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ENERGY MARKET REPORT FOR DECEMBER 3, 2010

US Secretary of State Hillary Clinton demanded that Iran be constructive at talks on its nuclear program scheduled for next week. Iran will resume talks in Geneva on Monday and Tuesday with the five permanent members of the UN Security Council and Germany. The world powers are hoping the Geneva talks focus on Iran's nuclear program however Iran wants a wider discussion that includes regional security issues and Israel's alleged possession of nuclear arms.

ICAP Shipping reported that crude oil stored in tankers globally fell to 44 million barrels as of the week ending December 3rd from 50 million barrels during the previous week.

Market Watch

The US Labor Department reported that nonfarm payrolls increased by 39,000 in November as private sector employers added only 50,000 jobs. Economists were expecting payrolls to increase by 144,000 on the month. The October number was revised up slightly to show a 172,000 increase from a previous estimate of 151,000. The unemployment rate unexpectedly increased to 9.8% in November from 9.6% in October.

The US Commerce Department said factory orders fell for the first time in four months in October. Orders for manufactured goods fell by 0.9% to \$420.09 billion. Factory orders in the previous month were revised up to a 3%. Demand for durable goods fell by a revised 3.4% in October.

The Institute of Supply Management reported that the US non-manufacturing sector expanded in November. Its non-manufacturing purchasing managers' index increased to 55 in November from 54.3 in October. It said October's business activity/production index fell to 57 from 58.4 in October while its new-orders index strengthened to 57.7 from 56.7. The ISM employment index increased to 52.7 from 50.9 in October. Meanwhile, it reported that price pressure fell. Its price index fell to 63.2 from 68.3.

JP Morgan said oil will breach \$100/barrel in the first half of 2011 and \$120/barrel before the end of 2012.

Deutsche Bank raised its oil price outlook on Friday due to a recovery in world oil demand and the fall in inventories in developed countries. It raised its price forecast for 2011 from \$80/barrel from \$87.50/barrel.

Shell Trading said the definition by the CFTC of what constitutes a swaps dealer is too broad and could include entities that engage in swaps as part of normal business practices. It said the companies may include commodity market participants with large physical positions.

A plan to cut the US budget deficit fell short of winning support needed from a presidential commission to trigger congressional action. However it is expected to help shape future budget debates. The National Commission on Fiscal Responsibility and Reform voted 11-7 in favor of its plan to cut about \$4 trillion from US budget deficits by 2020.

**December
Calendar Averages**
CL – \$87.98
HO – \$2.4492
RB – \$2.3359

Thamer Al-Ghadhban, the chairman of the advisory committee to the Iraqi Prime Minister Nouri al-Maliki said Iraq needs to plan now for its future by exploring for more oil in its fields and capturing more of its natural gas for electricity generation.

The ethanol industry secured a victory in its attempt extend tax credits for companies that blend ethanol into gasoline. Chairman of the Senate Budget Committee, Max Baucus, proposed extending the tax credits for small producers at 8 cents for a year while reducing the level of the credits from the current 45 cents/gallon to 36 cents/gallon. The proposals were included in legislation that could be voted on as early as Saturday.

Refinery News

ConocoPhillips intends to restart the alkylation unit at its Alliance refinery in Belle Chase, Louisiana on Friday or Saturday and return the fluid catalytic cracking unit to full operation as soon as the weekend. The 102,000 bpd fluid catalytic cracking unit was operating at 60% of capacity while repairs were made on a major exchanger associated with the alkylation unit.

