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ENERGY MARKET REPORT FOR FEBRUARY 10, 2011

Egypt's President Hosni Mubarak spoke in a live telecast saying he would remain in office until September. Earlier, Egyptian Prime Minister Ahmed Shafiq told Britain's BBC that President Hosni Mubarak may step down. Egypt's army is expected to make a statement on Thursday in which it will respond to the demands of protests. It said the higher council of the armed forces held a meeting but gave no further details. The US has pressured Egypt's President to speed up the pace of reform but has stopped short of demanding the resignation.

The Times of London reported that Saudi Arabia threatened to support Egypt's President Hosni Mubarak is the Obama administration tries to force a change of regime in Egypt. It reported that Saudi Arabia's King Abdullah told President Barack Obama not to humiliate Mubarak and warned that he would bankroll Egypt if the US withdrew its aid program, worth \$1.5 billion annually.

Saudi Islamists and opposition

Market Watch

The US Labor Department said the number of US workers filing new claims for unemployment benefits fell more than expected in the week ending February 5th. Initial jobless claims fell by 36,000 to 383,000 on the week, the lowest reading since July 2008. The previous week's figures were revised to 419,000 from 415,000. The four week moving average of new claims fell by 16,000 to 415,500 in the week ending February 5th. The report showed that the number of continuing claims fell by 47,000 to 3,888,000 in the week ending January 29th. The unemployment rate for workers with unemployment insurance was 3.1% in the week ending January 29th.

The US Commerce Department said wholesale inventories increased more than expected in December while sales fell. Wholesale inventories increased by 1% to a seasonally adjusted \$430.54 billion. While the gain in inventories was larger than expected, sales increased by 0.4% in December, down from a 1.9% increase in November.

The National Association of Realtors reported that home prices increased in about half of US metropolitan areas in the last three months of 2010. The median price for home resales in the fourth quarter increased in 78 out of 152 or 51% of metropolitan areas. Prices fell in 47% or 71 cities and were unchanged in three. The national average price for single family homes was \$170,600 in the fourth quarter of 2010, up 0.2% on the year.

President of Atlanta's Federal Reserve Bank, Dennis Lockhart, urged Congress to come up with a credible plan to lower government debt levels, which he suggested are a threat to sustained economic growth.

European Union Energy Commissioner Guenther Oettinger said Europe's recovery could be negatively affected if crude oil prices remain above \$100/barrel for several weeks.

The Director General of the China Banking Regulatory Commission said inflationary pressure in China is likely to increase this year but added that the government has the tools to deal with it.

The US Climate Prediction Center said the La Nina weather pattern will weaken in the coming months but its ability to last into the summer is uncertain. It said a majority of the weather models predict a return to neutral conditions by May-June-July 2011, although some models predict a weaker La Nina into the summer.

The InterContinentalExchange said a total of 1,940 lots or 194,000 metric tons of gas oil was physically delivered against the expiry of ICE February gasoil futures. It is up 22% from January, when 1,587 lots were delivered.

Macquarie, which has expanded into commodities and energy, said it has started crude oil marketing in Canada. The new business will be based in Calgary and provide a wide range of commercial services to North American oil producers and refiners. The crude oil marketing business in Calgary will be its fifth after similar expansion in London, Houston, Singapore and Sydney.

