



ENERGY RISK MANAGEMENT

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ENERGY MARKET REPORT FOR DECEMBER 20, 2010

A poll of oil analysts conducted by Reuters today showed that their average expectations for oil prices in 2011 would be over \$86 per barrel, some \$3.00 higher than last month's projects. This was the third consecutive month of higher price expectations, as strong demand from Asia and more modest spare output capacity growth, has fueled higher expectations.

According to the Lundberg survey, the US average price of gasoline increased by 7.59 cents to \$2.98/gallon in the two weeks ending December 17th.

The EIA reported that the US average retail price of diesel fuel increased by 1.7 cents to \$3.248/gallon in the week ending December 20th. The price was 19.1% or 52.2 cents above a year ago. It

Market Watch

German household heating oil stocks fell to 61% of tank capacity as of December 1st Reuters reported today. Tanks were 63% full as of November 1st.

The U.S. National Weather Service reported this morning that U.S. heating demand by oil home heating customers should reach 252 HDD some 4.6% higher than normal. Last week demand was some 16.7% higher than normal.

Buckeye Partners LP will purchase an 80% stake in Bahamas Oil Refining Co International from private equity firm First Reserve Corp to expand its oil storage and fuel blending facilities. With a storage capacity of 21.6 million barrels, Bahamas Oil is the world's fourth largest oil and petroleum products storage terminal. The deal is expected to close in the first quarter of 2011.

US automakers and engine makers sued the EPA on Monday over its decision to allow higher blends of ethanol for newer cars, saying it could cause confusion and damage engines in older vehicles. The suit asks the US Court of Appeals for the District of Columbia Circuit to send the decision back to the EPA and also asks the court to review whether the decision violates the Clean Air Act. The EPA decided in October to allow cars built in 2007 or later to burn gasoline containing 15% ethanol or E15, up from the current level of 10%. The EPA may decide as soon as January to allow E15 for cars built in 2001 and later.

China's central bank reported that capital inflows into China slowed in November from a near record high in October. The Position for Forex Purchases showed November inflows remained at a historically high level. The People's Bank of China and Chinese institutions spent 319.6 billion yuan or \$48 billion to absorb foreign exchange flowing into China in November, down from 519 billion yuan in October. Slowing capital inflows in November reflects the stock market's 5.3% fall in the month after a 12.2% increase in October and the government's continued efforts to dampen high property prices.

Power shortages in some inland Chinese provinces could become worse in coming months as demand rises due to cold weather while coal stocks in power plants fall. Recurrent power shortages is a sign of conflict between coal miners, facing rising production costs and power firms unable to pass on higher coal costs to consumers because of government price controls on power. In the northern province of Shaanxi, where power rationing was introduced on December 8th, electricity cuts were increased to 2.3 gigawatts or nearly 20% of maximum demand. Coal fired power generators provide about 80% of China's electricity.

**December
Calendar Averages**
CL – \$88.32
HO – \$2.4668
RB – \$2.3251

also reported that the US average retail price of gasoline increased by 0.2 cents to \$2.982/gallon on the week. The price of gasoline was 15.2% or 39.3 cents higher than a year ago.

The US Transportation Department said US highway travel in October increased by 1.9% or 4.9 million miles on the year to 260 billion miles in October. The number of miles driven during the first 10 months of this year increased by 0.6% or 16 billion miles.

Refinery News

Mexico’s Pemex said its 30 inch Nuevo Teapa pipeline in San Martin Texmelucan, Puebla State was sabotaged on Sunday. Mexican authorities blamed the explosion that killed 27 people on a criminal gang that was trying to steal fuel. The pipeline runs from the Port of Dos Bocas in Tabasco state to the Tula refinery. The refinery has about four days of supply to maintain production of as much as 280,000 bpd. The refinery can use another pipeline if Nuevo Teapa is down for more than four days. The attempt to steal fuel from Pemex is part of the broader wave of criminal activity afflicting Mexico. The company said last year it had 5 million barrels worth 9.3 billion pesos or \$750 million stolen in 2008.

