



ENERGY RISK MANAGEMENT

Howard Rennell, Pat Shigueta,
& Karen Palladino
(212) 624-1132 (888) 885-6100

www.e-windham.com

ENERGY MARKET REPORT FOR MARCH 3, 2011

Muammar Gaddafi's forces struck at rebel control of oil export hubs in Libya's east for the second consecutive day on Thursday. A warplane bombed the eastern Libyan oil terminal town of Brega. The chairman of the rebel National Libyan Council, Mustafa Abdel Jalil said he would reject any proposal for talks with Gaddafi to end the conflict.

The Arab League said a peace plan for Libya, proposed by Venezuela's President Hugo Chavez, was under consideration. Libya's envoy to the US said opposition forces would reject the Venezuelan proposal for a mediated end to violence. A spokesman for President Hugo Chavez said the Libyan government has accepted a plan by its ally. However the son of Libya's leader Muammar Gaddafi, Saif al Islam said there was no need for any foreign role in ending Libya's crisis when asked about the mediation offer by Venezuela. Separately, in The Hague, International Criminal Court prosecutor Luis Moreno-Ocampo said Muammar Gaddafi and members of his inner circle could be investigated for alleged crimes committed against civilians by security forces since the uprising started in mid-February.

Market Watch

The US Labor Department said new claims for unemployment benefits unexpectedly fell in the week ending February 26th to its lowest level in more than 2-1/2 years. Initial claims for unemployment benefits fell by 20,000 to a seasonally adjusted 368,000, the lowest amount since May 2008. The four week moving average of unemployment claims fell by 12,750 to 388,500 last week. It said the number of continuing claims fell by 59,000 to 3,774,000 in the week ending February 19th. The unemployment rate for workers with unemployment insurance was 3% in the week ending February 19th, down from 3.1% the previous week.

The Labor Department reported that US nonfarm productivity grew as expected in the fourth quarter. It stated that productivity increased at an unrevised 2.6% annual rate during the fourth quarter. For all of 2010, productivity expanded 3.9%, the fastest pace since 2002.

The European Central Bank held interest rates at a record low of 1% as expected on Thursday despite rising inflation fears. Euro zone inflation reached 2.4% in February.

The EU's statistics agency, Eurostat reported that Euro zone GDP in the fourth quarter increased by 0.3% on the quarter and by 2% on the year while European Union GDP in the fourth quarter increased by 0.2% on the quarter and by 2.1% on the year. It also reported that retail sales in the Euro zone in January increased by 0.4% on the month and by 0.7% on the year while retail sales in the EU increased by 0.6% on the month and by 1.9% on the year.

The CME said computer driven trades account for about 45% of all futures volume on the NYMEX but added that concerns raised by traders and regulators about the rapid growth of High Frequency Trading were misplaced. The CME's chief executive Craig Donohue said short term speculators have always had a role in commodity markets and the rise of automated high-speed trading and arbitrage computer models was just an evolution of that trend.

The new chairman of the Senate Agriculture Committee warned market regulators against overreaching as they implement new rules for over-the-counter derivatives in the Dodd-Frank reform law.

March
Calendar Averages
CL – \$101.26
HO – \$3.0435
RB – \$3.0130

US President Barack Obama said the US and international community must be ready to act rapidly if warranted by a humanitarian crisis or to stop violence against civilians in Libya. Separately, he said he hopes the US and Mexico can sign an agreement by the end of the year on developing new sources of energy in the Gulf of Mexico.

French Foreign Minister Alain Juppe said France and Britain would support the idea of setting up a no-fly zone over Libya if Muammar Gaddafi's forces continue attacks against citizens. Meanwhile, the US Defense Department said it knows the Libyan government has been using air power but not whether warplanes have attacked rebels.

Libya's National Oil Corp chairman Shokri Ghanem said the country's total oil output has declined by almost 50% during the ongoing unrest in the country.

Libyan oil port activity was declining on Thursday. Despite civil unrest, tankers were still leaving and waiting to enter the country's ports. At least one empty tanker left a Libyan terminal on Thursday to take on cargo in Egypt and at least two more tankers were waiting to enter Libyan ports.

Saudi Aramco is directing its shipping arm to send crude from the Persian Gulf to the Mediterranean indicating that Saudi Arabia is poised to plug the gap in European supplies left by the disruption to Libyan oil production. Vela International Marine Ltd already has three Suezmax vessels capable of carrying 1 million barrels of oil each under contract, with at least one booked to sail to the Mediterranean.

