



ENERGY RISK MANAGEMENT

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ENERGY MARKET REPORT FOR MARCH 4, 2011

Libyan forces launched a fresh air strike on rebel territory in the east of the country Friday as opposition fighters pushed towards the frontline against Muammar Gaddafi's regime. There were no reported casualties or damage as a government jet bombed and opposition controlled military base on the outskirts of the strategic town of Ajdabiya on the third consecutive day of air strikes. On Friday, shots were fired across a district of the Libya's capital, Tripoli, as forces loyal to leader Muammar Gaddafi broke up a crowd of protesters. A rebel spokesman said rebels would attack Tripoli once a no fly zone is enforced by international powers. He said rebel forces had repelled an attempt by Gaddafi forces to seize control of Brega airport in the rebel held east. Al Arabiya television reported that at least 30 people were killed on Friday in violence in the Libyan city of Zawiyah. Meanwhile, rebels fired a sustained barrage of mortar bombs and rockets at a military base in the oil terminal of the eastern port of Ras Lanuf on Friday and the army returned fire

Market Watch

The US Labor Department said the jobs market rebounded in February and unemployment fell below 9% for the first time in nearly two years. Nonfarm payrolls increased by 192,000 in February as private sector employers added 222,000 jobs. The January payroll number was revised to show an increase of 63,000 jobs from a previous estimate of 36,000. The unemployment rate fell to 8.9% in February, the first time it fell below 9% since April 2009.

The Commerce Department reported that new orders received by US factories increased by 3.1% in January, the largest increase since September 2006. It said that the increase in factory orders to \$445.6 billion in January compared to an upwardly revised 1.4% increase in December. It reported that January factory orders, excluding the transportation category, increased by 0.7%.

A top official at China's Sinopec Corp said the price of NYMEX WTI crude is likely to average \$105-110/barrel in 2011. He said that as a consequence of developments in Libya, less light crude oil would be available, which would put pressure on refineries this year.

The former head of China's National Energy Administration, Zhang Guobao said China would impose a limit on total energy use, capping consumption from all sources at the equivalent of 4 billion tons of coal by 2015. China's energy use was 3.25 billion tons of coal equivalent in 2010, up 5.9% year on year. It was likely to increase by 4.24% annually in 2011-2015.

Automated or algorithmic trading accounted for over 30% of all trades executed in crude oil in the fourth quarter and a similar proportion of completed trades in other energy contracts as well as agricultural contracts such as corn, according to the CME Group. Automated trading volume in energy markets totaled 22,594,147 in the fourth quarter, with crude oil accounting for 15,671,292 of the volume. Automated trading systems accounted for a smaller share of completed trades than in interest rates (42%), equity (51%) and foreign currency (58%) derivatives but have been increasing and are expected to expand further in the next few years. Supporters argue that algo trading has brought advantages in terms of narrower bid-offer spreads and a clearer audit trail. However the growth of its use has prompted criticism.

CME Group is increasing margin requirements for the second time in a week for its crude and fuels contracts, effective at the close of trading on Friday. The margins for WTI crude for speculators will increase to \$6,775/contract, up from \$6,075. Maintenance margin requirements will increase to \$5,000 from \$4,500.

**March
Calendar Averages**
CL – \$102.05
HO – \$3.0550
RB – \$3.0214

with artillery. At least four people were killed during the clashes. An oil facility at Zueitina, south of the Libyan rebel held city of Benghazi, has been damaged and was on fire.

Iran's OPEC governor Mohammed Ali Khatibi said there was no need for OPEC to increase its oil output despite the unrest in Libya.

