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ENERGY MARKET REPORT FOR DECEMBER 10, 2010

OPEC Secretary General Salem El-Badri said oil prices increasing to \$100/barrel will not harm the global economy.

Saudi Arabia's Oil Minister Ali al Naimi said he does not see the need to increase OPEC's oil production quotas at its meeting on Saturday. Meanwhile, Angola's Oil Minister Jose Maria Botelho de Vasconcelos said OPEC does not need to increase its output ceiling for now. He said the current price of \$90/barrel is a good price.

In its latest monthly report, OPEC slightly increased its oil demand forecast for 2011 and said high inventories and spare capacity should be

enough to offset any disruptions or increase in demand. It estimated that world oil demand in 2011 would increase by 1.18 million bpd, up 10,000 bpd from its previous demand growth estimate. The demand for OPEC crude next year is estimated at 29.24 million bpd, up from 28.93 million bpd in

Market Watch

The US trade deficit unexpectedly contracted in October, as exports increased to their highest level in more than two years. The Commerce Department said the total US deficit in international trade of goods and services fell more than 13% to \$38.71 billion in October from an upwardly revised \$44.60 billion in September. The US trade deficit with China fell by 8.3% to \$25.52 billion as exports to the country increased by 29.8% to a record high of \$9.3 billion and imports fell to \$34.82 billion. US exports increased by 3.2% to \$158.72 billion, the highest level since August 2008. The US bill for crude oil imports in October fell to \$18.88 billion from \$20.96 billion in September. The US paid \$24.99 billion for all types of energy-related imports, down from \$26.62 billion in September.

The US Labor Department said US import prices posted a second consecutive gain in November. The price of goods imported into the US increased by 1.3% compared to the prior month.

China's Central Bank said it will increase banks' reserve requirement ratio by 0.50 percentage points. It is the sixth interest rate hike this year. The increase, which takes effect on December 20th, is the latest move by China to curb inflation after the consumer price index in October increased by 4.4% on the year.

Ireland's Finance Minister Brian Lenihan said the country will start tapping an 85 billion euros IMF/EU bailout fund early next year for some of its sovereign borrowing requirement. In the bailout, 50 billion euros is set aside for Ireland's borrowing needs for the next three years while the remaining 35 billion euros will be used to shore up the country's banks.

UBS increased its 2011 average forecast for ICE Brent crude oil futures by \$6/barrel to \$85/barrel due to a weaker dollar. It also increased its 2011 forecast for US light crude oil futures to \$85/barrel, up \$5/barrel from its previous estimate.

The ICE Clear said physical delivery of ICE gas oil for the December contract was little changed from last month at 88,100 tons or 881 lots, up from 88,000 tons in November.

**December
Calendar Averages**
CL – \$88.31
HO – \$2.4598
RB – \$2.3284

2010. Non-OPEC supply next year is forecast at 52.62 million bpd, up 100,000 bpd from its previous forecast.

The IEA's chief economist said oil prices at the current level is not good news for oil producers.

