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ENERGY MARKET REPORT FOR MARCH 11, 2011

In its monthly oil report, OPEC said its production increased to over 30 million bpd in February, its highest level since December 2008. It increased its production by 110,000 bpd to 30.02 million bpd due to an increase in Saudi Arabia's production. OPEC said the usual seasonal decline in oil demand from the first to the second quarter should ease some pressure on oil markets. It expects the average demand for its crude oil to fall to 28.7 million bpd next quarter, 1.3 million bpd lower than February production and 400,000 bpd below the average for the first quarter. OPEC left its 2011 world oil demand estimate unchanged at 87.8 million bpd, up 1.4 million bpd on the year. It also stated that it maintains a sufficient supply cushion to accommodate any supply disruption, with total spare capacity of almost 6 million bpd. Saudi Arabia increased its output by about 700,000 bpd.

Market Watch

The US Commerce Department said US retail sales increased at the fastest rate in four months during February. US retail and food services sales in February increased by 1% on the month to \$387.12 billion. Sales for January were revised up to an increase of 0.7% from a previously estimated 0.3%.

US business sales increased in January by the largest amount in 10 months, while inventories increased more than expected. Sales by businesses in the US increased by 2% in January to \$1.178 trillion while inventories increased by 0.9% to \$1.453 trillion. The inventory to sales ratio fell to 1.23 from 1.25 in December.

JP Morgan said oil prices are likely to remain highly volatile in 2012 and 2013 amid tensions in North Africa and the Middle East, reduced spare capacity and a challenging economic recovery.

United Airlines Corp hedges about 40% of its fuel costs every year in order to protect itself against short term price spikes in the price of oil. The company is getting fuel priced on the equivalent of \$81 to \$85/barrel for part of its fuel purchases.

The IEA said it has not received a call from Japan for any assistance with maintaining oil supply following the damaging earthquake and tsunami. Japan was hit by a magnitude 8.9 earthquake on Friday. It said some refineries were closed as a precaution while one suffered a fire. Japan's Cosmo Oil Co said a fire started at its 220,000 bpd Chiba refinery. At least five refineries, with a combined oil processing capacity of 1.2 million bpd was shutdown automatically. The tsunami that struck Japan may do more lasting damage to the refineries than the earthquake, flooding them with corrosive seawater that could lead to months of repairs.

US President Barack Obama said the US stands ready to assist Japan following the earthquake. A White House official said President Obama called Japanese Prime Minister Naoto Kan to discuss the situation.

March
Calendar Averages
CL – \$102.99
HO – \$3.0490
RB – \$3.0078

Troops loyal to Libya's leader Muammar Gaddafi intensified their counter offensive on Friday to retake ground from insurgents. Government forces appear to have regained the momentum in the three week old conflict. Government troops landed from the sea backed by tanks and air power that fought to recapture the oil port town of Ras Lanuf. Al Jazeera television reported that Muammar Gaddafi's forces bombarded a refinery and residential areas Ras Lanuf. Libyan security forces used tear gas and fired in the air to disperse worshippers near a mosque in Tripoli before they could protest against Muammar Gaddafi.

French President Nicolas Sarkozy said the European Union should recognize the Libyan rebels fighting to overthrow Muammar Gaddafi on Friday and said humanitarian corridors should be established. He said Europe has sent out a strong signal by deciding to keep all options open to address turmoil in Libya, including a military option, in case attacks on civilians worsen.

