



ENERGY RISK MANAGEMENT

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ENERGY MARKET REPORT FOR MARCH 12, 2010

The IEA stated in its latest report that world oil demand will increase by 1.57 million bpd in 2010, unchanged from its previous forecast. It revised up its absolute demand estimates for 2009 and 2010 by 70,000 bpd. World demand will average 86.57 million bpd this year. The IEA also stated that world oil processing will increase by 50,000 bpd to 72.6 million bpd in the second quarter compared with the first quarter due partly due to higher run rates in China and Asia. It is up 920,000 bpd over the same period last year. Oil stocks in

Market Watch

Oil companies in Europe will export up to 30 cargoes of gasoline to the US in March. Traders said the bookings were for medium range tankers, each carrying 33,000 tons of gasoline from Europe to the US East Coast. The 30 cargoes equate to about 266,000 bpd.

The US Commerce Department said US retail sales posted an unexpected gain in February despite declining car demand. Retail sales increase in February by 0.3%. Economists had expected a 0.3% decline. January retail sales were adjusted downward to a 0.1% increase from a previously reported 0.5% gain.

According to Thomson Reuters/University of Michigan's Surveys of Consumers, US consumer sentiment declined slightly in early March. The preliminary March reading for the survey's overall index on consumer sentiment was 72.5, down from 73.6 where it ended in February and below the 73.6 forecast by analysts.

The CME Group Inc may urge more high frequency traders to use its in-house risk control measures. CME estimates that proprietary trading firms account for as much as 40% of its volume. The CME offers tools such as pre-set credit limits to minimize the risk of erroneous trades, however their use is voluntary. The CME's chief executive Bryan Durkin said the CME may take a more aggressive stance in pushing high frequency traders to use this protection but stopped short of suggesting any mandatory use.

Venezuela's utility Edelca said the Guri dam, which supplies more than half of Venezuela's electricity, may have to halt a large part of its generation by mid-May if a drought persists. Venezuelan officials have stated that the dam would have to cut its output by at least 50% if its reservoir falls to the so-called critical point where water cannot feed some of its turbines. President Hugo Chavez has stated that Guri's reservoir was not expected to reach a critical point until June at the earliest. Venezuela's utility Edelca said the country is likely to avoid major blackouts or deeper rationing because seasonal rains usually starting in May replenish reservoirs.

Nigeria's Acting President Goodluck Jonathan approved the disbursal of a further \$1 billion from the country's windfall oil savings, leaving about \$4.1 billion in the account.

The Baltic Exchange's main sea freight index increased to its highest level in two months due to new Chinese demand for iron ore. The index, which gauges the cost of shipping resources such as iron ore, cement, grain, coal and fertilizer, increased 5.73% or 190 points to 3,506 points. The Baltic's capsize index increased 11.15% on Friday with average capsize earnings rising to \$41,877 after falling earlier in the week.

**March
Calendar Averages**
CL – \$80.98
HO – \$2.0860
RB – \$2.2466

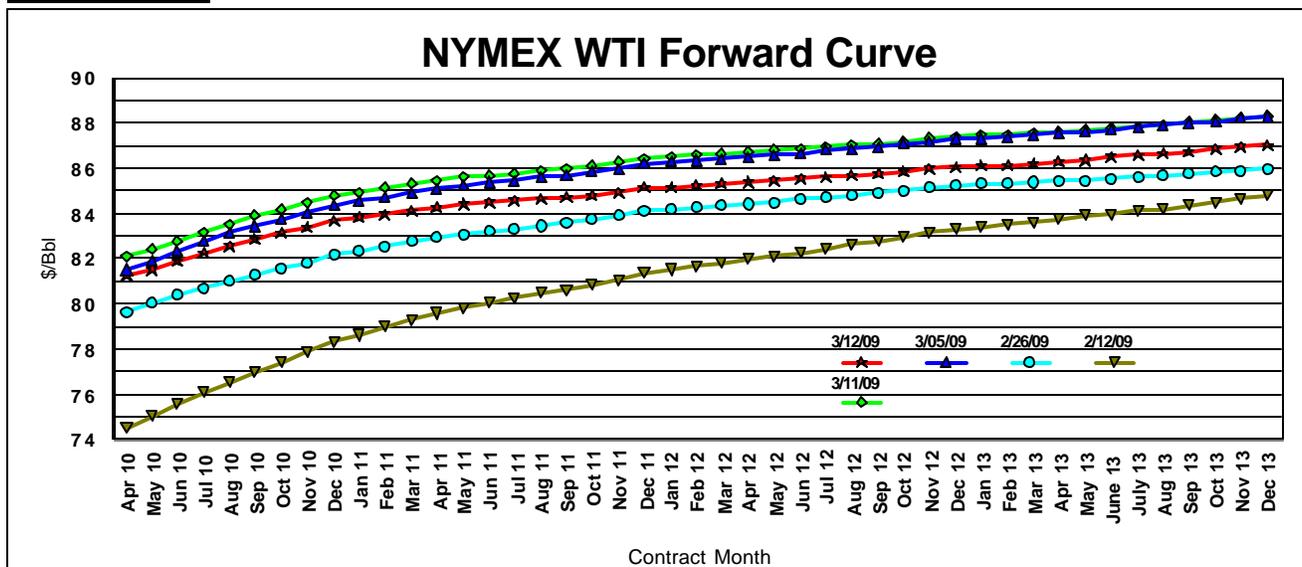
industrialized countries that are members of the OECD increased to 59.2 days of forward demand at the end of January from 58.3 days at the end of December. Refiners will process 72.5 million bpd of crude in the first quarter. The IEA revised runs in the OECD up by 150,000 to 35.5 million bpd but lowered non-OECD runs by 290,000 to 37 million bpd due to higher than expected plant outages. The IEA also reported that the amount of oil products in floating storage has fallen by 12 million barrels to 74 million barrels at the end of February. Crude oil held at sea also fell by 7 million barrels to 52 million barrels in the same period. Most of the draws occurred in Europe and Asia. European floating storage volumes fell by 3 million barrels to 54 million barrels by the end of February. The IEA also reported that Nigeria is importing 100% of its oil product needs due to ongoing outages at all four of its refineries.