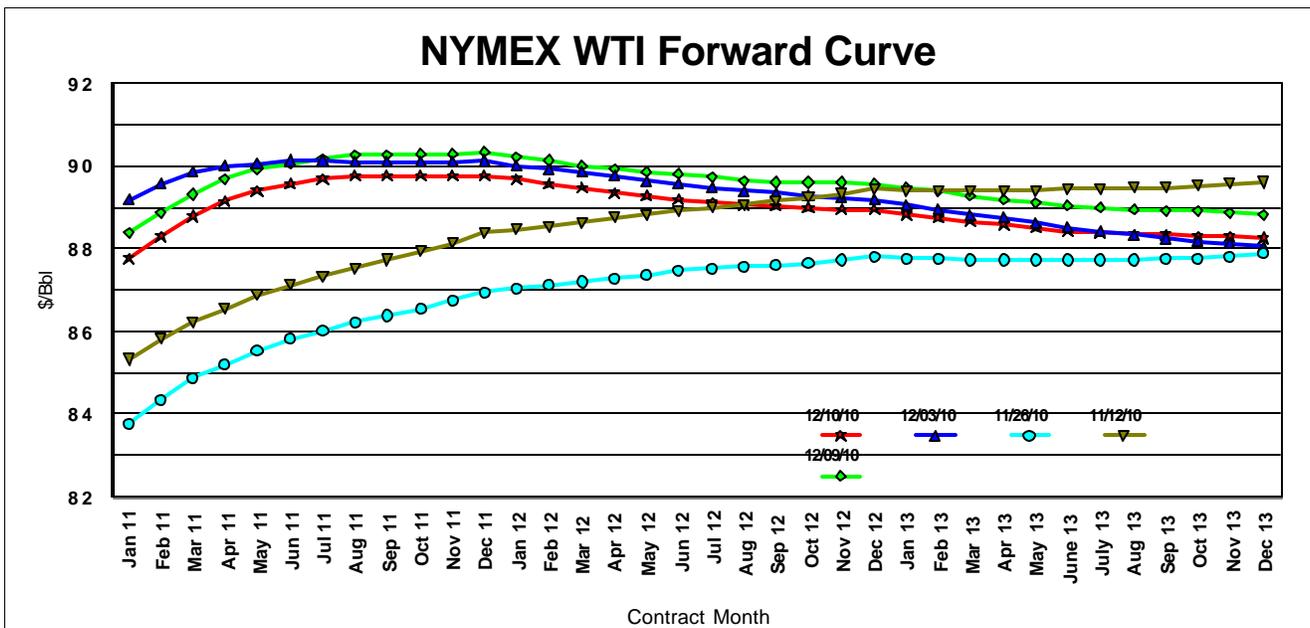
The IEA said in its monthly report that world oil demand is expected to be higher next year and until 2015. It increased its 2011 oil demand growth forecast by 130,000 bpd to 1.32 million bpd from its previous report. It noted that the biggest concern for the oil market would be a significant slowdown in the Chinese economy. The IEA also stated that the world will continue to face surplus refining capacity despite a number of refinery closures in the OECD region. It expects global crude distillation capacity to increase by 200,000 bpd from its medium term projections in June, a growth of 9.2 million bpd from 2009-2015. Crude runs in the last quarter of the year are estimated at 73.8 million bpd, down 1.8 million bpd less than the third quarter but are still 1.3 million bpd above production rates a year ago.

Separately, the IEA said the proposed reforms to the over-the-counter derivatives markets in the US and Europe could hamper price discovery and increase costs for end users. It said the Volcker rules, which would prohibit US banks from proprietary trading, could negatively change the structure of the OTC derivatives market by lowering liquidity and compromising the process of price discovery and risk transfer function of the market. Costs for end users could also increase due to uncertain margin requirements and if counterparties passed on some of the clearing costs to buyers.

Total SA chief executive Christophe de Margerie said OPEC has the spare capacity available to increase oil production and will likely make some available to stop prices from rising above \$100/barrel. He added that prices under \$80/barrel are probably too low to generate the investments necessary to create enough new supplies.

ICAP Shipping estimated that crude oil stored globally in floating storage was unchanged at 44 million barrels in the week ending December 10th.

Maersk Tankers said the crude oil tanker market will remain volatile next year as fleet growth is expected to overshadow increasing oil demand. It said that the VLCC fleet is expected to increase by 60 next year.



Refinery News

Devon Energy said the outages on the Enbridge pipeline system have caused it to cut its Canadian heavy crude oil volumes by 10,000 bpd, cuts that are expected to continue through year end. It said the curtailments would reduce expected fourth quarter Canadian oil volumes by about 300,000 barrels. It extended a scheduled pipeline integrity program related shutdown of its Line 6A pipeline to allow sufficient time to complete an excavation adjacent to a highway.

