



ENERGY RISK MANAGEMENT

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ENERGY MARKET REPORT FOR DECEMBER 28, 2011

According to MasterCard's SpendingPulse report, US retail gasoline demand increased by 7.7% on the week to 9.457 million bpd. However demand was 1.6% below last year's level. The four week moving average for demand fell by 3.6% compared with a year ago level. At an average \$3.23/gallon, gasoline was down 4 cents on the week.

Market Watch

A green movement is launching a multi-pronged counter attack against the shale oil and gas boom in the US that could slow development. Building upon their unexpected success in the battle against the Keystone XL pipeline, a renewed onslaught from environmentalists is putting the shale industry on the defensive while adding to costs, limiting expansion and potentially halt major projects.

According to the chief executive of Poet, the price of gasoline is expected to increase by about 4 cents/gallon after the tax credit for ethanol blending ends on January 1st. He said the presence of cheaper ethanol blended with gasoline lowers the pump cost to the consumer by 17 cents/gallon. E85 or 85% ethanol is expected to increase by about 40 cents/gallon. Blenders get a tax credit of 45 cents/gallon for mixing ethanol with gasoline. He said the ethanol industry is now mature and would be able to withstand the loss of the tax credit. Iowa is the nation's leading producer of ethanol, with about 3.7 billion gallons produced at 41 plants in the state.

The European Union is considering plans to impose new sanctions on Iran. An EU spokesman said it expects to make a decision in time for the foreign affairs council on January 30th. The US and EU are considering new sanctions aimed at Iran's oil and financial sectors. Iran's Vice President Mohammad Reza Rahimi warned that not a drop of oil would pass through the Strait of Hormuz if the West broadened sanctions against Iran over its nuclear program. Iran's navy chief said closing the Strait of Hormuz would be really easy for Iran to do but added that it was not necessary right now.

The Pentagon press secretary George Little said the US warned Iran against any attempt to disrupt shipping in the Strait of Hormuz. He said interference with the transit of vessels through the Strait of Hormuz would not be tolerated. Separately, the US Fifth Fleet said it will not allow any disruption of traffic in the Strait of Hormuz after Iran threatened to stop ships moving through the strategic oil route. It said it was maintaining a presence in the region to deter or counter destabilizing activities.

API Stocks

Crude – up 9.57 million barrels
Distillate – up 554,000 barrels
Gasoline – up 1.859 million barrels
Refinery runs – up 0.2%, at 83.3%

Refinery News

Western Refining said a fluid catalytic cracking unit was at planned rates at its 122,000 bpd El Paso, Texas refinery. Start up of the unit started on Sunday.

A flaring event taking place from Wednesday through Friday will precede a substantial turnaround of units at Tesoro Corp's

97,000 bpd refinery in Wilmington, California.

Valero Energy Corp said its 292,000 bpd Port Arthur, Texas refinery was at planned rates. A sulfur recovery unit malfunctioned on Saturday. There was no material impact to production due to the incident.

