



ENERGY RISK MANAGEMENT

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ENERGY MARKET REPORT FOR DECEMBER 14, 2010

Kuwait's Oil Minister Sheikh Ahmad al-Abdullah al-Sabah said current oil prices are stable and fine. He also said the country prefers an oil price in the range of \$75-\$90/barrel until the end of the year.

According to a SpendingPulse report by MasterCard Advisors LLC, US gasoline demand is expected to fall by 2.7% to 9.182 million bpd in the week ending December 10th. Demand was down 1.3% or 118,000 bpd on the year. In the last four weeks, demand averaged 9.267 million bpd, down 0.3% on the year. It reported that the US average retail price of gasoline increased by 9 cents or 3.1% to \$2.96/gallon.

The Federal Reserve's Federal Open Market Committee said that the economic recovery

Market Watch

The US Commerce Department reported that sales at US retailers increased more than expected in November. Total retail sales increased by 0.8%, the fifth consecutive increase. Retail sales for October were revised up to 1.7% from a previously reported 1.2% gain. Excluding autos, sales increased by 1.2% in November, exceeding market expectations of a 0.6% gain. Separately, the Commerce Department also reported that inventories at US businesses increased less than expected in October. Inventories increased by 0.7% to a seasonally adjusted \$1.418 trillion, the highest level since February 2009. It reported that September inventories increased by 1.3%, up from a previous estimate of a 0.9% increase. US business sales also increased by 1.4% in October to \$1.119 trillion following a revised 0.8% gain in September.

The National Retail Federation raised its holiday sales forecast. It expects sales to increase by 3.3%. It raised its November retail industry sales up 6.8% on the year.

The US Labor Department reported that US producer prices increased more than expected in November due to higher energy and food costs. The Producer Price Index increased by a seasonally adjusted 0.8% in November. The Core PPI, excluding food and energy prices, increased 0.3% in November. In the 12 months ending in November, the PPI increased by 3.5%, down from a 4.3% annual increase in October. The core index increased by 1.2% on the year.

According to a quarterly survey by the Business Roundtable, the chief executive officers of large US companies are much more optimistic about the economy than a few months ago. The Roundtable's economic outlook index increased to 101, its highest level since the first quarter of 2006 and up from 86 three months ago. More CEOs than last quarter, 80%, expect their sales to increase over the next six months and about six out of 10 expect to increase capital spending.

Credit Suisse increased its 2011 forecast for US light crude oil futures to \$85/barrel, up \$12.50/barrel, citing a recovery in global oil demand. It also increased its 2011 forecast for ICE Brent crude futures by \$12.70/barrel to \$84.50/barrel.

China aims to cut its energy consumption per unit of GDP or energy intensity by 3.5% in 2011. The target is less aggressive than the 4% reduction in energy intensity targeted annually between 2006 and 2010. The government also aims to cut carbon intensity or carbon emissions per unit of GDP by 3.5% next year. China pledged to reduce carbon intensity by 40-50% by 2020 from the 2005 level.

API Stocks

Crude – down 1.442 million barrels
Distillate – up 1.951 million barrels
Gasoline – up 2.415 million barrels
Refinery runs – unchanged at 86.1%

is continuing though at a rate that is insufficient to lower unemployment. To promote a stronger pace of economic recovery and to help ensure that inflation is at levels consistent with its mandate, the Committee decided to continue expanding its holdings of securities. It will maintain its existing policy of reinvesting principal payments from its securities holdings. It intends to purchase \$600 billion of

longer term Treasury securities by the end of the second quarter of 2011. It also stated that it will maintain the target range for the federal funds rate at 0 to 1/4%. It anticipates that economic conditions, including low rates of resource utilization, subdued inflation trends and stable inflation expectations, are likely to warrant low levels for the federal funds rate for an extended period. It will continue to monitor the economic outlook and financial developments and will employ its policy tools as necessary to support the economic recovery and to help ensure that inflation is at levels consistent with its mandate.

Refinery News

Enbridge Inc has fixed most of the major anomalies that caused repeated shutdowns of its US oil pipeline network over the past five months and expects to clear a backlog of Canadian oil waiting for shipment by early January.

Valero Energy Corp reported planned maintenance at its 83,000 bpd refinery in Houston, Texas. It has been performing maintenance work on a fluid catalytic cracking unit since December 8th. Valero Energy also reported the planned shutdown of Unit 47 at its 142,000 bpd Corpus Christi, Texas refinery. It said an emissions event will begin Tuesday evening.

