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ENERGY MARKET REPORT FOR DECEMBER 16, 2010

The CFTC seeking to rein in the \$583 trillion market for privately negotiated derivatives laid out a revised proposal for how the majority of swaps would have to be executed once the Dodd-Frank financial overhaul law goes into effect next year. The revision seeks to give swaps users more flexibility over how and where they trade and creates more competition among derivatives trading venues. On Thursday, in a 4-to-1 vote the CFTC approved a proposal that would add new oversight for the trading of swaps. The proposal is now set to be published in the Federal Register and opened for public comment. A second vote is needed to implement it. The commission unveiled a proposal that would require all

Market Watch

The National Oceanic and Atmospheric Administration said below normal temperatures are expected to stretch from the Great Lakes region to the Pacific Coast in January through March. Above normal temperatures are expected in Texas and extend from the desert Southwest to the Florida Panhandle. Along the East Coast, there is not a clear temperature outlook. It said that from the Northeast to the middle of the country, it sees equal chances of normal, above normal or below normal temperatures.

The US Labor Department reported that the number of initial unemployment claims fell by 3,000 to 420,000 in the week ending December 11th. The previous week's figures were revised slightly upwards to 423,000 from 421,000. It reported that the four week moving average continued to fall for the sixth consecutive week by 5,250 to 422,750. It stated that the unemployment rate for workers with unemployment insurance for the week ending December 4th was 3.3%, unchanged from the prior week's revised rate.

The US Commerce Department said home construction in the US increased in November on the strength of the single family market. Housing starts increased by 3.9% to a seasonally adjusted annual rate of 555,000 from an upwardly revised 534,000 in October. It reported that building permits fell by 4% to 530,000. The results were driven by a 6.9% gain in single family home construction to a seasonally adjusted annual rate of 465,000. Multifamily construction fell by 9.1% on the month.

The Commerce Department also reported that the US current account deficit widened in the third quarter. The deficit increased by 3.2% to \$127.2 billion. The deficit in the second quarter was revised down slightly to \$123.2 billion from an originally estimated \$123.3 billion.

The Philadelphia Federal Reserve Bank said its business activity index increased to 24.3 in December following a jump to 22.5 in November. It was the highest reading since April 2005. Economists expected a reading of 15.

Mexico's Finance Ministry said the government has purchased put options to hedge its 2011 oil exports at an average price of \$63/barrel. The government paid \$812 million for the options, which give Mexico the right to sell 222 million barrels of crude at a minimum price. Mexico has hedged its oil exports for the past three budgets, securing an average price of \$57/barrel for 2010 and paying \$1.17 billion to buy put options.

Declining coal stocks in power plants threaten normal power supplies in parts of China. Coal inventories in thermal power plants covered by the central China grid have fallen sharply in the past two weeks and some generators have been shut down on coal shortages. Coal stocks in power plants connected to the grid that covers Hunan, Hubei, Jiangxi, Henan, Chongqing and Sichuan regions totaled 13.45 million tons or 15 days of supply as of December 13th. However considering demand growth and the current supply situation, coal stocks could fall to 10 million tons by the end of the year.

**December
Calendar Averages**
CL – \$88.31
HO – \$2.4643
RB – \$2.3213

transactions to be traded on “request for quote” systems or order books. With a request for quote, a money manager can send a price request electronically to multiple dealers with one click of a button. The CFTC is proposing a minimum of five dealers.