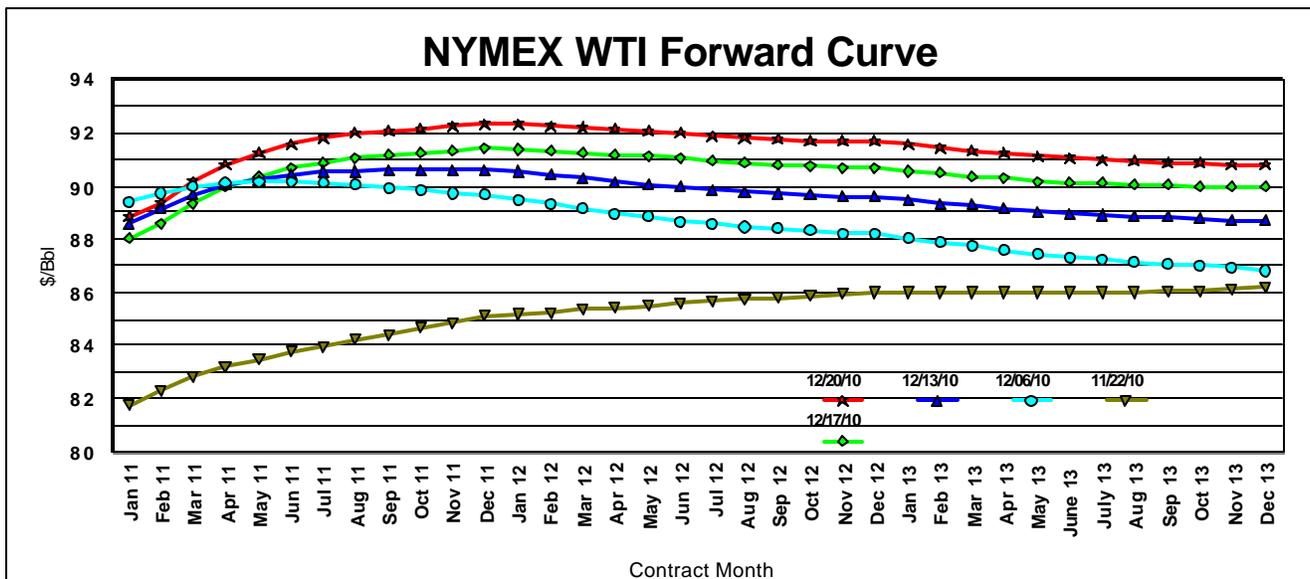
A French oil pipeline, which leaked about 5,000 liters of product over the weekend is resumed operations following repairs. The leak occurred at a pumping station for the pipeline that services refineries in France, Germany and Switzerland from the oil terminal at Fos.

ExxonMobil Corp restarted its 344,500 bpd Beaumont, Texas refinery following three months of planned maintenance. The maintenance, which started in late September, involved the refinery’s hydrocracker unit. Separately, ExxonMobil completed a two week turnaround late last week on an unspecified unit at its 192,500 bpd refinery in Chalmette, Louisiana.

BP Plc reported a release at its 234,000 bpd refinery in Cherry Point, Washington on Saturday. It said the release of sulfur dioxide to the low pressure flare was caused due to maintenance activity.

Total Petrochemicals USA reported that a sulfur recovery unit startup resulted in excess emissions at its 232,000 bpd Port Arthur, Texas refinery. It said all efforts were being made to minimize emissions.

Unscheduled maintenance work on a 150,000 bpd fluid catalytic cracking unit at Hovensa LLC’s



500,000 bpd refinery in St. Croix continued on Monday. The unit was shut on December 9th.

India's Reliance Industries reportedly will shut its 200,000 b/d FCC unit at its Jamnagar refinery at the end of January, for maintenance. The unit is expected to be off line for approximately one month.

India Oil Corporation reportedly has sold almost four times its monthly average volume of fuel oil for December loadings. Reuters reported that the company was slated to export at least 205,000 tonnes of fuel oil, its highest monthly total in nearly five years, due to low domestic demand and expanded capacity at its Panipat plant.

JX Nippon Oil & Energy said Monday that it has restarted the 35,000 b/d FCC unit at its Kashima refinery this morning. The unit had been off line for nearly two weeks due to a technical problem.

China's Sinopec processed more than 208 million metric tons or 4.32 million bpd of crude at its refineries this year as of December 19th.

China's proposed strategic oil reserve at Huizhou in Guangdong province will cost 3.8 billion yuan or \$571 million to build. The reserve would store imported crudes from the Middle East and Angola when completed. China National Offshore Oil Corp is responsible for building the strategic oil reserve, which will make use of underground caverns and have a capacity of 5 million cubic meters.

