



ENERGY RISK MANAGEMENT

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

www.e-windham.com

ENERGY MARKET REPORT FOR MARCH 15, 2011

Kuwait's Oil Minister Sheikh Ahmad al-Abdullah al-Sabah said oil prices are sustainable at their current levels and there will be no need for OPEC to meet before June as prices decline.

According to a SpendingPulse report released by MasterCard Advisors LLC, US weekly gasoline demand increased by 2.2% or 196,000 bpd to 9.149 million bpd in the week ending March 11th. It reported that the four week average of gasoline demand increased by 0.7% on the year to 9.017 million bpd. It reported that the US average retail price of gasoline increased by 10 cents to \$3.53/gallon on the week.

The IEA said that despite the escalating supply disruptions in Japan and Libya, the balance of oil supply and demand does not suggest a repeat of the rally in prices to \$147/barrel seen in 2008. It however said that if the current level of about \$115/barrel for Brent crude is sustained throughout the year, the world economy could slow significantly,

API Stocks
Crude – up 91,000 barrels
Distillate – up 531,000 barrels
Gasoline – down 458,000 barrels
Refinery runs – up 2.4% at 82.3%

Market Watch

The Energy Department reiterated its plans to purchase 1 million barrels of ultra low sulfur distillate fuel this summer for the Northeast Heating Oil Reserve this summer, despite soliciting bids for up to 2 million barrels of storage space.

The US Labor Department said US import prices increased more than expected in February as costs increased for energy, industrial supplies and food. It reported that the price of goods imported to the US increased by 1.4% on the month. This followed a downwardly revised 1.3% gain in January compared with an initial estimate of 1.5%. Petroleum import prices increased by 3.7% in February and were up 20.6% on the year. Excluding petroleum, import prices increased by 0.6% in February.

The New York Federal Reserve's report showed its Empire State general business conditions index increased to 17.5 in March from 15.43 in February. It increased to the highest level since June 2010. The new orders index fell to 5.81 from 11.8 while shipments fell to 1.62 from 11.31. The prices paid index increased to 53.25, the highest level since August 2008, from 45.78. The index for the number of employees increased to 9.09 from 3.61 in February.

Iraq's parliament is expected to start debating a draft law setting up a new national oil company soon. A draft law of the new national oil company was passed by the former cabinet in July 2009 but has been stalled in the parliament since.

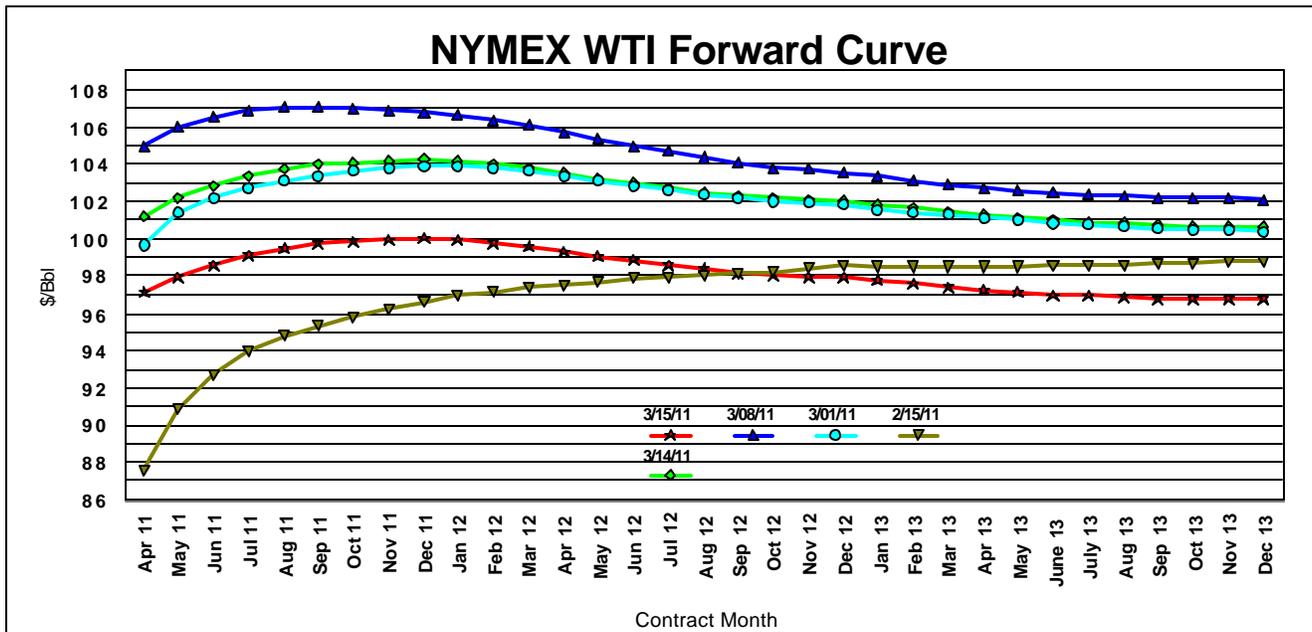
Japan's largest brokerage, Nomura Holdings Inc plans to shut its global commodities and energy trading desks. It had oil and commodities trading operations in Tokyo, London and Singapore.