December Calendar Averages
CL - \$98.51
HO - \$2.9060
RB - \$2.5897

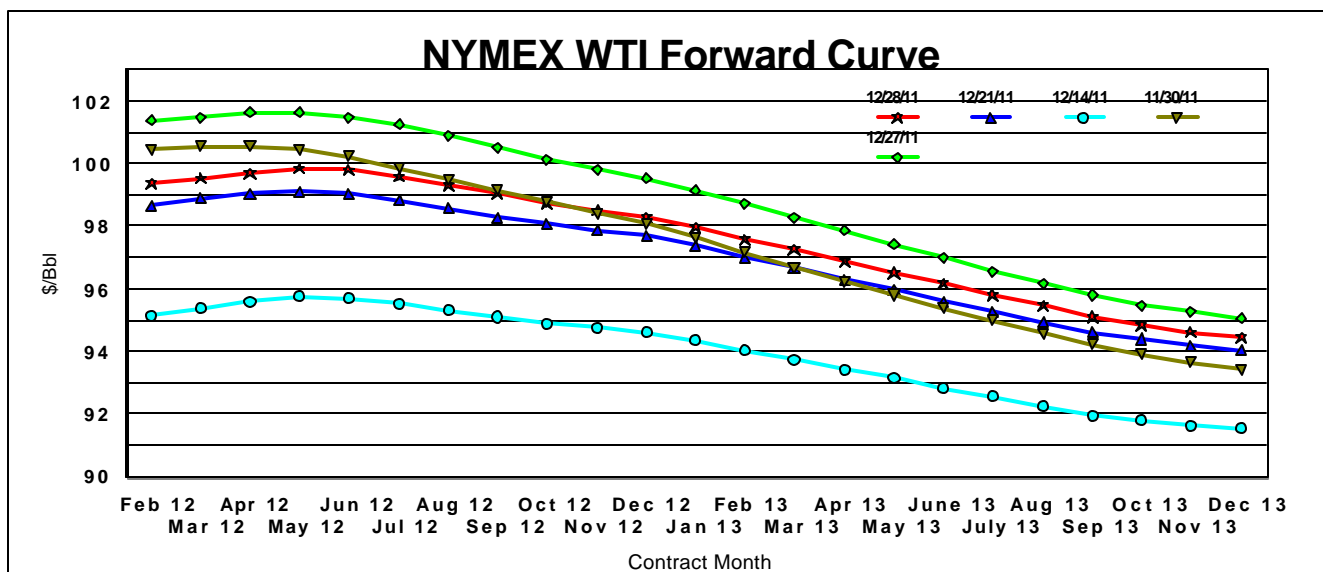
Spain's Repsol is expected to halt its 220,000 bpd Bilbao refinery for four and a half days starting Wednesday due to industrial action. The strike, over an employment contract, will not affect annual output from the refinery or output from the company's four other refineries in Spain.

Swiss refiner Petroplus may run out of crude stocks in days as traders said they had stopped sales fearing non-payments. Petroplus said lenders had frozen about \$1 billion in borrowing allowances the company relies on to buy crude oil. The company may have to cut throughputs within days at at least some of its refineries if it cannot finance crude oil purchases at current volumes. Separately, traders and analysts said prices of gasoline, diesel and other refined products could increase in Europe if European refiners like Petroplus Holdings cut their output due to the credit crunch.

The Petroleum Association of Japan reported that crude oil inventories in the week ending December 24th fell by 3.74 million barrels on the week and by 210,000 barrels on the year to 95.73 million barrels. Gasoline stocks fell by 380,000 barrels on the week and by 610,000 barrels on the year to 12.66 million barrels while kerosene stocks fell by 1.61 million barrels on the week but increased by 4.42 million barrels on the year to 20.09 million barrels and naphtha stocks fell by 610,000 barrels on the week and fell by 780,000 barrels on the year to 10.33 million barrels. Crude runs increased by 30,000 bpd on the week but fell by 270,000 bpd on the year to 3.6 million bpd. Refinery utilization increased by 0.8% on the week and by 1.3% on the year to 87.2%. The PAJ reported that total oil sales increased by 23.8% on the week and 14.3% on the year to 3.94 million bpd.

Japan's Ministry of Economy, Trade and Industry reported that the country's total oil product sales in November fell by 3.4% on the year to 16.24 million kiloliters or 3.4 million bpd. Gasoline sales fell 2.7% while gas oil sales fell 4.7%. Japan imported 16.95 million kiloliters or 3.55 million bpd of crude in November, down 12.7% on the year. Japan's crude oil imports from Iran fell by 38% in November to 1.09 million kiloliters or 228,441 bpd.

Indonesia's Pertamina may import 12 million kiloliters of gasoline in the future due to increasing consumption. The company initially aimed to import 10.28 million kiloliters of gasoline and 4.23



million kiloliters of high octane gasoline in 2011.

