

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 DECEMBER 1, 2009

Algeria's Energy and Mines Minister Chakib Khelil said the downward effect on world oil prices of Dubai's financial problems has proved to be short-lived. Concern eased that Dubai's problems would delay a global economy recovery after conglomerate Dubai World detailed its plan to restructure \$26 billion of debt.

Iran's Oil Minister Massoud Mirkazemi said OPEC is unlikely to increase OPEC's crude oil production ceiling when it meets on December 22nd. Separately, Iran's Oil Minister warned world powers Iran may stop exporting crude oil if further economic sanctions are imposed against the country.

Qatar's Oil Minister Abdulla bin Hamad Al Attiyah said OPEC

Market Watch

The US EPA postponed a decision on increasing the percentage of ethanol allowed in gasoline until mid-2010 to allow more time to assess effects on engines. It said it would keep the blend at 10% and could expand it based on a study on higher ethanol mixes in engines for cars and equipment such as lawn mowers. Raising the blend ratio would increase demand for the fuel.

The chief executive of Neste Oil, Matti Lievonon said oil prices are a bit too high compared with what is happening in the real economy and added that as a consequence prices may fall in the short term.

The Institute for Supply Management said its index of national factory activity fell to 53.6 in November from 55.7 in October. New orders increased to 60.3 in November from 58.5 in October. The ISM report also said its employment index for the manufacturing industry fell to 50.8 in November from 53.1 in October.

The US Commerce Department said spending on construction in the US did not fall in October as expected. Spending was unchanged at a seasonally adjusted annual rate of \$910.77 billion compared to the prior month. September spending fell 1.6% compared with a previous estimate of an increase of 0.8%. Spending in residential construction in October increased by 4.2% to \$258.5 billion. Residential spending fell 1.8% in September, adjusted from an originally reported 3.9% increase.

Iran's Oil Minister Massoud Mirkazemi said Iran is aiming for annual investment of at least \$35 billion in its upstream oil and gas sectors over the next five years from foreign and domestic sources. In the past four years, the sector has attracted about \$10 billion in foreign investment each year.

HSBC's China Purchasing Managers' Index increased to a record high of 55.7 in November from 55.4 in October. The index has steadily recovered from a record low of 40.9 in November 2008.

The Baltic Exchange's main sea freight index remained pressured due to weak vessel demand. The index fell 1.31% or 51 points to 3,836 points in an eighth straight session of falls and was at its lowest level since November 11th. The Baltic's capsize index fell by 1% on Tuesday.

API Stocks

Crude – up 2.887 million barrels
Distillate – up 1.059 million barrels
Gasoline – up 3.423 million barrels
Refinery runs – down 1%, at 80.1%

will not change its crude oil production quotas when it meets in December. The chairman of Libya’s National Oil Co, Shokri Ghanem said OPEC will not increase or cut its oil production when they next meet in Angola. He said OPEC will instead call for better compliance.

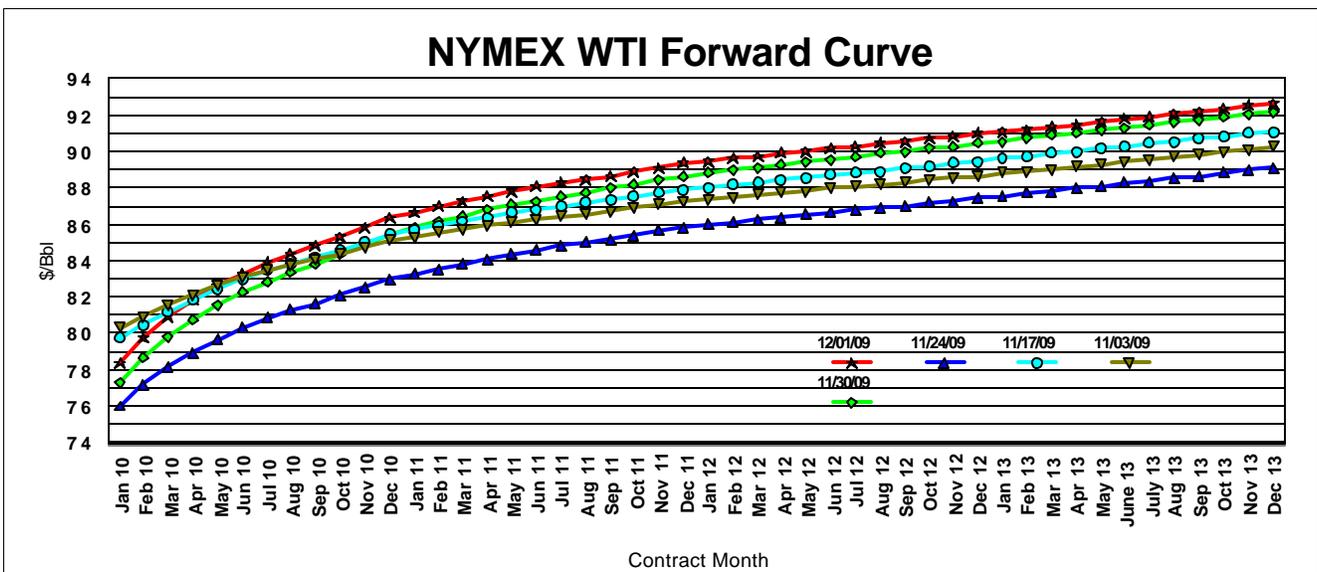
Iran’s President Mahmoud Ahmadinejad said Iran’s plan to build 10 new uranium enrichment plants is not a bluff. He said there is no need to hold talks with the West over its nuclear activities. He also said Russia made a mistake by voting in favor of the resolution. He added that the world powers will not succeed in isolating Iran over its nuclear program and dismissed any possibility of military action against the country. Iran’s President also said Iran is capable of producing its own gasoline if sanctions imposed against the country cut off imports of the fuel. Meanwhile, Iran’s Foreign Ministry said it intends to take unspecified legal action over an IAEA rebuke of its nuclear activities. It said Iran’s Foreign Minister Manouchehr Mottaki will declare Iran’s appreciation or opposition to the position of members of the governing body in separate letters. Iran will complain to the countries that support the resolution but it will not cause a change in Iran’s relations with Russia and China. Western countries are threatening more UN sanctions on Iran which could target its gasoline imports. Iran said it will expand its own production and plans to cut costly subsidies in a bid to reduce public consumption.