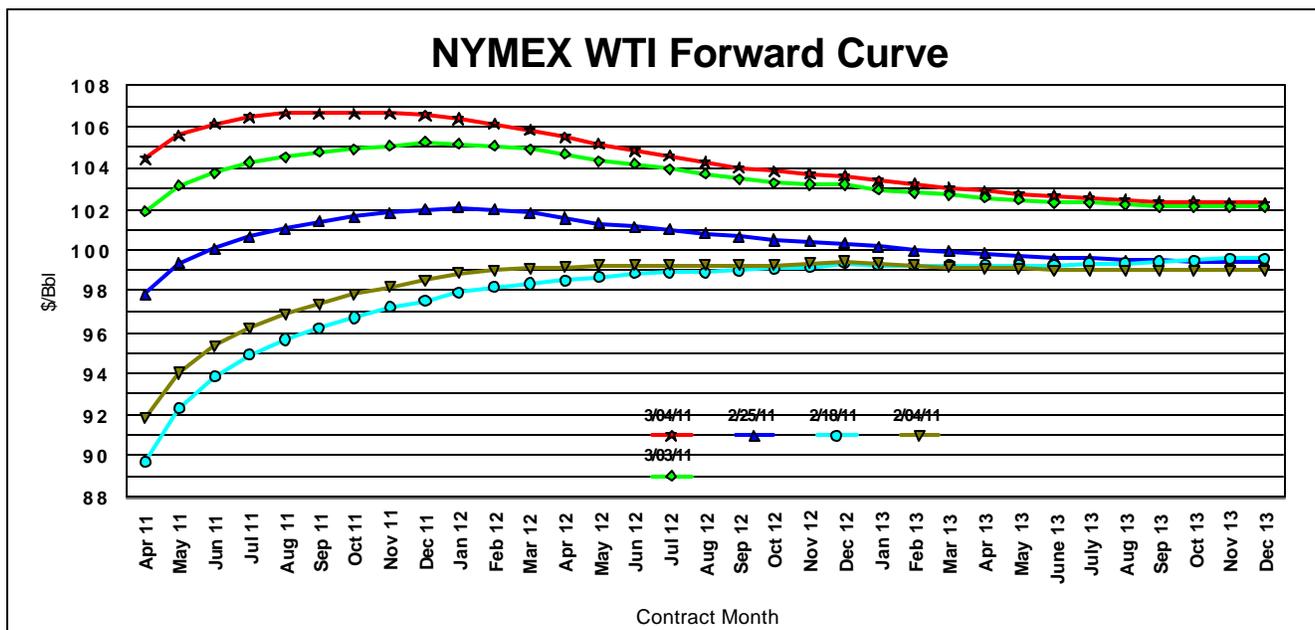
The IEA said that one million bpd of Libya's oil production was currently shut out of a total capacity of 1.6 million bpd. Libyan ports were also operating at reduced rates because of poor weather at the end of February and ongoing unrest. It estimates that 500,000 to 600,000 bpd of crude were shipped out of Libyan ports in the last week.

Strategic oil reserves held by IEA nations are equivalent to almost three years of Libyan crude output. Treasury Secretary Timothy Geithner said industrialized nations could tap those reserves, if needed. The 28 member countries of the IEA hold emergency stocks equivalent to at least 90 days of net oil imports. Current levels of government owned supplies are equivalent to about 1,000 times Libya's pre-crisis daily crude output of 1.6 million bpd. Separately, Treasury Secretary plans to visit Frankfurt and Berlin on Tuesday for meetings with senior government officials. He is expected to discuss global efforts to impose sanctions applying maximum pressure on the regime of Muammar Gaddafi as well as sanctions on Iran for its failure to meet its international obligations.

A senior EU official said the EU could deploy warships near Libya to enforce an arms embargo on the country. The potential weapons blockade will be among a package of measures that EU leaders will debate during an emergency summit on the Libyan crisis next Friday in Brussels. The UN and the EU decided earlier this week to ban the sale of weapons to Libya as part of a set of sanctions to punish Gaddafi's regime for its crackdown on protesters.

ICAP Shipping estimated that crude oil stored in floating storage globally stood at 44 million barrels in the week ending March 4th, unchanged on the week.

State Department spokesman Philip Crowley said US officials have discussed concerns that Venezuela may be breaching international sanctions on Iran. The US is examining whether Venezuela's cooperation with Iran on energy issues violates international sanctions on the Iran over its nuclear program. This comes after Venezuela and Iran signed 11 deals focused on energy



cooperation in October. On Thursday, Secretary of State Hillary Clinton said the US will take action if Venezuela violates international sanctions against Iran.

Yemen's President Ali Abdullah Saleh rejected an opposition plan for him to transfer power by the end of 2011. The president, who has ruled the country for 32 years, is sticking to his earlier offer to step down when his term ends in 2013. However he agreed to a reform plan proposed by religious leaders earlier this week which would revamp elections, parliament and the judicial system.

Several people were hurt in fighting between Sunni and majority Shi'ite Muslims in a town in central Bahrain on Friday. Protesters are seeking political reform and better access to government jobs for Shi'ites. However calm quickly returned on Friday after several hours of clashes.

Several hundred people protested in the Shi'ite majority east of Saudi Arabia, calling for the release of an arrested cleric and other detainees. Hundreds of people protested after Friday prayers in the town of Al-Houfouf for the release of Sheikh Tawfiq al-Aamer and others.