South Korea's Korea National Oil Corp said the country's crude imports in November increased by 31% on the year to 77.2 million barrels or 2.57 million bpd. South Korea's oil product exports increased by 4.2 million barrels on the year to 31.8 million barrels while its imports fell by 400,000 barrels to 20.6 million barrels. It also reported that domestic oil product demand in November increased by 6.3% to 69.1 million barrels. It stated that South Korean refineries processed 76.04 million barrels of crude in November, up 13.1% on the year and down 0.9% on the month.

Iran's Oil Ministry reported that the country's gasoline demand fell by 16.6% or 10.6 million liters to 53.3 million liters on the first day after the President Mahmoud Ahmadinejad's government implemented a price increase. The price increase is part the government's policy to increase Iran's economy by phasing out subsidies on a range of essentials such as energy, food and water. The subsidies had allowed Iranians to pay just 1,000 rials or about 10 cents/liter for the first 60 liters they purchase per month. Beyond that they paid 4,000 rials/liter. The price increase increased the 60 liter ration price up to 4,000 rials and the higher price to 7,000 rials.

Germany's AGEBA said German energy use in 2010 may increase by just over 4% on the year to 478.2 million coal equivalent tons. Its oil consumption increased by 1.1% to 159.3 million coal equivalent tons.

Production News

Russian oil exports and transit via Transneft, the state oil pipeline monopoly, will rise 3.8% to 52 million tons next quarter as pipeline shipments to China begin. Russia is planning to ship 3.68 million tons of oil to China via the new Eastern Siberia-Pacific Ocean pipeline.

Shell Oil said on Monday that it has ended the force majeure on crude oil exports for Bonny Light from Nigeria. The company declared force majeure on November 19th due to damage to a pipeline caused by oil theft. Meanwhile Chevron announced today that it has suspended production from a pipeline in Nigeria's Delta which had been breached in an attack on Friday. The company is currently investigating the damage to its Dibi-Abiteye pipeline but did not say how much production would be lost from shutting down the line. A militant group on Saturday claimed responsibility for the attack.

ExxonMobil said it restarted 15,000 bpd of Nigerian Oso condensate production, which was shut in following a military raid on November 14th. Nigeria's main militant group, the Movement for the Emancipation of the Niger Delta said it was behind the November attack.

Petro-Canada announced it has discovered oil in the Statfjord formation in the North Sea. Its exploration well was drilled some 15 kilometers northwest of the Snorre field. The size of the discovery is still unclear.

Maersk Oil said that DUC oil and condensate production totaled 215,000 bpd in October and 218,700 bpd in November.

Venezuela's oil production averaged 2.8 million barrels per day in October versus 2.75 million bpd in September, according to Venezuelan officials.

Ecuador's central bank reported that the country's crude oil exports totaled 103.39 million barrels in the first ten months of the year, up 4% on the year. The country exported 340,109 bpd between January and October, up from 327,388 bpd a year ago.

Nigeria has increased its official selling price of its Bonny Light and Qua Iboe crude for January loading by 20 cents to a premium of \$1.75/barrel over Dated Brent.