**December
 Calendar Averages**
CL – 78.37
HO – 2.0780
RB – 2.0423

The UN’s IAEA said Iran has not officially informed it of its decision to build 10 new uranium enrichment plants following a weekend announcement. A spokeswoman said the IAEA is aware of Iran’s decision through media reports adding that Iran has yet to inform the agency directly of its decision. The IAEA wants Iran to clarify its plan to build 10 more uranium enrichment plants.

China’s Foreign Ministry said talks remain the best way to solve the Iranian nuclear issue after Iran announced plans to increase its uranium enrichment. It urged all sides to intensify diplomatic efforts seeking a resolution. Separately, a Russian diplomatic source said Russia will not block new sanctions against Iran if the international community agrees on such a response to Iran’s new enrichment plans.

According to the MasterCard Advisors LLC, US gasoline demand increased by 3.1% or 282,000 bpd to 9.358 million bpd in the week ending November 27th. Gasoline demand was unchanged on the year. On a four week basis, gasoline demand was up 0.7% on the year. It reported that the US retail price of gasoline was unchanged on the week at \$2.62/gallon.



The California State Board of Equalization said gasoline demand in August increased by 0.7% on the year. It said diesel consumption in the state fell 17% on the year.

Refinery News

Colonial Pipeline is allocating shipments on Line 1, its main gasoline line, north of Collins, Mississippi on the 69th cycle as demand for shipping space exceeds pipeline capacity.

An ultracracker unit at BP's 455,800 bpd Texas City, Texas refinery is expected to return to service this week after it was shutdown on November 26th due to a compressor failure. Separately, production at its 265,000 bpd refinery in Carson, California was not affected by a brief upset on Saturday. A compressor tripped offline and was quickly reset.

Chevron Corp said a 59,500 bpd hydrocracking complex at its 279,000 bpd refinery in El Segundo, California was restarting on Monday after completing a planned overhaul.

Valero Energy Corp restarted the third of three coker modules that underwent maintenance at its 325,000 bpd refinery in Port Arthur, Texas over the weekend. Its 105,000 bpd coker is increasing its operations to planned rates.

Neste Oil plans to shut the 210,000 bpd Porvoo refinery for maintenance in April.

China's crude oil imports are expected to remain high at around 18 million tons/month or about 4.3 million bpd in the coming two to three months. China's official Xinhua news agency reported that with new oil tanks, pipelines and refining projects set to start operation in the coming months, crude throughput would likely hover around 33 million tons/month or about 8 million bpd. Domestic oil processing reached a high of 33.29 million tons in October, while crude imports at more than 19 million tons in October were the second highest on record. Crude oil inventories were estimated to have increased 800,000 tons in October.

Saudi Aramco is expected to export 400,000-450,000 tons of spot fuel oil so far for December after selling 600,000-650,000 tons in November and 1.2 million tons in October.

India's Reliance Industries has not sold gasoline to Iran since April. This is contrary to a statement made by the managing director of National Iranian Oil Co, Seifollah Jashnsaz that Iran was importing gasoline from Reliance. Reliance said it has a destination restriction clause in its contract to prevent sales to Iran.