Tesoro Corp's 166,000 bpd Golden Eagle refinery is operating at reduced rates after experiencing a power outage Thursday morning. It is expected to return to normal operations in several days. Separately, Tesoro has been transporting crude oil to its Salt Lake City, Utah refinery by truck to temporarily replace supplies disrupted by a shutdown of a local pipeline following a leak last week. A 45,000 bpd pipeline owned by Chevron Corp was operating at about half of its capacity when it was taken offline because of a 500 barrel leak on December 1st. It is unclear how long the outage will last, however refiners have already had to make contingency plans. The pipeline transports crude from Chevron's Rangely field in northwestern Colorado to Salt Lake City area refineries.

ConocoPhillips reported flaring at its 139,000 bpd Wilmington, California refinery on Friday. The cause of the flaring is unknown.

Venezuela and BP's Petromonagas oil upgrader is operating at 70% of capacity or 83,000 bpd after bringing forward planned maintenance. It is due to return to its full 120,000 bpd capacity on December 15th. On December 17th, the 130,000 bpd Petroanzoategui upgrader is also due to restart after several weeks of maintenance.

Japan's Cosmo Oil Co said it will restart part of its Yokkaichi refinery during the weekend. The refinery was shutdown early Wednesday due to a power outage.

Japan's Nippon Oil & Energy Corp shut down its 35,000 bpd fluid catalytic cracking unit at its Kashima refinery due to a technical problem on December 7th.

China continued to import crude oil and oil products in November to meet demand and alleviate domestic diesel shortages. China's General Administration of Customs said the country imported 20.91 million metric tons or 5.1 million bpd of crude oil in November, up 22% on the year. The country's crude oil exports totaled 580,000 tons in November. China's oil product imports increased by 29.4% on the month to 3.52 million tons in November after refiners increased diesel imports to alleviate the local shortages. Exports of oil products stood at 2.08 million tons.

South Korea's Hyundai Oilbank plans to turn into a gasoline exporter in mid-2011, once its new residue fluid catalytic cracking unit starts commercial operations. It will turn into a gasoline exporter with the startup of a new 52,000 bpd RFCC under construction at its 395,000 bpd refinery in Daesan.

Tokyo Electric Power Co increased its fuel oil consumption for power generation in November by 59.4% on the year to 357,000 kiloliters. Its crude oil consumption fell by 26.4% on the year to 39,000 kl while its LNG consumption increased by 3.4% on the year to 1.479 million kl and its coal consumption fell by 64.4% to 100,000 kl.

The Rhine River in south Germany was closed to shipping on Friday because of high water levels.

Production News

Mexico's Transport Ministry reported that the country reopened its three main Gulf of Mexico oil ports of Dos Bocas, Cayo Arcas and Coatzacoalcos/Pajaritos on Friday after the ports were closed on Thursday due to bad weather.

Saudi Aramco will maintain full contracted volumes to Asian refiners in January, as expected, with some refiners receiving more supply of lighter grades.

The output of four major North Sea crude oil grades for January is expected to fall by 3.1% on the month to 1.11 million bpd. Loading volume of BFOE crude, a basket of Brent, Forties, Oseberg and Ekofisk grades, is expected to total 34.55 million barrels in January compared with 35.65 million barrels in December. The January loading program for North Sea Brent crude is scheduled at 4.2 million barrels or 135,484 bpd, unchanged on the month. The January loading program for Forties crude is scheduled at 15 million barrels, down 1.2 million barrels from December. It is equivalent to 483,871 bpd compared with 522,581 bpd in December. The January loading program for North Sea Oseberg crude oil is scheduled at 4.2 million barrels, down 1.2 million barrels on the month. It is equivalent to 135,484 bpd compared with 174,194 bpd in December. The January loading program for North Sea Ekofisk crude is scheduled at 11.15 million barrels, up 700,000 barrels from 10.45 million barrels in December. It is equivalent to 359,677 bpd compared with 337,097 bpd in December. The January loading program for North Sea Gullfaks crude is scheduled at 5.985 million barrels, down 855,000 barrels on the month. The volume is equivalent to 193,065 bpd compared with 220,645 bpd in December. The January loading program for North Sea Statfjord crude is scheduled at 5.13 million barrels, down 855,000 barrels from December. The volume is equivalent to 165,484 bpd compared with 193,065 bpd in December. The January loading program for North Sea Asgard crude is scheduled at 6.84 million barrels, down 855,000 barrels on the month. The volume is equivalent to 220,645 bpd compared with 248,226 bpd in December. The January program for North Sea Alvheim crude oil is scheduled at 4.68 million barrels, up 780,000 barrels on the month. The volume is equivalent to 150,968 bpd compared with 125,806 bpd in December. The January loading program for North Sea crude oil is scheduled at 4.2 million barrels, down 600,000 barrels on the month. It is equivalent to 135,484 bpd compared with 154,839 bpd in December.