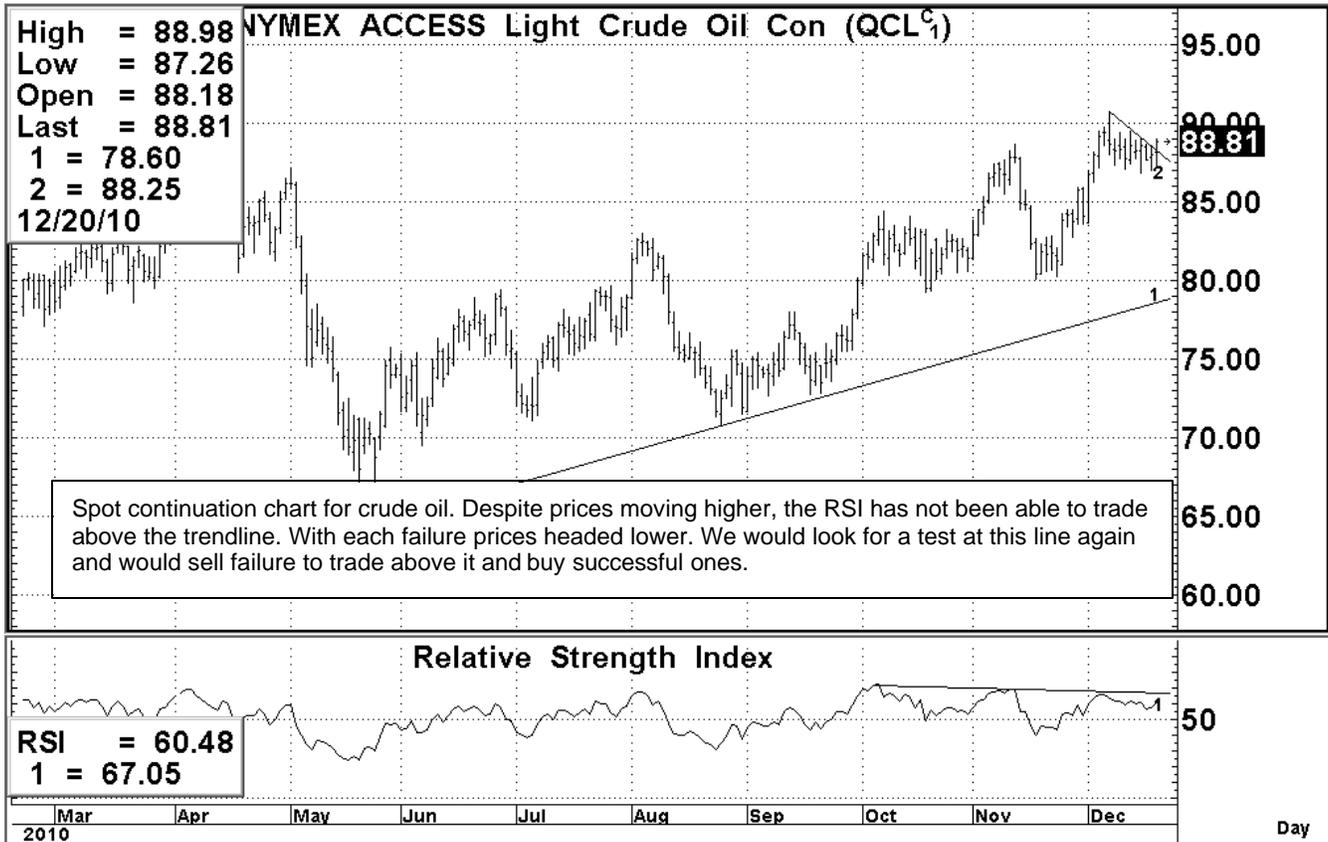
OPEC's news agency reported that OPEC's basket of crudes increased by 2 cents to \$88.78/barrel on Friday. It also reported that OPEC's basket of crudes increased by 59 cents to \$88.39/barrel in the week ending December 17th.

Market Commentary

Crude oil fluctuated throughout the session, trading close to its highest level in two years. Today's choppy trading session was influenced by several factors, the expiration of the January contract, anticipation of cold weather, hopes that holiday driving would spark demand for gasoline and concerns regarding the euro debit crisis. It's quite possible that we may see crude oil try to hold onto its strength as we approach the New Year. The current technical outlook does not appear to support higher prices. There is currently a divergence between market activity and technical indicators. While the market has been trending higher, the relative strength index has not reached new highs. This is, so far, an indication that the upside potential for this market may be limited. We would rather be overall sellers than buyers of this market, given the current technical outlook. Based on the chart depicted below, we would look for the RSI to reach the resistance line, which is currently set at 67.05. A failure for this moving oscillator to trade above this line would be an indication that prices are heading lower. We would look to sell the February crude oil should the RSI fail to trade above this line.

Crude oil: Feb 11 300,595 +4,203 Mar 11 183,143 +1,922 April 11 72,569 +4,974 Totals 1,350,098 –
19,951 Heating oil: Jan 11 59,517 –3,378 Feb 11 75,780 +5,539 Mar 11 48,572 +243 Totals 309,763
+2,731 Rbob: Jan 11 46,476 –6,014 Feb 11 78,545 +8,223 Mar 11 43,621 +2,183 Totals 280,144
+6,122

Crude Oil		Heating Oil		Rbob	
Support	Resistance	Support	Resistance	Support	Resistance
8826		23685	26712		24880
8583	9076	22960	27070	22560	27085
8350	9100	22013	29500	22050	
7993	9385	21860	30955	21600	
7900		21140		20300	
7871		20702		20130	
7783					



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