



ENERGY RISK MANAGEMENT

Howard Rennell, Pat Shigueta,
& Karen Palladino
(212) 624-1132 (888) 885-6100

www.e-windham.com

ENERGY MARKET REPORT FOR SEPTEMBER 29, 2011

Oil Movements reported that OPEC's oil exports, excluding Angola and Ecuador, would be unchanged at 22.69 million bpd in the four weeks ending October 15th.

According to a Reuters survey, OPEC's oil production is expected to increase in September to its highest level in almost three years due to higher supplies from Iraq, Libya and Angola. OPEC's total production is expected to average 30.25 million bpd in September, up from 301.5 million bpd in August. It reported that Nigeria is expected to post OPEC's largest decline in output this month.

The EIA reported that US oil demand in July fell by 3.9%

Market Watch

Morgan Stanley cut its Brent crude price forecast for 2012 to \$100/barrel from \$130/barrel on forecasts of returning supply from Libya. It expects about 800,000 bpd to come online globally by the end of 2011. It said the outlook for the second half of 2012 is less bleak, with prices expected to increase to \$110/barrel.

The US Labor Department reported that initial unemployment claims fell by 37,000 to a seasonally adjusted 391,000 in the week ending September 24th. Unemployment benefit claims filed in the previous week were revised to 428,000 from an originally reported 423,000. It reported that the four week moving average of new claims fell by 5,250 to 417,000. The report showed that the number of continuing unemployment benefit claims fell by 20,000 to 3,729,000 in the week ending September 17th. The unemployment rate for workers with unemployment insurance in the week ending September 17th held steady at 3%. Meanwhile, the Labor Department made a preliminary revision to its annual benchmark of nonfarm payrolls, adjusting the March 2011 benchmark upwards by 192,000.

The US Commerce Department said the US economy expanded more than previously thought in the second quarter on stronger consumer spending. It reported that GDP grew at an inflation adjusted annual rate of 1.3% from April to June. It is up from a previous estimate of 1% growth and up from a growth of 0.4% in the first quarter. The price index for personal consumption expenditures increased by 3.3% compared with an earlier estimate of 3.2%. The price index for personal consumption expenditures, excluding food and energy, increased at an annual rate of 2.3% compared with an earlier estimate of 2.2%.

The National Association of Realtors Pending Home Sales Index fell by 1.2% to 88.6 in August. It fell to the lowest level since April. This follows a 1.3% decline to 89.7 in July. The index is however 7.7% above its level in August 2010.

The Federal Reserve Bank of Kansas City's monthly manufacturing index increased to 6 in September from 3 in August.

Federal Reserve Chairman Ben Bernanke said the central bank may need to ease monetary policy further if inflation expectations fall significantly. Last week, the Fed said it would sell \$400 billion in short term Treasury securities and invest them into longer dated ones to try to put downward pressure on borrowing costs over a longer period.

Germany's parliament approved new powers for the euro zone's crisis fund. However it was not clear if Germany's Chancellor Angela Merkel got enough votes from her coalition to silence rebels worried about funding a series of bailouts of countries like Greece.

The ICE said it will introduce Brent crude oil contracts with new expiry dates to reflect a change in the way the underlying physical crude market is assessed by Platts. The new ICE Brent contracts, to be called New Expiry or NX contracts, will be available for trading from the fourth quarter of 2011 and will have a first expiry month of February 2013. NX futures and options contracts will have an expiry calendar based on 25 days instead of 21 days to reflect a change in how the forward cash market is assessed by oil price assessment service Platts.