Venezuela’s Oil Minister Rafael Ramirez reiterated that Venezuela’s position at next week’s OPEC meeting will be to keep production levels steady. He dismissed talks that OPEC member plans to negotiate a possible increase in production during the second half of the year if oil prices continue to recover. He also said he would like to see a floor for world oil prices at \$80/barrel. He said he expects crude prices to remain with the \$80-\$100/barrel range for the rest of 2010. Separately, Venezuela’s Oil Minister said the country will continue producing oil even if its ailing electricity system were to suffer a collapse. He said the oil and gas sector in Venezuela relies on the national grid for half of its electricity needs while the other half comes from generators maintained by the oil companies themselves. He said if the national grid were to suffer some type of collapse, there are ways to ensure that energy would continue to reach the oil sector so that production continues.

Saudi Arabia denied that its officials had discussions with US Defense Secretary Robert Gates over pressuring China to support a new round of sanctions on Iran over its nuclear program.

Goldman Sachs said declining oil inventories and a recovery in demand will increase spot crude prices this summer, moving the market into backwardation for the first time since 2008. It said for this time of year, OECD total petroleum inventories would need to be 100-150 million barrels below current estimated levels for the front month to rise above second month WTI crude prices. Goldman Sachs forecasts oil prices will be between \$92 and \$97/barrel in 3-6 months time. It said that any move into backwardation this summer would likely be short lived, as OPEC members would likely take the opportunity to increase production. However it expects the market to return to a more persistent backwardation in 2011 as OPEC spare capacity is absorbed by the market.

Refinery News



The Houston Pilots Association said the Houston Ship Channel reopened to traffic after heavy fog dissipated. The ban was lifted late Thursday night. Ships resumed moving at the oil ports of Houston, Texas City and Galveston after fog that halted traffic dissipated.

ExxonMobil Corp reported flaring on Thursday at its 348,500 bpd Beaumont, Texas refinery due to operating conditions at its facility.

Valero Energy Corp restarted a fluid catalytic cracking unit at its 325,000 bpd Port Arthur, Texas refinery following planned maintenance of the unit. The unit is seen reaching planned rates with a few days. Meanwhile, a fluid catalytic cracking unit at Valero's 195,000 bpd Memphis, Tennessee refinery is still in operation though preliminary planned maintenance work there has started earlier this week.

United Refining expects the 70,000 bpd crude unit at its Warren, Pennsylvania refinery to reach a planned rate in the mid-60,000 bpd range by the end of the month.

China's Sinopec Corp has started building a large crude stockpiling facility near its Maoming refinery in southern Guangdong province. The commercial oil storage facility, consisting of 15 oil tanks with capacity of 125,000 cubic meters each, is expected to start operations by the second half of 2011. Separately, Sinopec said its central China Changling refinery will double its capacity to about 10 million metric tons or 200,000 bpd over the next few years.

The Federation of Electric Power Companies of Japan said total oil consumption by Japan's main utilities fell by 25% on the year to 706,457 kiloliters. This was countered by the first rise in 17 months of thermal coal use, which increased by 7% on the year and by LNG consumption rising 12%, the highest increase in 19 months.

Production News

Mexico closed its Gulf of Mexico oil terminal of Dos Bocas on Friday due to adverse weather conditions.

Kuwait Oil Co said contained a small fire that had no impact on its output at an oil facility on Friday. The fire started on Friday morning in a heater at oil gathering center 27 located in the Umm Gudair oilfield.

