Valero Energy Corp said it sees no material impact from the maintenance shutdown of a hydrocracking unit at its 315,000 bpd refinery in Corpus Christi, Texas. It expects to restart the unit by the end of the week.

India's Oil Ministry said Iraq offered to raise its crude supplies to India as it is increasing its crude oil production capacity substantially in the next few years and is seeking investment from Indian companies. India's Indian Oil Corp will import 11 million tons or 220,000 bpd of crude oil from Iraq in 2010. The company has a term contract to annually import up to 30 million tons of crude from various countries.

China's General Administration of Customs reported that China's crude oil imports in January increased by 33% on the year to 17.11 million tons or 4.03 million bpd. It is 20% below its December peak of over 5 million bpd. China exported 130,000 tons of crude in January, down 71% on the year.

The Petroleum Association of Japan reported that the country's crude oil stocks in the week ending February 6th fell by 1.52 million barrels on the week and by 9.33 million barrels on the year to 93.35 million barrels. Japan's gasoline stocks fell by 20,000 barrels on the week but increased by 1.15 million barrels on the year to 14.42 million barrels while its kerosene stocks built by 200,000 barrels on the week and by 700,000 barrels on the year to 15.1 million barrels. Its crude runs increased by 40,000 bpd on the week but fell by 110,000 bpd on the year to 4.04 million bpd. Japanese refiners ran their facilities at an average 83.9% of total capacity, up 1.7% on the week but down 0.9% on the year. The PAJ also reported that Japan's total oil product sales increased by 5.7% on the week and by 2.9% on the year to 3.34 million bpd. Its gasoline sales increased by 7.4% on the week and by 2.7% on the year to 1 million bpd while its kerosene sales increased by 25.5% on the week and by 14.2% on the year to 600,000 bpd and its gas oil sales increased by 1.4% on the week and by 2.2% on the year to 610,000 bpd.

Indonesia's Pertamina purchased 1.2 million barrels of Malaysian crude for April loading through a monthly tender.

Production News

Saudi Arabia will supply steady volumes of crude to most customers in March as demand recovers. Sources at seven of the Asian term buyers said Saudi Aramco told them they would continue to receive fully contracted volumes for March. Three European buyers were also notified that they would receive steady volumes in March. On Monday, Saudi Arabia also told several US buyers they would receive steady crude supplies in March.

Iraq's Oil Minister Hussain al-Shahristani said a section of a pipeline carrying crude oil from Iraq's northern Kirkuk oilfields to the Doura refinery was attacked late Tuesday. The pipeline, which usually transports 50,000 bpd of crude, is undergoing repairs. The attack has cut refining at the Doura refinery to 70,000 bpd from 100,000 bpd. Separately, Iraq's Oil Minister said Iraq expects to resume

oil exports from its northern Kurdistan region in the coming days. It is still unclear who would pay foreign oil firms developing fields in the largely autonomous Kurdistan region, which signed deals with the companies independently, a move the central government considers illegal. Kurdish leaders had targeted exports of about 100,000 bpd but flows were halted last year due to the row with Baghdad over the production sharing contracts.

The North Sea Staffjord crude oil stream is scheduled to load 6.84 million barrels in March, up 1.71 million barrels on the month. The North Sea Gullfaks crude oil stream is scheduled to load about 248,000 bpd in March, up from 214,000 bpd in February.

The UK Scheihallion oil field is expected to start its exports this week. The oil field restarted on February 1st and is increasing its production after it was shut since October due to a tanker collision.

Kuwait has kept its March official selling price for its crude sales to Asia at \$1.20/barrel below the Oman/Dubai average.

Iraq's State Oil Marketing Organization increased its March official selling price of its Basra Light crude and Kirkuk crude bound for the US. The price of its Basra Light crude bound for the US was set a second month WTI minus \$4.35, up from minus \$5.15/barrel in February. The price of its Kirkuk crude bound for the US was set at spot WTI minus 75 cents/barrel, up from minus \$1.15/barrel in February. The price of its Basra Light crude bound for Europe was set at dated Brent minus \$1.70/barrel, down from minus \$1.50/barrel in February while the price of its Kirkuk crude bound for Europe was set at dated Brent minus 90 cents/barrel, down from minus 50 cents/barrel in February. The March Basra Light crude official selling price for Asian customers was set at the Oman/Dubai average minus 45 cents/barrel in March, down from minus 40 cents/barrel in February.

OPEC's news agency reported that OPEC's basket of crudes increased by 90 cents to \$69.76/barrel on Tuesday.

Market Commentary

Despite yesterday's API numbers, this highly sensitive market reacted in a see saw fashion as it responded to the European economic situation, heightening tensions between the U.S. and Iran and anticipation of Friday's delayed release of the DOE numbers. Winter storms across the eastern part of the U.S. lent psychological support for heating oil. The March crude oil contract bounced off of the 200 day moving average basis a spot continuation chart falling shy of \$75.02, the 38% retracement level using the range of \$69.50 and \$83.95. Technically there is still more steam left in this market as prices approach the 50% retracement level of \$76.72. We would not be surprised if this market tests this level. As expected, the March heating oil contract gained against the March gasoline fueled higher by the aforementioned storm. Our upside objective for this spread remains .0228.

Crude oil MAR.10 222,137 -37,055 Apr. 10 185,636 +19,194, May 10 123,694 +10,440 Totals 1,307,904 -1,031, Heating oil MAR.10 76,050 -4,769 APR10 52,836 +3,236 May 10 33,127 +1,081 Totals: 313,712 +1,743 Gasoline MAR.10 68,516 APR10 49,397 +2,568 May 10 35,589 Totals: 258,438 +2,864

Crude Support Based on March	Crude Resistance Based on Feb
72.50, 71.31, 70.42, 65.05, 64.70, 63.38, 62.70, 61.61, 60.95	75.02, 76.72, 78.43 79.86, 81.00, 82.00, 84.83, 85.40, 86.60, 88.80, 89.88
Heat Support	Heat resistance
1.8570, 1.8280, 1.7670, 1.7565	2.0110, 2.0574, 2.0665, 2.2270, 2.2575, 2.4200
Gasoline support	Gasoline resistance
1.8650, 1.85.65, 1.7900, 1.7200 1.6600	2.0420, 2.0660,2.0846, 2.1930, 2.2270, 2.3350,

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