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ENERGY MARKET REPORT FOR DECEMBER 9, 2010

OPEC Secretary General Abdullah al-Badri said that if speculation lifts oil prices to \$100/barrel, OPEC will not necessarily increase its output. He said OPEC could change its output ceiling if there is a shortage in the market or if crude oil inventories fall significantly. OPEC's President and Ecuador's Oil Minister, Wilson Pastor said OPEC will analyze oil prices and fundamentals at its meeting on Saturday to see whether it should review its preferred price range. He said OPEC will not change its output ceiling when it meets on Saturday. Meanwhile, a Gulf official said OPEC is not expected to change its current output ceiling until

June 2011. The official said OPEC members are not concerned about the recent price hikes. Separately, Libya's top oil official, Shokri Ghanem said OPEC will not change its current output ceiling

Market Watch

The US Labor Department said initial unemployment claims fell by 17,000 to 421,000 in the week ending December 4th. The previous week's level was revised slightly upward to 438,000 from 436,000. It reported that the four week moving average fell by 4,000 to 427,500 from the prior week's revised average of 431,500, its lowest level since August 2, 2008. It reported that the unemployment rate for workers with unemployment insurance for the week ending November 27th was 3.2%, down 0.2% from the previous week's unrevised rate of 3.4%.

The US Commerce Department reported that the inventories of US wholesalers increased more than expected in October. Wholesale inventories increased by 1.9% to a seasonally adjusted \$427.10 billion after increasing an upwardly revised 2.1% in September. It stated that sale of US wholesalers increased by 2.2% to a seasonally adjusted \$362.05 billion after a revised 0.5% increase in September. The inventory-to-sales ratio was unchanged at 1.18.

The Federal Reserve said the net worth of Americans increased last summer on a rebound in stock market prices. It said US households' total net worth increased by 2.2% during July through September to \$54.89 trillion. It also reported that total debt in the US non-financial sectors increased by 4.2% in the third quarter, due to increased government and business debt. Household debt fell by 1.7%, the 10th consecutive quarterly decline.

Ireland's center-left opposition Labour party is expected to vote against an 85 billion euros IMF/EU bailout package when it is put before parliament for approval next week. Meanwhile, Ireland's governing Fianna Fail party said it would seek parliamentary approval for the rescue funds.

The Renewable Fuels Association said final language for an extension of the US ethanol tax credit could emerge on Thursday, with the 45 cent credit set to expire on December 31st. Meanwhile, a Representative James Clyburn said a renewed tax break for blenders of ethanol should be included in tax cut legislation being negotiated in Congress and the White House.

The official China Association of Automobile Manufacturers said automakers in China shipped 1.3 million passenger cars to dealers in November, up 29.3% on the year. It is up from 1.2 million in October.

The National Oceanic and Atmospheric Administration said the weather phenomenon known as La Nina is expected to peak in January but linger into the spring of 2011 in the Northern Hemisphere. It said the impact in the US may include a greater chance of above average precipitation in the Pacific Northwest, Great Lakes and Ohio Valley, including more snow in the Northern Rockies.

**December
Calendar Averages**
CL – \$88.38
HO – \$2.4601
RB – \$2.3311

when it meets on Saturday. He said oil prices could reach \$100/barrel in early 2011 but OPEC will not take any action on production policy at its meeting.

Oil Movements reported that OPEC's oil exports increased by 610,000 bpd to 23.76 million bpd in the week ending December 25th. It is the largest increase in exports since the week ending March 6th.