Treasury Secretary Timothy Geithner said the US and other major economies can tap strategic oil reserves if needed to keep rising oil prices from impacting the global recovery. He played down risks that political unrest in the Middle East was a major threat and said there was a lot of spare oil production capacity in addition to reserves. He said that crude oil futures indicate that a surge in prices is temporary and will have no lasting effect on inflation.

Iraq's Oil Minister Abdul-Kareem Luaibi said OPEC is concerned about turmoil in Libya but has enough surplus capacity to cover any shortfall caused by the unrest in the country. He said current world oil prices were acceptable and were not affecting the global economy. He said he did not expect a large increase in the next two or three weeks as Saudi Arabia is able to pump more oil to put a cap on prices when needed. He also stated that there were no talks to date of OPEC holding an extraordinary meeting over the Libyan situation.

The IEA's executive director Nobuo Tanaka said unrest in Libya is starting to affect Europe's oil supplies, although no member of the IEA has requested the authorization to release strategic oil stocks. He said financial speculation was partly to blame for sharp oil price movements and warned that if the price of a barrel of crude remains at its current level for long enough, economic growth could suffer.

EU energy commissioner Guenther Oettinger said the price of oil is expected to fall to between \$85 and \$95/barrel.

Oil Movements reported that OPEC's oil exports, excluding Angola and Ecuador, would fall by 270,000 bpd to 23.63 million bpd in the four weeks ending March 19th.

Saudi Shi'ites staged protests in Saudi Arabia's Eastern Province on Thursday demanding the release of prisoners they say are being held without trial. Saudi Arabia's Shi'ite minority mostly live in the east, which holds much of the oil wealth and is near Bahrain.

Refinery News

Colonial Pipeline is allocating its main gasoline line north of Collins, Mississippi, for Cycle 15, as nominations on its line exceed the company's ability to meet the 5 day lifting cycle. It also allocated Cycle 15 shipments on its Line 20 carrying distillates from Atlanta, Georgia to Nashville, Tennessee, as demand for shipping space exceeded line capacity. It also said it is allocating its Linden Delivery Line L2 for Cycle 12.

TransCanada Corp said four Midwest pumping stations for the Keystone line lost power last weekend. It said some oil deliveries were delayed due to power outages. It also stated that the power outage would not impact March nominations for shipments on the Keystone line.

Royal Dutch Shell restarted a fluid catalytic cracking unit and shut a crude distillation unit at its 412,000 bpd Pernis refinery. The catcracker, which was shut for repairs in September, was expected to remain out of service until April.

ConocoPhillips reported a problem with its fluid catalytic cracking unit 29 at its 146,000 bpd refinery in Borger, Texas.

ExxonMobil said there was no impact on production due to the leak in a process equipment at Gas Plant 5 East of its 344,500 bpd Beaumont, Texas refinery. It reported a small crack in process equipment on Wednesday.

Tesoro Corp restarted an unspecified processing unit that had been undergoing scheduled maintenance since February 27th at its 97,000 bpd refinery in Wilmington, California.

Valero Energy Corp said its 235,000 bpd refinery in Aruba resumed planned rates after it was shut on February 7th, when a freshwater tank collapsed.

A small fire started at Venezuela's Cardon refinery that led to the shutdown of the refinery's dewaxing plant.

Total started a planned outage at its 101,000 bpd Grandpuits refinery in France, which is expected to last for 5 or 6 weeks. Total said a crude distillation unit at its Lindsey refinery in the UK remained shut on Thursday after it was shut due to a fire in June 2010.

China's leading refineries would cut their crude oil throughput in March the lowest daily volume in a year. The twelve plants plan to process 2.69 million bpd of crude oil in March, down 7.2% from 2.9 million bpd in February.

A Fujian refining and petrochemical plant, a joint venture between China Petroleum & Chemical Corp, ExxonMobil Corp and Saudi Aramco will start repairing an 80,000 bpd crude oil unit from late March. The maintenance, which includes the overhaul of a small fluid catalytic cracking unit, could last about 50 days.

Indian refiners' output in January increased by 8.7% on the year to 3.6 million bpd, according to India's Oil Ministry. India's crude oil output in January fell by 3.8% on the month to 3.24 million metric tons or 765,250 bpd. India's Oil Ministry also reported that the country's crude oil imports increased by 2.6% in January to 11.3 million tons or 2.76 million bpd. India's oil product consumption in January fell by 5.5% to 12.05 million tons. India's oil product exports in January increased by 33% to 2.66 million tons from 2 million tons while imports increased by 17% to 1.57 million tons from 1.34 million tons.