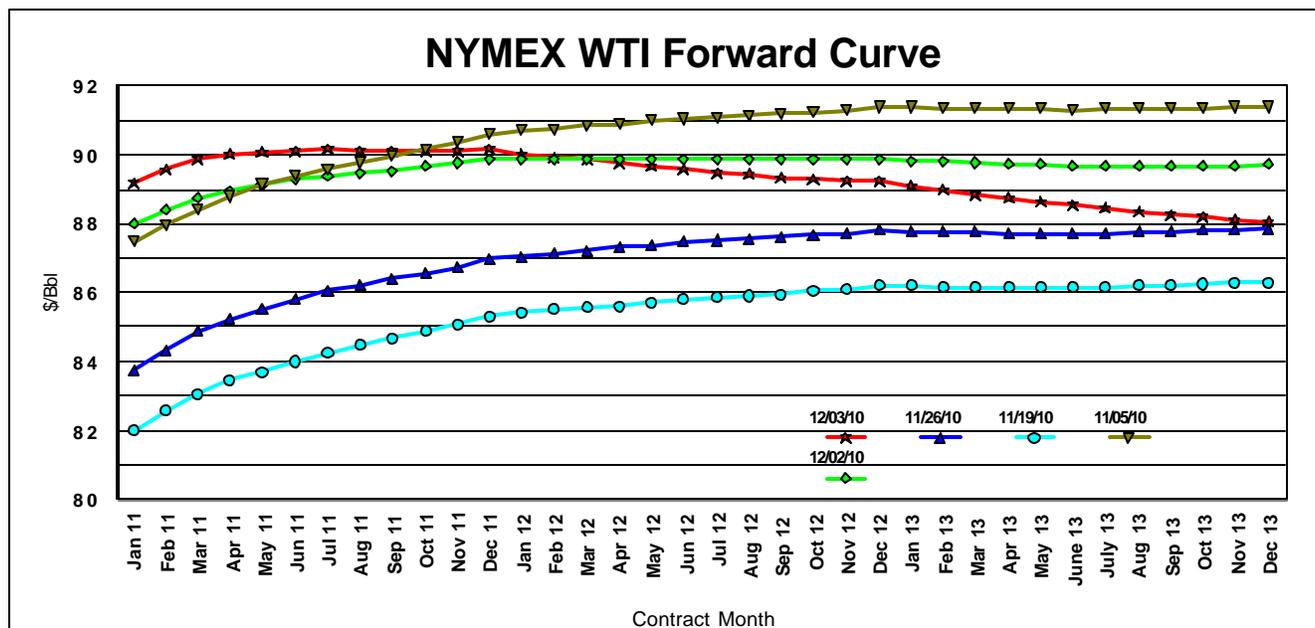
Chevron Pipe Line Co is completing the cleanup of a 100 barrel oil spill from its 15,000 bpd crude oil line in Utah and has started investigating the cause of the spill. The line connects Chevron’s Rangely, Colorado production field to its 45,000 bpd refinery in Salt Lake City, Utah. Production rates at the refinery have not been affected by the shut down of the line because the refinery stores oil. Chevron could have difficulty reopening the line as local opposition mounts.

Bharat Petroleum Corp is planning to expand its refinery at Kochi in southern India to help meet its target of 50 million tons of annual refining capacity.

China’s Sinopec is scheduled to close its 100,000 bpd crude distillation unit and other facilities at its Guangzhou refinery starting in late February for one month of repairs.

Finland’s Neste Oil expects its renewable diesel plant in Singapore to reach full capacity in six months. It is increasing its production from 70,000 tons to 800,000 tons annually.

Estonia’s main oil loading port, Tallin, shipped 2.164 million tons of oil products in November, up





20.7% on the year. It is up from 2.047 million tons loaded in October.

