



## ENERGY RISK MANAGEMENT

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### NATURAL GAS & POWER MARKET REPORT FOR APRIL 8, 2011

#### NATURAL GAS MARKET NEWS

##### North America

Baker Hughes reported this afternoon that the number of rigs drilling for natural gas in the United States fell by two rigs this week to 889.

This was the first weekly decline in three weeks. The number of horizontal rigs operating in the United States dropped by eight to 1009 after climbing to a record high last week. This was the first weekly decline in the horizontal rig count in five weeks.

##### Generation Outages

The NRC reported this morning that some 74,467 Mw of nuclear generation capacity is online, up 0.1% from yesterday and down 1.4% from a year ago.

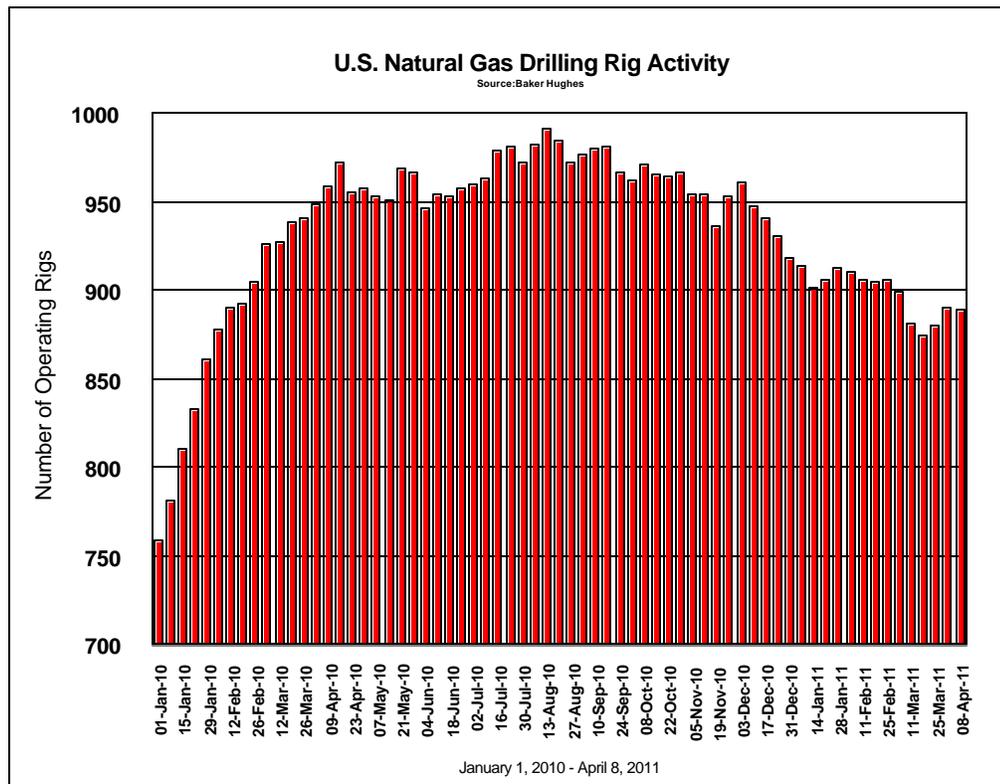
##### International

It appears that three Iranian natural gas pipelines may have been victim of sabotage this week in the northern central province of Qom. The causes of the blast were still being investigated but the incidents did take place in an area where prior pipeline blasts have resulted from sabotage. These pipelines normally carry gas to power plants. The power plants reportedly have been forced to switch

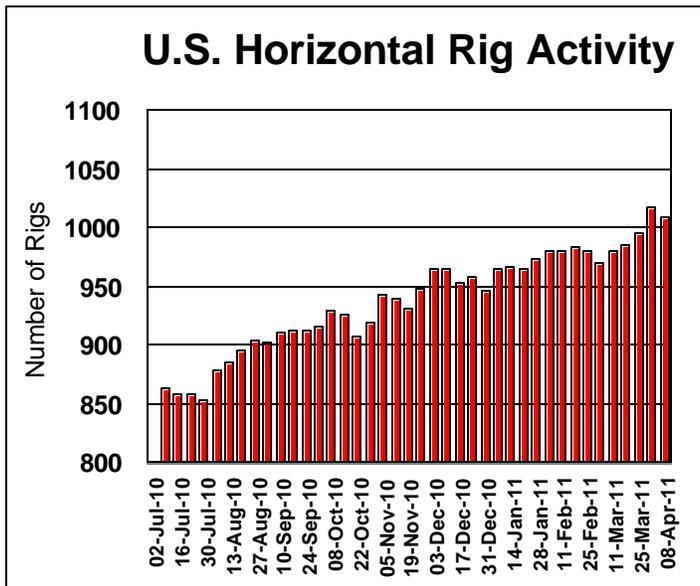
to fuel oil as a generating fuel.

Taiwan reported that its imports of LNG in February dropped 15% from the previous month but rose 30.2% from a year earlier at 715,328 metric tons.