**September
Calendar Averages**
CL - \$85.93
HO - \$2.9408
RB - \$2.7303

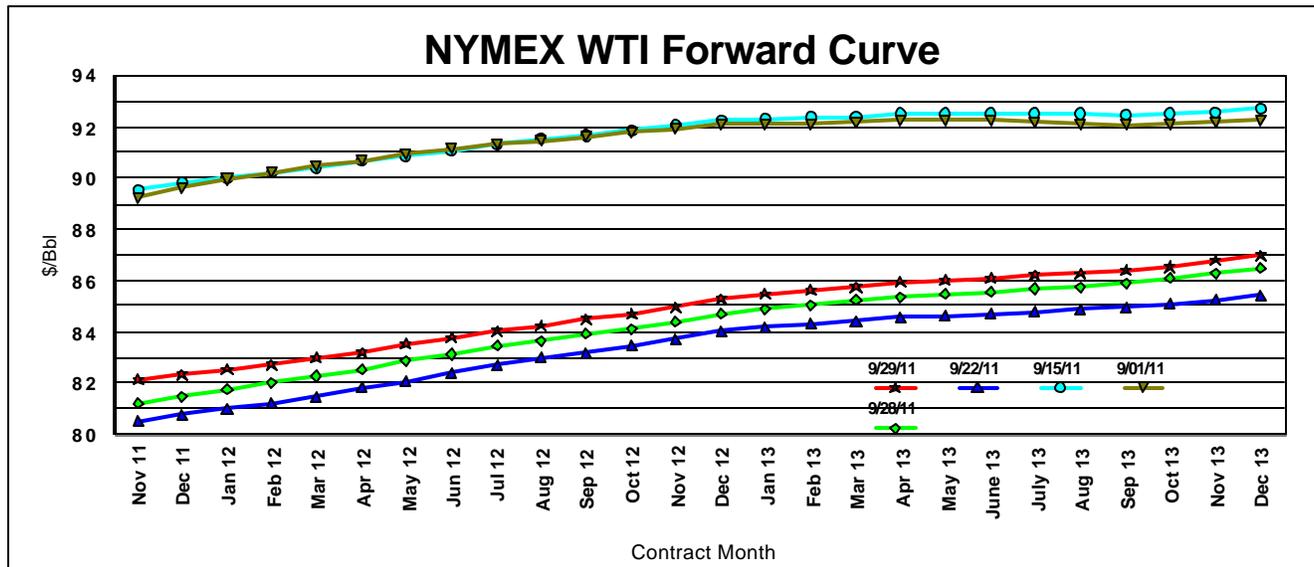
on the year to 18.555 million bpd, its lowest level since 1996. Total oil demand was 2.3% below the earlier estimate. Gasoline demand fell by 3.7% to 8.96 million bpd, the lowest level since 2000 while distillate demand fell by 2.6% on the year to 3.452 million bpd. The EIA also reported that US crude oil imports in July fell by 6.3% on the year but increased by 0.7% on the month to 9.31 million bpd. It reported that imports from Canada increased by 6.5% on the year to 2.188 million bpd while imports from Saudi Arabia increased by 26.5% on the year to 1.307 million bpd. Imports from Mexico stood at 1.119 million bpd from 1.183 million bpd last year while imports from Venezuela fell by 13.7% on the year to 877,000 bpd.

Estimates of US shale oil break even economics vary from \$35/barrel to \$85/barrel, depending on the complexity of the geology, the regional drilling costs and the output of a well. Oil companies are unlikely to shut existing wells unless prices fall to \$20/barrel but the nature of shale production means any disruption to the pace of growth will have rapid repercussions. Output from shale prospects in unconventional sources from North Dakota to Texas could reach 1.5 million to 2 million bpd in the coming five to seven years, twice as much as the 700,000 bpd currently produced. The North Dakota Industrial Commission said companies spend between \$7.5 to \$9.2 million on a well and will continue to add more wells if oil stays above \$60/barrel. In the Eagle Ford, south-central Texas wells with higher mix of methane are lucrative is oil remains above \$40/barrel while those in the eastern most reaches of the prospect will lose money if oil fall below \$80/barrel.

The head of the Canola Council of Canada, JoAnne Buth said approval of Canadian crops such as canola and corn for use in US biofuels is imminent. She said she expects the US EPA on Thursday or Friday to formally approve Canadian crops as a renewable biomass. That designation would allow Canadian canola and corn to receive a renewable identification number so US biofuel makers can collect tax credits for using them.

Refinery News

Enterprise Products Partners LP and Enbridge Inc announced plans to build a 500 mile pipeline to transport crude from the Cushing, Oklahoma hub to the Gulf Coast in Texas. The project, called the Wrangler Pipeline, initially will have a capacity of 800,000 bpd. The pipeline will extend from Enbridge's Cushing terminal to Enterprise's storage terminal in southeast Harris County in Texas. The project also includes new storage capacity and an 85 mile pipeline to the Beaumont/Port Arthur refining center.