Refinery News

Enbridge Inc said L6B oil pipeline in the US Midwest will shutdown for scheduled repairs for five days starting on March 7th. The shutdown is the second of a two stage integrity inspection program scheduled after about 20,000 barrels of crude oil leaked from the pipeline in the Kalamazoo River. Line 6B runs from refineries in Griffith, Indiana to Stockbridge, Michigan and can deliver up to 190,000 bpd.

Shell said some units at its 75,000 bpd Sarnia, Ontario refinery were shut briefly on Friday.

Iraq's North Refineries Co said it restarted partial operation of the bombed unit at its 310,000 bpd Baiji refinery. Parts of the restarted unit were operating at a total capacity of 170,000 bpd. Work is still underway to repair other damaged units that produce benzene and kerosene. The Baiji refinery was shut on February 26th after militants killed four workers and carried out a bomb attack, setting the facility on fire.

Demand for oil products in Thailand, excluding bitumen and liquefied petroleum gas, increased by 3.7% in January from a year earlier to 592,754 bpd.

Production News

Russia's Energy Minister Sergei Shmatko said Russia would not increase its production to prevent further price increases due to the crisis in Libya. He does not expect Libya to halt oil supplies.

Erg SpA said it does not expect major oil disruptions due to Libya's crisis. It said it could easily find replacement supplies.

Azerbaijan's SOCAR said the country increased its Azeri Light oil supplies to European countries amid the standoff in Libya. An official from SOCAR could not specify volumes of supplies.

Royal Dutch Shell Plc said OPEC could balance shortfalls from Libya. It said the increase in oil prices was driven by Middle East events and added that oil prices will be determined by supply and demand after the situation in the Middle East calms down. It however stated that it sees a longer term supply squeeze due to lack of investment in the past two to three years.

Oil production at Iraq's Rumaila oilfield, developed by BP and China's CNPC, has fallen from its peak level reached in December and early January. BP said production in January increased by more than 10% above the 1.066 million bpd baseline rate agreed on in December 2009. Production has

declined by as much as 280,000 barrels in a single day from the 1.29 million bpd reached on January 11th. Several wells were shut in Rumaila last month, when output was slowing, due to back pressure at the wells.

According to Petroleum Intelligence Weekly, Saudi Arabia produced almost 9.4 million bpd in February. It said including the Neutral Zone, Saudi output increased to 9.38 million bpd in February from 9.08 million bpd in January and 8.62 million bpd in December.

India's domestic oil product sales increased an annual 6% in January to 12.05%. The country's crude oil imports fell 25.4% in January from a year earlier.

OPEC's news agency reported that OPEC's basket of crudes fell slightly to \$110.48/barrel on Thursday, down from \$110.84/barrel on Wednesday.

Market Commentary

Tensions in Libya continue to foster concerns in regards to supplies and as a result crude oil traded at a 29-month high. The April crude oil finished the week up 7 percent, settling at \$104.42. With the upcoming weekend, there was an unwillingness to go home short this market in light of the unrest. As the fighting continues in the western part of Libya where major oil terminals are located, fear of supply disruptions mounted. There is an estimated loss of one million barrels a day of crude oil from Libya. Technical indicators continue to support higher prices, as moving oscillators point north. Based upon a weekly spot continuation chart, crude oil settled above the upper line on an ascending channel. Slow stochastics have crossed to the upside, a bullish signal for prices. Based upon the breakout and settlement above the aforesaid channel, the upside projected move is \$108.80. Coming into next week this would be our near term objective.

Crude oil: April 11 280,646 -12,900 May 11 215,691 -1,325 June 11 142,508 +696 Totals 1,560,597 -13,987 Heating oil: Apr 11 91,391 -1,343 May 11 50,949 +1,393 June 11 50,563 +2,695 Totals 307,282 +4,774 Rbob: Apr 11 88,824 -624 May 11 57,086 +228 June11 35,427 +1,198 Totals 277,453 +353

Crude Oil		Heating Oil		Rbob	
Support	Resistance	Support	Resistance	Support	Resistance
103.39	10880	29300		30300	
9973	111.65	27980		28755	
9635		26680		26965	31970
9245		27375	30955	26300	32450
9150		23685	31525	25683	35915
8772		22960	33510	25145	36310
8647		22013		24240	
8387		21860		23631	
8231		21140		23414	

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