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Windham Group



ENERGY RISK MANAGEMENT

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ENERGY MARKET REPORT FOR FEBRUARY 26, 2010

The IEA's executive director, Nobuo Tanaka said there is more downside risk to oil demand than upside risk. However he added that there are upside risks such as weather and geopolitical factors. He said the world economic recovery has yet to increase demand for oil. He also said that leading producer and consumer countries need to provide clearer data on production and demand levels. Separately, an IEA official said the world's oil stocks is enough to compensate for a loss of 3-4 million bpd of Iranian supply for a year. He said there are mechanisms there for supply disruption and added that this could have a calming effect on

Market Watch

The US Commerce Department reported that the US economy grew faster than initially thought in the fourth quarter as businesses drew down inventories at a much slower pace and increased investment. It said GDP in the fourth quarter grew by a 5.9% annual rate, up from its previous estimate of 5.7%. It was still the fastest pace since the third quarter of 2003. The economy expanded at a 2.2% annual rate in the third quarter. It reported that business inventories fell by \$16.9 billion in the fourth quarter instead of \$33.5 billion estimated last month. In the final three months of 2009, consumer spending increased at a 1.7% rate, rather than the 2% pace reported in January.

According to the Thomson Reuters/University of Michigan's Surveys of Consumers, US consumer sentiment was weaker in February. Overall index of consumer sentiment was at 73.6 in February, down from 74.4 in January and below the 74 forecast by analysts. The preliminary February reading was 73.7. The survey's barometer of consumer expectations weakened to 68.4 in February from 70.1 in January. The index of consumers' 12 month economic outlook fell to 80 from 84 in January.

The National Association of Realtors said sales of previously owned homes in the US fell by 7.2% on the month in January to an annual rate of 5.05 million units, below market expectations of a 5.5 million unit pace. December sales were revised slightly lower to 5.44 million units from 5.45 million units. The median sales price was unchanged from a year earlier at \$164,700.

The Borco storage terminal on the Island of Grand Bahama is expanding capacity to handle millions of barrels of fuel shipments that could hit the US market, threatening the US oil refining industry. The terminal is planning to add 6 million barrels in light fuel storage tanks by the end of 2011 to 8.8 million barrels. The new clean tanks will hold light products such as gasoline, diesel, jet fuel, heating oil or naphtha. Since First Reserve bought Borco from Venezuela's PDVSA in 2008, they have spent \$150 million expanding usable capacity by 80% to 21.5 million barrels. Its total storage capacity is 27.5 million barrels. Meanwhile, Vitol is scheduled to open a new 2.8 million barrel clean fuels terminal in Florida in April and PetroChina has leased a 5 million barrel fuel and crude oil terminal in St. Eustatius in the Caribbean.

Japan's Minister of Economy, Trade and Industry Masayuki Naoshima said Japan is cooperating with the US Commodity Futures Trading Commission to tighten surveillance of world energy markets. He said the cooperation is aimed at preventing cross-border illegal trading in the energy market.

**February
Calendar Averages**
CL – \$76.46
HO – \$1.9872
RB – \$1.9993

markets.

Iran’s parliamentary speaker Ali Larijani accused the UN’s IAEA of bending to pressure from the world powers. He said one of the defects in the IAEA is that it changes positions and attitudes if it is put under certain political pressure.

A senior Israeli minister met Chinese officials for talks expected to focus on gaining China’s support for tougher sanctions against Iran over its nuclear program. China has so far been reluctant to support such a move, and has repeatedly said there is still time for more talks to resolve the standoff over Iran’s nuclear program. China appears to be the sole holdout on sanctions among the five permanent veto-wielding members of the UN Security Council, after Russia called for responsible behavior from Iran, signaling its impatience.

