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ENERGY MARKET REPORT FOR DECEMBER 29, 2011

The US Navy force stationed in the Persian Gulf is maintaining normal interaction with its Iranian counterpart, despite an escalation of rhetoric between the two sides in recent days. Iran threatened to block a strategic oil shipping lane through the Strait of Hormuz. The US Navy responded Wednesday by warning it would prevent any attempt to close the route. Later, the US Navy said two American warships crossed through the Strait of Hormuz without

incident. The aircraft carrier USS John C. Stennis and the guided missile cruiser USS Mobile Bay conducted a preplanned, routine transit through the waterway.

Meanwhile, Iran rejected a US warning against closing the Strait of Hormuz, with a Revolutionary Guards commander saying "our response to threats is threats."

Italy's Prime Minister Mario Monti said the country would support sanctions imposed against Iran provided that crude oil imports by Eni relating to existing contracts are excluded. It has previously stated that it will not make any new investments in Iran and only intends to complete activities already underway.

DOE Stocks

Crude – up 3.099 million barrels
Distillate – up 1.205 million barrels
Gasoline – down 692,000 barrels
Refinery runs – down 0.7%, at 84.2%

Market Watch

The US Labor Department reported that initial unemployment claims increased by 15,000 to a seasonally adjusted 381,000 in the week ending December 24th. It was the fourth consecutive week that claims were below the 400,000 level. For the week ending December 17th, claims were revised up to 366,000 from an originally reported 364,000. The four week moving average of initial unemployment claims fell by 5,750 to 375,000. It reported that the number of continuing unemployment claims increased by 34,000 to 3,601,000 in the week ending December 17th. The unemployment rate for workers with unemployment insurance for the week ending December 17th was 2.9% compared with 2.8% the prior week.

The Institute for Supply Management-Chicago business barometer was relatively unchanged at 62.5 in December from 62.6 in November.

The Federal Reserve Bank of Kansas City's monthly manufacturing index fell by 4 in December following an increase of 4 in November.

The National Association of Realtors' seasonally adjusted index for pending sales of existing homes increased by 7.3% on the month to 100.1 in November. It increased to the highest level in 19 months. The NAR's pending sales gauge is 5.9% above its level in November 2010.

ABN Amro said it expects Brent crude averaging \$100/barrel in 2012 citing uncertain macroeconomic situation especially in the euro zone and looming instability in the Middle East. It also expects WTI crude to average \$95/barrel in 2012.

The EIA reported that US oil demand averaged 18.563 million bpd in October, down 2.2% on the year. It was down 1.4% from its previous estimate. Gasoline demand averaged 8.623 million bpd, down 4.4% on the year and 2.8% below earlier

estimates. Distillate demand averaged 3.944 million bpd, up 4.5% on the year and 7% above earlier estimates.

| |
|--|
| December Calendar Averages CL - \$98.56 HO - \$2.9066 RB - \$2.5943 |
|--|

Refinery News

Colonial Pipeline allocated Cycle 1 shipments on its Line 20 carrying distillates from Atlanta, Georgia to Nashville, Tennessee. It also allocated its main gasoline line north of Collins, Mississippi for Cycle 2, as nominations on its line exceed the company's ability to meet the five day lifting cycle. Colonial Pipeline said it was freezing nominations on its Linden line 6, for Cycle 70.