The IEA reported that Venezuela's crude oil production in November was 2.19 million bpd, its lowest level this year and slightly under the previous month's 2.21 million bpd.

Russia's Finance Ministry said the country may raise its oil export duty in January to \$317-\$318/ton from the current level of \$303.80/ton following an increase in oil prices. The export duty on light refined fuels is expected to increase to \$225.60-\$227/ton compared with \$217/ton in December. The duty on fuel oil is expected to increase to \$121.50-\$122.30/ton, up from \$116.90/ton in December. Separately, Russia plans to set export duties on heavy and light oil products at 60% of the duty on crude oil in 2013. Russia's Energy and Finance Ministries have agreed to increase export duties on heavy and light oil products to 46.7% and 67%, respectively in 2011 and to 52.9% and 64%, respectively in 2012.

Nigeria's Account General Ibrahim Dankwambo said Nigeria's gross revenues increased by about 24% on the month to 557.8 billion naira or \$3.7 billion in November due to higher oil production and prices.

OPEC's news agency reported that OPEC's basket of crudes increased to \$87.92/barrel on Thursday from \$87.46/barrel on Wednesday.

Market Commentary

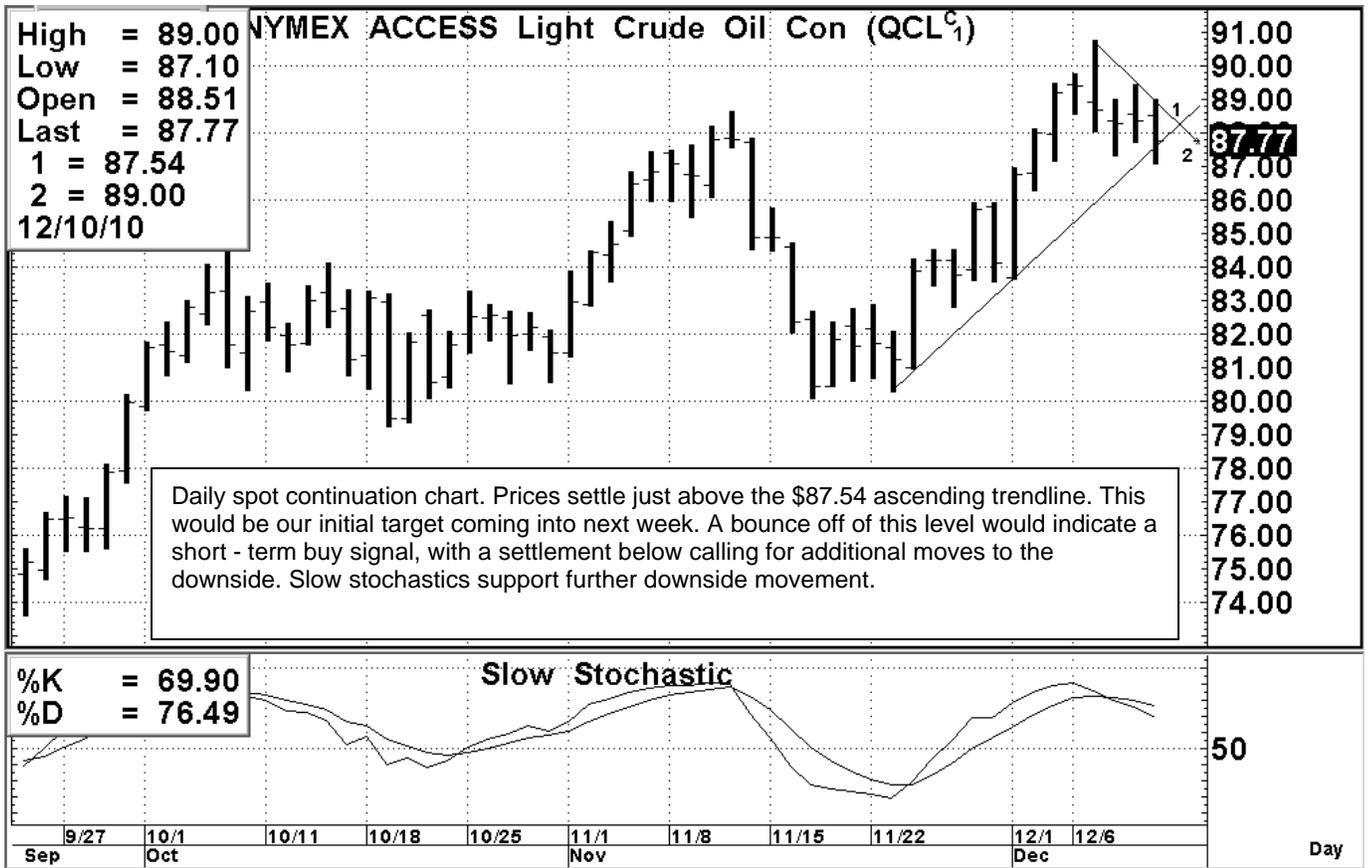
Crude oil prices fell as the dollar strengthened on news that U.S. consumer confidence increased to its highest level in six months. A strong dollar decreases the appeal of commodities as an investment

hedge. Initially, crude oil gained strength on news that China's imports for November were up 26 percent and on an upward revision for demand for 2011 by the IEA. Limiting the upside movement was an increase of the amount of money that banks must keep on reserve in China. This makes the