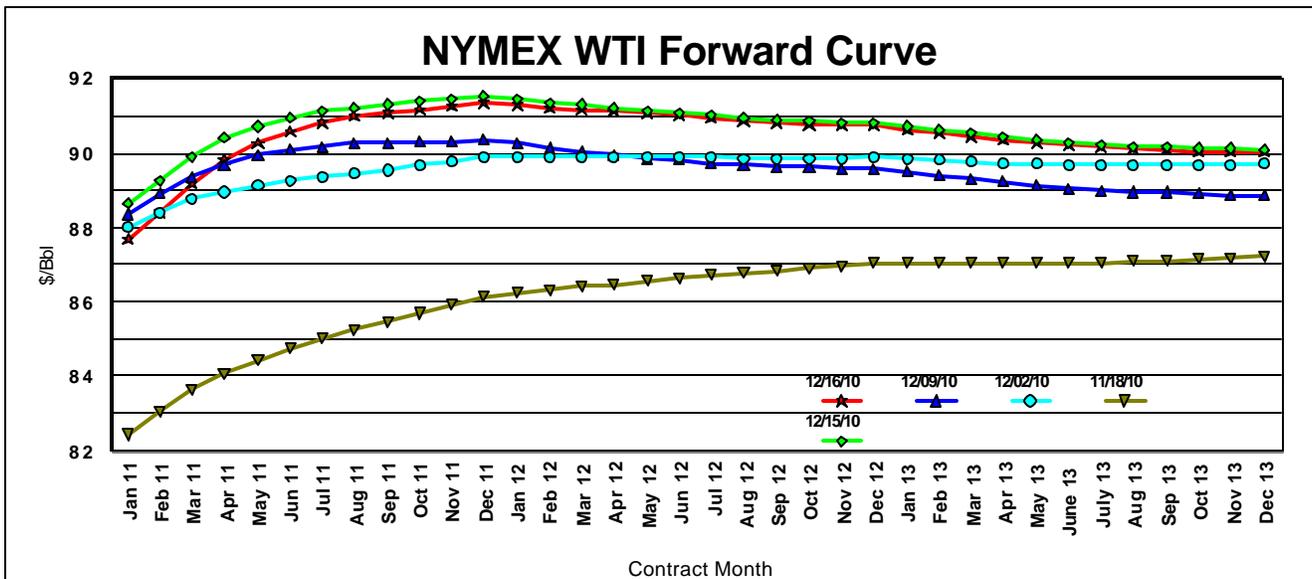
Oil Movements reported that OPEC’s oil exports, excluding Angola and Ecuador, is expected to increase by 70,000 bpd to 23.46 million bpd in the four weeks ending January 1st.

Genscape reported that oil inventories in the week ending December 14th increased by 482,794 barrels to 38.4 million barrels. It showed that Cushing crude tanks were filled to 73% of shell capacity on Tuesday, up from 72% in the previous week.

The EIA said US dependence on oil imports in 2035 is expected to fall to its lowest level since 1992 due increased domestic output, efficiency gains and increased use of biofuels. Reliance on foreign oil peaked at more than 60% in 2005 and fell to nearly 52% in 2009. In 2035, the US will rely on imports for 42% of its needs. The net import share of total US energy consumption in 2035 is projected at 18%, down from 24% in 2009. The average real price of crude is expected to be \$125/barrel in 2035, in 2009 dollars or \$200/barrel in nominal terms. The EIA stated that total conventional oil supply is expected to increase by 0.8% annually to 2035, reaching 97.28 million bpd, with OPEC crude and associated liquids supply increasing by 1.2% to 44.78 million bpd. OPEC’s share of conventional oil supply is expected to reach 46% in 2035, up from 41% in 2009. Non-conventional production, including supplies from oil sands and shale deposits, will increase globally by 4.7% annually to 13.54 million bpd, increasing total supply of conventional and non-conventional crude at 110.8 million bpd. Global oil demand growth is expected to average 1.1% annually in the period, with US consumption up by 0.6% each year to about 22 million bpd in 2035. It is up 16.8% or 3.2 million bpd from 2009. OECD demand is estimated to increase by 0.2% annually or 2.6 million bpd by 2035. Non-OECD demand, led by China, is expected to increase by 1.9% annually over the period, with China’s demand increasing by 3.3% yearly. In the US, renewable sources of energy, such as ethanol and biodiesel, are expected to grow by 4.8% annually. Ethanol supply is expected to nearly triple from 2008 levels to 1.82 million bpd. Biodiesel supply is expected to increase by 7.1% annually to 130,000 bpd.

Refinery News

Valero Energy Corp restarted a hydrocracker at the west plant of its 142,000 bpd Corpus Christi,



Texas refinery. The unit is increasing to planned rates after the unit was shut for maintenance on December 14th.

Deloitte Services LP said US refiners still face the challenge of reducing national capacity by 1 million to 2 million bpd to match falling demand. In a study, it stated that regulations to improve automobile fuel use efficiency and increase the use of biofuels are expected to reduce the demand for petroleum based gasoline by as much as 20% by 2020. It said refinery shutdowns in the past year have been offset by planned capacity expansions.

