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ENERGY RISK MANAGEMENT

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ENERGY MARKET REPORT FOR MARCH 1, 2011

MasterCard Advisors' SpendingPulse report showed that US gasoline demand increased by 3.1% to 9.118 million bpd in the week ending February 25th. Year over year, demand increased by 3.8%, the seventh consecutive weekly increase this year. Over the last four weeks, gasoline demand increased by 2.6% on the year. It also reported that the US retail price of gasoline increased by 9 cents to \$3.24/gallon, up 21.3 cents on the year.

Libya's National Oil Corp said almost half of the country's oil output has been cut as a result of the departure of oil workers. The East Libyan unit of Libya's National Oil Corp said production from its fields stood at 130,000 bpd

Market Watch

The US Institute for Supply Management said the US manufacturing sector grew at its fastest rate since May 2004 in February. Its PMI increased to 61.4 in February from 60.8 in January.

The US Commerce Department said spending on construction projects in the US fell in January, the second month in a row. Construction spending fell by 0.7% to a seasonally adjusted annual rate of \$791.82 billion compared to the prior month. Spending in December fell by 1.6%, revised up from a previously estimated decrease of 2.5%.

A senior World Bank official said that a sustained period of higher oil prices would significantly affect developing economies but is unlikely to derail their strong recovery since the financial crisis. It said an increase in the oil price could impact economic growth in developing countries by between 0.2% and 0.4% if it remained high for a year or longer.

The European Commission expects oil prices to average about \$100/barrel this year. EU Economic and Monetary Affairs Commissioner Olli Rehn said the average oil price last year was about \$80 and was expected to increase to \$102/barrel this year.

The euro zone's manufacturing sector expanded at its fastest pace in nearly 10 years in February. The Markit Eurozone Manufacturing Purchasing Managers' Index increased to 59 in February from 57.3 in January. The euro zone manufacturing PMI output index increased to 61.4 from the previous month's 59.4.

British manufacturing growth held at a record level in February. The Markit/CIPS headline manufacturing Purchasing Managers' Index stood at 61.5 in February, unchanged from a downwardly revised 61.5 in January.

The Bank of Canada kept its main interest rate unchanged at 1% on Tuesday and gave no signal it plans to increase it soon. It said underlying inflationary pressures remained subdued.

China's official PMI in January increased to 52.2%. HSBC reported that China's PMI fell to a seven month low of 51.7 from 54.5% in January.

India's manufacturing sector expanded at its fastest rate in three months in February. The HSBC Markit Purchasing Managers' Index increased to 57.9 in February from 56.8 in January. The new orders index increased for the third consecutive month to 62.4 in February compared with 60.7 in January.

The Saudi stock market fell 7% amid deterioration in sentiment. It suggests the local wealthy are moving capital amid fears of unrest in the country.

Italy's dependence on imported energy means it will risk blackouts if political unrest should spread from Libya to Algeria and the Persian Gulf. Italy relies on imports for more than 80% of its energy needs and Algeria is one of its largest suppliers of gas.

API Stocks

Crude – down 1.08 million barrels
Distillate – down 1.443 million barrels
Gasoline – down 4.898 million barrels
Refinery runs – up 0.3% at 78.4%

compared with 400,000 bpd ahead of the protests.

US defense officials said the US is looking at a full range of options for Libya. Defense Secretary Robert Gates said the Pentagon was moving two amphibious assault ships and hundreds of Marines into the Mediterranean. Meanwhile, Admiral Mike Mullen, chairman of the US Joint Chiefs of Staff

said the Obama administration was looking at a full range of options but had not yet made any decisions.

Venezuela’s President voiced his strongest words of support for Libya’s leader Muammar Gaddafi, saying that the US was exaggerating the crisis in Libya in order to justify an invasion of the country. He said he saw similarities between the international calls for Gaddafi to relinquish power and the failed coup that briefly removed Chavez from power in 2002.

Bahrain’s government denied rumors that Saudi Arabian tanks had moved into the country. Bahrain’s Information Ministry said the tanks identified in news reports as crossing the border Monday evening were Bahraini tanks returning from Kuwait. A Saudi Arabia official also denied reports that it had sent tanks to Bahrain to try to quell protests.

In the fourth day of protests in Oman, Omani troops fired in the air and wounded one person, when they moved in to disperse a crowd demanding jobs and political reforms near the northern port of Sohar on Tuesday. On Monday, demonstrators blocked the entrance to Sohar port, which exports 160,000 bpd of refined oil products and protests spread to the capital, Muscat.