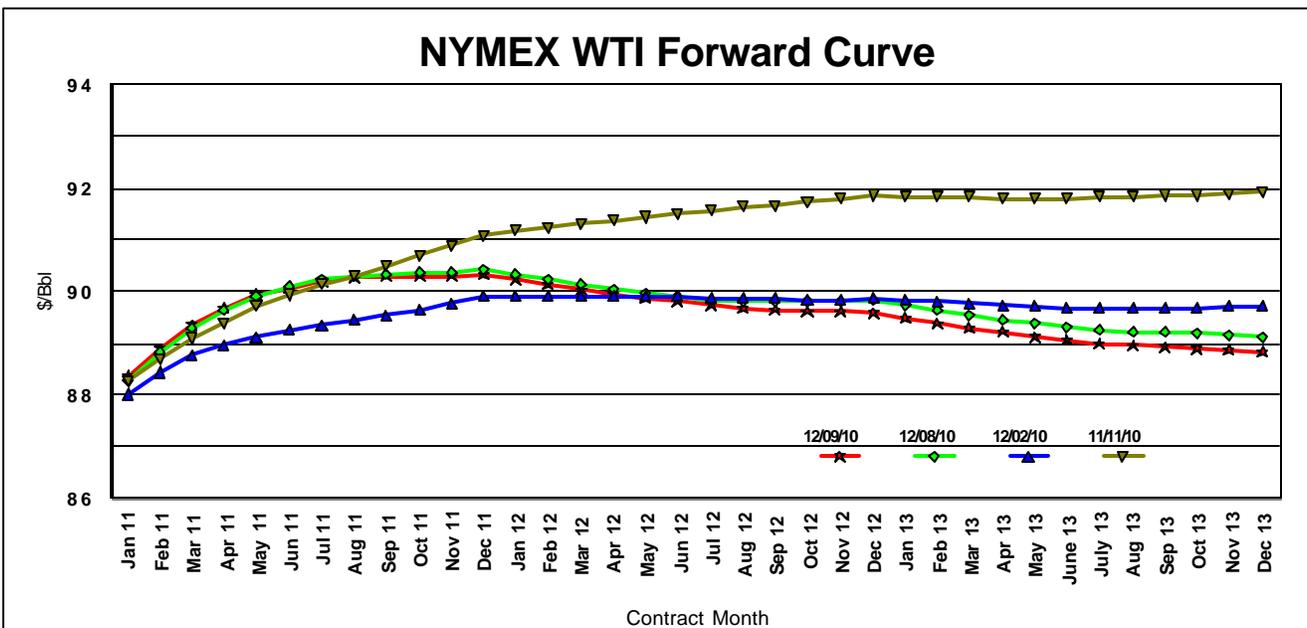
The US CFTC unveiled a plan that aims to protect investors, such as municipalities or employee pension plans that use swaps to hedge their risks. The proposal by the CFTC would impose business conduct standards on swap dealer firms, such as banks or major traders, who trade with government entities. Under the proposal, dealers would face general requirements when dealing with all counterparties, regardless of who they may be. They would have to verify a counterparty if eligible to trade in swaps and make key disclosures on issues like material risks that can arise and also any potential conflicts of interest. They would be prohibited from engaging in fraud, deceptive behavior or trading ahead and front running their counterparties' swap trades. The CFTC also unveiled a proposal that would implement a provision in the Dodd-Frank financial law that seeks to promote pre-trade price transparency for swaps. The law requires that standard swap contracts traded between major players such as banks to be executed on trading platforms. Meanwhile, CFTC chairman Gary Gensler said the CFTC will propose its plan to limit speculative positions held by commodity traders next week.

Refinery News

Citgo Petroleum Corp reported minor flaring on Wednesday evening after a hydrotreater was shut for several hours at its 167,000 bpd refinery in Lemont, Illinois. The unit was quickly returned to service and the interruption had no impact on production.