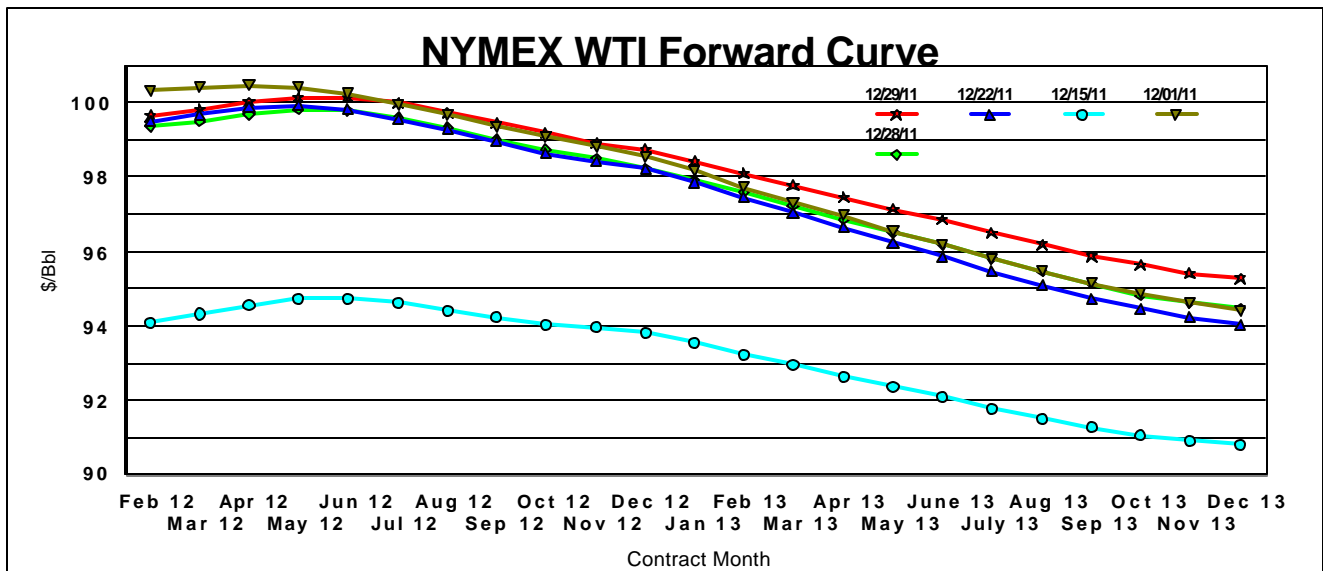
Flint Hills Resources reported a shutdown of a distillate desulfurizer unit at the west plant of its 290,078 bpd refinery in Corpus Christi, Texas, resulting in excess emissions.

Margins for Asian refiners could improve next month if European refiner Petroplus Holdings AG is forced to shut or sharply cut runs at some of its plants due to a credit crunch. Europe would have to increase its imports of diesel from India and the US Gulf to maintain the import economics of diesel to Europe. Petroplus said lenders had frozen a \$1 billion credit facility. Petroplus' refinery is running at normal rates and has enough crude on hand for several days.

Taiwan's Formosa Petrochemical Corp will start performing maintenance at its 540,000 bpd refinery in the first half of 2012 to compete safety checks ahead of a government deadline.

Kazakhstan signed a \$1.7 billion contract with Chinese and Japanese companies on Thursday to upgrade the Atyrau refinery to produce cleaner fuels. The country aims to upgrade its three oil refineries and supply the domestic market with all kinds of oil products by the end of 2014.

Russia's Energy Ministry reported that the country's refinery runs in November increased by 1.8% on the month but fell by 0.7% on the year to 5.08 million bpd. Russia's gasoline production in November increased by 2.6% on the month but fell by 0.8% on the year to 99,860 ton/day while its gasoil production increased by 5.5% on the month but fell by 1.7% on the year to 189,333 tons/day. Fuel oil production increased by 8.7% on the month but fell by 1% to 203,833 tons/day. Russia's Energy Ministry also reported that Russia's exports of gasoline and gas oil fell in November by 3.5% and 6.6%, respectively. It also reported that Russia's fuel oil exports however increased by 8.8% in November.



Gasoline stocks held in independent storage in the Amsterdam-Rotterdam-Antwerp area in the week ending December 29th fell by 7.09% on the week but increased by 12.09% on the year to 621,000 tons. Gasoil stocks fell by 1.61% on the week and by 29.25% on the year to 2.022 million tons while fuel oil stocks increased by 2.04% on the week but fell by 19.47% on the year to 699,000 tons. Naphtha stocks increased by 41.49% on the week and by 54.65% on the year to 133,000 tons while jet fuel stocks fell by 1.81% on the week and by 20.12% on the year to 544,000 tons.

Singapore's International Enterprise reported that the country's residual fuel stocks fell by 2.223 million barrels to 17.022 million barrels in the week ending December 28th. It also reported that Singapore's light distillate stocks fell by 849,000 barrels to 10.146 million barrels and its middle distillate stocks increased by 1.114 million barrels to 9.304 million barrels.