**March
Calendar Averag
CL – \$102.30
HO – \$3.0417
RB – \$2.9849**

with a reduction in forecast growth of between 1 and 3.5%. It said world oil supply reached a record of 89 million bpd in February, up 200,000 bpd on the month, largely due to the restart of some oil production in Alaska. This offset the 95,000 bpd decline in crude from OPEC members. Despite this, fears that political turmoil in the Middle East and North Africa will further disrupt

supplies have lifted oil prices high enough to curb expected demand growth. It expects global oil demand growth this year to be 2.9 million bpd. It cut its world oil demand estimate by 10,000 bpd to 1.44 million bpd. The IEA also reported that OECD stocks fell by 43.4 million barrels in February. The IEA also stated that global refinery runs are expected to reach a seasonal low of 73.5 million bpd in March and continue to fall through the first quarter of 2011. Refinery runs are expected to start recovering in the second quarter of the year as the summer months near, with throughput rates estimated to reach 75.3 million bpd in June. In regards to Libya, it believes Libyan oil exports, which averaged 1.3 million bpd in 2010, have been halted. It said exports could be off the market for many months due to both war, inflicted damage on oil infrastructure and international sanctions. The IEA said Japan will need to quickly start using more oil, gas and coal to replace electricity usually supplied by nuclear power plants that have been taken offline due to Friday's earthquake. As of March 14th, 11 reactors in Japan with a combined generating capacity of 9.7 gigawatts were out of service while a further 8.5 gigawatts of fossil fuel power stations were also shutdown. The IEA said that if all the offline nuclear reactors and the 60 terawatt hours of electricity they could produce had been replaced by unused thermal power stations, 200,000 bpd of crude or fuel oil would be needed.

The head of the Libyan oil workers' union said all of Libya's oil export terminals except Tobruk in the east are back under central control. Witnesses said there was still fighting between rebels and pro-Gaddafi forces in Brega, site of an oil terminal. Separately, Libya's Arabian Gulf Oil Co stopped pumping crude to Ras Lanuf after forces loyal to Muammar Gaddafi retook the northern town and has diverted its oil to the rebel held town of Tobruk. An Agoco official said there are no plans to export oil for the rest of March and added that the company will consult with the Libyan rebel council about whether to resume exports in April.



The Group of Eight leading countries appeared poised to call for further discussions at the UN to address increasing violence in Libya but is likely to back away from recommending military action. France and the UK have attempted to convince their European partners of the need for strikes to protect civilians in Libya however their efforts have failed to gain traction at the G-8. The G-8 foreign ministers are expected to warn Libyan Leader Muammar Gaddafi of the consequences of failing to respect the basic rights of his people but will stop short of recommending a no-fly zone.

The main powers on the UN Security Council expect to distribute a draft resolution proposing tougher sanctions against Libya to all council members on Tuesday.

Bahrain's King Hamad proclaimed a state of emergency for three months in the country, after Gulf Arab troops entered the country to help end the Shi'ite led protests. A member of Bahrain's security forces was killed on Tuesday in clashes with thousands of protesters.

Iran's Foreign Ministry said military intervention in Bahrain by Gulf states is unacceptable and added that it would complicate the already volatile situation there.

The US warned that there was no military solution to the political unrest in Bahrain. Meanwhile, Secretary of State Hillary Clinton told Saudi Arabia's Foreign Minister that the country must promote talks between parties in Bahrain.

Refinery News

Tesoro Corp said it is unlikely to export refined products to Japan and such exports are likely to come from other refiners in the Far East. A Tesoro spokesman said US refiners may have an opportunity to increase sales to South America following the earthquake in Japan. Customers in Brazil and other South American markets could see less of their Asian suppliers as low-sulfur fuel oil and other distillates from that region heads to Japan.

Royal Dutch Shell Plc said it stands ready to help Japan with its fuel demand in the wake of last week's earthquake and tsunami. The company is in talks with the country's government and plans to send as many available liquefied natural gas cargoes as possible. It said its refineries in Japan were not damaged. Separately, Royal Dutch Shell said its upstream production expectations for 2012 were unchanged from a year ago at 3.5 million barrels of oil equivalent and is targeting an increase to 3.7 barrels of oil equivalent in 2014, up 12% from the 2010 level.

BP Plc notified California state environmental regulators of planned flaring at its Carson, California refinery.

Tesoro Corp said its 58,000 bpd refinery in Mandan, North Dakota is operating at targeted rates after completing repairs last week to the furnace damaged in a fire on January 19th. The furnace and the alkylation unit it services were successfully restarted without incident. It had no problems meeting its regional contractual product supply commitments during the interim period that the unit was down.

