



ENERGY RISK MANAGEMENT

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ENERGY MARKET REPORT FOR DECEMBER 1, 2010

Libya's National Oil Corp's chairman Shokri Ghanem said he does not expect any change in output quotas at the next OPEC meeting. He said the oil market is well supplied.

The EIA reported that crude oil storage at the Cushing, Oklahoma terminal is 62.8% full. In its first semiannual report on oil storage capacity, the EIA said the crude oil capacity at the port was 54.975 million barrels as of September 30th. However it reported that working tank capacity, the amount that can be effectively used, was lower at 45.88 million barrels.

Market Watch

The US Labor Department reported that US productivity increased more than previously expected in the third quarter. Nonfarm business productivity increased at a 2.3% annual rate in the third quarter compared with a previous estimate of 1.9%. US productivity fell by 1.8% in the second quarter.

The Institute for Supply Management reported its Purchasing Managers' Index fell to 56.6 in November from 56.9 in October.

ADP reported that private sector payrolls continued to expand in November by 93,000. Economists were expected private sector payrolls to increase by 70,000 in November. The estimated change in employment for October was revised to show an increase of 82,000 compared with the previously reported 43,000.

The US Commerce Department reported that spending on US construction projects unexpectedly increased in October. Construction spending increased by 0.7% to a seasonally adjusted annual rate of \$802.32 billion compared to the prior month. Spending on US residential projects increased by 2.4% to \$240.32 billion after increasing by 0.7% in September.

JP Morgan Global Manufacturing PMI increased to 53.9 in November from 53.7 in October.

The China Federation of Logistics and Purchasing said the country's official purchasing managers' index increased to a seven month high of 55.2 in November from 54.7 in October. Separately, HSBC's China Purchasing Managers' Index increased in November to an eight month high. The index increased to 55.3 from 54.8 in October.

Mexico's Finance Minister Ernesto Cordero said Mexico has hedged its crude oil exports for 2011. He said more details on the transaction would be announced next week. The Financial Times reported in September that Mexico would hedge less than 200 million barrels in 2011 at \$65 to \$70/barrel.

Russia's Energy Minister Sergey Shmatko said Russian ministries will agree on a joint approach on export duties for oil products on December 9th. Russia's Finance Ministry in October proposed raising export duties on oil products from January 1st to as much as 85-90% of the duty on crude oil.

The CME Group announced that effective for trade date Monday, December 6th, it will list a Mont Belvieu Normal Butane LDH(OPIS) Swap Futures contract, a Singapore Mogas 92 Unleaded (Platts) vs. DME Oman Crude Oil Swap Futures contract, a Singapore Gasoil (Platts) vs. DME Oman Crude Oil Swap Futures contract, a DME Oman Crude Oil Swap Futures contract, a DME Oman Crude Oil vs. ICE Brent Swap Futures contract, a DME Oman Crude Oil Average Price Option and a DME Crude Oil BALMO Swap Futures contract for trading on the NYMEX trading floor and for submission for clearing through Clearport.

DOE Stocks

Crude – up 1.066 million barrels
Distillate – down 194,000 barrels
Gasoline – up 561,000 barrels
Refinery runs – down 2.9%, at 82.6%

The Obama Administration said it would not allow offshore drilling off the Atlantic coast and in the eastern Gulf of Mexico. The US Interior Department said it would process a permit long sought by Royal Dutch Shell Plc to drill off the coast of Alaska and would consider offering new leases in Alaskan coastal waters by 2017. It also said it aimed to offer new leases to drill in the Gulf of Mexico by late 2011 following environmental reviews.

US Secretary of State Hillary Clinton said the US welcomed Iran's decision to join talks in Geneva, which she said should focus on Iran's nuclear program. She said they remain willing to discuss a proposal to provide fuel for a research reactor. European Union foreign affairs chief Catherine Ashton is scheduled to meet with Iran's nuclear negotiator Saeed Jalili in Geneva on December 6-7 for the first high level talks with Iran since October 2009. Iran's President Mahmoud Ahmadinejad has stated that uranium enrichment activity will not be up for negotiations, raising doubts about Iran's willingness to discuss a disputed nuclear program.

Police in Nigeria's Niger Delta have charged 65 people with kidnapping, robbery and oil theft. Meanwhile, the Nigerian army said it was attacking three camps of the Niger Delta Liberation Force, a militant group that has threatened renewed oil sabotage in the Niger Delta if its demands for development are not met.