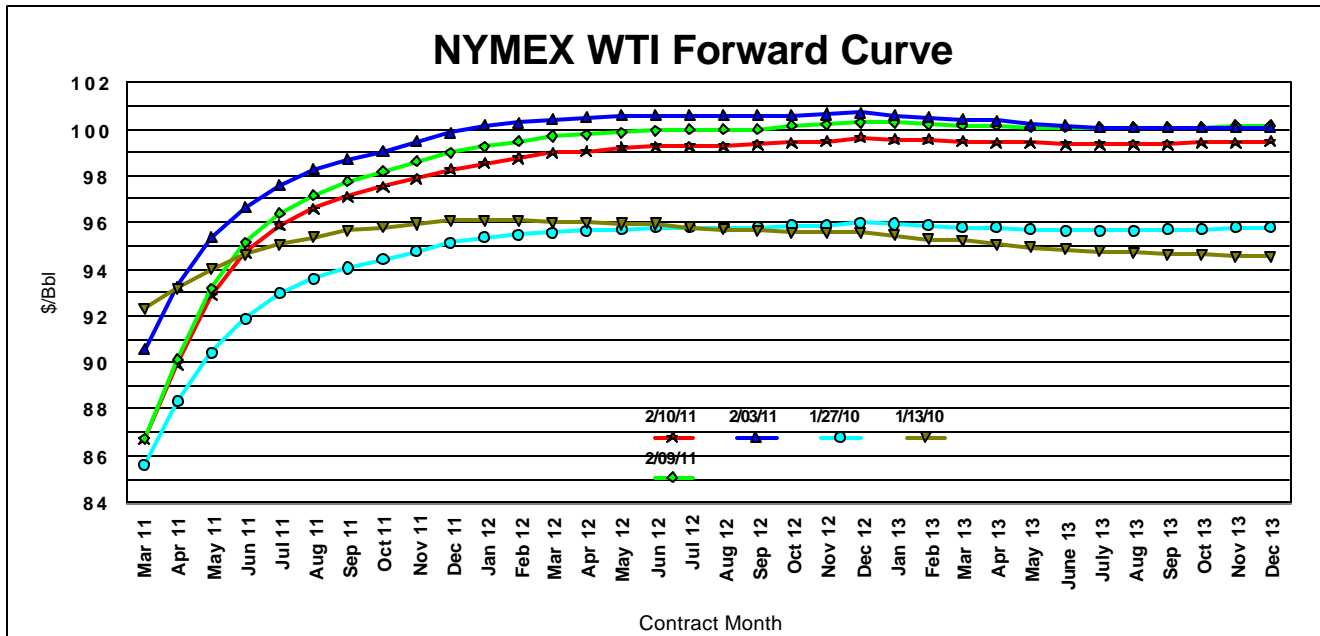
Credit Suisse's average value at risk increased to 16 million swiss francs or \$16.7 million in the fourth quarter, up 60% in the third quarter.

activists have launched a political party in a challenge to the absolute monarchy. The move was apparently prompted by popular revolts in the Arab world. However it is more an act of protest than an effective start up of a political party since Saudi Arabia has no elected parliament and parties and public dissent are banned by the monarchy. Separately, Saudi Foreign Minister Prince Saud al-Faisal said Saudi Arabia's King Abdullah bin Abdul-Aziz is alive and in excellent shape following rumors about the king's health triggered a rally in oil prices.

**February
Calendar Averages**
CL – \$88.63
HO – \$2.7424
RB – \$2.4871

The IEA said world oil supply increased by 500,000 bpd in January as production from OPEC members increased to a two year high. OPEC's oil production increased by 280,000 bpd on the month, which mostly came from Iraq's Rumaila and Zubair oil fields. Despite the extra supply, the IEA increased its 2011 WTI oil price forecast by \$9 to \$90/barrel. The IEA raised its 2011 oil demand growth forecast by 50,000 bpd to 1.46 million bpd. World oil demand is expected to surpass 90 million bpd in late 2011. The IEA said global refinery runs are expected to fall in the first quarter of 2011 as higher utilization in China and Latin America are more than offset by lower throughput in Europe, the Middle East and former Soviet Union. Refinery runs worldwide in the first three months of 2011 are estimated at 74.8 million bpd on average, down 130,000 bpd from its previous forecast. Its estimate for refinery throughput in the fourth quarter of 2010 was revised higher by 150,000 bpd to 74.7 million bpd. Separately, the IEA noted concerns raised by market participants over proposed reforms to over-the-counter derivatives markets in the US and Europe.

In its monthly report, OPEC said demand for its oil in 2011 is expected to average 29.8 million bpd, up 500,000 bpd from its 2010 estimate and up 400,000 bpd from its previous assessment. OPEC also revised its estimate for OPEC oil demand in 2010 to 29.3 million bpd, up 200,000 bpd from its previous estimate. OPEC expects world oil demand to grow by 1.8 million bpd in 2010 to 86.3 million



bpd and 1.4 million bpd in 2011 to 87.7 million bpd. Non-OPEC supply is expected to have increased by 1.1 million bpd in 2010. In 2011, non-OPEC oil supply is forecast to increase by 420,000 bpd to 52.68 million bpd. In January, total OPEC crude oil production average 29.72 million bpd, up 400,000 bpd on the month.