BP Plc expects planned flaring activity to begin at its 265,000 bpd Carson, California refinery on Wednesday.

Japan's JX Nippon Oil & Energy Corp shut down its 150,000 bpd No. 4 crude distillation unit at its Negishi refinery on December 10th due to a technical problem. The company said it was still checking the cause of a minor oil leak from the unit.

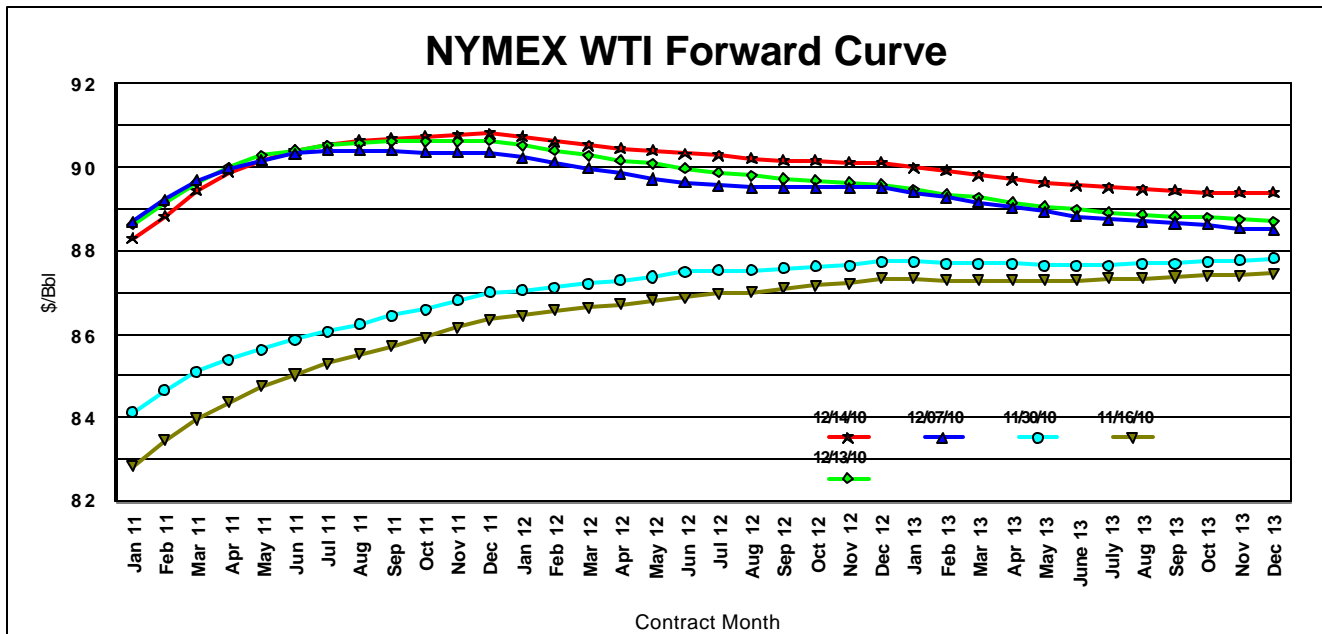
Japan's Idemitsu Kosan Co said it plans to conduct maintenance at two of its four refineries next year. It is expected to shut down its 220,000 bpd Chiba refinery from April to May and its 140,000 bpd Hokkaido refinery from June to July.

Indonesia's Pertamina imported 10.96 million barrels of oil products for December, up about 10% on the month. Indonesia's gasoline imports increased by 13.9% to 7.79 million barrels in December from 6.84 million barrels in November while its diesel imports fell by 7% to 2.6 million barrels from 2.8 million barrels in November and its jet fuel imports increased to 400,000 barrels. The country's fuel oil imports remained unchanged at 170,000 barrels.

Saudi Aramco will start storing crude oil in Japan in February. Japan Oil, Gas and Metals National Corp signed a contract with Saudi Aramco on Tuesday, allowing Saudi Arabia to store about 600,000 kiloliters or 3.8 million barrels of crude in Okinawa for three years ending December 2013. The first vessel carrying 1.9 million barrels of crude is scheduled to arrive in February or later.

