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ENERGY RISK MANAGEMENT

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ENERGY MARKET REPORT FOR MARCH 23, 2011

Libya's rebel national council based in the country's east has named Mahmoud Jibril to head an interim government and select ministers. The head of the interim government, a reformer who was once involved in a project to establish a democratic state in Libya, is already the head of a crisis committee to cover military and foreign affairs. Meanwhile, members of the council said it wants to establish a secular democracy that would respect oil contracts awarded under Muammar Gaddafi if it ousted the leader. They said the rebels could overcome Gaddafi's forces in ten days if the coalition of Western powers continued its UN mandated strikes.

Market Watch

The Commerce Department said sales of new homes fell in February to a new record low and prices fell to the lowest in more than seven years. Sales of new homes fell by 16.9% on the month to a seasonally adjusted annual rate of 250,000 in February. The previous record low of 274,000 was set last August. It reported that the median sales price for a new home sold in February was \$202,100, down 13.9% from \$234,800 a month earlier. January's sales figures were revised to a 9.6% decline from a month earlier to a seasonally adjusted annual rate of 301,000 compared with the previous estimate of 284,000.

The Mortgage Bankers Association's weekly mortgage application market index in the week ending March 18th increased by 2.7% to 524.4 on the week.

Dallas Federal Reserve Bank President Richard Fisher expressed concern on Wednesday about high levels of liquidity in the US economy and warned the Fed's bond buying program set it on a dangerous course. He said concern was already increasing over the large amount of money in the US system.

The European Union's Statistics Office Eurostat said industrial new order in January in the Euro zone increased by 0.1% on the month to 20.9 while industrial new orders in the EU increased by 0.2% on the month to 18.6.

A defiant Muammar Gaddafi said Libya is ready for battle. Despite his statements, there were reports the Libyan leader may be looking for a way out of the conflict. US Secretary of State Hillary Clinton told ABC News that people close to Gaddafi have been contacting Libya's allies worldwide to see how they can get out of this.

DOE Stocks

Crude – up 2.131 million barrels
Distillate – up 7,000 barrels
Gasoline – down 5.32 million barrels
Refinery runs – up 0.7%, at 84.1%

Western coalition aircraft launched two strikes on an area of the rebel held city of Misrata, where forces loyal to Libyan leader Muammar Gaddafi are based. Meanwhile, forces loyal to Libya's leader have resumed their attacks of the rebel held town of Zintan. There was also renewed fighting outside Ajdabiya, south of the rebel stronghold of Benghazi. A senior British commander later stated that allied forces destroyed the

Libyan air force.

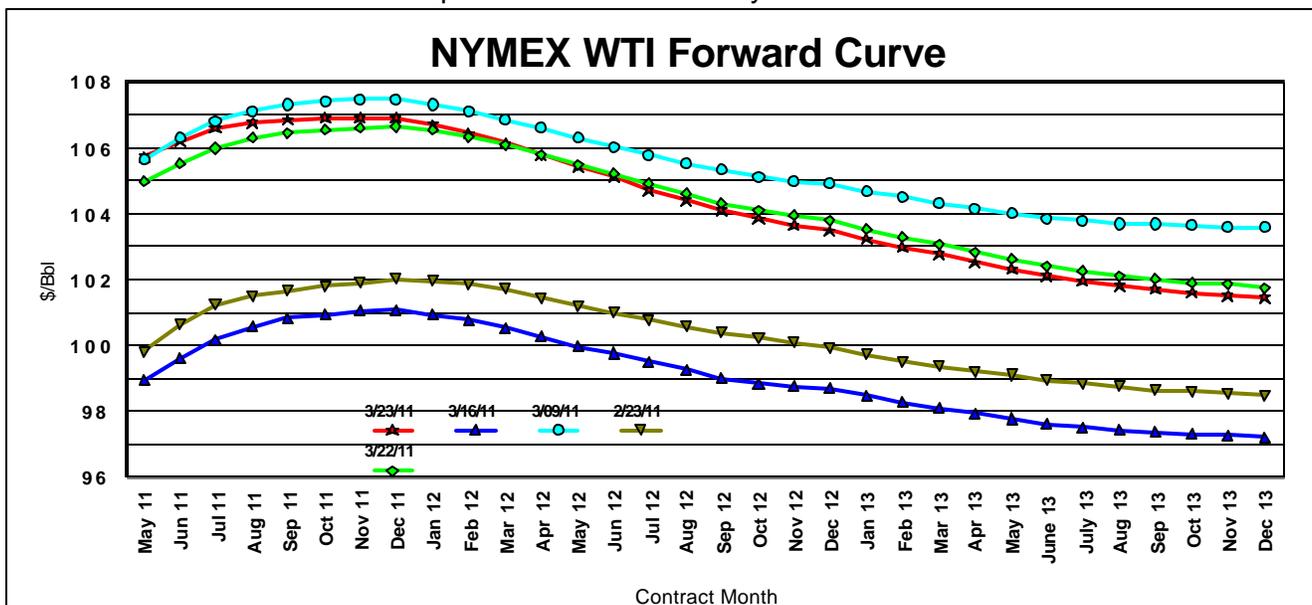
French government spokesman Francois Baroin said NATO will have a technical role coordinating the UN mandated military intervention by Western powers in Libya. Coalition partners have been wrangling over what role NATO should have once the US pulls back, with France opposed to giving political control to NATO on the grounds this could alienate Arab countries. French Foreign Affairs Minister Alain Juppe said the coalition of countries participating in military operations in Libya is scheduled to meet in London on Tuesday. France and its allies are currently in talks on how to organize the command of operations in Libya. US Defense Secretary Robert Gates said that there is no timeline for when UN backed military operations in Libya will end.