Production News

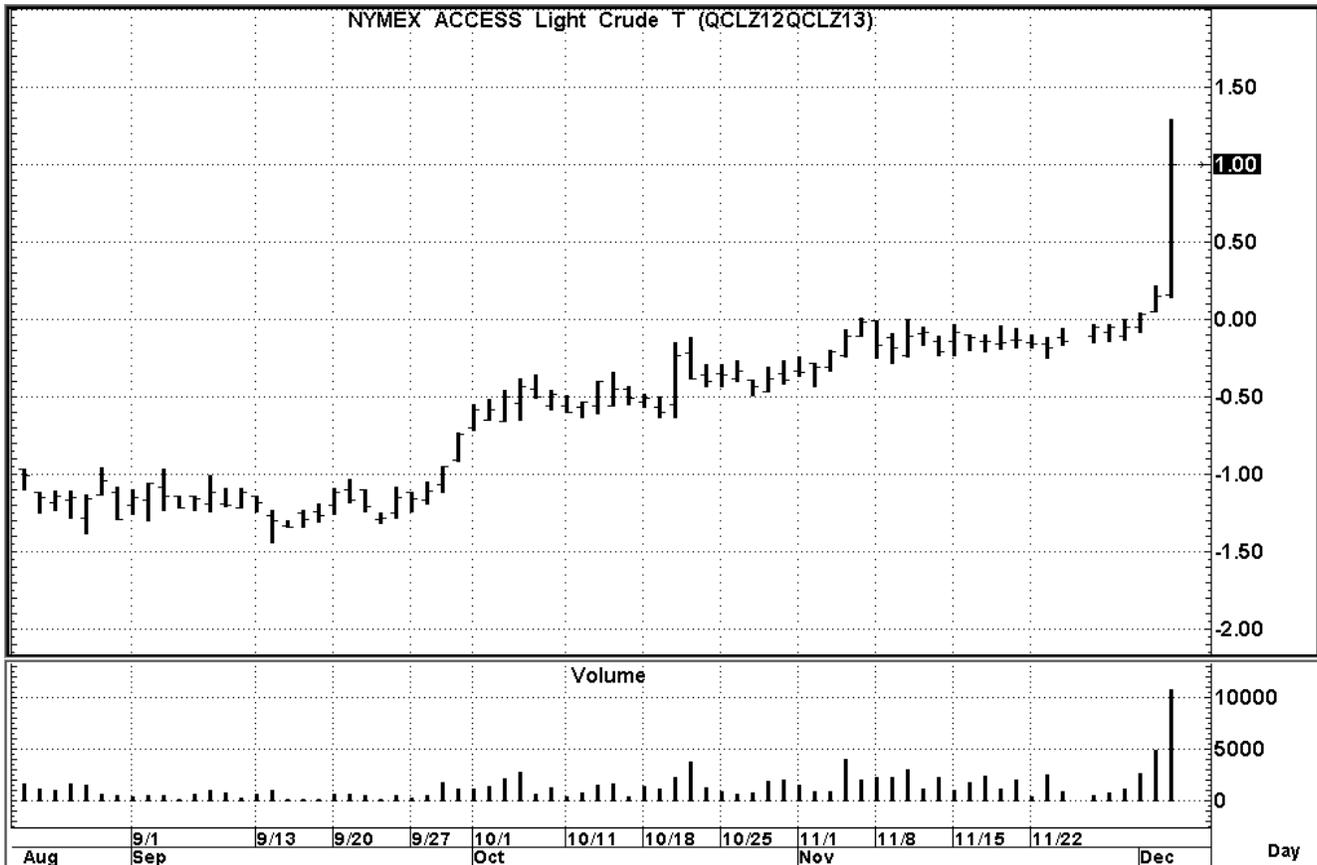
Mexico's Transport Ministry reported that Mexico's Dos Bocas and Cayo Arcas oil ports in the Gulf of Mexico were reopened after they were shut on Tuesday due to bad weather. The port of Coatzacoalcos/Pajaritos resumed operations on Thursday.

Suncor Energy Inc said oil sands production in November averaged 325,000 bpd. It is targeting an average oil sands production of 280,000 bpd in 2010. Suncor's year to date oil sands production at the end of November averaged about 279,000 bpd.

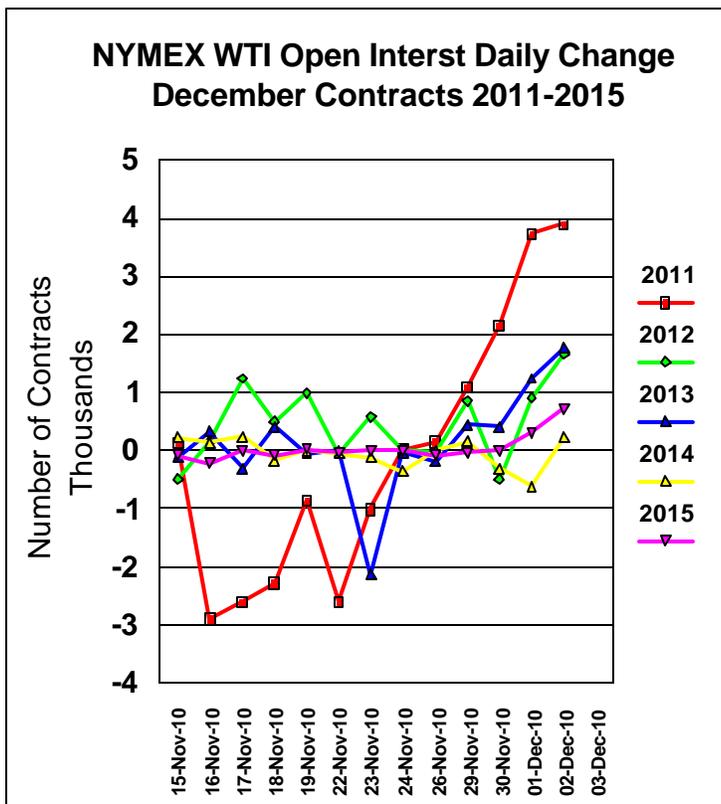
Canadian Oil Sands Trust expects higher production next year from the world's largest oil sands mining project. The trust, which owns a 36.74% working interest in the Syncrude joint venture, is budgeting annual Syncrude production of 110 million barrels or 301,400 bpd with a range of 102 million to 115 million barrels for 2011. Canadian Oil Sands' production from the Syncrude joint venture will total 40.4 million barrels or 110,700 bpd.