Iran’s security forces fired teargas and clashed with opposition supports in Tehran, where protesters were demanding the release of two opposition leaders. Former presidential candidates Mirhossein Mousavi and Mehdi Karoubi have not been seen in public since they called for a rally on February 14th, when thousands of their supporters took to the streets to support uprisings in the Arab world.

Saudi Arabia’s Finance Minister Ibrahim Alassaf said Saudi Arabia would start implementing new social measures on Tuesday adding that

Tadawul All Share Index (TASI)

TODAY'S SUMMARY					
Prev. Close	Open	High	Low	Last	Change
5,941.63	5,941.63	5,995.37	5,441.94	5,538.72	-402.91
% Change	Total Vol.	Total Turnover		# of Trades	Avg. Trade Size*
-6.78	235,935,921	5,119,484,821.3		106,551	2,214.30

52 WEEK				YEAR TO DATE			
High	Date	Low	Date	Index as of 31 Dec	Indicator	Year to Date Change	% Change
6,929.40	2010/04/26	5,538.72	2011/03/01	6,620.75	↓	-1,082.03	-16.34

Mar 02, 2008 - Mar 01, 2011



**February
Calendar Averages**
CL – \$99.63
HO – \$3.0235
RB – \$2.9834

the country's economy has not been impacted by turmoil in other Arab states. Saudi Arabia's King Abdullah unveiled benefits for Saudis worth an estimated \$37 billion after returning home last week after three months of medical treatment abroad.

Refinery News

Magellan Midstream Partners resumed operations of its refined products pipeline between the refining hubs of Texas City and Pasadena, Texas at midnight Monday. Repairs to the line, which released at least 6,000 barrels of gasoline in Texas City on Thursday, were completed Monday morning. Separately, Magellan said it shut its El Dorado-Kansas City gasoline pipeline after a small leak on Monday. A valve failed on the pipeline and 20 barrels of oil were released.

Colonial Pipeline is allocating its mixed Line 3, north of Woodbury, for Cycle 15.

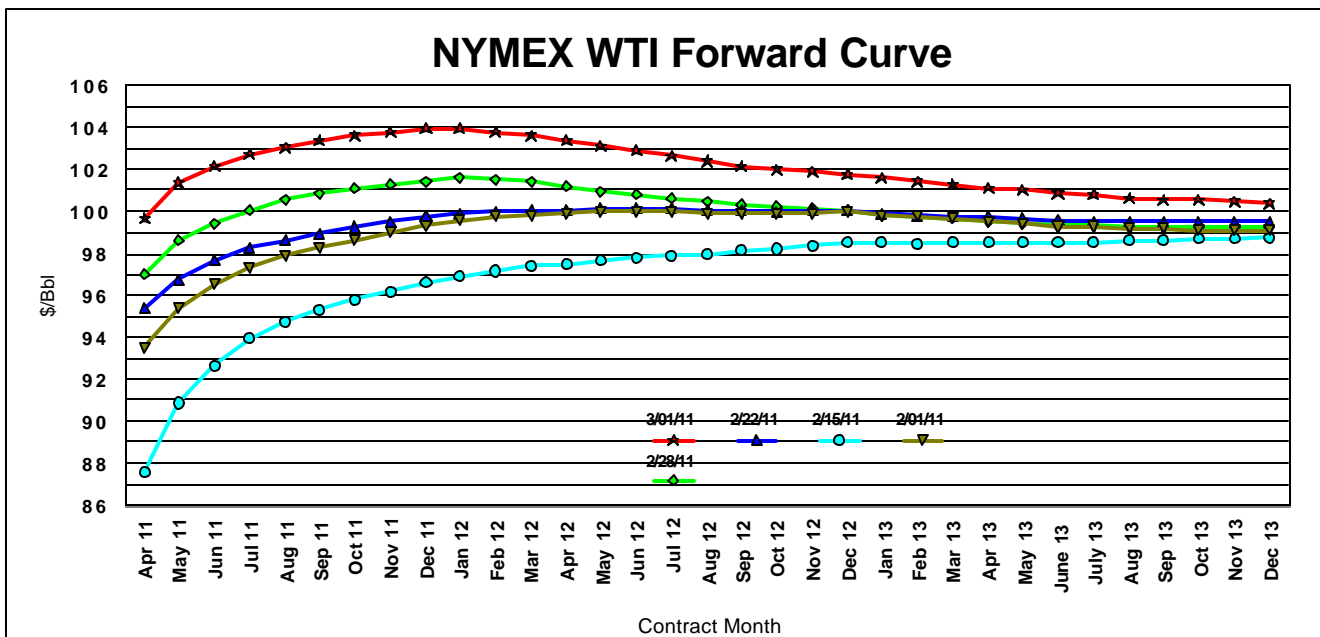
Enbridge Inc said its Spearhead Pipeline was apportioned by 83.4% for March its capacity in March is expected to total 157,405 bpd. Meanwhile its Ozark pipeline is operating at full capacity. Its capacity in March is expected to total 232,425 bpd.

