



ENERGY RISK MANAGEMENT

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ENERGY MARKET REPORT FOR DECEMBER 30, 2010

Genscape reported that oil inventories at the Cushing, Oklahoma oil terminal fell by 117,946 barrels to 40.025 million barrels in the week ending December 28th.

The EIA reported that US oil demand in October was 12,000 bpd less than previously estimated but still up 136,000 bpd from a year earlier. US oil demand in October was revised down by 0.06% to 18.939 million bpd.

Market Watch

The US Labor Department said the number of initial claims for unemployment benefits fell by 34,000 to 388,000 in the week ending December 25th. It was the first time the initial claims fell below 400,000 since July 2008. The previous week's figures were revised up slightly to 422,000 from 420,000. The four week moving average of new claims also fell to its lowest level since July 2008 by 12,500 to 414,000. It reported that the number of continuing claims increased by 57,000 to 4,128,000 in the week ending December 18th from an upwardly revised 4,071,000 the previous week. The unemployment rate for workers with unemployment insurance was 3.3% in the week ending December 18th, up from the prior week's 3.2%.

The Institute for Supply Management-Chicago's survey of regional purchasing managers showed an increase of new orders to 68.6 in December.

The National Association of Realtors' index for pending sales for existing homes increased by 3.5% to 92.2, the highest level in seven months. However the pending sales index was 5% below its level of 97 in November 2009.

Analysts expect China to resume building its strategic oil reserve next year. They expect the next phase of China's reserve building, an addition of 168 million barrels, is likely to start in the first half of 2011. According to China International Capital Corp, the increase in stocks could increase the price of crude by as much as \$6.50/barrel over 2011 and 2012. China built its strategic reserve to 108 million barrels in 2009 or 12 days of forward supply. The reserve is expected to increase to about 272 million barrels after the second phase is complete. A third phase later this decade should add another 228 million barrels.

Refinery News

The US Coast Guard said fog at the oil port of Houston dissipated, allowing pilots to resume moving ships after a four hour traffic halt earlier on Thursday.

DOE Stocks

Crude – down 1.258 million barrels
Distillate – up 243,000 barrels
Gasoline – down 2.316 million barrels
Refinery runs – up 0.1%, at 87.8%

Colonial Pipeline said its main gasoline line north of Collins, Mississippi would resume operations later Thursday after being shut late Wednesday due to a mechanical failure with a valve. Colonial said repairs were underway. The effect of the shutdown was expected to be limited to southern delivery locations.

Tesoro Corp reported that planned flaring activity will take place at its 96,860 bpd Wilmington, California refinery throughout Friday. It said the planned event is not related to a unit breakdown. It sees no impact on production due to the flaring.

December Calendar Averages	
CL	– \$89.13
HO	– \$2.4842
RB	– \$2.3581

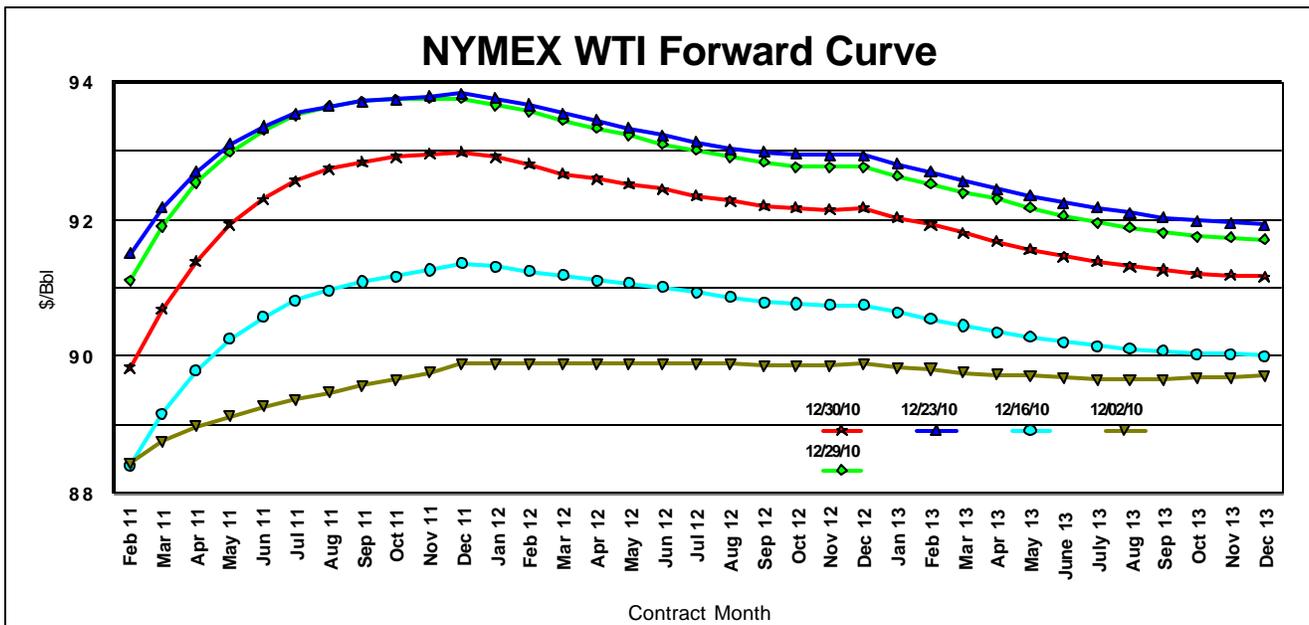
Holly Corp is restarting all units at its 155,300 bpd refinery in Tulsa, Oklahoma that were shut at the end of November for planned turnaround. The refinery is expected to resume normal operations next week.