Ecuador's Central Bank reported that the country's average oil production increased by 3% to 14.7 million barrels in September from 14.3 million barrels a year earlier. Its average output in September was 490,000 bpd in September. Petroecuador's oil production averaged 9.5 million bpd in September while private companies' output was 5.2 million bpd.

Yemen General Corp for Oil and Gas floated a tender offering 2 million barrels of Masila crude for February loading. Last month, Yemen awarded 2.5 million barrels of Masila crude for January loading to Unipetec.



Indonesia's PT Pertamina floated a semi-term import tender for sweet crude for February-April delivery.



Russia's Transneft asked the Federal Tariffs Service to increase oil transit tariffs by an additional 2-3% from January 1st. The oil transit tariffs increased by an average of 3.3% on August 1st and by a further 9.9% this December.

China's domestic energy information portal C1 Energy reported that diesel prices in southern China will likely fall next week due to smuggling of lower-priced diesel.

OPEC's news agency reported that OPEC's basket of crudes increased by \$2.01/barrel to \$86.14/barrel on Thursday from \$84.13/barrel on Wednesday.

Market Commentary

With the dollar falling to a three-week low against most major currencies, crude oil rose to a 25-month high, peaking the session at \$89.49. U.S. payrolls increased by 39,000, much lower than the expected 144,000, putting pressure on the dollar

index, which makes dollar denominated commodities rise. While the front end of the curve gained in value, the middle to back end came under significant pressure, with crude oil for delivery in December 2013, 2014 and 2015 falling more than a \$1.00 a barrel, signaling that traders are less confident that prices will increase over the next few years. It is evident that bets for crude oil to rise in the near term have increased, with both the December 11/ December 12 and December 12 / December 13 crude oil spreads, which had been sluggishly trending higher, really took off. The December 11 / December 12 spread gained 92 cents and the December 12 / December 13 spread gained 97 cents. Volume for both these spreads was high. Time will tell as to whether or not this was just a knee-jerk reaction to the sinking dollar, which has been giving mixed signals to this market. Without any clear indication the global economy is on the rebound, we would remain cautious in any long positions.

The Commitment of Traders report showed that non-commercials in the crude market increased their net long position by 5,448 contracts to 146,894 contracts in the week ending November 30th. The combined futures and options report showed that the funds increased their net long position by 8,534 contracts to 189,899 contracts on the week. Meanwhile the combined futures and options disaggregated report showed that managed money funds increased their net long position by 24,461 contracts to 164,204 contracts on the week. The swap dealers increased their net short position by 9,397 contracts to 80,320 contracts on the week.

Crude oil: Jan 11 316,409 -6,327 Feb 11 135,364 +6,554 Mar 11 126,904 -877 Totals 1,372,670 +14,230 Heating oil: Jan 11 101,664 +2,150 Feb 11 46,100 +2,745 Mar 11 35,678 +689 Totals 304,734 +5,562 Rbob: Jan 11 95,064 -8,456 Feb 11 42,647 -1,266 Mar 11 31,825 +2,562 Totals 268,048 -6,377.

Crude Oil		Heating Oil		Rbob	
Support	Resistance	Support	Resistance	Support	Resistance
8600	8949	23685	26712	22850	24880
7993	9050	22960	27070	22560	27085
7871	9100	22013	29500	22050	
7783	9385	21860	30955	21600	
7671		21140		20300	
7601		20702		20130	

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