third time in one month that China has raised the reserve level. Fundamentally, the cold weather snap that the northeastern part of the U.S. is experiencing may lend support to this market, however if we do not see a decrease in supply for products, the upside potential will be limited. From a technical standpoint, it appears that additional moves to the downside are called for. Moving oscillators since crossing to the downside in overbought territory, continue to point towards lower prices. The January crude oil contract settled just above the \$87.54 trend line. We would look for a test at this trend line, shorting this market below it and buying bounces off of it.

The latest Commitment of Traders report showed that non-commercials in the crude market increased their net long position by 29,663 contracts to 176,557 contracts in the week ending December 7th. The combined futures and options report also showed that non-commercials increased their net long position by 32,956 contracts to 222,855 contracts on the week as the market traded above the \$90/barrel level. The funds have likely cut some of their net long position as the market erased some of its gains. Meanwhile, the futures and options disaggregated report showed that managed money funds increased their net long position for the second consecutive week, by 42,603 lots to 206,807 in the latest week.

Crude oil: Jan 11 194,553 -40,359 Feb 11 210,416 +22,524 Mar 11 152,374 +2,238 Totals 1,350,154 -6,530 Heating oil: Jan 11 88,235 -7,434 Feb 11 54,414 +1,644 Mar 11 40,221 +1,063 Totals 308,432 -5,135 Rbob: Jan 11 73,716 -3,465 Feb 11 51,891 -1,281 Mar 11 36,511 +1,348 Totals 264,806 -2,086

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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