



ENERGY RISK MANAGEMENT

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ENERGY MARKET REPORT FOR DECEMBER 21, 2010

According to MasterCard Advisor's Spending Pulse report, US gasoline demand increased 0.1% or 6,000 bpd to 9.188 million bpd in the week ending December 17th. It reported that over the last four weeks, average gasoline consumption was 1.4% lower year over year. The average retail price of gasoline increased by 2 cents to \$2.96/gallon in the week ending December 10th.

Royal Dutch Shell PLC chief executive officer Peter Voser said he can't complain about the present oil price, which is trading around \$90/barrel. He said if crude oil prices increased too much, demand would react and the market would correct itself.

Afghan officials said Iran is preventing 2,000 fuel tanker trucks from crossing into Afghanistan, claiming their load would supply US-led coalition forces. The unannounced border blockade, which entered its third week, threatens to push fuel prices higher ahead of Afghanistan's severe winter.

Market Watch

The National Development and Reform Commission said China will raise retail gasoline and diesel prices by about 4% on Wednesday, the third increase this year. Gasoline price ceilings will increase by 310 yuan/ton or .23 yuan/liter and diesel price ceilings will increase by 300 yuan/ton or 0.26 yuan/liter. Aviation kerosene prices will also increase by about 5%. It stated that the fuel price hike will add to 0.07% of a sequential increase in consumer price index in December. Meanwhile, the commission said it expects China's reliance on petroleum imports to be nearly 55% in 2010.

India could decide to increase diesel and cooking gas prices at a ministerial meeting, which is expected by the end of December. Indian oil firms last week increased petroleum prices by about 5.6%. The increase in diesel and LPG prices would help oil firms protect their margins as international crude oil prices are close to \$90/barrel.

Moody's Investor Service warned it may cut debt ridden Portugal's A1 rating by one or two notches following a review that may take no more than three months.

Japan's government will decide by the end of the year its stance on introducing a national carbon emissions trading system for companies. In a proposal on anti-global warming policies last week, the ruling Democratic Party said the government should carefully study the carbon cap-and-trade scheme by assessing such issues as its impact on industry and the effectiveness of similar systems overseas.

API Stocks

Crude – down 5.796 million barrels
Distillate – up 16,000 barrels
Gasoline – down 2.905 million barrels
Refinery runs – down 0.7% at 85.4%

Refinery News

Enbridge Inc was forced to ration capacity again on its oil pipeline system. It said five of its pipelines in the US Midwest were overbooked for January shipments. Capacity has been tight since the summer, when to major Enbridge lines in the region suffered ruptures. Enbridge has increased its

maintenance and testing as a result, increasing the number of outages and backing crude up in Alberta. It said Line 5, which transports 490,000 bpd to Sarnia, Ontario from Superior, Wisconsin was apportioned at 33%, meaning shippers can send 67% of the volumes next month. Line 6A, which moves 670,000 bpd to Griffith, Indiana; Line 14, a 320,000 bpd line to Mokena, Illinois from Superior; and line 61, a 400,000 bpd line to Flanagan, Illinois from Superior were apportioned at 26%. Line 6b, a 290,000 bpd line which ruptured in Michigan in July and was shut for nine weeks, is apportioned at 43%.

**December
Calendar Averages**
CL – \$88.42
HO – \$2.4701
RB – \$2.3300

ExxonMobil Corp shut down two of its units at its 149,500 bpd refinery in Torrance, California. It said preparations were underway to restart the units while officials investigate the shutdowns.

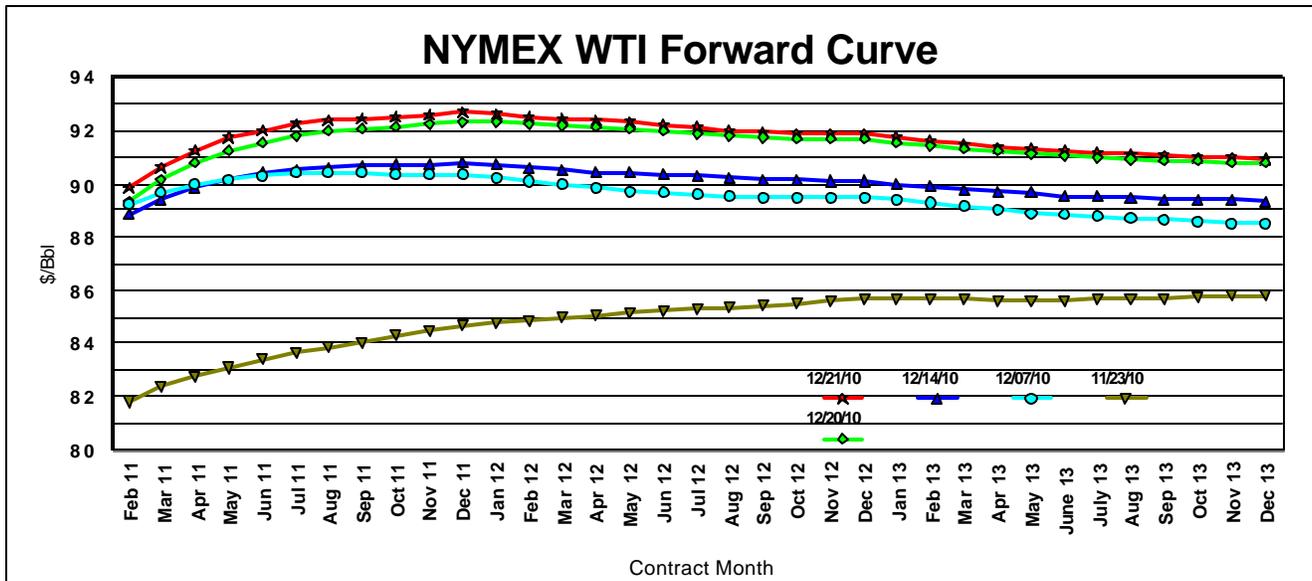
ConocoPhillips reported a wet gas compressor trip at its 362,000 bpd joint venture refinery in Wood River, Illinois on Monday.