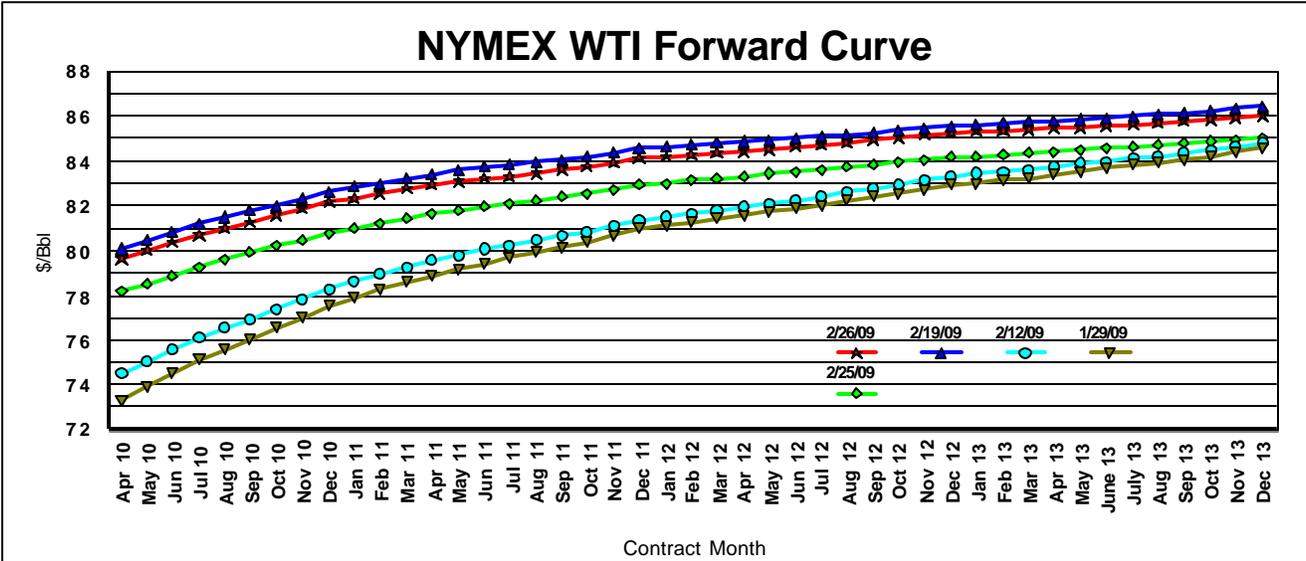
Refinery News

ConocoPhillips is shutting down its fluid catalytic cracking unit 40 for at least 10 days until March 7th to repair a malfunction at an unidentified unit upstream of the FCC unit at its 153,000 bpd refinery in Borger, Texas. Separately, ConocoPhillips reported a process upset in a sulfur recovery unit at its Borger, Texas refinery. The upset appeared to be in the tail gas unit of the SRU. Also, ConocoPhillips reported that maintenance at its 247,000 bpd refinery in Sweeny, Texas could result in excess capacity. It said a small section of the rappers will be idled to replace fuses.

Valero Energy Corp will carry out an air shutdown at its Corpus Christi, Texas refinery in preparation for scheduled maintenance on complexes 1, 3 and 6. The shutdown will start on February 26th and end on March 1st. Valero also stated that it began preparations for 18 days of planned maintenance on its 36,000 bpd hydrocracker unit at its Corpus Christi, Texas refinery’s West Plant.

Japan’s Nippon Oil Corp plans to refine 5.02 million kiloliters or 1.02 million bpd of crude in March, down 1% on the year. Its February crude refining volume was estimated to have fallen 8% on the year to 4.81 million kl, down from its plan to refine 4.92 million kl.

Japan’s Ministry of Economy, Trade and Industry reported that the country’s total oil product sales in January increased by 0.3% on the year but fell by 3.7% on the month to 3.726 million bpd. Gasoline sales fell by 3.5% on the year and by 14.5% on the year to 904,000 bpd. Japan’s refinery output in January increased by 1.2% on the year but fell by 0.4% on the year to 3.665 million bpd. Japan’s METI reported that the country’s refinery operating rate increased by 2% on the year and by 1.5% to



81.3%. Its crude imports increased by 7.6% on the year and by 0.7% on the month to 4.084 million bpd while its oil product imports increased by 66.4% on the year and by 6.4% on the month to 552,837 bpd and its oil product exports fell by 15.2% on the year and by 14.3% on the year to 422,295 bpd. Japan's crude oil inventories at the end of January fell by 7.9% on the year but increased by 2.2% on the month to 94.612 million barrels while its oil product inventories increased by 0.6% on the year and by 0.7% on the month to 72.22 million barrels.

Italy's Saras SpA said its Sarroch refinery and power plants have been running at standard operating conditions since the last quarter of 2009. The refinery runs in the final three months of last year totaled 25 million barrels.