March Calendar Averages CL – \$102.22 HO – \$3.0429 RB – \$2.9765
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Britain's Prime Minister David Cameron said Kuwait and Jordan are expected to make logistical contributions to back efforts to protect civilians in Libya. He said a no fly zone was in place over Libya and 11 nations were contributing over 150 aircraft. Separately, a NATO general said Turkey has offered a submarine and warships to help enforce a UN arms embargo against Libya.

The US has named 14 companies owned by Libya's state oil firm as subject to sanctions including east Libyan operator Agoco, which has been producing oil at less than 25% of its normal levels or 95,000 bpd. The US Department of the Treasury's Office of Foreign Assets Control said all governments should block the National Oil Corp's assets and ensure that Libya's leader cannot use this network of companies to support his activities. Oil exports from Libya have stopped due to mounting difficulties with financing, sanctions and a lack of crude supplies. Austria's OMV said it had no deliveries of Libyan oil pending or planned and that it did not know when production may restart at the oil field block it operates there. Libya provided the company with 33,000 bpd of oil equivalent in 2010. Separately, EU governments also agreed on Wednesday to impose sanctions on Libya's National Oil Co and to add four other oil firms to EU measures.

A rocket launched by Palestinian militants in the Gaza Strip struck a city deep in Israel on Wednesday, wounding one person. The attack followed a surge of fighting in which Israeli forces killed nine Palestinians on Tuesday. In response, US President Barack Obama condemned a bombing in Jerusalem on Wednesday that killed one person and injured at least 30 others as well as rockets and mortars fired from Gaza in recent days. Israeli Prime Minister Benjamin Netanyahu said that Israel will act aggressively and responsibly to preserve quiet and security after violence with Palestinians escalated over the past week. He said anyone who attacks Israel would learn that the



country has an iron will to defend itself.

Yemen opposition groups called on protestors to march on President Ali Abdullah Saleh's Sanaa palace on Friday to force him out, hoping to end a crisis his allies abroad fear will benefit Islamic militants. A succession to the country's president is unclear and the country faces the danger of fragmentation. Tribal groups hostile to the Yemeni government have damaged a major oil export pipeline in western Yemen. A pipeline that ships 50,000 to 70,000 bpd from Yemen's western oil fields to the port city of Ras Isa on the Red Sea has been shut in a recent tribal attack. It exports between 25% and 30% of Yemen's oil production.

Saudi Arabia plans to begin municipal elections next month, the first political concession since protests in the region hit the kingdom. The announcement on the Ministry of Municipal and Rural Affairs' website did not say if women would be able to take part or give more details. The first phase of the elections would start on Saturday, April 23rd. The government is trying to stave off a wave of unrest that toppled rulers in Egypt and Tunisia and that has spread to neighboring Yemen, Bahrain and Oman.

The EIA reported that the total drawdown of US gasoline inventories for the first three weeks of March was the largest decline for the same period since at least 1990, when the US government began its weekly inventory report. US gasoline inventories fell 5.32 million barrels to 219.72 million barrels, bringing drawdowns since the week to March 4th to 14.98 million barrels.

Refinery News

Valero Energy Corp reported a plant wide power outage at the 200,000 bpd West Plant of its 315,000 bpd Corpus Christi, Texas refinery. The refinery is powering up and is expected to return to normal as soon as possible. The power failure did not cause any damage to process units. Valero also stated that flaring at its 171,000 bpd McKee refinery in Dumas, Texas did not have a material impact on production.

Chevron Corp said flaring will take place at its 274,000 bpd oil refinery in El Segundo, California between Wednesday and Saturday. The flaring is not related to equipment breakdown.

Tesoro Petroleum Corp warned of flaring at its 96,860 bpd refinery in Wilmington, California. It said flaring would occur on March 25th-28th.

ExxonMobil warned of planned flaring at its 149,500 bpd refinery in Torrance, California. It said the flaring would occur from March 25th-29th.