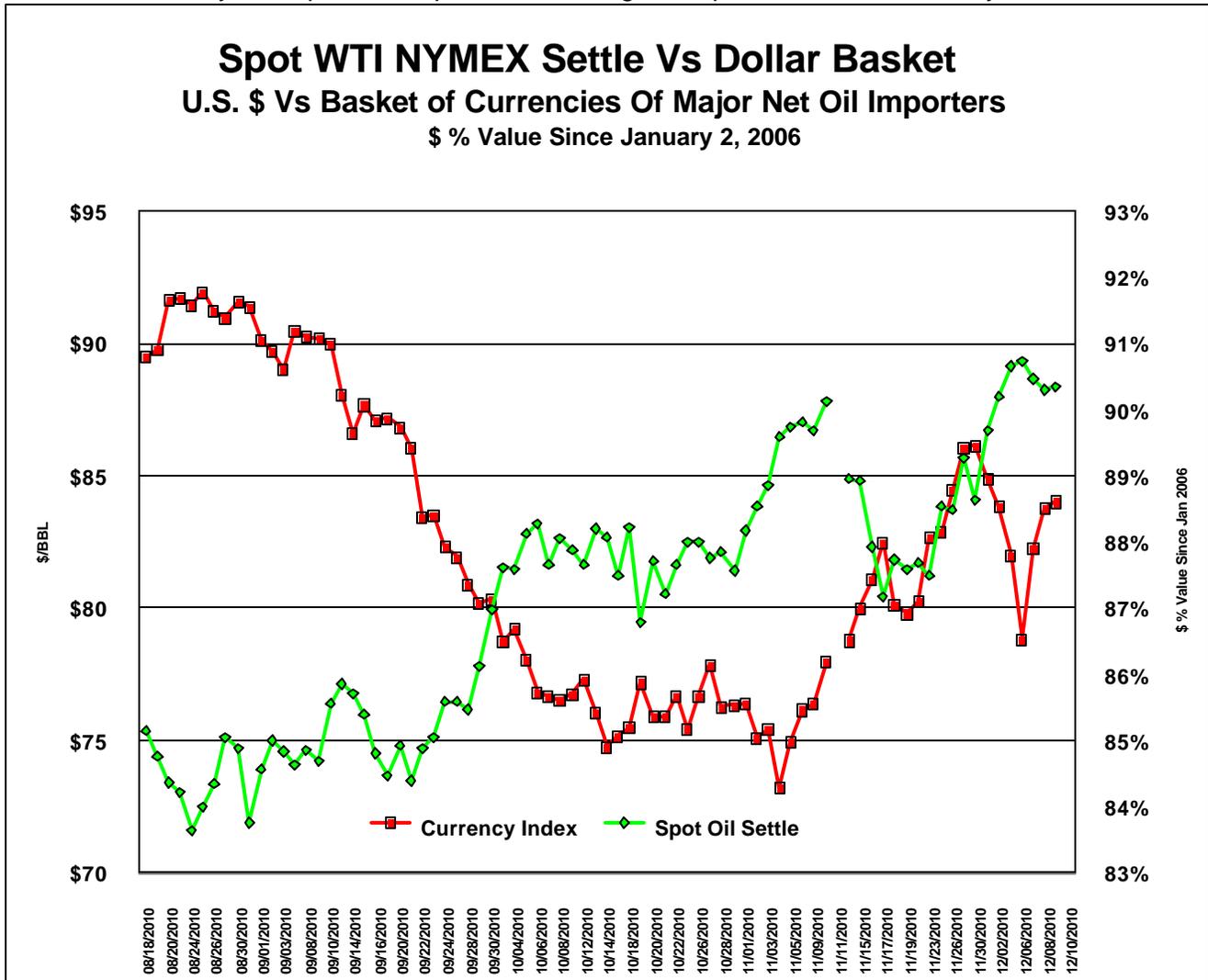
Cenovus Energy said work on its 306,000 bpd joint venture refinery in Wood River, Illinois is 90% complete. It expects to complete the work on its vacuum and coker unit by the third quarter of 2011. It also stated that it is planning to perform maintenance at its joint venture Borger, Texas refinery in the fourth quarter of next year.

ExxonMobil Corp said it will replace a fluid catalytic cracking unit at its 60,000 bpd refinery in Billings, Montana in 2012.



TransCanada has started filling its Keystone pipeline Cushing, Oklahoma extension with oil. The company still expects commercial operation to start sometime in the first quarter of next year.

A 150,000 bpd fluid catalytic cracking unit at the 500,000 bpd Hovensa refinery in St. Croix went offline on Thursday for unplanned repairs. The outage is expected to last 10-14 days.