Gasoline stocks in independent storage at the Amsterdam-Rotterdam-Antwerp area in the week ending March 3^d fell by 12.29% on the week and by 10.57% on the year to 871,000 tons. Gasoil stocks increased by 3.85% on the week and by 12.57% on the year to 2.641 million tons while fuel oil stocks fell by 30.58% on the week and by 42% on the year to 504,000 tons. Naphtha stocks fell by 43.42% on the week and by 8.51% on the year to 43,000 tons while jet fuel stocks increased by 2.93% on the week but fell by 5.5% on the year to 773,000 tons.

Singapore's International Enterprise reported that the country's residual fuel stocks fell by 832,000 barrels to 19.351 million barrels in the week ending March 2nd. It also reported that the country's light distillate stocks fell by 449,000 barrels to 9.721 million barrels while its middle distillate stocks increased by 1.014 million barrels to 14.455 million barrels on the week.

Production News

Royal Dutch Shell said it started maintenance on its 200,000 bpd Nigerian Bonga offshore crude oil facility this week and it was unclear how long the shutdown would last.

An Iraqi oil official said ExxonMobil is expected to increase production at Iraq's West Qurna Phase One oilfield by 10% over the agreed baseline this month or in early April. ExxonMobil and Royal Dutch Shell won a contract to develop the 8.7 billion barrels West Qurna Phase One field. The group aims to increase output to 2.825 million bpd after setting baseline production at 244,000 bpd. Exxon has reached its initial output target in West Qurna by increasing production to more than 268,000 bpd.

Iraq's Kurdish region Oil Minister Ashti Hawrami said crude oil exports from the region reached about 100,000 bpd. He said the Kurdish region's oil exports are expected to continue increasing. He said it is on track to reach exports of 1 million bpd by 2015.

BP's proven oil and natural gas reserves fell by 1.2% to 18.07 billion barrels of oil equivalent in 2010. It said its reserves-replacement ratio was 106% in 2010, indicating the company more than replaced last year's production with new additions to its reserves. BP also reported that oil production in its two main deep water areas, the US Gulf of Mexico and Angola, fell by 15% in 2010 to 508,000 bpd. Its total Gulf of Mexico deep water oil production fell to 338,000 bpd from 387,000 bpd in 2009. In Angola, BP's production fell to 170,000 bpd in 2010 from 211,000 bpd the previous year.

Norway will invest 141.1 billion kroner or \$25.24 billion in oil and gas activity in 2011, up 12.5% on the year.

India has paid 1.5 billion euros or \$2.08 billion to clear pending dues for oil imports from Iran, over three months after the central bank ended a long standing clearing house system. India's Oil Minister S. Jaipal Reddy however did not specify if the payments were made using a proposed new mechanism involving State Bank of India and German-based European-Iranian Trade Bank AG.

Neste Oil said it would increase its use of waste in renewable diesel production.

Market Commentary

Crude oil futures fell as much as 2 percent during today's trading session after Venezuelan President Chavez, an ally of Qaddafi's, offered to hold talks with the Arab League in an effort to put an end to the uprisings in Libya. This was the sharpest move lower in two weeks. Longs took this opportunity to lighten up their positions and put some money in their pockets. Technical indicators for crude oil are in over bought territory and are starting to take a turn to the downside. The RSI, based upon a spot continuation chart are currently set at 73.47 and pointing to lower. This is a bearish signal for prices.

Based on this technical scenario, prices should continue to retreat. We would look for a test at the support level of \$96.35 and then would re-evaluate the market at that time.

Crude oil: April 11 293,546 -1,465 May 11 217,016 +4,257 June 11 141,812 +139 Totals 1,574,584 +5,065 Heating oil: Apr 11 92,734 -3,616 May 11 49,556 +798 June 11 47,868 +1,719 Totals 302,508 +1,967 Rbob: Apr 11 89,448 -2,019 May 11 56,858 -71 June 11 34,229 +435 Totals 277,100 -1,236

Crude Oil		Heating Oil		Rbob	
Support	Resistance	Support	Resistance	Support	Resistance
9973		29300		28755	
9635		27980		26965	30300
9245		26680		26300	31970
9150	103.39	27375	30955	25683	32450
8772	111.65	23685	31525	25145	35915
8647		22960	33510	24240	36310
8387		22013		23631	
8231		21860		23414	
8180		21140		22560	

The information contained in this letter is taken from sources, which we believe to be reliable, but is not guaranteed by us as to accuracy or completeness and is sent to you for information purposes only. The Windham Group bases its market recommendations solely on the judgment of its personnel. Reproduction in whole or part or other use without permission is prohibited.