South Korean refiners are planning heavy maintenance shutdowns of their crude distillation units, mostly in the first half of 2011. SK Energy is scheduled to shut down its 240,000 bpd No. 4 crude distillation unit in March and its 260,000 bpd No. 5 crude distillation unit in May. It is also scheduled to shut down its 60,000 bpd No. 1 crude distillation unit in July. Hyundai Oilbank is scheduled to shut down its 110,000 bpd No. 1 crude distillation unit in late March for maintenance. S-Oil Corp is scheduled to shut its 240,000 bpd No. 2 crude distillation unit starting in late May for 20 days of maintenance. GS Caltex is scheduled to shut its 165,000 bpd No. 3 crude distillation unit for maintenance in September.

Gasoline stocks held in independent storage in the Amsterdam-Rotterdam-Antwerp area in the week ending December 16th increased by 1.01% on the week but fell by 45.25% on the year to 501,000 tons. Gas oil stocks fell by 2.38% on the week but increased by 0.94% on the year to 2.911 million tons while its fuel oil stocks fell by 11.5% on the week and by 0.29% on the year to 685,000 tons. Naphtha stocks increased by 19.35% on the week but fell by 38.33% on the year to 37,000 tons while its jet fuel stocks fell by 7.04% on the week and by 18.03% on the year to 673,000 tons.

Singapore's International Enterprise reported that the country's residual fuel stocks built by 547,000 barrels to 22.486 million barrels in the week ending December 15th. It also reported that its light distillate stocks fell by 593,000 barrels to 10.064 million barrels while its middle distillate stocks built by 94,000 barrels to 12.52 million barrels on the week.

Saudi Aramco has signed at least one term contract to buy 500 parts per million sulfur gasoil and a contract to sell jet fuel to Vitol Holding BV in 2011.

Production News

Oil exports from Iraq's southern Basra terminal were restored to 1.488 million bpd on Thursday after bad weather halted exports on Wednesday.

According to a provisional loading program, Angola plans to export 48 cargoes or 1.63 million bpd in February, compared with 50 cargoes or 1.54 million bpd for January. The country plans to export seven Cabinda, seven Dalia, one Gimboa, six Girassol, five Hungo, four Kissanje, two Kuito, two Mondo, eight Nemba, one Palanca, two Plutonio and three Saxi cargoes.

Azerbaijan's State Statistics Agency reported that the country produced 47.103 million metric tons of crude oil from January to November, up 1.6% on the year.

Colombia's oil licensing agency ANH said the country's crude oil output in November increased by 12.8% on the year to 818,000 bpd. The country's output was revised to 800,000 bpd from its previous estimate of 798,000 bpd. Average output for the first 11 months of the year stood at 781,000 bpd.

Brazil' Petrobras said that drilling of the eleventh of thirteen wells scheduled for the Tupi/Iracema area confirmed the light oil potential of the pre-salt reservoirs in ultra-deep Santos Basin waters. It confirmed estimates of recoverable reserves of between 5 billion and 8 billion barrels of oil equivalent.

Chevron Corp said it would spend \$4 billion to develop its Big Foot project in the deepwater US Gulf of Mexico. It said first oil is anticipated in 2014. It is expected to have production capacity of 75,000 bpd of oil and 25 million cubic feet/day of natural gas.

OPEC's news agency reported that OPEC's basket of crudes increased by just 1 cent to \$88.22/barrel on Wednesday.

Market Commentary

Crude oil weakened as the dollar strengthened amid a composite of economic data in the U.S. and Europe and what appeared to be book squaring ahead of the New Year. European debt woes overshadow yesterday's inventory numbers, which reflected the largest weekly drop in eight years. Today's market activity took place under light volume. From now and until the New Year, we should see more days like this. Crude oil based upon a spot continuation chart appears to be trending lower, with the possibility of a downward channel forming. Based upon technicals, the \$88.53 area should provide resistance coming into tomorrow's session. Should prices fail to trade above this level, selling pressure should enter the market. For a downside target we would look for support down around \$85.53.

Crude oil: Jan 11 106,730 -25,438 Feb 11 288,833 +20,275 Mar 11 175,448 +3,078 Totals 1,390,584 +9,805 Heating oil: Jan 11 69,923 -3,510 Feb 11 65,087 +2,807 Mar 11 47,560 +2,171 Totals 306,683 +2,496 Rbob: Jan 11 57,887 -1,681 Feb 11 65,755 +1,288 Mar 11 40,807 +255 Totals 270,261 +1,720

Crude Oil		Heating Oil		Rbob	
Support	Resistance	Support	Resistance	Support	Resistance
8583		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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