Production News

According to a Dow Jones survey, OPEC continued to increase its crude oil production in November, increasing production to its highest level this year and further eroding compliance. It estimates OPEC 11's production increased by 0.42% or 110,000 bpd to 26.645 million bpd against a revised 26.535 million bpd in October. The output increase was mostly driven by higher production in Nigeria and Saudi Arabia.

Venezuela announced the final terms for the auction of its 1.2 million bpd Carabobo extra-heavy crude project late on Monday following long delays to its first tender in more than a decade. The heavy crude project will involve seven areas, each of which is expected to require an investment of between \$10 billion and \$20 billion. The goal is to increase Venezuela's oil production by 1.2 million bpd by 2015. Venezuela is due to accept offers for Carabobo in January.

Venezuela's 130,000 bpd Petroanzoategui upgrader is operating normally on Tuesday following a brief shutdown Monday due to problems with a boiler.

China National Petroleum Corp has set a preliminary target for domestic crude oil output next year at 105.66 million metric tons. It expects domestic crude oil production this year to reach 103.13 million tons.

Indonesia's BPMIGAS said the country's crude oil production fell further in November to 824,200 bpd from 828,400 bpd in October. Meanwhile the country's condensate production increased to 129,000 bpd in November from 120,000 bpd in October.

OPEC's news agency reported that OPEC's basket of crudes increased to \$76.21/barrel on Monday from \$75.38/barrel last Friday. It also reported that OPEC's basket of crudes fell by 98 cents to \$75.79/barrel in the week ending November 27th.

Market Commentary

The big news behind today's market move, was a report that indicated manufacturing in China expanded at its fastest pace in five years, building hopes that fuel demand will increase in that region. China is the second largest consumer of fuel, behind the U.S. Aiding in the advancement of today's price movement was report that indicated manufacturing growth in the U.S. expanded for the fourth straight month and a weak dollar sent investors over to the commodities markets. This move higher bolstered hope that demand in 2010 will help to reduce the overhang in supply. This supported the middle to back end of the forward curve, as is indicated on the chart depicted within this wire. Products were also supported. The relationship between crude oil, gold and the dollar continues, as investors look to this relationship as a financial hedge. We would look for this relationship to remain as long as economics can support it, with the true underlying fundamentals lending intermittent limited upside potential to crude oil. The January crude oil continues to work towards the top of the channel that can be seen on a daily spot continuation chart. Coming into tomorrow's session we would look for a test at this channel top, which comes in set at \$79.50.

The API reported that crude stocks built by 2.887 million barrels on the week. However crude stocks would have seen a build of 960,000 barrels if Padd 2 crude stocks for the previous week were not revised down by 1.965 million barrels. It reported the build in stocks as crude runs fell by 153,000 bpd to 13.936 million bpd on the week. However the API reported that crude imports fell by 1.225 million bpd to 8.45 million bpd on the week. Meanwhile, the API reported a build in distillate stocks of 1.059 million barrels on the week, with a build of 1.721 million barrels in Padd 1 alone. It showed that distillate stocks are up 27.4% on the year. It reported the build as apparent demand fell by 14.5% on the week to 4.079 million bpd while apparent demand basis its three week moving average fell by 0.2% to 4.359 million bpd. It however reported that distillate production fell by 152,000 bpd or 3.6% on the week to 4.028 million bpd while imports fell by 51,000 bpd or 20.2% to 202,000 bpd on the week. The API reported a large build in gasoline stocks of 3.423 million barrels on the week, with stocks in Padd 3 increasing by 1.81 million barrels. Gasoline stocks built as apparent demand fell by 6.7% on the week to 8.615 million bpd while apparent demand basis its three week moving average fell by 0.9% to 9.065 million bpd. The API also showed that gasoline imports increased by 62,000 bpd or 46.3% to 196,000 bpd on the week.

Crude Jan. 10 348,022 -6,414 FEB.10 102,819 +1,670 MAR.10 90,525 -1,315 Totals: 1,198,656
-18,267 Heating oil Jan.10 94,581 +1,939. FEB 10 40,844 +98 MAR.10 39,080, +1,017 Totals:
316,686 -4,276 Gasoline JAN.10 106,032 +3,301 FEB.10 32,512 +460 MAR. 10 31,476, -714 Totals:
248,803 -6,041.

Crude Support	Crude Resistance
74.96, 73.52, 71.52, 65.05, 64.70, 63.38, 62.70, 61.61, 60.95	80.50, 84.83, 85.40, 86.60, 88.80
Heat Support	Heat resistance
1.9500, 1.9175, 1.8570, 1.7670,	2.1580, 2.2110, 2.2575, 2.4200
Gasoline support	Gasoline resistance
1.9060, 1.8840, 1.8480, 1.7900	2.1100, 2.1600, 2.3350

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 written permission is prohibited.