Oil Movements reported that OPEC's oil exports, excluding Angola and Ecuador, are expected to fall by 150,000 bpd to 23.79 million bpd in the four weeks ending February 26th.

The head of the EIA, Richard Newell said there is currently 4 million to 5 million bpd in spare global oil shipping capacity available to move crude if protests in Egypt cause a shutdown of the Suez Canal and the SUMED pipeline. Separately, the EIA stated that gasoline prices in the US could increase to an average of \$3.30/gallon in 2012.

US crude oil inventories held at the Cushing, Oklahoma crude oil terminal fell by 683,782 barrels to 40.08 million barrels in the week ending February 8th. Cushing's crude oil tanks were filled to 72% of capacity, down from 73% in the previous week.

Valero Energy Corp's chief executive Bill Kleese said WTI is disassociated from waterborne light sweet crude oils like Brent and Light Louisiana Sweet. He said WTI is disassociated because it is land-locked.

A tanker hijacked by suspected Somali pirates in the Indian Ocean was transporting 2 million barrels of Kuwaiti crude destined for Valero's Gulf Coast refineries. The Irene SL was hijacked on Wednesday off the coast of Oman.

A bipartisan group of US Senators who serve on the Banking and Agricultural committees urged regulators implementing derivatives measures under the Dodd-Frank Act to move cautiously so the rules can be completed without unintended consequences. Treasury Secretary Timothy Geithner, Federal Reserve Chairman Ben Bernanke and two other top officials were warned against overly prescriptive rules that may push market participants aboard. The lawmakers urged regulators to exempt end users from margin requirements stipulated by the Dodd-Frank Act.

Separately, the chairman of the CFTC, Gary Gensler told lawmakers that the agency would miss a July deadline to put in place some rules tied to the Dodd-Frank legislation enacted last summer. He said the CFTC would begin finalizing most of the rules this spring.

The Department of Transportation reported that the US airlines' average fuel cost per gallon for scheduled flights in December increased by 8.5% on the year and by 2.2% on the month to \$2.29/gallon. It said total fuel consumption on scheduled flights in December was 1.37 billion gallons, up 2.6% on the year and up 5.2% on the month.

Refinery News

A compressor trip caused flaring at ExxonMobil Corp's 504,500 bpd refinery in Baton Rouge, Louisiana on Thursday.

Valero Energy Corp reported emissions associated with the refill of a tank at its 142,000 bpd Corpus Christi east plant in Texas. Separately, Valero said its Three Rivers, Texas refinery was replacing its foreign crude with Eagle Ford Shale crude.

Flint Hills Resources reported the shutdown of the Coker Wet Gas Compressor at its 290,078 bpd refinery in Corpus Christi, Texas on Wednesday. The shutdown was caused by the failure of the compressor's constant voltage transformer.

Singapore's International Enterprise reported that the country's residual fuel stocks fell by 3.276 million barrels to 15.782 million barrels in the week ending February 9th. It also reported that Singapore's light distillate stocks built by 1.535 million barrels to 10.94 million barrels while middle distillate stocks built by 1.922 million barrels to 13.736 million barrels on the week.

Production News

Mexico's Transport Ministry reported that the Dos Bocas and Cayo Arcas oil ports in the Gulf of Mexico were closed on Thursday due to bad weather conditions.

Saudi Arabia is expected to supply full contracted volumes in March to at least seven Asian term buyers, steady on the month.

Maersk Oil said its offshore Gryphon oil and gas installation will remain shut for several months after sustaining damage in a storm last week. Its gross average daily production was projected to be 18,400 bpd in 2011.

The March loading program for North Sea Ekofisk crude is scheduled at 10.45 million barrels, unchanged on the month. The volume is equivalent to 337,097 bpd compared with 373,214 bpd in February. The March loading program for North Sea Flotta crude is scheduled at 1.3 million barrels, down 600,000 barrels from February. It is equivalent to 41,935 bpd compared with 67,857 bpd in February. The March loading program for North Sea Grane crude is scheduled at 4.2 million barrels, unchanged on the month. It is equivalent to 135,484 bpd compared with 150,000 bpd in February.

A former exploration head of Saudi Aramco said Saudi Arabia will not face a decline in production capacity any time soon. He said there is plenty of opportunity to build projects and build capacity.

