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ENERGY RISK MANAGEMENT

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ENERGY MARKET REPORT FOR OCTOBER 5, 2011

The EIA reported that crude oil stocks at the Cushing, Oklahoma delivery hub fell to the lowest level since the week ending March 12, 2010. Cushing stocks fell by 831,000 barrels to 30.1 million barrels in the week ending September 30th.

Iraq's Deputy Prime Minister for Energy said global oil prices below \$90/barrel would be difficult to accept. He also said he saw no need for OPEC to review its crude output at its next meeting in December and no reason at the current time to cut production.

Iran's OPEC
governor, Ali
Mohammad Ali
Khatibi raised the possibility of OPEC holding an emergency meeting, saying it was a natural event if prices continued to fall as he expected.

Market Watch

According to ADP, private sector jobs in the US increased slightly more than expected in September. Private sector jobs increased by 91,000 compared with market expectations of an increase of 75,000. The August data was revised down to show an increase of 89,000 compared with a previous estimate of 91,000. The September unemployment rate is expected to remain at 9.1%. Large businesses with 500 employees or more cut 5,000 employees from their staff, while medium size businesses added 36,000 workers in September and small businesses that employ fewer than 50 workers hired 60,000 new workers.

Consultants Challenger, Gray & Christmas, Inc stated that the number of planned layoffs at US firms in September increased to its highest level in more than two years due to heavy cutbacks by the military and Bank of America. Employers announced 115,730 planned job cuts in September, more than double August's total of 51,114. For 2011 so far, employers have announced 479,064 cuts, up 16.5% on the year.

The Institute for Supply Management's nonmanufacturing purchasing managers' index was 53 in September, down from 53.3 in August. Its new orders index increased to 56.5 from 52.8. The business activity/production index increased to 57.1 from 55.6 while the employment index fell to 48.7 in September from 51.6 in August. It was the first contraction reading since August 2010. Its service index fell to 53 in September from 53.3 in August.

The Mortgage Bankers Association said its seasonally adjusted index of mortgage application activity in the US fell in the week ending September 30th fell by 4.3%. The MBA's seasonally adjusted index of refinancing applications fell 5.2% while the index of loan requests for home purchases fell 0.8%.

Two US lawmakers are seeking to cut the requirement to blend increasing amounts of ethanol into the country's motor fuel mix, aiming to alleviate upward pressure on food prices when corn supplies are short. Under the bill to be introduced by Bob Goodlatte and Jim Costa, Congress would reduce the mandate for ethanol whenever stocks of corn, used to make the biofuel, are tight. The Renewable Fuels Standard guarantees biofuels a share of the motor fuel market, set at 12.6 billion gallons this year and peaking at 15 billion gallons in 2015. The bill would require a reduction in the RFS when corn stocks are strained.

Venezuela's National Assembly's finance commission said the government will use a base price of \$50/barrel for oil in its 2012 budget. Venezuela set oil at \$40/barrel when it calculated the 2011 budget.

DOE Stocks

Crude – down 4.679 million barrels
Distillate – down 744,000 barrels
Gasoline – down 1.137 million barrels
Refinery runs – down 0.1%, at 87.7%

OPEC's Secretary General Abdalla Salem el-Badri said Somali piracy could spread further unless an onshore solution is found. He said Somali piracy would evolve into a moveable industry, threatening shipping beyond its waters in the absence of a solution not only offshore but also onshore.

ExxonMobil Corp will settle any outstanding debts with Libya's National Oil Corp after Libya's oil company said it was pursuing international firms for about \$6 billion in unpaid bills. Meanwhile, executives from Royal Dutch Shell held talks with Libya's National Oil Corp on Wednesday, as more majors return to the country for new opportunities and to make sure oil deals are valid.

Refinery News

IIR Energy reported that US oil refiners are expected to shut 1.066 million bpd of refining capacity in the week ending October 7th, up from 710,000 bpd in the previous week.

Environmental groups sued the US State Department and other federal agencies to halt the construction of a proposed TransCanada Keystone pipeline expansion that would carry oil from Canada to the US Gulf Coast. The environmental groups allege that TransCanada has started clearing a 100 mile stretch of land in Nebraska for construction of the pipeline despite not having obtained the required approval from the State Department for the project. The groups are seeking an injunction against TransCanada building the Keystone expansion. The State Department is expected to issue its decision on the Keystone permit by the end of the year.

Colonial Pipeline said it was freezing Cycle 54 nominations on Line 27, which runs from Mitchell to Norfolk, effective Wednesday.

Motiva Enterprises reported flaring due to an equipment failure at its refinery or chemical plant in Norco, Louisiana. It was not known what material caused it to flare.

Sinclair Oil Corp reported that it was attempting to restart its sulfur unit at its 74,000 bpd refinery in Sinclair, Wyoming.

A crude distillation unit at ConocoPhillips' 198,400 bpd refinery in Ponca City, Oklahoma has been shut for maintenance until the first week of November.