The US oil market should be well stocked ahead of the summer driving season after refiners deferred seasonal spring maintenance. Refiners plan to shut about 1.3 million bpd of fluid catalytic cracking capacity this spring, well below the 1.93 million bpd capacity taken offline last year. Industrial Info Resources estimates offline crude capacity for the entire year will fall by 8% compared to a year ago. It said a total of 3.3 million bpd of crude processing capacity would undergo maintenance in 2011 compared with 3.64 million bpd a year ago.

Coffeyville Resources reported emissions during an ongoing plant startup at its 115,700 bpd in Coffeyville, Kansas.

Paulsboro Refining said its units cut rates at its 160,000 bpd refinery in Paulsboro, NJ. It cut its rates due to a plan to repair a small hole in the piping causing a release of hydrogen sulfide.

Valero Energy Corp said all main production units resumed operations at its 144,000 bpd refinery in Benicia, California following two months of maintenance. The refinery is increasing its operations to



planned rates. Valero also said it completed the restart of a hydrocracking unit at its 171,000 bpd refinery in McKee, Texas.

Tesoro Petroleum Corp said the restart of an unspecified process unit that started on Sunday at its 96,860 bpd refinery in Wilmington, California was extended until March 3rd. The restart was scheduled to be completed by March 1st. It said it planned flaring activity would take place at its Los Angeles refinery later this week.

ExxonMobil's 248,000 bpd Sarpom refinery in Italy is undergoing maintenance that is expected to last until March 20th.

Husky Energy Inc is still making repairs to its Western Canadian heavy oil upgrader following a February fire and now expects to resume normal operations later this month. The 82,000 bpd plant has been operating at 40% to 50% of its capacity since a fire on February 2nd.

JX Nippon Oil & Energy Corp shut its 35,500 bpd fluid catalytic cracking unit at its Kashima refinery on Monday for unplanned maintenance. The restart schedule is unclear.

Thailand's Ministry of Energy reported that the country's crude imports in January fell by 0.5% on the year and by 14% on the month to 770,000 bpd. Refined oil imports increased by 8.4% on the year to 45,500 bpd while exports increased by 30% on the year to 163,500 bpd. Domestic demand for diesel increased by 5.4% on the year but fell by 0.9% on the month to 53.2 million liters/day while demand for gasoline increased by 4.3% on the year but fell by 4.9% on the month to 20.4 million liters/day.

Production News

A Reuters survey showed that OPEC's oil production fell in February from a two year high the previous month as the uprising in Libya cut supplies. It reported that production from OPEC's 12 members averaged 29.43 million bpd in February, down from a revised 29.63 million bpd in January. It reported that OPEC 11 oil production totaled 26.89 million bpd in February, down from 26.95 million bpd in January. Saudi Arabia increased its production by 150,000 bpd to 8.65 million bpd while Libya's oil production fell by 230,000 bpd to 1.35 million bpd.

The UAE's Abu Dhabi National Oil Co said it would reduce its Murban crude oil supply to Asian customers in April by 10% compared with contracted volumes, unchanged from March.

Venezuela's Energy Ministry said the country's oil production in 2010 fell by 7.7% on the year to 2.78 million bpd as low investment in aging wells and weather related outages impacted PDVSA's operations. It also reported that Venezuela's oil exports reached 2.59 million bpd, up from 2.28 million bpd in December.

Mexico's Pemex said crude oil production in the February 1-27 period averaged 2.557 million bpd compared with January's average of 2.584 million bpd.

Brazil's Petrobras could surpass its 2011 production target of 21 million bpd. It said several production systems that will enter operation during the year would help compensate for the 10% natural decline rate in the company's oil fields.

Brazil's Trade Ministry reported that the country's crude exports in February totaled 2.83 million tons, up from 2.06 million tons in January.