The CFTC proposed rules on Wednesday that provide clarity on which companies will be subject to new derivatives regulations and which may qualify for exemptions from the new rules. The proposal by the CFTC is the latest to be issued for public comment as the CFTC works to implement provisions of the Dodd-Frank financial overhaul law. Under the law, a swap dealer is a firm that holds itself out as a dealer, makes a market in swaps or regularly trades them as part of its business. CFTC commissioner Jill Sommers said the proposal will not allow firms to be registered as swap dealers, major swap participants for single class of swaps but firms can apply for limited designation. She also said that the CFTC will not make a mid-January deadline to finalize its long awaited plan to limit speculative position held by commodity traders. Meanwhile, CFTC commissioner Bart Chilton estimates that 10 or fewer firms will qualify as major swap participant.

Refinery News

ExxonMobil Corp does not expect production at its 150,000 bpd refinery in Torrance, California to be affected by minor maintenance on an unidentified unit on Wednesday. It warned California pollution regulators of possible flaring between Wednesday and Friday at the refinery due to the work.

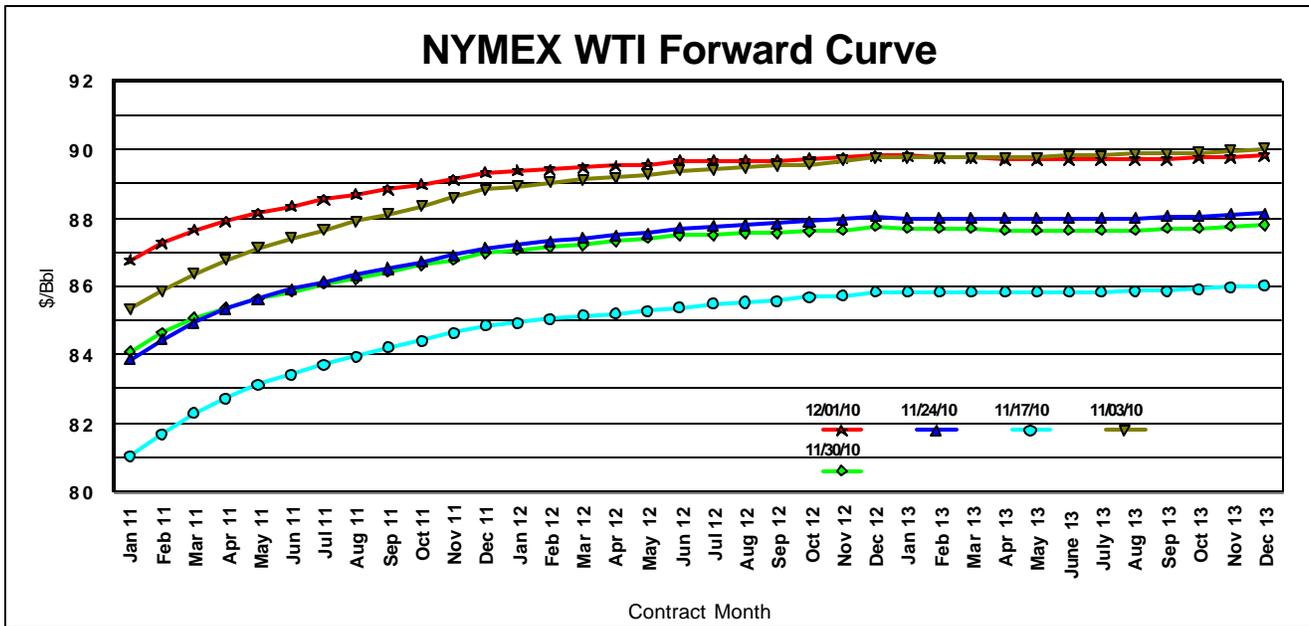
BP reported unplanned flaring due to a breakdown at its 265,000 bpd Carson, California refinery.

Irving Oil Ltd said it is performing maintenance work on a residual fluid catalytic cracking unit at its 300,000 bpd refinery in St. John, New Brunswick, Canada. The work is expected to be completed within 72 hours.

Alon USA Energy reported emissions associated with a high stage compressor on Tuesday afternoon at its 67,000 bpd refinery in Big Spring, Texas.

The Petroleum Association of Japan reported that the country's crude stocks fell by 200,000 kiloliters to 15.289 million kl in the week ending November 27th. Japan's gasoline stocks increased by 139,066 kl to 2.263 million kl while its kerosene stocks increased by 115,149 kl to 2.76 million kl, its gasoil stocks increased by 62,848 kl to 1.873 million kl, its naphtha stocks

**December
Calendar Averages**
CL – \$86.75
HO – \$2.4056
RB – \$2.3004



increased by 39,114 kl to 2.037 million kl and its jet fuel stocks fell by 42,894 kl to 788,026 kl. It reported that crude runs increased by 90,776 kl to 4.3 million kl.