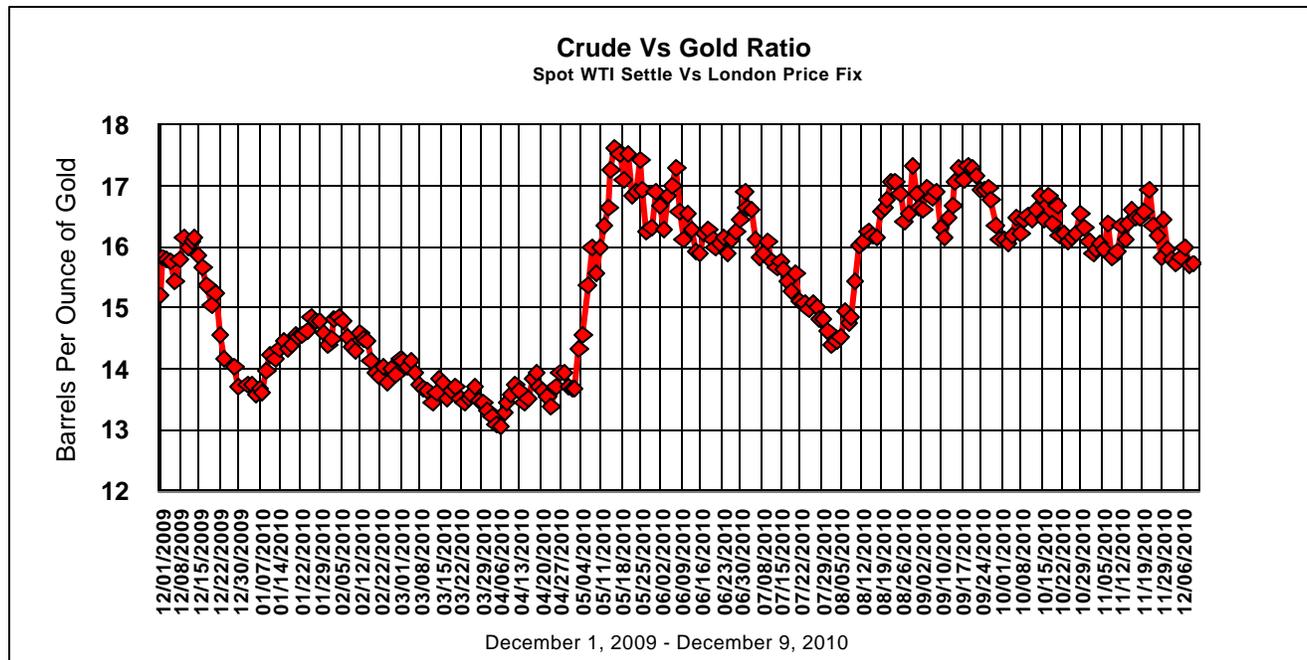
Gasoline inventories held in independent storage in the Amsterdam-Rotterdam-Antwerp area in the week ending December 9th increased by 0.81% on the week but fell by 41.58% on the year to 496,000 tons. Gas oil stocks increased by 3.08% on the week and by 4.96% on the year to 2.982 million tons while fuel oil stocks fell by 8.19% on the week but increased by 7.35% on the year to 774,000 tons. Naphtha stocks fell by 68.69% on the week and by 63.1% on the year to 31,000 tons while jet fuel stocks increased by 19.47% on the week but fell by 17.91% on the year to 724,000 tons.

Singapore's International Enterprise reported that the country's residual fuel stocks built by 1.551 million barrels to 21.939 million barrels in the week ending December 8th. It also reported that its light distillate stocks built by 250,000 barrels to 10.657 million barrels while its middle distillate stocks fell by 1.754 million barrels to 12.426 million barrels on the week.

Production News

Mexico's Transport Ministry reported the country closed its three main Gulf of Mexico oil ports on Thursday due to bad weather.

The Norwegian Petroleum Directorate said the country's oil production fell to 1.791 million bpd on average in November from 1.868 million barrels in October. Norway's natural gas production increased to 10.1 billion standard cubic meters in November from 9.3 billion cubic meters in October.



Brazil's Petrobras reported that its oil and gas output in October fell by 1.5% on the year to 2.53 million bpd of oil equivalent due to maintenance shutdowns at nine of its platforms in Campos Basin.

The Baku-Tbilisi-Ceyhan oil pipeline is expected to pump 25.65 million barrels of Azeri Light crude in January, up 350,000 barrels on the month. The January loadings will amount to 827,419 bpd.

Flows of Azeri crude oil on a BP-led pipeline to Turkey's Mediterranean coast resumed late on Wednesday. Flows were halted late on Monday after pipeline was damaged by thieves trying to siphon oil.

According to comments from Shell's former executive vice president in Nigeria, Ann Pickard published by Wikileaks, Royal Dutch Shell feared it could lose up to 80% of its oil license acreage in the country after the country's new Petroleum Industry Bill is passed. She said the company could lose oil acreage under new rules that would redistribute undrilled license areas.