Vitol has chartered two tankers to carry a total of 180,000 tons or 1.34 million barrels of South Korean gas oil to Europe, loading in late December and the second week of January. Shell and Japan's Mitsui Oil Asia have also fixed similar arbitrage journeys, carrying a total of 170,000 tons of diesel from South Korea and Japan to the UK.

**December
Calendar Averages**
CL – \$88.33
HO – \$2.4612
RB – \$2.3242



Brazil's cane industry association Unica said the country's center-south crushed 18.4 million tons of cane in the second half of November, down 28% on the year.

Production News

Mexico's Communications and Transport Ministry said the ports of Cayo Arcas, Dos Bocas and Coatzacoalcos resumed operations on Tuesday after the ports were closed due to high seas.

Oil exports from Iraq's southern Basra terminal fell by more than 50% on Monday and Tuesday to 768,000 bpd from 1.68 million bpd on Sunday due to bad weather. A storm made it difficult for some ships to berth at export terminals. Separately, Iraq's SOMO said the country's oil exports increased by 0.36% to 1.912 million bpd in November compared with 1.9 million bpd in October.

Azerbaijan's Statistics Committee said the country's oil and condensate production increased by 1.5% in January-November to 47.1 million tons from 46.4 million tons in the same period last year. The country produced 42.3 million tons of oil and condensate in January-October, up from 41.7 million tons produced last year.

Norway's Statoil said it will increase its exploration off Norway in 2011. It said aggressive drilling would help the company keep producing today's level of oil and gas of about 1.9 million bpd of oil equivalent through 2020 despite recent maintenance and safety interruptions. Statoil also stated that it will decide on development concepts for Dagny and Luva in 2011.

Brazil's Petrobras said it will end 2010 with crude oil production of about 2.03 million bpd. It expects its oil production to increase by 3.5%-4% in 2011. It also stated that it expects to export between 450,000 and 500,000 bpd of oil this year.

Ecuador's Central Bank reported that the country's average oil production increased by 5% to 15.4 million barrels in October from 14.7 million barrels a year earlier. Ecuador's average oil output was 496,800 bpd in October. Petroecuador averaged 10.1 million barrels in October while private companies' oil output was 5.3 million barrels.

OPEC's news agency reported that OPEC's basket of crudes increased to \$87.96/barrel on Monday from \$87.65/barrel on Friday.

India's Oil Minister Murli Deora said a panel of Indian ministers will decide on the possibility of raising diesel prices. He did not give a timeframe when the panel is likely to arrive at a decision on diesel prices.