Production News

Iraq's North Oil Co said the country's oil exports to Turkey through the Kirkuk-Ceyhan pipeline were halted on Thursday due to low volumes in storage in Iraq.

Athabasca Oil Sands Corp won regulatory approval for its MacKay River oil sands project. Construction on the 35,000 bpd first phase is scheduled to start next month with first production scheduled for 2014.

Abu Dhabi National Oil Co will supply Murban crude at 10% below contracted volumes in February, up from a 5% reduction in January. It will also cut supplies for Lower Zakum crude and Umm Shaif crude by 10% and Upper Zakum by 5%.

Russia is expected to export a total of 6.4 million metric tons of Urals crude in January from the Baltic port of Primorsk, up from 6.1 million tons in December. Exports from the Black Sea port of Novorossiisk are scheduled at 3.7 million tons in the first half of next month.

Spain's Repsol agreed to buy Russia's Eurotek for \$230 million and would contribute oil fields with 115 million barrels in reserves to a joint venture with Alliance Oil.

Market Commentary

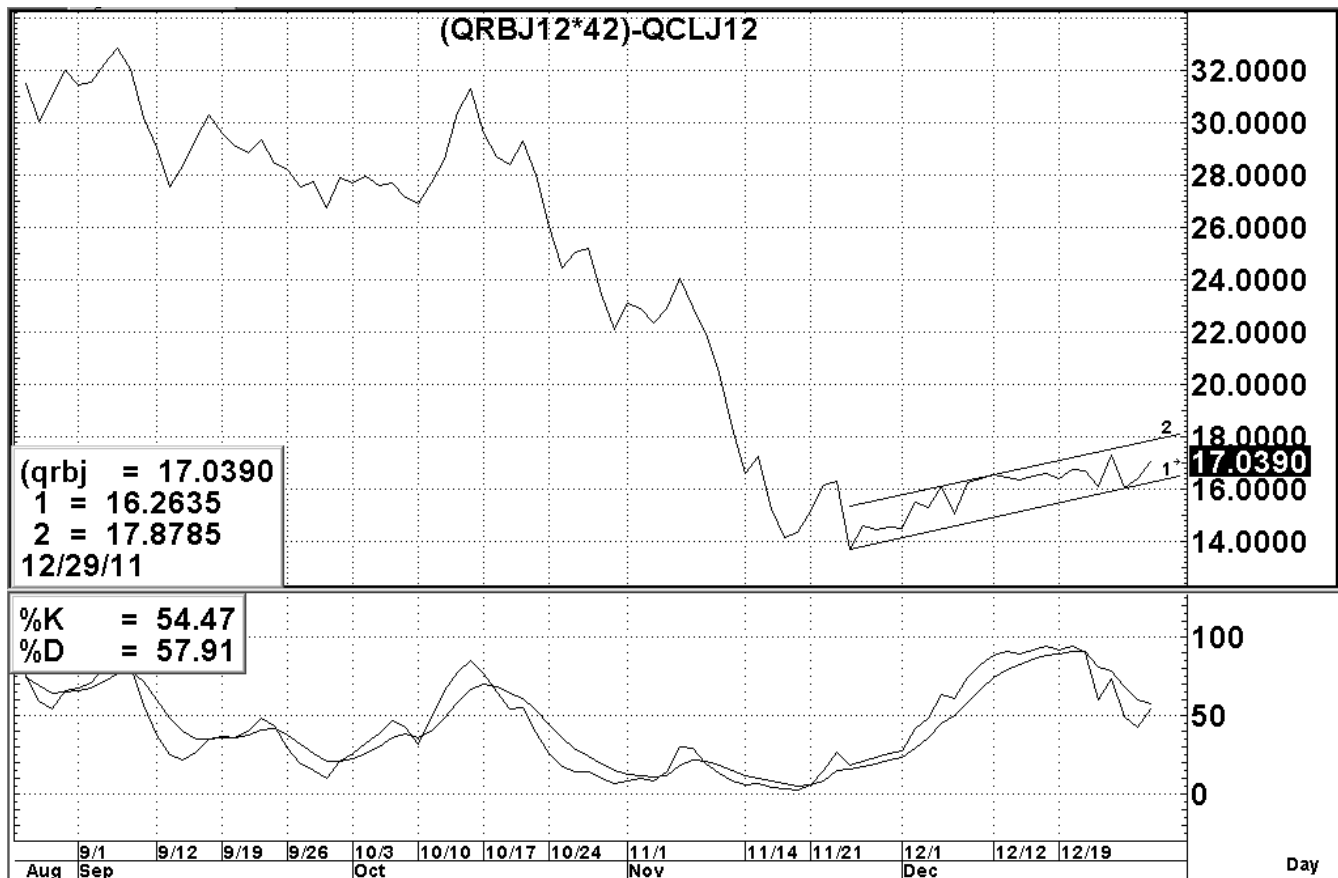
A greater than expected rise in inventories pushed crude oil lower for the second straight day. U.S. inventories increased 3.9 million barrels, paring last week's decrease of 5+ barrels. Total products supplied, an indication of demand, decreased by 825,000 barrels, propping up product prices. As mentioned in yesterday's wire, we expect that gasoline prices will continue to rise with the conclusion of the ethanol blending tax credits on January 1, 2012. Today's inventory draw gave a boost to gasoline crack spreads. Based on our opinion that gasoline could gain strength off of the aforementioned, we would look to buy the April 12 gasoline and sell the April 12 crude oil against it. This crack is currently trading \$17.04, with resistance set at \$18.00. A break above the \$18.00 would confirm our opinion and at this point we would be comfortable going long this crack spread, looking for advancements to \$24.00.