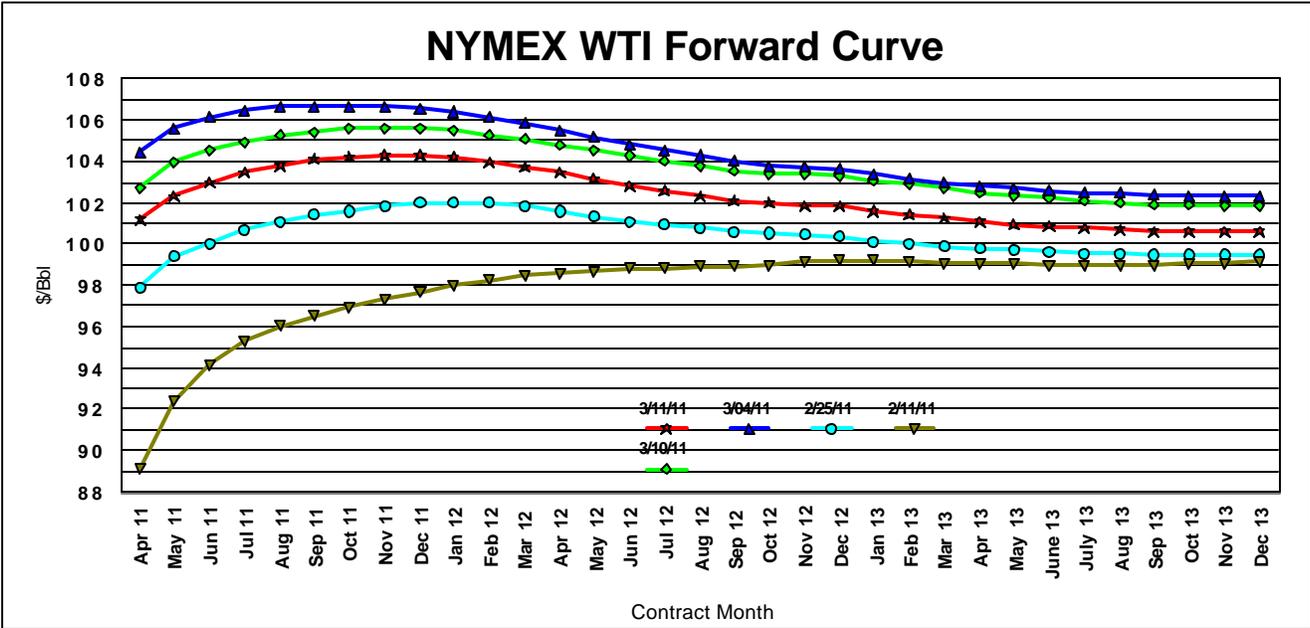
Western sanctions on Libya's government are already hurting shipping and a virtual shutdown of its seaborne trade is likely as companies halt their trade with the country. Intense fighting between forces loyal to Libya's leader and rebels has already closed some oil terminals and exports from the country have declined.

A Saudi official said police opened fire on demonstrators in self defense when a man shot at officers from the crowd. The royal court official said police fired at an armed man who had infiltrated a protest late Thursday and fired shots at security forces. Witnesses said three people were wounded when police opened fire at Shi'ite protesters in Eastern Province who were calling for the release of prisoners. Saudi police flooded the streets of the Saudi capital on Friday looking to deter a planned day of demonstrations. Small protests were reported in the east of the country. More than 200 protesters took to the streets on Friday in the city of Hofuf.

Bahrain's top Shi'ite Muslim cleric warned protesters not to slip into a sectarian conflict with Sunni Muslims that would undermine the opposition's campaign for political reform. Thousands of opposition activists marched on Friday towards Bahrain's royal court.

Refinery News

Colonial Pipeline allocated Cycle 16 shipments on its Line 20 carrying distillates from Atlanta, Georgia to Nashville, Tennessee.



Enbridge Inc said it restarted its 290,000 bpd Line 6B after it was shut in on Monday for repairs to part of the line in Michigan.

MF Global said US refinery profits for making gasoline and diesel increased on Friday on expectations of higher exports to Japan after a massive earthquake and tsunami impacted about 20% of refining capacity. Heating oil profit margins in the US increased by more than \$1/barrel on Friday, moving up to \$26.29/barrel from \$25.18/barrel on Thursday. Gasoline profit margins increased by \$2 to \$24.45 from \$22.76/barrel.

Chevron Corp, Valero Energy Corp and Tesoro Corp said their West Coast refineries have not been affected by the tsunami resulting from the massive earthquake in Japan.

Valero Energy Corp started a turnaround at its 87,400 bpd Ardmore refinery in Oklahoma. It stated that a hydrocracking unit at its 144,000 bpd Benicia, California refinery is currently shut for repairs.

Chevron Corp confirmed it agreed to sell its Pembroke refinery in the UK and other assets to Valero Energy Corp for \$730 million.

Alon USA said it will restart its California refineries and production from the Bakersfield hydrocracker unit will resume by mid-year 2011.

Brazil's Petrobras said its Nansei Sekiyu refinery in Okinawa was operating normally following the 8.9 magnitude earthquake.

China's National Bureau of Statistics reported that the country's crude oil production in February increased by 5.3% on the year to 15.91 million tons or 4.17 million bpd. In the first two months, China's oil production increased by 5.5% on the year to 33.72 million tons. It also reported that China produced 13.4 million tons of diesel, up 14.4% on the year. Gasoline production increased by 9.9% to 6.34 million tons while fuel oil production increased by 24.7% to 1.78 million tons. China processed 35.2 million tons or 9.21 million bpd of crude in February, up 11% on the year.