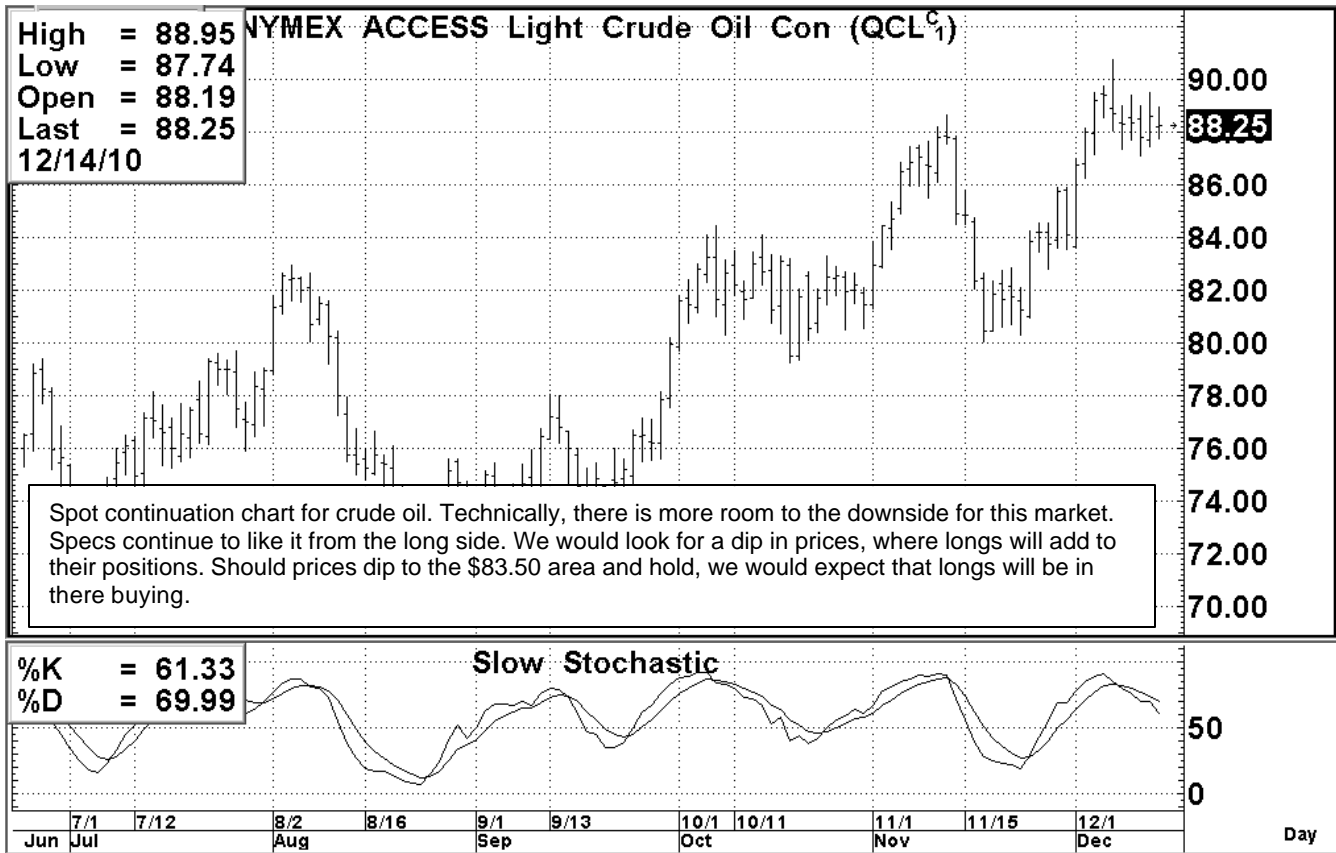
Market Commentary

Crude oil finished lower on the day, impacted by news that the Federal Reserve would continue its program to buy government bonds in order to stimulate the economy. This news diminished the effects of cold weather and an improvement in retail sales for the month of November. Gasoline was the weakest of the three markets, with the January contract settling just under one percent on the day. This move lower came in response to expectations of an inventory build of 1.7 million barrels. Crude oil continues to lack the ability to maintain itself above \$90.00 but this has not deterred speculators from entering on the long side. Barring any major economic news, we do not see longs liquidating their positions as long as crude oil remains above \$79.00. For the short term, we would look for continued trading in a sideways pattern, with speculators look for buying opportunities.

The API reported a smaller than expected draw in crude stocks of 1.442 million barrels on the week. It showed that crude stocks fell by 2.16 million barrels in Padd 3 alone. It reported the draw in crude stocks as crude runs increased by 79,000 bpd to 14.469 million bpd while imports fell by 1.23 million bpd to 9.06 million bpd on the week. Distillate stocks unexpectedly built by 1.951 million barrels on the week as production and imports increased by 138,000 bpd or 3% to 4.667 million bpd and by 96,000 bpd or 41% to 330,000 bpd, respectively. However the API showed that apparent demand increased by 4.5% on the week and by 5.7% on the year to 4.718 million bpd while apparent demand basis its three week moving average increased by 1.1% on the week and by 10% on the year to 4.62 million bpd. Gasoline stocks built by over 2.4 million barrels despite the declines in production and imports of 195,000 bpd or 2.1% to 9.249 million bpd and 16,000 bpd or 12.2% to 115,000 bpd, respectively. Apparent gasoline demand however increased by 1.5% on the week to 9.019 million bpd

Crude oil: Jan 11 148,316 -14,164 Feb 11 262,636 +26,975 Mar 11 167,662 +6,293 Totals 1,384,683 +24,595 Heating oil: Jan 11 77,499 -4,886 Feb 11 62,020 +4,238 Mar 11 45,024 +3,403 Totals 308,524 +1,923 Rbob: Jan 11 60,480 -3,911 Feb 11 60,961 +5,284 Mar 11 39,723 +1,854 Totals 265,415 +4,275

Crude Oil		Heating Oil		Rbob	
Support	Resistance	Support	Resistance	Support	Resistance
8600		23685	26712		24880
8350	9076	22960	27070	22560	27085
7993	9100	22013	29500	22050	
7900	9385	21860	30955	21600	
7871		21140		20300	
7783		20702		20130	
7671					



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