Norway's Statoil said one of its rigs looking for oil and gas in the North Sea has dealt with a situation during which gas from the reservoir leaked to the rig on the surface. It said the situation was resolved.

Kazakhstan's Chevron Corp led Tengizchevroil increased its oil production in 2010 by 15% to 25.9 million tons or 567,000 bpd.

Ecuador's Central Bank reported that the country's average crude oil production in 2010 was 486,088 bpd, up slightly from 486,049 bpd in 2009. Petroecuador's oil production averaged 301,216 bpd while the remainder was produced by private companies.

Nexen Inc warned that output from the Long Lake oil sands project may not meet its targets this year as production stalls because of problems with its reservoirs. It said fourth quarter output at the project increased by 10% from the third quarter to 28,100 bpd. January's output fell to 27,000 bpd as some of its wells tap lean zones within the reservoir.

A senior Finance Ministry official in India said the country expects to resolve the issue over payments for Iran's crude oil soon. He said there would not be any disruption of oil supplies until the end of February. India has been negotiating with Iran since December, when India's central bank stopped Iran's payments through a financial clearing house.

Separately, Indian Oil Corp expects to import 50 million metric tons of crude oil in the next financial year that starts on April 1st, up from 48-49 million tons in the current year.

India's Central Electricity Authority said the country's power output increased an annual 9.3% in January to 71.42 gigawatts, up from 65.35 gigawatts last year.

OPEC's news agency reported that OPEC's basket of crudes increased by 81 cents to \$96.93/barrel on Wednesday from \$96.12/barrel on Tuesday.

Iraq's SOMO said Iraq has cut the official selling price of its Basra Light crude oil in March to customers in Europe and Asia while it left the price unchanged for buyers in the US. The price of

Basra Light crude for delivery to Europe in March was cut by \$1.20 to \$4.60/barrel below Dated Brent. The price of Basra Light crude bound for Asia was cut by 25 cents to 35 cents under the Oman/Dubai average while the price of Basra light bound for the US was unchanged at \$1.35 below the Argus Sour Crude Index. The price of Kirkuk crude bound for the US was set at \$40 cents above ASCI while Kirkuk crude bound for Europe was set at \$3.25 below Dated Brent.

China's National Development & Reform Commission said the country's energy intensity likely fell by 19% in the five years to 2010. China had sought to reduce its energy consumption per unit of GDP in the last five years by 20%.

Brazil's Sugarcane Industries Association, Unica, said Brazil's main center-south 2010-11 sugarcane output reached 556.2 million metric tons as of January 31st. The volume of sugarcane crushed to make ethanol and sugar is 4.5% higher than the 532.1 million tons reported a year earlier. Total ethanol production through January 31st was 25.34 billion liters, up 9.1% from 23.22 billion liters a year earlier.

Market Commentary

Crude oil prices swung on both sides of unchanged, paring gains on reports that Egyptian President Hosni Mubarak would step down. The market experienced what appeared to be a short covering rally in reaction to the U.S. jobless claims but was not sustainable. Brent, which gained the most during the two weeks that protesters rallied in Egypt, fell as much as 1.3% during the trading session. Being the most reactionary, Brent may be the hardest to fall, giving back some of its gains against the WTI. Heating oil settled almost 7 cents lower, selling off on warmer weather forecasts. Gasoline continued to react to yesterday's inventory numbers, working lower throughout the session. The March crude oil contract once again tested the bottom of the weekly channel, dipping below it but settling below it. With the situation in Egypt still unresolved, we would look for this market to continue to be sensitive to this issue. The channel bottom remains our downside objective and would stick with the plan to buy bounces off of \$86.41. Should the market settle below it tomorrow, this will be a bearish indicator for prices.

Crude oil: Mar 11 260,987 -32,497 April 11 195,897 +18,491 May 11 145,077 +12,581 Totals 1,545,106 +8,500 Heating oil: Mar 11 88,684 -4,171 Apr 11 54,340 +1,587 May 11 30,750 +1,271 Totals 313,050 +3,006 Rbob: Mar 11 70,838 -3,722 Apr 11 50,506 +2,329 May 11 41,022 +4,503 Totals 268,012 +3,808.

Crude Oil		Heating Oil		Rbob	
Support	Resistance	Support	Resistance	Support	Resistance
8588	8811				25480
8511	8955	26680	28040	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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