PDVSA said a fire, following an explosion, at a unit at its 645,000 bpd Amuay refinery caused a cut in its operations. A source said PDVSA was still evaluating whether the fire damage required Amuay to close its catalytic cracker gasoline unit. The source said its 104,000 bpd catalytic cracker diesel and gasoline unit had to reduce its load and would remain at reduced rates for several days during repair work.

Japan's Cosmo Oil Co said operations to extinguish a fire at its Chiba refinery are continuing. It shut its 220,000 bpd Chiba refinery after the magnitude 9 earthquake and accompanying tsunami struck Japan on Friday. Meanwhile, JX Nippon Oil said a fire at its 145,000 bpd Sendai refinery has been extinguished. It also said that the refinery of subsidiary Kashima Oil Co has remained shut.

Japan's AOC Holdings said Fuji Oil Co increased runs at the two fluid catalytic cracking units at its 140,000 bpd Sodegaura refinery after briefly cutting operations.

SK Energy plans to increase overall refinery runs rates to more than 80% in April due to strong regional demand for oil products. South Korea will likely be the largest supplier of oil products to Japan in the wake of the disaster.

Indian Oil Corp shut its naphtha cracker at Panipat over the weekend for more than two weeks for maintenance. The unit is expected to resume operations in the last week of the month.

China's National Energy Administration reported that the country's overall power consumption increased by 10.1% in January from a year earlier to 388.9 billion kilowatt hours.

Production News

The head of Libya's National Oil Corp, Shokri Ghanem, said the country's oil production will take some time to return to normal due to some installation damage caused by fighting between rebel and government forces. He said oil installations at Ras Lanuf, Brega, Es Sider and Mellitah were completely under central control and oil workers were assessing the condition of facilities.

Russia's Prime Minister Vladimir Putin said Russia is considering speeding up its oil and gas development projects in the Far East, including the Sakhalin-3 project, to increase supplies to Japan.

Suncor Energy Inc said a fuel truck caught fire near an oil sands site in northern Alberta on Tuesday. The fire did not impact production.

Several hundreds of workers at Oman's Petroleum Development Oman staged protests on Tuesday at company headquarters and at least one oil and gas field, demanding higher wages. It was not clear if the stoppages affected production.

Austria's OMV said it would not be able to transport oil through Yemen's Safer Export Pipeline for the next two to three days as it is repaired following an incident.

The IEA urged the Norwegian government to pursue efforts to increase its energy production.

Indonesia's Pertamina said crude imports in March are expected to more than double from last month to 9.44 million barrels while oil product imports are expected to increase by nearly a third to 15.91 million barrels.

The UAE plans to double fuel oil storage facilities by 2012 at the strategic port of Fujairah, with a new crude pipeline to create an alternative energy export hub outside the risky shipment route of the Strait of Hormuz. There are currently 121 storage tanks representing about 3 million cubic meters of storage. By the end of 2012, the UAE expects to increase the number of storage tanks to 262 tanks, representing a total storage capacity of over 7 million barrels. The new crude pipeline is due to be completed later this year with a capacity of 1.8 million bpd.

Russia's oil export duty in April is expected to increase by 16% to \$423.70/ton due to increasing crude oil prices. The duty on light refined fuels is expected to increase to \$283.90/ton in April compared with \$244.60/ton in March. The duty on heavy fuels is expected to increase to \$197.90/ton, up from \$170.40/ton in March.

OPEC's news agency reported that OPEC's basket of crudes fell further to \$107.87/barrel on Monday from \$109.18/barrel on Friday.

Market Commentary

News out of Japan dominated the market once again, pushing crude to its largest sell-off since October. Losses were extended after the U.S. Federal Reserve kept its key interest rates the same and vowed to continue its bond-buying program, even as it described the economy was on firmer ground. Long speculative traders continued to unload length in what appeared to be fear driven selling. With demand from Japan certainly going to suffer for a while, we would expect prices to carry

on selling off. At this point, prices remain above the \$85.00 level they were trading at prior to the outbreak of tensions in Libya. We feel that prices still have more room to the downside, with our initial downside objective being \$92.67, with the possibility of working back toward \$85.00.

Crude oil: April 11 178,306 -24,786 May 11 316,268 +7,567 June 11 150,240 +1,737 Totals 1,564,210 -11,620 Heating oil: Apr 11 67,893 -1,777 May 11 71,650 +4,524 June 11 51,772 +1,124 Totals 309,224 +3,167 Rbob: Apr 11 56,541 -4,349 May 11 70,501 +3,099 June11 40,616 +201 Totals 272,659 +304

Crude Oil		Heating Oil		Rbob	
Support	Resistance	Support	Resistance	Support	Resistance
9540	10190	27980	30600	26965	30300
9267	10695	26680	31525	26300	31970
9635	10880	27375	33510	25683	32450
8385	111.65	23685		25145	35915
		22960		24240	36310
		22013		23631	
		21860		23414	
		21140		22560	

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