

W The
Windham Group



ENERGY RISK MANAGEMENT

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

www.e-windham.com

ENERGY MARKET REPORT FOR MARCH 9, 2011

Egyptian airport officials said a Libyan plane carrying the head of the Libyan Authority for Supply and Logistics, Major General Abdel Rahman Ben Ali al-Sayyid al-Zawy, who is carrying a message from Libya's leader Muammar Gaddafi, landed in Egypt.

Market Watch

The US Commerce Department said US wholesale inventories increased in January by 1.1% to \$436.88 billion, the highest level since November 2008. It said inventories increased an upwardly revised 1.3% in December. Sales at the wholesale level increased 3.4%. The inventory to sales ratio fell back to a record low of 1.13 months' worth from 1.15 in December.

Mortgage Bankers Association's weekly mortgage application survey showed that mortgage applications index increased by 15.5% to 514.2 in the week ending March 4th.

China Association of Automobile Manufacturers said the country's vehicle sales in February increased by 4.57% on the year to 1.26 million units.

India's Oil Ministry said the federal government currently has no plan to regulate gasoline prices.

Rebel positions near the east Libyan oil terminal of Es Sider were bombarded by forces loyal to Muammar Gaddafi. Storage tanks at the Es Sider oil facility near Ras Lanuf were bombarded. The 220,000 bpd Ras Lanuf refinery remained undamaged by the fighting between forces loyal to Muammar Gaddafi and rebels. Libyan TV reports that Al Qaeda backed armed elements blew up an oil storage tank. Forces loyal to Muammar Gaddafi recaptured the city of Zawiyah on Wednesday following an attack.

Libya's rebel leadership made a plea on Wednesday for the international community to impose a no-fly zone to ground Muammar Gaddafi's warplanes. A rebel official in Benghazi said Libya's leader was hitting pipelines, attempting to make the US nervous. However, Libya's leader Muammar Gaddafi said that the Libyan people would take up arms if a no-fly zone was enforced as this would prove that Western powers "want to take control of Libya and to steal their oil." US President Barack Obama and British Prime Minister David Cameron agreed in a telephone call to press forward with planning, including at NATO, on the full spectrum of possible responses, including surveillance, humanitarian assistance, enforcement of the arms embargo and a no-fly zone. The Pentagon said the US is still looking a full range of military options on Libya, ahead of a meeting of NATO defense ministers. The US said the UN arms embargo on Libya contains enough flexibility to allow the arming of Libyan rebels if such a decision were made. Separately, Libyan exiled Crown Prince Mohammed El Senussi asked for

DOE Stocks

Crude – up 2.516 million barrels
Distillate – down 3.977 million barrels
Gasoline – down 5.494 million barrels
Refinery runs – up 1.1%, at 82%

In a statement issued by the US, Russia, Britain, France, Germany and China, the world powers told Iran the door remains open for talks on its nuclear program and that Iran must cooperate with the UN's IAEA to resolve concerns it may have military aims. The six powers issued the joint statement at a meeting of the IAEA in a bid to show unity and to step up pressure on Iran after talks with Iran in December and January failed to make progress. A US official believes Iran is seeking to reach threshold of nuclear weapons capability.

Euroilstock reported that crude oil and product stocks in February fell by 0.8% on the month and by 3.1% on the year to 1.125 billion barrels. Crude oil stocks in Europe fell by 1% on the month and by 3.7% on the year to 463.55 million barrels while gasoline stocks increased by 0.8% on the month but fell by 6% on the year to 117.56 million barrels and middle distillate stocks fell by 0.2% on the month and by 1.6% on the year to 405 million barrels. It reported that crude intake fell by 0.7% on the month but increased by 4.5% on the year to 11.052 million barrels. Capacity utilization fell to 84.37% in February from 85.01% in January but increased from 80.73% a year earlier.

Refinery News

ExxonMobil reported unplanned flaring due to a breakdown at its 149,500 bpd refinery in Torrance, California.

Valero Energy Corp has made no decisions about whether the death of a worker at its St. Charles, Louisiana refinery on Sunday will affect a 56 day maintenance overhaul. It will take the necessary time to ensure the turnaround is completed safely at the 185,000 bpd refinery.

A union leader said that a boiler failure shut four processing units at Curacao's 320,000 bpd La Isla refinery during the weekend. The four units should be closed for a week while the boiler is repaired. A fluid catalytic cracking unit, which was shut in March last year, resumed operations and has been operating normally since January.

A senior Chinese government official said China has enough oil in its strategic oil reserves to cover one month's consumption and added that crude accounts for three quarters of the stockpile. This suggests that China may have stored 27 million tons of crude oil and 9 million tons of refined oil products.

The Petroleum Association of Japan reported that the country's crude inventories in the week ending March 5th increased by 821,082 kiloliters to 15.52 million kl. Its gasoline stocks fell by 65,752 kl to 2.17 million kl while its gasoil stocks fell by 83,073 kl to 1.689 million kl. Its kerosene stocks fell by 79,149 kl to 1.936 million kl while its naphtha stocks increased by 189,131 kl to 1.976 million kl and kerosene stocks fell by 79,149 kl to 1.936 million kl. The average refinery runs fell to 87.5% from 89.8%.