Russia's Economy Minister Elvira Nabiullina said the country will cut duties on crude oil exports to Belarus starting next year if gives Russia the duties it gets from exporting products made from Russian oil.

Chevron Corp said it will increase spending by 20% to \$26 billion next year, with 85% of the budget allocated to oil and gas exploration and production. Last year, Chevron budgeted \$21.6 billion for 2010.

Energy consulting firm IHS said costs of building and operating upstream oil and gas facilities increased in the past six months after falling the previous year. Construction costs increased by 3%

to 207 on the IHS upstream capital costs index score. Operating costs increased by 1% over the same period to an index score of 173 on its upstream operating costs index.

National Iranian Oil Co increased its crude oil official selling price for January term supply to Northwest Europe, the Mediterranean and Asia. The price of its Iranian Light crude bound for Northwest Europe was set at BWAVE minus \$2.20/barrel, up 25 cents, while the price of its Iranian Heavy crude was set at BWAVE minus \$3.70/barrel, up 15 cents and the price of its Forozan Blend was set at BWAVE minus \$3.65/barrel, up 15 cents. The price of its Iranian Light crude bound for the Mediterranean was set at BWAVE minus \$2.60/barrel, up 95 cents, the price of its Iranian Heavy crude was set at BWAVE minus \$4.65/barrel, up 70 cents and the price of its Forozan Blend was set at BWAVE minus \$4.60/barrel, up 70 cents. The price of its Iranian Light crude bound for Asia was set at the Oman-Dubai average plus \$1.82/barrel, up \$1.25, the price of its Iranian Heavy crude was set at the Oman-Dubai average minus 50 cents, up \$1.03 and the price of its Forozan Blend crude was set at the Oman-Dubai average minus 42 cents, up \$1.03.

Iraq left the official selling price of its Basra Light crude bound for the US unchanged at a \$1.15 discount to the Argus benchmark. It however increased the price of its Basra Light crude bound for Europe by 65 cents to BFOE minus \$2.55 and the price of its Basra Light crude bound for Asia by 70 cents to the Oman-Dubai average minus 90 cents. The price of its Kirkuk crude bound for the US was cut by 15 cents to the Argus benchmark plus 35 cents while the price of its Kirkuk crude bound for Europe was cut by 10 cents to BFOE minus 95 cents.

OPEC's news agency reported that OPEC's basket of crudes fell by 41 cents to \$87.46/barrel on Wednesday.

Market Commentary

Crude oil shifted up and down as it reacted to decreases in U.S. jobless claims and a rebound in the dollar, with prices finishing the session little changed. At this point in time, it appears that longs are continuing to take profits, while some market participants are hanging out on the sidelines. Traders are awaiting news this weekend as to whether or not China will raise interest rates in an effort to stave off growth. China is expected to release inflation numbers and depending on this figure, interest rates may or may not be raised by the world's second largest consumer of oil. In recent days, this market has been supported by signs of increasing demand due to cold weather, however product supply in the U.S. increased, limiting upside potential. The shape of the forward curve remained relatively the same, with the tail end of the curve holding. The June11/Dec11 crude oil spread that we have been writing about continued to weaken but finished the day basically unchanged. Our stance on this spread remains the same and therefore we look for continued weakness. As for flat price trading tomorrow, traders will most likely trade on the side of caution as we await the aforementioned news out of China and based on this we would look for further profit taking on the side of longs.

Crude oil: Jan 11 234,912 -31,145 Feb 11 187,892 +23,114 Mar 11 150,136 +4,163 Totals 1,356,684
-10,435 Heating oil: Jan 11 95,669 -7,037 Feb 11 52,770 +2,086 Mar 11 39,158 +1,625 Totals
313,567 -5 063 Rbob: Jan 11 77,181 -7,711 Feb 11 53,172 +3,699 Mar 11 35,163 +1,509 Totals
266,892 -2,167

Crude Oil		Heating Oil		Rbob	
Support	Resistance	Support	Resistance	Support	Resistance
8600		23685	26712		24880
7993	9076	22960	27070	22560	27085
7871	9100	22013	29500	22050	
7783	9385	21860	30955	21600	
7671		21140		20300	
7601		20702		20130	

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