Valero Energy Corp’s 235,000 bpd Aruba refinery is preparing for restart. Some of the units are expected to resume operations within days. The refinery was shut in July 2009 on concerns over an uncertain tax regime and unfavorable economic conditions. Separately, Valero has started to shutdown units at its 144,000 bpd refinery in Benicia, California for plantwide turnaround.

Russia’s Energy Ministry reported that the country’s refinery runs in November increased by 2.6% on the month and 4.8% on the year to 5.11 million bpd. During the month, Russia’s oil output stood at 10.25 million bpd while pipeline exports fell by 3.3% on the month. Gasoline production averaged 100,680 tons/day, down 0.1% on the month while gas oil production averaged 192,650 tons/day, up 1.5% from October but down 1.2% on the year. Fuel oil production averaged 205,840 tons/day, up 9% on the month and 9.6% on the year.

Gasoline stocks in independent storage in the Amsterdam-Rotterdam-Antwerp area in the week ending December 30th fell by 5.14% on the week and by 40.24% on the year to 554,000 tons. Gas oil stocks increased by 2.81% on the week and by 9.63% on the year to 2.858 million tons while fuel oil stocks increased by 16.51% on the week but fell by 3.13% on the year to 868,000 tons. Naphtha stocks increased by 24.64% on the week and by 22.86% on the year to 86,000 tons while jet fuel stocks fell by 1.87% on the week and by 14.88% on the year to 681,000 tons.

According to government data, India’s oil product sales fell by 1.3% in November to 11.5 million tons from 11.65 million tons in October. India’s diesel sales fell by 1.2% in November to 4.9 million tons from 4.96 million tons in October while gasoline sales increased to 1.193 million tons from 1.188 million tons in October. Jet fuel sales fell to 431,300 tons in November from 434,100 tons in October. It also reported that India’s imports of oil products increased by 39.3% on the year in November to



1.36 million tons. However India's crude oil imports fell by 29.4% in November to 9.43 million tons from 13.37 million tons a year earlier. Exports of oil products in November fell by 59.8% on the year to 1.97 million tons.

Singapore's International Enterprise reported that the country's residual fuel stocks in the week ending December 30th increased by 620,000 barrels to 21.614 million barrels. It also reported that the country's light distillate stocks fell by 1.371 million barrels to 9.223 million barrels while its middle distillate stocks increased by 151,000 barrels to 13.538 million barrels on the week.

Production News

According to a Reuters survey, OPEC 11 oil production, excluding Iraq, averaged 26.75 million bpd in December, up from 26.7 million bpd in November. The survey showed that the 11 members of OPEC bound by production quotas complied with 55% of the reduction in December compared with 56% in November. It reported that total OPEC production increased by 70,000 bpd to 29.14 million bpd in December. Iraq's oil production increased by 20,000 bpd on the month to 2.39 million bpd in December.

Brazil's Petrobras said its oil production in Brazil in 2010 would reach a record high of 2.003 million bpd after five new wells came on line. Its production in December reached a record of 2.12 million bpd, up from the previous record of 2.033 million bpd in April.

Petroecuador said its oil production had increased to 186,575 bpd at the end of 2010, up 2.4% on the year.

Indian Oil Corp said it is not facing any interruption in crude supplies from Iran. An official said reports that Iran halted its crude supplies to India were unfounded. Late Monday, the Reserve Bank of India told the country's lenders to stop processing current account transactions with Iran using the Asian Clearing Union arrangement, a policy that will increase deal costs and make trade cumbersome. Between April 2009 and January 2010, Indian oil companies imported 18.5 million metric tons of crude from Iran. Meanwhile the central banks of India and Iran are expected to meet to resolve the issue of payments to Iranian oil firms after the Reserve Bank of India imposed some curbs on such payments.

A Federal Tariff Service official said tariffs on Russian oil shipments via the Transneft pipeline network will not increase from January 1st but it may revisit the issue in February. It said the fees for the transit of Kazakh oil will be increased by 8.8% from January 1st, in line with inflation. Transneft had asked the FST to increase the tariffs by 2-3% to fund pipeline construction, including the second stage of the East Siberian pipeline.

OPEC's news agency reported that OPEC's basket of crudes increased by 14 cents to \$90.22/barrel on Wednesday.