Indonesia's Pertamina has enough low-octane gasoline to last 18 days.

Japan's Tokyo Electric Power Co used less liquefied natural gas and coal for power generation in February than a year earlier. Its LNG consumption fell by 1.3% on the year to 1.582 million tons while its coal consumption fell by 3% to 326,000 tons. Its crude oil consumption increased by 3.9% on the year to 107,000 tons while its fuel oil consumption increased by 15% to 222,000 tons.

Production News

The EIA said US ethanol production in the week ending March 4th increased following five consecutive weeks of declines. Ethanol production increased to 883,000 bpd on the week, up from 882,000 bpd the previous week.

ExxonMobil has not suffered any crude oil supply shortages because of the US and UN sanctions imposed on trade in Libyan crude oil. Separately, ExxonMobil said it does not see any demand destruction from high oil prices.

Unrest in Libya has cut Eni SpA's output in the country by at least 63% to about 100,000 bpd of oil equivalent from more than 270,000 bpd of oil equivalent. ENI has continued to work with Libya's National Oil Co to produce oil and gas at reduced levels.

Saudi Arabia is expected to keep its contracted supply volumes to most of its customers in Europe unchanged in April, while increasing supplies to a small number of customers.

Crude oil supplies through the Iraq-Turkey export pipeline were cut Wednesday following a bomb attack on the pipeline in Iraqi territory.

Nexen Inc said it hoped to see permits issued in second quarter this year for appraisal drilling at Appomattox.

Colombia's oil licensing agency ANH said the country's crude oil production in February increased by 13% on the year to an average of 861,000 bpd.

ExxonMobil Corp said oil would account for 80% of its production additions in the next five years. Its capital expenditures are expected to total \$34 billion in 2011, up 5.6% on the year. It plans to add 1.4 million bpd of oil equivalent production by 2016.

The chief executive of Algeria's Sonatrach flew to oil and gas fields in the Sahara desert after workers demand a pay rise. There was no impact to production.

Japan expressed regret on Wednesday after China's China National Offshore Oil Corp said it had been producing oil from a disputed gas field in the East China Sea. Ties between the two countries have been strained since September following a territorial dispute. The two governments have been at odds over China's search for natural gas and oil in an area where sovereignty is contested.

The Baku-Tbilisi-Ceyhan oil pipeline is expected to pump 21.4 million barrels of Azeri Light crude oil in April, down 4 million barrels on the month. April loadings will amount to 713,333 bpd compared with 819,355 bpd in March.

Turkey's Bosphorus Strait remained closed on Wednesday for a second day due to strong currents and reduced visibility caused by a snowstorm.

Iraq's State Oil Marketing Organization cut the official selling prices of its Basra Light crude for April to customers in the US and increased the price for buyers in Asia while it left the price unchanged for buyers in Europe. The price of Basra Light crude bound for the US in April was cut by 30 cents to \$1.65/barrel below the Argus Sour Crude Index. The price of Basra Light crude bound for Asia was increased by 65 cents to a premium of 30 cents above the Oman/Dubai average while the price of Basra Light crude bound for Europe was unchanged at \$4.60 below Dated Brent. The price of Kirkuk crude bound for the US in April was set at 20 cents above ASCI while the price for Kirkuk crude bound for Europe was set at \$2.85 below Dated Brent.

OPEC's news agency reported that OPEC's basket of crudes fell to \$109.55/barrel on Tuesday from \$112.03/barrel on Monday.

Market Commentary

Crude oil continues to distance itself from the rest of the energy markets, reacting more to stock levels in Cushing than the global energy scenario. Cushing stock levels gained another 1.69 million barrels, reaching its highest level since the Energy Department began keeping records. This impacted the April/May crude oil spread, which lost 30 cents, settling at -\$1.23. With crude oil bottlenecked at the hub, WTI should continue to trade in a disconnected fashion to the rest of the market. The weakness in the front futures contract also lent strength to the products as is evident in the crack spreads. The April gasoline crack spread gained 21 percent from yesterday's close and the April heating oil crack spread gained 3 percent. With the inability to quickly move crude oil out of Cushing, refiners in the south have been relying on oil from Canada and shale producing states like North Dakota. The extra cost for this will leave refiners no choice but to pass the cost on down the line, which will ultimately reach the consumer. The oversupply of WTI continues to be reflected in the Brent/WTI spread, which moved out again today. WTI as become a poor indicator of the global situation, causing inaccurate readings as to whether the price of a barrel of crude oil costs more or less. Until it the problem of moving barrels out of Cushing is solved, WTI will continue to trade detached from the rest of the market. From a technical standpoint, further downside corrections are in store, as moving oscillators, which remain in over bought territory, appear to be getting ready to cross to the downside. For now, we would look for the April crude oil contract to test the \$103.39 support area, buying bounces off of it and selling trades below it.

Crude oil: April 11 233,827 -28,415 May 11 252,900 +17,314 June 11 148,962 +517 Totals 1,572,544 -5,863 Heating oil: Apr 11 81,386 -3,541 May 11 56,967 +3,245 June 11 53,104 +1,131 Totals 306,312 +451 Rbob: Apr 11 73,943 -4,233 May 11 62,075 +1,076 June 11 37,289 +89 Totals 274,371 -900

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

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.