Venezuela's PDVSA said its 130,000 bpd Petroanzoategui heavy crude upgrader, which has suffered mechanical problems for several years, will be down for maintenance in 2011.

Royal Dutch Shell Plc has informed its employees at its Stanlow refinery that India's Essar group has made a credible bid for the plant. Shell is reducing its involvement in refining, especially in Europe, to invest more money upstream in more lucrative oil and gas production. Separately, Shell said it and Qatar Petroleum will jointly study building a major petrochemicals plant in Ras Laffan.

Euroilstock reported that total European refinery output in November increased by 10.7% on the month and 3.9% on the year to 11.697 million bpd. Gasoline production increased by 7.4% on the month but fell by 4.2% on the year to 2.814 million bpd while middle distillate production increased by 11.1% on the month and 4.3% on the year to 5.92 million bpd. Fuel oil production increased by 15.8% on the month and by 10.3% on the year to 1.352 million bpd while naphtha production increased by 23.1% on the month and by 14.5% on the year to 821,000 bpd. Euroilstock reported that the refinery utilization rate in November stood at 85.82%, up from 76.94% in October and 79.61% last year. Refinery crude intake totaled 11.242 million bpd up 11.5% on the month and 7.8% on the year.

China's General Administration of Customs confirmed that the country's crude imports in November reached 20.91 million metric tons or 5.1 million bpd, up 22% on the year. China's liquefied natural gas imports in November totaled 727,575 tons, up 24% on the year. China imported 161,477 tons of



natural gas in November.

China's apparent oil demand increased by 13.9% on the year to 9.34 million bpd in November.

China will continue to cap diesel exports in January and expects to cease imports of the fuel as a month long shortage eases on record refinery runs and an increase in imports over the past two months. China's exports of diesel fell to 235,746 tons in November, the lowest monthly volume in almost two years. It is down 39% on the year and 34% on the month. China's diesel imports increased to 150,000 tons from just over 40,000 tons in October. China's net export of diesel fell to below 100,000 tons. China's diesel apparent demand increased by 21% on the year to 13 million metric tons in November. Meanwhile, China's gasoline exports fell by 34% on the year and 14% on the month to 321,826 tons. The country's gasoline apparent demand in November increased by 4.6% on the year to 5.38 million tons. China's kerosene exports increased by 23.26% on the year to 505,273 tons while its kerosene imports increased by 60.6% to 861,388 tons.

Shipping data showed that Iran's gasoline imports in November increased by over 70% on the month despite tightening international sanctions to restrict fuel imports into the country. Sanctions have stopped oil majors and big international oil companies from selling fuel to Iran. Iran imported 28,869 bpd of gasoline November, up from 16,744 bpd in October.

The Institute of Energy Economics for Japan said the country's total oil product sales are expected to fall 1.9% to 190.04 million kiloliters or 3.27 million bpd in the year from next April, compared with a 0.6% decline expected this financial year. Gasoline sales are expected to fall 3% next fiscal year.

Production News

BP Azerbaijan said it restarted oil production at the 90,000 bpd Chirag field in the Azeri Caspian after a 10 day halt for fire equipment repairs. The Baku-Supsa pipeline, which carries Chirag's oil to the Black Sea, remains halted but will restart in time to load tankers which are now en route to Supsa.

A Petrobras platform with a capacity of 180,000 bpd has started producing in Brazil's offshore. The development will help Petrobras realize its plans to produce 500,000 bpd from the Espirito Santo state by 2015, up from about 10,000 bpd in 2000.

Venezuelan lawmakers approved the creation of a joint venture between PDVSA and Iran's Petropars Oil and Gas Co to develop a mature oil and gas field in Venezuela. A PDVSA official said the deal is worth \$1.5 billion and involved increasing production at the mature Dobokubi field to 40,000 bpd from its current output of 4,000 bpd.

OPEC's news agency reported that OPEC's basket of crudes fell by 19 cents to \$88.59/barrel on Monday.

Market Commentary

All three markets traded higher today, initially led by gasoline, which gained its strength from an expected increase in demand due to the Christmas Holiday. Crude oil traded close to its highest level in two weeks, gaining on hopes that the U.S. economy will expand in the New Year, bolstering demand. Forecasts calling for colder weather, a softer dollar, as well as expected inventory draws, added to the firmness in prices. Thin trading contributed to the volatility of this market ahead of the upcoming holidays. As the week progresses, volume should continue to thin out, leaving more room for volatility. As this market continues to trend higher, we would keep an eye on the relative strength index, which is approaching a line of resistance set at 66.97. As mentioned yesterday, there has been divergence in this moving oscillator and the movement in flat price. A failure to trade above this resistance area should lead to lower prices.

Crude oil: Feb 11 305,211 +4,616 Mar 11 186,548 +3,405 April 11 76,178 +3,609 Totals 1,359,780 +9,682 Heating oil: Jan 11 50,523 -8,994 Feb 11 82,376 +6,596 Mar 11 49,799 +1,227 Totals 310,862 +1,099 Rbob: Jan 11 41,636 -4,840 Feb 11 83,958 +5,413 Mar 11 44,787 +1,166 Totals 283,739 +3,595

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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