Statoil said today that they have raised their estimates for gas production output from its Sleipner B platform by 15,000 bdoe as a result of a nearby discovery it made in 2009, Beta West has begun came into production. The company also said today its production at



the Valemon gas field would start production in the fourth quarter of 2014, after it has received approval from the Norwegian oil and energy ministry for its development plan.



**ELECTRIC MARKET NEWS**

Genscape reported today that they estimated U.S. coal consumption fell 7% this week from the prior week but was still 7% higher than the same week a year ago.

The NRC has denied a license for Unistar Nuclear to build a new reactor at Calvert Cliffs power station due to foreign ownership.

Deutsche Bank raised its 2011 and 2012 price forecasts for thermal coal on an expected rise in global demand as nuclear power capacity is reduced in various countries as a reaction to the Japanese nuclear problem. The bank sees prices in 2011 averaging \$132 per tonne and \$145 per ton in 2012.

**ECONOMIC NEWS**

The US Commodity Futures Trading Commission said most of its market oversight and surveillance operations would cease if the federal government shuts down due to a funding dispute among lawmakers. The CFTC commissioner Bart Chilton said a shutdown would stop oversight functions, such as contract approvals, registrations and the availability of certain public reports, including its weekly Commitment of Traders reports. The CFTC said 25 employees or 3.7% of its staff of 675 would be exempt from the shutdown.

The US Commerce Department said the inventories of US wholesalers increased in February however their sales fell, a sign of uncertainty in the economic recovery. Wholesale inventories increased by 1% to a seasonally adjusted \$437.99 billion. Meanwhile sales fell by 0.8% to \$378.97 billion. Sales in January had increased by 3.3%, revised down from an originally estimated 3.4%. Year over year, sales were 13.7% higher since February 2010. The inventory to sales ratio increased to 1.16 in February from 1.14 in January.

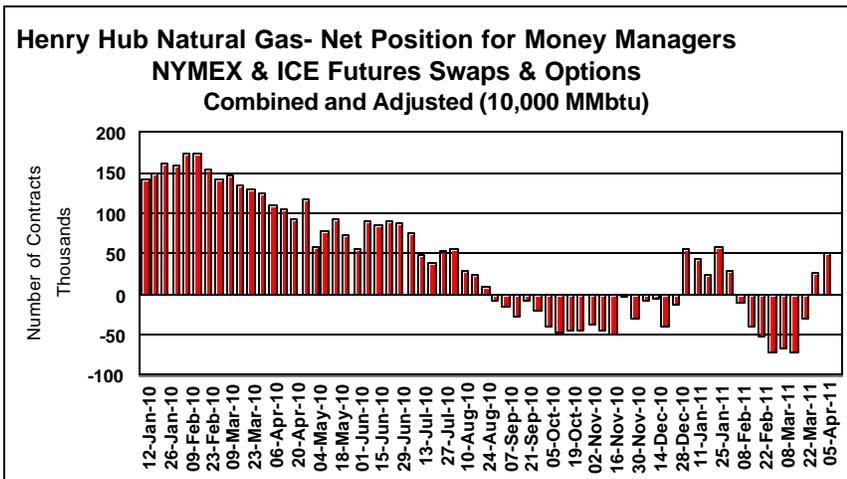
The Economic Cycle Research Institute said its Weekly Leading Index increased to 131.2 in the week ending April 1<sup>st</sup> from 130 the previous week. It was the highest level since early May 2010, when it stood at 132. The index's annualized growth rate increased to 6.7% from 6.5% a week before.

Federal Reserve Bank of Dallas President Richard Fisher continued to criticize the central bank's policy of buying Treasury debt to drive forward economic growth. He said no amount of further accommodation by the Fed would be wise, either by prolonging or tapering off the volume of purchases of Treasuries past June or adding another tranche of large scale asset purchases. He reiterated that he sees evidence the Fed's activities may be causing trouble.

**MARKET COMMENTARY**

The natural gas market finished lower for the sixth consecutive trading session today, but this market was relatively uninspiring as the spot contract posted only a 6.5 cent trading range. This was the smallest daily trading range in the spot contract since April 22, 2009. Even a supportive Baker Hughes report appeared not to generate any excitement for traders to finish out the week.

This afternoon's Commitment of Traders Report showed that for the period ending April 5<sup>th</sup> commodity funds remained in a buying mode as on the week they increased their net length in the natural gas market by nearly 25,000 contracts and over a four week span were net buyers of over 122,400 lots.



So even with this buying bias by the commodity funds it can not be a comforting feeling for this trading group that natural gas prices finish this week on the verge breaking the \$4.00 barrier and basically back near the level at when they embarked on their buying spree four weeks ago. While the Baker Hughes report from this afternoon may help lend a little support to this market to start the week, we feel though the bears will return and will break

this market once again back below the \$4.00 price level. We see support initially at \$4.019-\$4.014 followed by \$3.90-\$3.865. More distant support we see at \$3.805, \$3.731 and \$3.656. Resistance we see at \$4.192, \$4.232-\$4.247, and \$4.302. Additional resistance we see at \$4.453 and \$4.56.

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