Production News

Baker Hughes reported that the number of rigs searching for oil and natural gas increased this week by 28 to 1,373. The number of rigs searching for oil increased by 16 to 456 while the number of rigs searching for natural gas increased by 12 to 905 on the week.

According to a Reuters survey, OPEC's 11 members bound by quotas increased their oil production by 110,000 bpd to 26.8 million bpd in February. Supply from the OPEC-11 is 1.96 million bpd higher in February than their target of 24.84 million bpd, meaning the group lowered its output by 2.24 million bpd of promised cutbacks. The survey implies that OPEC has complied with 53% of its promised supply cutbacks compared with 56% in January. It reported that Saudi Arabia's oil production increased by 40,000 bpd to 8.22 million bpd. It reported that total OPEC oil production increased by 140,000 bpd to 29.28 million bpd, with Iraq's oil production increasing by 30,000 bpd to 2.48 million bpd.

Mexico reopened the third of its three main Gulf of Mexico oil ports on Friday morning as bad weather eased. The port of Dos Bocas, Pajaritos and Cayo Arcas were closed on Wednesday.

Chevron Corp said the cost of a 100,000 bpd expansion of its joint venture Athabasca oil sands project with Royal Dutch Shell has increased to \$14.3 billion. The new estimate amounts to \$600 million more than the estimate provided by Chevron a year earlier. Chevron said the expansion will increase its output to 255,000 bpd.

India's Oil Secretary S. Sundareshan said India will increase its petrol and diesel prices starting Friday midnight. It is the first increase in prices since July. The price of petrol will increase by 2.71 rupees or \$0.587/liter while the price of diesel will increase by 2.55 rupees/liter.