Implied oil demand in China increased by 10.3% on the year to 9.54 million bpd in February. It was the third consecutive month of double digit gains.

Russia's Transneft redirected oil deliveries to the Black Sea port of Novorossiisk from Primorsk on the Baltic Sea, which is blocked by ice. Over a hundred vessels including dozens of tankers loaded with crude oil and refined products have been stuck in ice at Russian ports this week.

French fishermen protesting against rising fuel costs blocked road access to a fuel depot at Fos-sur-Mer on the Mediterranean on Friday. Sea access to the nearby oil terminals of Fos-Lavera was not affected.

Production News

Total said Libya's Al Jurf offshore oil field has stopped producing amid the turmoil in the country.

A shipping source said oil exports from Iraq's southern oil hub of Basra fell to 840,000 bpd on Friday from 1.704 million bpd on Wednesday due to bad weather conditions.

The North Sea BFOE, Brent, Forties, Oseberg and Ekofisk, crude daily loadings in April are expected to increase to about 1.145 million bpd, up 13,000 bpd on the month. The North Sea Ekofisk crude oil stream is scheduled to load 325,000 bpd in April, down from 337,000 bpd in March.

At least four cargoes carrying the North Sea Forties crude oil grade will be delayed from March into April due to reduced production.

Ecuador is preparing to declare force majeure on oil exports as a preventive measure. This came after President Rafael Correa declared a state of emergency and ordered the evacuation of the Galapagos Islands and coastal provinces, following a powerful 8.9 magnitude earthquake that struck Japan and led to a tsunami alert for countries across the Pacific Ocean.

Nexen Inc said its Buzzard oil field in the North Sea is operating at reduced levels until the end of March due to work on new platforms.

Norway's ruling three party coalition announced it will carry out an assessment of the environmental impact of exploring for oil and gas in the Barents Sea but said it will delay the start of a study in the Lofoten archipelago of the Norwegian Sea. The government said it will delay environmental assessment in the Lofoten region during the current parliamentary period that runs until 2013.

Norway's Environment Minister said Norway is not likely to produce oil and gas from a recently delineated Barents Sea border zone for the next decade.

Norway's Statoil said new exploration areas and big new oil finds in Norway will fall significantly after 2020.

Indonesia's BPMigas said oil production at South Korea's Kodeco Energy's offshore well near East Java has declined by about 43% to 16,500 bpd from an expected 29,000 bpd.

Market Commentary

Crude oil experienced its first weekly drop in one month in response to an earthquake measuring 8.9 on the Richter scale hit Japan, the world's third largest consumer of oil. Market participants were also focusing their attention on the planned "Day of Rage" that was supposed to have taken place in Saudi Arabia. Due to the lack of this event, prices gained momentum to the downside. With refineries in Japan shutting due to the earthquake, crack spreads gained, with the spot month 3-2-1 crack spread gaining just over 5% on the day. Using the range of \$6.48 and \$16.90, this spread has been trading below the 38% retracement level of \$10.46 since last July. Although we would have looked for a seasonal gain for this spread, the situation in Japan should lend additional strength. The initial upside objective is the aforementioned 38% retracement level, with \$11.70 next. Flat price crude oil should remain under pressure. This may sound like a gusty move but we wouldn't be surprised to see prices touch \$92.67, the 62% retracement level of \$106.95 and \$83.85.

The latest Commitment of Traders report showed that non-commercials in the crude market increased their net long position by 3,695 contracts to 275,582 contracts in the week ending March 8th. The combined futures and options report showed that funds increased their net long position by 12,604 contracts to 348,278 contracts on the week. The disaggregated futures and options report showed that managed money funds increased their net long position for the fourth consecutive week by 6,224 contracts to 311,632 contracts.

Crude oil: April 11 215,405 -7,430 May 11 286,005 +16,878 June 11 152,627 -2,177 Totals 1,596,178 +11,134 Heating oil: Apr 11 73,023 -6,699 May 11 63,184 June 11 51,712 389 Totals 304,130 +2,804 Rbob: Apr 11 65,706 -5,183 May 11 65,224 +818 June 11 39,490 Totals 273,503 -1,843

Crude Oil		Heating Oil		Rbob	
Support	Resistance	Support	Resistance	Support	Resistance
103.39	10695	29300			
9900	10880	27980		28755	30300
9813	111.65	26680		26965	31970
9540		27375		26300	32450
9267		23685	31525	25683	35915
9635		22960	33510	25145	36310
8385		22013		24240	
		21860		23631	
		21140		23414	
				22560	

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