| Crude Oil | | Heating Oil | | Rbob | |
|-----------|------------|-------------|------------|---------|------------|
| Support | Resistance | Support | Resistance | Support | Resistance |
| 9499 | 10337 | 27505 | 29500 | 24734 | 27280 |
| 9591 | 10753 | 26975 | 29730 | 24516 | 27710 |
| 9251 | 11483 | 26850 | 30500 | 24480 | 28667 |
| 8916 | 13205 | 26680 | 30870 | 23803 | 29175 |
| 8581 | 14727 | | 31956 | | |
| | | | | | |

| | | | | | |
|-------------------|--------------|--|--|--|--|
| 50-day MA | 96.52 | | | | |
| 100-day MA | 90.80 | | | | |
| 200-day MA | 95.66 | | | | |

| MONTH | CRUDE (NYMEX) | | | | WTI (ICE) | | | | BRENT (ICE) | | | |
|--------------|----------------|----------------|-------------|----------|---------------|---------------|--------------|----------|---------------|---------------|--------------|----------|
| | 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 | 246099 | 248262 | -2163 | 18.534% | 61652 | 63157 | -1505 | 15.897% | 149896 | 162889 | -12993 | 17.194% |
| MAR | 163143 | 163567 | -424 | 12.286% | 35008 | 36836 | -1828 | 9.027% | 173249 | 175076 | -1827 | 19.873% |
| APR | 80381 | 79017 | 1364 | 6.053% | 24510 | 25455 | -945 | 6.320% | 46395 | 46522 | -127 | 5.322% |
| Dec-12 | 169731 | 170446 | -715 | 12.782% | 58974 | 58487 | 487 | 15.206% | 98067 | 97440 | 627 | 11.249% |
| Dec-13 | 74039 | 73803 | 236 | 5.576% | 37890 | 38149 | -259 | 9.770% | 46271 | 46150 | 121 | 5.308% |
| TOTAL | 1327850 | 1325562 | 2288 | | 387833 | 392513 | -4680 | | 871798 | 881066 | -9268 | |

| MONTH | HEATING OIL | | | | RBOB | | | |
|--------------|---------------|---------------|--------------|----------|---------------|---------------|-------------|----------|
| | O.I | YEST O.I | Change | % OF TTL | O.I | YEST O.I | Change | % OF TTL |
| DEC | 15686 | 58476 | -42790 | 5.672% | 11396 | 15097 | -3701 | 4.110% |
| JAN | 82255 | 56743 | 25512 | 29.745% | 78131 | 73871 | 4260 | 28.177% |
| FEB | 52367 | 40201 | 12166 | 18.937% | 45598 | 46078 | -480 | 16.444% |
| Dec-12 | 16680 | 18726 | -2046 | 6.032% | 13900 | 13623 | 277 | 5.013% |
| TOTAL | 276537 | 279724 | -3187 | | 277288 | 275110 | 2178 | |



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