Production News

Canada’s Athabasca Oil Sands Corp received regulatory approval for its 150,000 bpd MacKay River project in Alberta and is on track to start production in 2014. The MacKay River project is expected to initially produce 35,000 bpd of oil and construction is expected to begin next month.

Statoil’s Skrugard field in the Barents Sea may be developed by way of a floating production unit big enough to accommodate other oil prospects nearby. The production unit is expected to have separate oil storage and offshore loading capability with a production capacity of 95,000 bpd.

China National Petroleum Corp said oil and gas output at PetroChina’s Changqing oilfield is expected to reach 40.59 million metric tons of oil equivalent or 815,000 bpd this year.

Exports of Russia’s Urals crude from the Baltic Sea port of Primorsk is expected to increase to 6.4 million tons in January from 6 million tons in December. Shipments from the Black Sea port of Novorossiisk are expected to fall to 3.744 million tons compared with 3.824 million tons in December.

Ecuador’s Petroecuador expects its oil production to increase by 10% next year to 60 million barrels.

Afghanistan signed a deal with China National Petroleum Corp for the development of oil blocks in the Amu Darya basin. The contract is valid for 25 years. CNPC and joint venture partner Watan Group would explore for oil in three fields in the basin which are estimated to hold about 87 million barrels of oil.

Market Commentary

Today’s market activity halted a six-day rally in crude oil as traders turned profits. Strength in the euro and fading concern over Iran coaxed longs out of the market. Volume was again light ahead of the upcoming New Year. Fundamentals remain mixed, with recent support coming from the Iranian situation and the global economic crisis weighing on the market. Overall, key fundamentals remain bearish for crude oil as the API numbers erased last weeks decrease. The \$103.37 resistance level remains our near term ceiling, while stretches to the downside should target, the \$95.00 area. With the gasoline tax credits ending on January 1, it is expected that gas prices will rise by 4 cents per gallon. The ethanol-blending program provided cheaper gasoline, with gas prices at the pump approximately 17 cents cheaper. With this program ending, the cost will be passed on to the consumer, which will most likely have a negative impact on demand. Initially, we see futures rising, but being contained below \$3.0000.

Crude Oil		Heating Oil (Jan)		Rbob (Jan)	
Support	Resistance	Support	Resistance	Support	Resistance
9499		27505	29288		27710
9591		26975	28800	24734	28667
9251	10337	26850	30937	24516	29175
8916	10753	26680	31956	24480	
8581	11483			23803	
	13205				
	14727				
50-day MA	96.29				
100-day MA	90.59				
200-day MA	95.67				

	CRUDE (NYMEX)				WTI (ICE)				BRENT (ICE)			
MONTH	O.I	YEST O.I	Change	% OF TTL	O.I	YEST O.I	Change	% OF TTL	O.I	YEST O.I	Change	% OF TTL
FEB	248262	246021	2241	18.729%	63157	63286	-129	16.090%	162889	162669	220	18.488%
MAR	163567	159546	4021	12.339%	36836	35998	838	9.385%	175076	174744	332	19.871%
APR	79017	75166	3851	5.961%	25455	25329	126	6.485%	46522	44832	1690	5.280%
Dec-12	170446	169634	812	12.858%	58487	57527	960	14.901%	97440	96678	762	11.059%
Dec-13	73803	73876	-73	5.568%	38149	38070	79	9.719%	46150	45817	333	5.238%
TOTAL	1325562	1311575	13987		392513	389433	3080		881066	877105	3961	

	HEATING OIL				RBOB			
MONTH	O.I	YEST O.I	Change	% OF TTL	O.I	YEST O.I	Change	% OF TTL
DEC	58476	64547	-6071	20.905%	15097	20878	-5781	5.488%
JAN	56743	53147	3596	20.285%	73871	73036	835	26.851%
FEB	40201	37889	2312	14.372%	46078	45548	530	16.749%
Dec-12	18726	18502	224	6.694%	13623	13536	87	4.952%

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