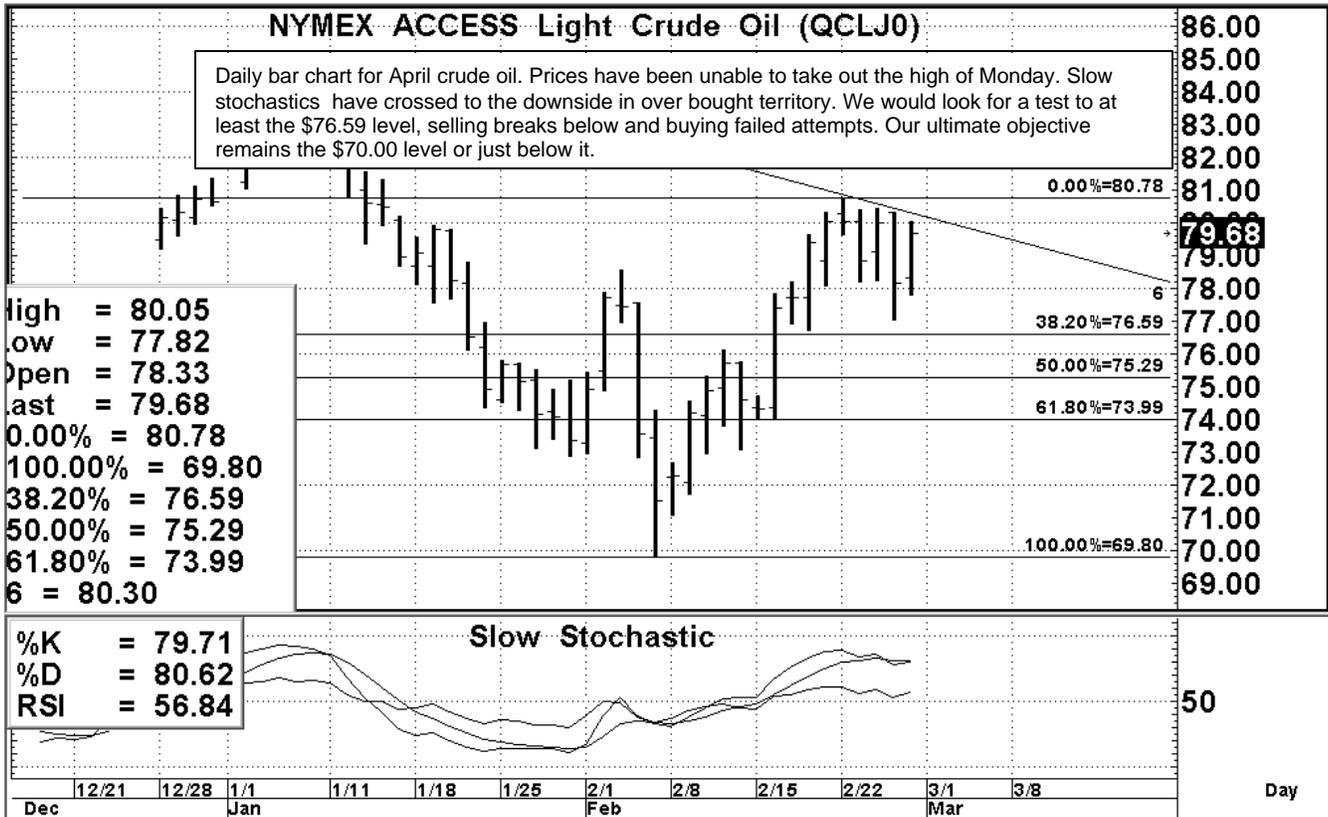
Market Commentary

Energy prices rose today in reaction to a report by the U.S. Commerce Department, which indicated the gross domestic product gained the most in six years. Crude oil rose 1.9 percent on the day, settling at \$79.66. This market remains sensitive to the release of any news regarding the economy as investors continue to turn to commodities as an investment hedge. Despite today's run-up, jobs are still being lost, supply is plentiful and demand remains sluggish. With the front month crude oil spread narrowing as it has, the cost of storing inventory to sell at a later date has begun to lose its economic appeal. Tanker storage has dropped by 20 percent since January, according to industry sources. These barrels of crude oil will eventually work their way to the open market, adding further pressure to prices. The technical outlook still looks bearish. This is the fourth straight day that prices could not take out Monday's high of \$80.78 or the descending trendline drawn off of the \$84.96 high for the April contract. We would look to sell this market on any failures to take out the aforementioned trendline, which comes in Monday set at \$80.30. As mentioned in our wire of yesterday, slow stochastics have turned to the downside in overbought territory. The last time slow stochastics crossed at this level, the price of crude oil fell to below \$70.00.

The Commitment of Traders report showed that non-commercials in the oil market increased their net long position by 16,916 contracts to 85,352 contracts in the week ending February 23rd. The combined futures and options report showed that non-commercials in the crude market increased their net long position by 12,305 contracts to 160,487 contracts on the week. The funds increased their total long position by 10,424 contracts to 257,105 contracts on the week. The disaggregated combined futures and option report showed that producers/merchants increased their net short position by 215 to 210,094 contracts while swap dealers cut their net long position by 21,455 contracts to 42,086 contracts on the week. It also showed that managed money funds increased by 13,959 contracts to 129,046 contracts while other reportable cut their net long position by 1,653 contracts to 31,441 contracts on the week. Meanwhile, the combined futures and option report also showed that non-commercials in the product markets increased their net long positions. The funds in the heating oil market increased their net long position by 11,520 contracts to 28,036 contracts while funds in the RBOB market increased their net long position by 16,947 contracts to 73,557 contracts on the week.

Crude oil Apr. 10 268,707 -7,344, May 10 165,045 -358, June 10 167,179-1,865 Totals 1,284,924 -11,304 Heating oil MAR.10 7,213 -9,042 APR10 76,893 -1,021 May 10 45,661 1,826 Totals: 299,658 -5,372 Gasoline MAR.10 6,553 -7,406 APR10 90,420 +1,122 May 10 48,525 +1,900 Totals: 261,583 -3,528

Crude Support Based on February	Crude Resistance Based on Feb
76.72, 75.00, 72.60, 71.31, 70.42, 69.50, 65.05, 64.70, 63.38, 62.70, 61.61, 60.95	78.93, 81.00, 82.00, 83.40, 84.83, 85.40, 86.60, 88.80, 89.88
Heat Support	Heat resistance
2.0125, 1.9975, 1.9860, 1.8570, 1.8280, 1.7670, 1.7565	, 2.2270, 2.2575, 2.4200
Gasoline support	Gasoline resistance
2.0660, 2.0420, 1.9970, 1.9862, 1.8650, 1.85.65, 1.7900, 1.7200 1.6600	2.1930, 2.2270, 2.3350,



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