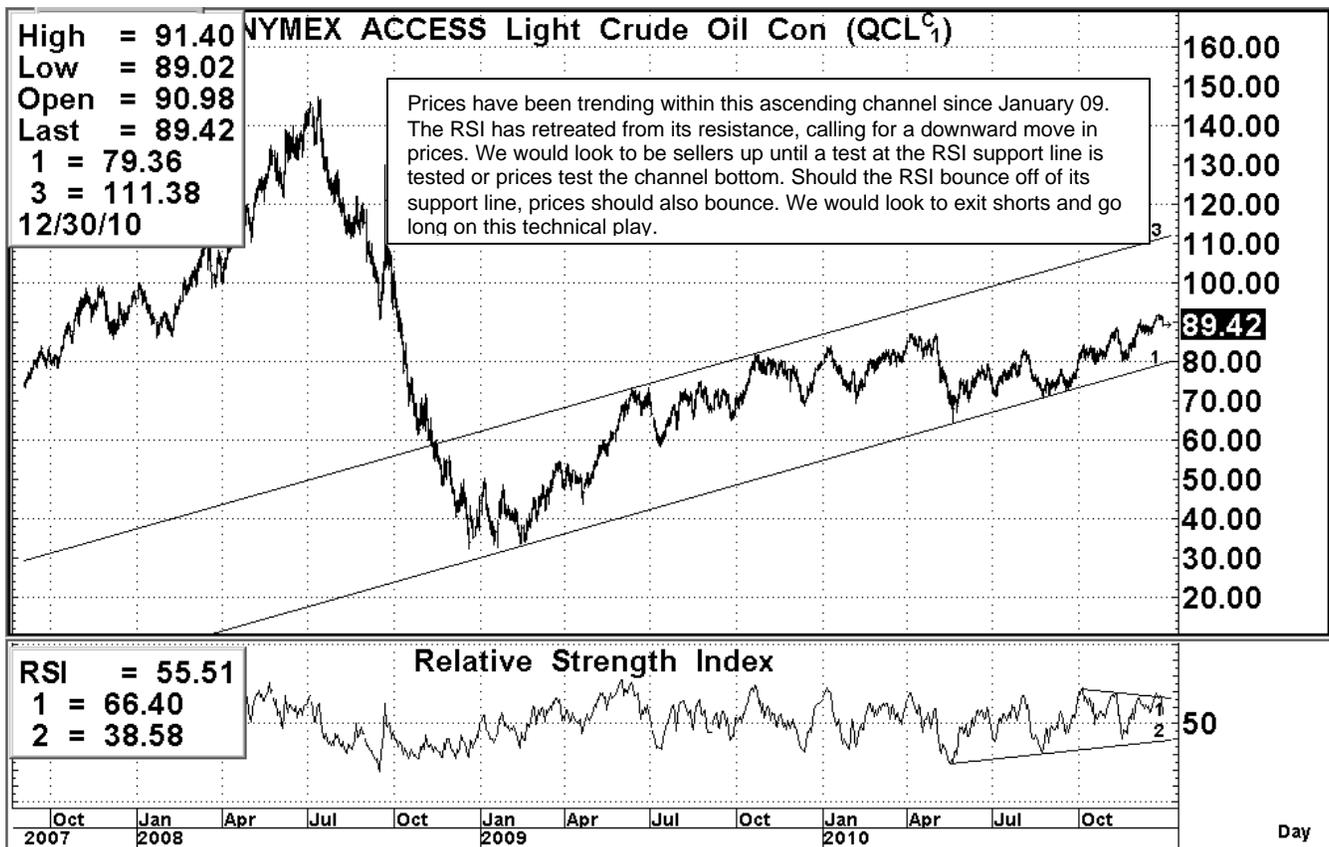
Market Commentary

Crude oil fell the most in six-weeks after inventories declined less than expected. Heating oil also took a hit, declining 1.4 percent, the biggest decline in a month. Thin market conditions exacerbated the move as longs took profits ahead of the New Year. News out of China regarding manufacturing growth is showing signs of an economic slow down in that region, raising concerns about rate increases. Crude oil has been climbing steadily since January 2009, with intermittent sideways trading activity. With the RSI retreating off of the resistance line we have been writing about, we would continue to look for prices to sell off. Based upon a spot continuation chart there is an ascending channel formation. We would look for prices to dip and test the bottom of this channel, which comes

into tomorrow's session set at \$79.45. Not until a valid violation of this ascending channel occurs to the downside, do we see this major trend changing.

Crude oil: Feb 11 312,896 -185 Mar 11 192,304 +2,464 April 11 87,469 +1,674 Totals 1,406,847 +4,858 Heating oil: Jan 11 11,043 -7,282 Feb 11 109,248 +1,994 Mar 11 52,123 +574 Totals 305,340 -3,484 Rbob: Jan 11 10,702 -7,344 Feb 11 97,698 +2,199 Mar 11 48,545 -678 Totals 277,244 -4,090

Crude Oil		Heating Oil		Rbob	
Support	Resistance	Support	Resistance	Support	Resistance
8826		23685	26712		24880
8590		22960	27070	22560	27085
8350	9100	22013	29500	22050	
7945	9385	21860	30955	21600	
7900		21140		20300	
7871		20702		20130	
7783					



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