Iraq's SOMO reported that the country's oil exports increased by 1.9% on the month to 2.202 million bpd in February, the highest level since the US led invasion in 2003. The head of SOMO said there

was an increase in February's exports from oil fields in northern Iraq due to the resumption of oil exports via the semi-autonomous Kurdish region. There was about 494,000 bpd of crude exported from Kirkuk and Kurdish oil fields in February compared with 419,000 bpd in January.

Nigerian crude oil exports are expected to increase sharply in April following several months of lower production due to maintenance at key oilfields. Initial tanker schedules for 10 of the 17 crude oil production streams in Nigeria show 51.3 million barrels or 1.71 million bpd of crude are due to load in April on 56 full or part cargoes. If exports from the remaining streams were similar to recent averages, Nigeria's total exports would be close to 63.7 million barrels or about 2.12 million bpd in 71 full or part cargoes. Nigeria is scheduled to load about 1.86 million bpd in March in 65 cargoes. Nigeria is scheduled to export five Escravos crude cargoes in April, five Amenam cargoes, two Antan cargoes, two Okwori and one Abo stem. This is in addition to the 12 Qua Iboe, five Bonny Light, six Brass River, eight Agbami, six Bonga, four EA, four Erha, seven Forcados, two Okono, five Akpo and seven Yoho cargoes.

Russia plans to export 6.2 million metric tons or 1.47 million bpd of Urals crude in March from its Baltic Sea port of Primorsk, up from February's 4.9 million tons. Russia also plans to export 34 cargoes of Urals crude totaling 3.621 million tons from the Black Sea port of Novorossiisk. It also plans to export five cargoes of Siberian Light crude totaling 340,000 tons from Tuapse in March.

India's Oil Ministry reported that the country's domestic oil product sales in January fell by 5.46% on the month to 12.05 million tons. India's crude oil imports increased by 2.6% on the month to 11.29 million tons while its oil product imports increased by 17.3% to 1.57 million tons. India's oil product exports increased by 32.8% on the month to 2.66 million tons.

South Korea's Ministry of Knowledge Economy said the country's energy imports continued to increase in February. The value of South Korea's crude oil imports increased to \$6.771 billion in February, up 34.1% on the year. Inbound shipments of petroleum products increased by 13.3% on the year but fell by 4.5% on the month to \$1.857 billion while imports of liquefied natural gas and liquefied petroleum gas increased by 5.2% on the year and fell by 34.9% on the month to \$2.125 billion.

Libya's National Oil Co rolled over all its official selling prices for March term supply of its crude oil. The benchmark Es Sider crude price for February was unchanged at a discount of 25 cents against Dated Brent.

Indian Oil Corp said there was a need to increase petrol prices after the federal budget failed to announce any measures to stem revenues losses of state oil firms. IOC's daily revenue loss on fuel sales stood at 2.16 billion rupees or \$47.72 million.

Market Commentary

With tensions in the Middle East appearing to have intensified, the price of a barrel of crude oil for April delivery rose 2.7 percent. Perhaps lending to market strength was a reallocation of funds from the Saudi stock market into crude oil. The Saudi stock market declined by 6.8 percent as rumors circulated that Saudi Arabia had sent tanks into Bahrain to help quell protests there. Saudi Arabian officials did deny these rumors. Signs of risk premium re-entering the market are evident in the forward curve as fear of tensions spreading across the Middle East mount. With this being the dominant factor, one can only believe that prices are headed higher. It appears that the market is setting up for a retest of \$103.39, the 62% retracement between the range of \$147.27 and \$32.40. This level was touched on February 24th when a defiant Gaddafi addressed the Libyan people. A retreat off of this level would present a selling opportunity but should be done so with caution.

Crude oil: April 11 287,572 May 11 208,207 +10,307 June 11 137,512 +2,267 Totals 1,543,266 +19,225 Heating oil: Apr 11 97,386 +987 May 11 45,967 +1,165 3,767 June 11 46,004 +1,223 Totals 299,205 -1,558 Rbob: Apr 11 97,386 +987 May 11 45,967 +1,165 June11 46,004 +1,223 Totals 299,205 -1,558

Crude Oil		Heating Oil		Rbob	
Support	Resistance	Support	Resistance	Support	Resistance
		29500			22560
9635		26680		25683	30300
9245		23685		25145	31970
9150	103.39	22960	30955	24240	32450
8772	111.65	22013	31525	23631	35915
8647		21860	33510	23414	36310
8387		21140		22560	
8231		20702			
8180					

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