Mercuria Energy Group has booked a Panamax oil tanker to carry 60,000 metric tons of high sulfur gasoil from Singapore in early December. The move comes after it purchased more than 4.2 million barrels or about 575,000 tons of 0.5% sulfur gasoil from Singapore for loading in November and December.

Algeria imported 11% of its gas oil needs in 2009.

Production News

According to a Dow Jones Newswires survey, OPEC's 11 quota bound members fell by 107,000 bpd to 26.859 million bpd in November from 26.966 million bpd in October. The quota bound members produced 2.014 million bpd above the group's quota of 24.845 million bpd. The compliance rate increased to 52% in November from 49.5% in October. OPEC's total OPEC production fell by 19,000 bpd to 29.322 million bpd in November. It reported that Saudi Arabia cut its production by 40,000 bpd to 8.24 million bpd. Iraq's oil production increased by 88,000 bpd to 2.463 million bpd.

Nigeria's Bonny Light crude cargoes for January loading will be deferred by four to five days due to force majeure declared by Royal Dutch Shell Plc on its exports after a pipeline in the Niger Delta was damaged. Traders said one 600,000 barrel cargo for January 1-2 loading will be added to the January loading program, while BP Plc's cargo for December 30-31 loading will be deferred to January 4-5 while another six cargoes originally scheduled to load on January 4-25 will be deferred by four to five days.

Royal Dutch Shell Plc plans to increase its oil production from Iraq's Majnoon oil field to 175,000 bpd by the end of 2012. Shell has increased production at the field to 65,000 bpd from 40,000 bpd this year.

Brazil's Petrobras expects to double crude oil production in the Santos Basin to 130,000 bpd by the end of 2011 from the current level of 61,000 bpd. It said a pilot production project at the Tupi field, estimated to hold recoverable reserves of between 5 billion and 8 billion barrels of oil equivalent started in late October. It said the Tupi pilot should reach its production capacity of 100,000 bpd in 2012.

Indonesia's BP Migas said a new Indonesian maritime law could cut the country's oil production by 260,000 bpd next year and natural gas production by 22%. Indonesia has a target to produce 970,000 bpd of oil and condensate this year. The Transport Ministry said the law will take effect for the offshore energy industry in May next year.

Iran's Economy Minister, Shamseddin Hosseini said the price of gasoline in Iran will increase by 700% when subsidies are cut. Iran's President Mahmoud Ahmadinejad hopes to save \$100 billion a year by phasing out subsidies on gasoline, natural gas, electricity, water and food. The price of gasoline will be 7,000 rials or about 70 cents following the implementation of the subsidy reform plan.

Syria's Sytrol is scheduled to load 560,000 metric tons or 3.9 million barrels of oil in December, unchanged on the month.

OPEC's news agency reported that OPEC's basket of crudes increased by 20 cents to \$83.65/barrel on Tuesday from \$83.45/barrel on Monday.

Market Commentary

Crude oil rose above its technical resistance level of \$86.00 a barrel in response to economically positive news out of China and the U.S. jobs in the U.S. grew the most in three years, while manufacturing expanded for the 16th consecutive month. Adding strength was an increase in China's PMI, a gauge of factory activity, which climbed to a seven-month high in November. Gasoline proved to be the stronger of the markets, settling up 5 percent on the day. The January gasoline crack spread increased more than \$2.00, finishing the day at \$9.87. This move higher was in response to tighter supplies in the U.S. East Coast and news of refinery problems at Irving Oil Ltd's New Brunswick, Canada location, which delivers gasoline into the New York Harbor. With signs of global economic improvement and the technical break above \$86.00 level crude oil should continue to gain strength. At this point in time we would look for a test up at the recent high of \$87.85. Fundamentally, there is still an ample supply of crude oil and stagnant demand; therefore we would look for limited moves to the upside.

Crude oil: Jan 11 323,184 -7,614 Feb 11 122,003 +6,501 Mar 11 128,346 +2,231 Totals 1,342 325 +4,700 Heating oil: Jan 11 100,027 -113 Feb 11 44,221 +1,031 Mar 11 34,625 +709 Totals 300,911 -5,223 Rbob: Jan 11 104,957 Feb 11 42,465 Mar 11 29,667 Totals 271,829 -133

Crude Oil		Heating Oil		Rbob	
Support	Resistance	Support	Resistance	Support	Resistance
8600	8785	22040	24680	22800	
7993	8890	21860	24950	20300	23050
7871	9050	21375	26740	20130	24880
7783	9100	21140		18750	27085
7671	9385	20702		18240	
7601				16010	

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