ExxonMobil Corp has completed turnarounds on aromatics units at its 560,640 bpd refinery in Baytown, Texas. Planned work on those units as well as a hydroformer and a hydrotreater started in late July. Separately, ExxonMobil said its 60,000 bpd refinery in Billings, Montana was still operating at reduced rates even though the company last weekend restarted the Silvertip crude pipeline.

Workers at a LyondellBasell refinery in Berre voted to extend a two day strike that started on Tuesday to protest against the closure of the refinery. A leader of the CGT Union for the petrochemical industry said the strike would continue as long as plans to shut the refinery stand.

Meanwhile, workers at Total's 230,000 bpd Donges refinery resumed normal output on Wednesday following a 24 hour action in support of refinery workers at LyondellBasell's Berre refinery which is due to close. Workers at the refinery voted on Wednesday to reduce production to a minimum level for 24 hours as labor unions continued to discuss possible strikes across France.

Royal Dutch Shell Plc is shutting down its entire Pulau Bukom refinery in Singapore after a fire started on Wednesday. The fire was extinguished late Thursday. The complete shutdown of the refinery may take two days. It has shut two of three crude distillation units and a hydrocracker unit. In total, it has shut at least a total of 340,000 bpd of capacity at the 500,000 bpd refinery. Meanwhile, shipping sources said vessels are not berthing at the refinery. The closure of the refinery is expected to support the price of refined products in the coming weeks. The shutdown is likely to draw products from Europe to Asia, potentially creating a squeeze in the European market.

India's Hindustan Petroleum Corp has deferred a shutdown of a crude unit at its 130,000 bpd Mumbai refinery to the first quarter of 2012 from September to meet demand. The refiner had planned to shut a 60,000 bpd crude unit in Mumbai in September for at least 15 days and a 60,000 bpd crude unit, a visbreaker unit and a fluid catalytic cracking unit at its Vizag refinery in November for 45 days of regular maintenance work.

Japan's Idemitsu Kosan Co plans to refine 6.8 million kiloliters or 465,000 bpd of crude in the fourth quarter to meet domestic demand, up 2% on the year. The slight increase reflects increasing demand for low-sulfur fuel oil for power generation as utilities operate fossil fuel plants in the wake of the Fukushima nuclear plant disaster. It imported 320,000 kl of low sulfur fuel oil for power generation in July-September.

Gasoline stocks held in independent storage in the Amsterdam-Rotterdam-Antwerp area in the week ending September 29th fell by 21.32% on the week and by 53.43% on the year to 428,000 tons while gasoil stocks increased by 1.19% on the week but fell by 2.31% on the year to 2.372 million tons and fuel oil stocks increased by 9.34% on the week but fell by 3.68% on the year to 890,000 tons. Naphtha stocks were unchanged on the week and increased by 51.11% on the year to 68,000 tons while jet fuel stocks increased by 0.78% on the week but fell by 31.84% on the year to 516,000 tons.

Singapore's International Enterprise reported that the country's residual fuel stocks built by 909,000 barrels to 19.766 million barrels in the week ending September 28th. It also reported that the country's light distillate stocks increased by 394,000 barrels to 9.455 million barrels while its middle distillate stocks increased by 560,000 barrels to 14.136 million barrels on the week.

Production News

Oil production at Libya's Arabian Gulf Oil Co or Agoco, is expected to reach 350,000 bpd by mid-October following the resumption of additional fields. It is currently producing 220,000 bpd. The increase will primarily stem from the resumption of the 70,000 bpd Nafoora field on October 5th and the Beda and Hamada fields, with 10,000 bpd each on October 15th.

The UK Energy Ministry reported that the UK's oil production in the second quarter fell by 15.9% on the year due to maintenance and other production issues. It confirmed industry data showing UK oil output fell below 1 million bpd for only the second time in more than 30 years this summer. The British sector of the North Sea produced 984,000 bpd of oil in June, down from just over 1 million bpd in May. The Energy Ministry reported that during the second quarter the UK was a net importer of 3.6 million tons of oil and oil products, up from 2.8 million tons in the second quarter.