According to Baker Hughes, the number of rigs searching for oil and natural gas in the US increased by 11 to 1,407 in the week ending March 12th. The number of rigs searching for oil increased by 10 to 466 while the number of rigs searching for natural gas increased by 1 to 927.

Norway's Statoil said it increased production of its Oseberg field. It said modifications enabled increased recovery of an additional 20 million barrels.

Italy's Eni SpA said its new four year plan estimates average annual hydrocarbon output growth at more than 2.5% a year through 2013 and 2% through 2016. Output will likely reach 2 million bpd of oil equivalent in 2013. This year's hydrocarbon production will likely be in line with last year's 1.769 million barrels of oil equivalent. The company will take 41 new fields onstream in the next four years, resulting in about 560,000 bpd of oil equivalent.

Brazil's Petrobras said a well in the Campos Basin's BM-C-41 block showed signs of oil. There have been several discoveries in the BM-C-41 block. In February, OGX discovered three separate hydrocarbon-bearing reservoirs at the 1-OGX-3-RJS well. The reservoirs were estimated to hold between 500 million and 900 million barrels of recoverable oil.

Brazil's total ethanol in 2010/11 is estimated at 29.8 billion liters, up from 25.3 billion liters in 2009/10.

OPEC's news agency reported that OPEC's basket of crudes fell by 4 cents to \$77.76/barrel on Thursday from \$77.80/barrel on Wednesday.

Iraq's State Oil Marketing Organization has set the official selling price of its Basra Light crude bound for the US in April at a discount of \$1.45 to the Argus Sour Crude Index, (ASCI). It was the first time Iraq had priced its crude against ASCI for US buyers rather than the US crude benchmark WTI. The price of its Kirkuk crude bound for the US was set equal to the ASCI. The price of Basra Light crude bound for Europe was set at a discount of \$3.40 to the BFOE while the price of Kirkuk crude was set at a discount of \$1.85 to the BFOE. The price of Basra Light crude bound for Asia was set at a discount of \$1.10 to the Oman/Dubai average.

Market Commentary

Once again this economically sensitive market seesawed up and down as it reacted to an unexpected rise in retail sales in the U.S. and reduced consumer confidence. The selling that came after the release of the consumer confidence report, sparked off a stop-fueled decline. Stops set just below the \$81.57 trendline were activated lending momentum to this move down. Coming into next week, we would look for prices to continue to work lower, however due to the upcoming OPEC meeting, we would expect market participant not be too aggressive in forcing prices much lower until word comes from OPEC in regards to future production. We also have the expiration of the April contract coming up on March 22 and would look for longs to roll into May or June contracts. It appears that this market has set up a trading range of \$85.00-\$65.00 so far this year. Barring any major shift in market fundamentals, we would look for this range to remain intact.

The latest Commitment of Traders report showed that non-commercials in the crude market increased their net long position by 17,897 contracts to 109,314 contracts in the week ending March 9th. The combined futures and options report also showed that non-commercials increased their net long position by 18,835 contracts to 190,624 contracts on the week. The funds increased their total long position by 16,597 contracts to 282,427 contracts on the week. The disaggregated combined futures and options report showed that producer/merchants increased their net short position by 3,277 contracts to 211,486 contracts while swap dealers cut their net long position by 17,599 contracts to 8,442 contracts on the week. Managed money funds increased their net long position by 17,000 contracts to 160,477 contracts while other reportable increased their net long position by 1,836 contracts to 30,148 contracts. Meanwhile the combined futures and options report showed that non-commercials in the product markets slightly increased their net long positions. The non-commercials in the heating oil market increased their net long position by 471 contracts to 24,523 contracts while non-commercials in the RBOB market increased their net long position by 633 contracts to 69,968 contracts on the week.

Crude oil Apr. 10 162820, -24,599, May 10 289,942 +42,218, June 10 169,140 -4,742 Totals 1,372,094 +18,332 Heating oil APR10 66,234 -2,933 May 10 70,422 +3,833 June10 49,498 +99 Totals: 322,838 +5,272 Gasoline APR10 67,791 -7,598 May 10 86,233 +7,675 Jun10 45,569 +1,606 Totals: 299,378 +4,756.

Crude Support	Crude Resistance
78.05, 76.72, 75.00, 72.60, 71.31, 70.42, 69.50, 65.05, 64.70, 63.38, 62.70, 61.61, 60.95	83.40, 84.83, 85.05, 85.40, 86.60, 88.80, 89.88
Heat Support	Heat resistance
2.0180, 1.9975, 1.9860, 1.8570, 1.8280, 1.7670, 1.7565	2.2270, 2.2575, 2.4200
Gasoline support	Gasoline resistance
2.2040, 2.1460, 2.1320, 2.0660, 2.0420, 1.9970, 1.9862, 1.8650, 1.85.65, 1.7900, 1.7200 1.6600	2.3350, 2.5040,

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