Toledo Refining Co reported that a relief valve opened releasing hydrogen sulfide and hydrocarbons to the air at its Oregon, Ohio refinery.

Holly Corp reported a release of sulfur dioxide due to a problem with the fuel gas sweetening system at its Tulsa, Oklahoma refinery.

According to a report commissioned by the Interior Department and Department of Homeland Security, the failure of the underwater blowout preventer that led to the massive BP oil spill in the Gulf of Mexico was caused by the inability of the blind shear rams to close and seal the leaking well.

Japan's TonenGeneral Sekiyu KK is operating its refineries at more than their normal rates to meet high demand for oil products after the earthquake and tsunami disrupted supplies last week. TonenGeneral's Kawasaki refinery restarted on Thursday and has been receiving crude shipments through the Kawasaki berth in Tokyo Bay. In addition to the Kawasaki refinery, all of its other

refineries have returned to full operations, adding that some units are operating above their normal rates.

China's National Business Daily reported that the country's strategic petroleum reserve capacity would increase to 85 million metric tons or 623 million barrels by 2020. It is the equivalent of 90 days of net imports.

Kuwait is seeking to buy 25,000 tons of gasoline for April 20-21 delivery in a tender. Kuwait, which rarely purchases gasoline, bought one cargo last week as it increases its inventory ahead of a planned shutdown of its 200,000 bpd Shuaiba refinery.

Production News

ConocoPhillips announced plans to sell an additional \$5 billion to \$10 billion in non-core assets over the next two years as the oil producer and refiner continues efforts to improve its balance sheet. It said smaller, less sophisticated refineries would likely be sale targets. It said it would also sell mature, high cost properties with limited growth potential. It also said it would like to drill four well in the Gulf of Mexico in 2011 if it can obtain permits. It expects its production in 2013 to total 1.6-1.7 million bpd of oil equivalent.

Brazil's Petrobras said oil and gas output in February fell as more offshore platforms were shut down for maintenance. It said its average daily output stood at just over 2.6 million bpd, down 2.2% on the month but up 1.7% on the year. Petrobras' crude oil production in Brazil reached 2.35 million bpd of oil equivalent, down about 3% from January due to planned shutdowns at some platforms. Production overseas reached 250,613 bpd of oil equivalent in February, up 4.8% on the month.

Nigeria's oil exports are expected to fall to about 2.03 million bpd or 63 million barrels in May.

Petroecuador exported 9.13 million bpd of oil in February, up 4% from 8.8 million bpd in January.

The first natural gas from offshore fields flowed in Royal Dutch Shell's Pearl gas to liquids plant in Qatar on Wednesday. Shell said sections of the Pearl plant, which would convert natural gas into high quality transport fuels and lubricants, would be started up progressively over the coming months.

OPEC's news agency reported that OPEC's basket of crudes increased to \$110.23/barrel on Tuesday from \$110.10/barrel on Monday.

Market Commentary

Once again crude oil traded higher, gaining strength on concern that heightened tensions in Yemen and Syria would lead to disruptions in supply. Adding to today's higher prices was another rise in apparent demand for gasoline, which continues to increase despite steady jumps at the pump. According to the EIA report, gasoline consumption increased by 1.2 percent year on year, with supplies dropping 5.3 million barrels from last week. With the U.S. summer driving season closing upon us, demand should continue to grow, lending further support. The spot month spread for crude oil as been strengthening steadily since the protests in Libya began. This spread, which is now the May/June, is up 88% from where it was prior to the civil uprisings in Libya. At that time, the spot spread was trading at -\$3.92 and is now worth -.46. The last time this spread was at the -.46 level, the spot contract for crude oil futures was trading \$81.65. We believe that the movement in flat price is more a function of knee-jerk reaction buying, done under low volume conditions, thereby exaggerating the higher move. Technical indicators are beginning to show signs of an overbought market, with the RSI approaching the 70 level, hinting that prices should head lower. Based upon this, we would look for a retracement to come, with declines to at least the \$101 area.

Crude oil: May 11 369,181 +5,460 June 11 154,267 -284 July 11 98,082 +2,048 Totals 1,503,614 – 10,629 Heating oil: Apr 11 38,900 –6,006 May 11 87,361 +3,973 June 11 56,094 +936 Totals 306,674 +731 Rbob: Apr 11 33,907 –6,321 May 11 89,230 +7,702 June11 43,102 +1,184 Totals 274,519 +3,816

Crude Oil		Heating Oil		Rbob	
Support	Resistance	Support	Resistance	Support	Resistance
10136		30810		26965	30300
9622	10695	27980	31525	26300	31970
9540	10880	26680	33510	25683	32450
9267	111.65	27375		25145	35915
9635		23685		24240	36310
8385		22960		23631	
				23414	
				22560	

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