Non-OPEC oil producer Bahrain is producing 45,000 bpd of oil from its Bahrain oilfield.

Iraq's oil exports from the Turkish terminal of Ceyhan are unlikely to be affected by a pipeline interruption. An Iraqi official said there is adequate crude in storage at the export terminal. Earlier, a shipping agent said oil flows from Iraq's Kirkuk fields to Ceyhan have been on hold for five days due to a leak in the main export pipeline. The shipping agent said the pipeline was pumping about 400,000-500,000 bpd before it was suspended. Iraq's oil exports to Turkey through the Ceyhan pipeline should resume in two to three days after repairs are completed.

Iraq expects to pump oil from one of three new export terminals in the Gulf on January 1st. Construction on three single-point moorings, linked to land near Basra by twin 60 km seabed pipelines, will be finished by the new year but only one will be put into operation immediately. Each of the new export moorings has a capacity of 900,000 bpd, increasing Iraq's export capacity by 2.7 million bpd, more than doubling Basra's current capacity.

Swift Energy Co said it was impacted by the South Texas pipeline failure. It said has been required to halt dry natural gas sales from its Fasken field in Webb county, Texas. It expects pipeline services to resume in the near future. The incident will result in third quarter production being slightly below the low end of a previous guidance of 2.56-2.76 million barrels of oil equivalent.

Russia will start oil loadings at a new Baltic port of Ust-Luga in mid-November as it tries to bypass transit countries such as Belarus. The first tanker with oil from Russia's Rosneft will be loaded on November 15th.

Suspected leftist guerillas attacked a pipeline in northeastern Colombia, in the latest attack on the country's oil sector. The attack was believed to have been carried out by the Revolutionary Armed Forces of Colombia or FARC, or the National Liberation Army. The Ministry of Defense has reported more than a dozen pipeline explosions since the start of the year.

The Venezuelan government approved the creation of a joint venture between PDVSA and a division of Brazil's conglomerate Odebrecht. The joint venture intends to search for and produce oil in Venezuela's northwestern state of Zulia.

Petrobank Energy and Resources Ltd said it will suspend operations at the Conklin facility in Alberta until it finalizes plans to either integrate it into its larger May River operations or abandon it. The company previously stated that proved and probable reserves at May River were at 90.6 million barrels.

OPEC's news agency reported that OPEC's basket of crudes fell to \$104.34/barrel on Wednesday from \$104.53/barrel on Tuesday.

Trafigura said it will likely float its oil storage and supply unit Puma Energy within the next 18 months reducing its role to a minority stake.

Market Commentary

A string of positive economic news gave strength to crude oil, leaving the November contract trading just below the \$84.00 level. Approval of an economic bailout by Germany's lower house, a 1.3 percent increase in the U.S. GDP combined with lower jobless claims, gave glimmers of hope that demand for oil would grow. This move, however, was not supported by high volume, a sign that there is still leering in the ability of this market to maintain strength. We anticipate that price movement will remain volatile, trading between \$75.00-\$90.00. A break of resistance at \$90.60 is needed to indicate that the trend in prices has changed to the upside.

Crude oil: Nov 11 295,478 -7,399 Dec 11 209,550 +3,051 Jan 12 121,507 +4,287 Totals 1,382,626 +2,064 Heating oil: Oct 11 13,461 -7,046 Nov 11 99,969 +4,156 Dec 11 62,433 +223 Totals 328,786 -648 Rbob: Oct 11 11,292 -8,979 Nov 11 79,832 -1,273 Dec 11 52,129 -765 Totals 258,221 -9,311

Crude Oil		Heating Oil		Rbob	
Support	Resistance	Support	Resistance	Support	Resistance
7570	8500	27020	32777	25145	33369
7487	8817	26680	33370	24240	35915
7365	9060	27375	33510	23631	36310
6423	9122	23685		23414	
6394	9726	22960			
	9872				
	10071				
	10222				
50-day MA	87.50				
200-day MA	95.25				

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