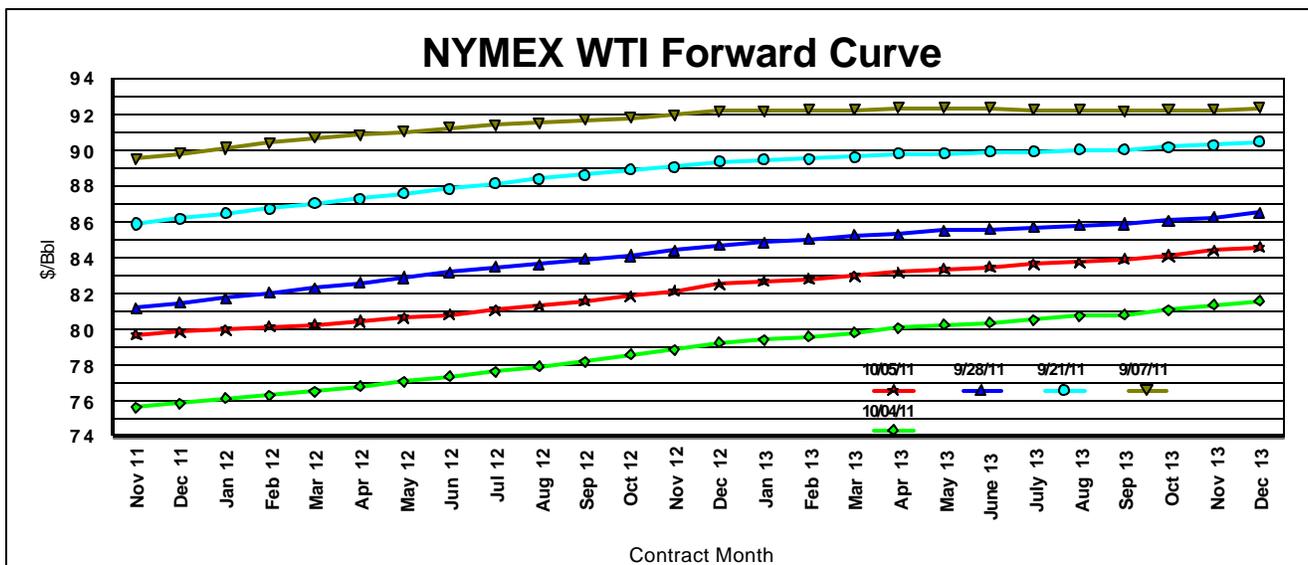
Valero Energy Corp reported planned short term maintenance on equipment at its 144,000 bpd refinery in Benicia, California that led to a release of sulfur dioxide. It said production was not expected to be impacted from work on the compressor.

HollyFrontier's 85,000 bpd Tulsa West, Oklahoma refinery was impacted due to a break in a line that provides water to the plant.

BP is investigating a weekend fire at a reformer unit in its Castellon refinery. A fire broke out on Sunday at its 110,000 bpd refinery south of Valencia, Spain and was quickly extinguished. It is investigating the damage to the unit. Separately, a fire at BP's 93,000 bpd Lingen refinery in Germany left one person seriously injured. The fire, which occurred in the crude distillation unit of the refinery, was brought under control 20 minutes after it started. The fire prevented BP from restarting the crude distillation unit, which was already shut for maintenance.

October Calendar Averages
CL - \$77.65
HO - \$2.7510
RB - \$2.5229

Qatar's Laffan refinery is restarting its 146,000 bpd condensate splitter after



it was shut due to a problem.

Yemen's Aden refinery is seeking 100,000 tons of high sulfur gas oil via a tender for delivery in October and November.

The increase in oil product premiums in Asia after a fire shut Royal Dutch Shell's refinery in Singapore is likely to be temporary as the global economy cuts demand and new plants are commissioned in the region. The gradual cut in global oil demand is mainly a result of slower growth in Europe and the US, however Asia is likely to see some decline as well. Refinery expansions in Asia are likely to put downward pressure on margins in coming months, especially in the face of slower economic growth. China is expected to add about 520,000 bpd of capacity in 2011, increasing its total processing capacity to about 10 million bpd. India is expected to bring an additional 1.1 million bpd online in the year ending March 2012, increasing its total capacity to 4.8 million bpd.

The Petroleum Association of Japan reported that the country's commercial crude oil inventories in the week ending October 1st increased by 5.95 million barrels on the week and by 9.01 million barrels on the year to 103.57 million barrels. It reported that Japan's gasoline stocks fell by 30,000 barrels on the week but increased by 1.83 million barrels on the year to 13.52 million barrels, its kerosene stocks increased by 580,000 barrels on the week and by 4.93 million barrels on the year to 21.2 million barrels and naphtha stocks increased by 620,000 barrels on the week but fell by 1.5 million barrels on the year to 11.44 million barrels. Crude runs fell by 130,000 bpd on the week and by 150,000 bpd on the year to 3.17 million bpd. It also reported that Japan's total oil sales increased by 6.8% on the week but fell by 5.3% on the year to 2.56 million bpd.

China booked a record 48 Middle East supertankers, capable of transporting a total of 96 million barrels of crude oil in the spot market in September as refiners raised their throughput volume. China fixed eight more Middle East VLCCs than in August. It also booked seven VLCCs from West Africa, bringing its total shipments in September to 55 supertankers, the highest amount this year.

India said it agreed on a mechanism with Iran to resolve issues related to trade settlement and that both countries will continue talks on the matter. It however did not give any details on the mechanism.

Production News

Italy's Eni fears its largest oilfield in Libya, known as Elephant, may be in ruins. The field, which pumped 130,000 bpd of oil before the conflict, was found in ruins. It said it could not promise the field would start producing before the end of the year.

The head of the National Iranian Oil Co, Ahmad Qalebani said Iran plans to increase its oil swaps by almost tenfold by March. He said Iran aimed to increase its oil swap volume to 200,000 barrels by the end of the Iranian year, March 19th from the current volume of 25,000 bpd.

Indonesia's Pertamina has planned for maintenance at the offshore North West Java oil and gas field in the second and third weeks of October.

Colombia's Energy Minister Mauricio Cardenas said the country's oil production fell by 6.4% on the month to 891,000 bpd in September. The country's oil production is expected to recover to 950,000 bpd in October after protests impacted its output last month.

Black Sea crude oil tanker rates rallied on Wednesday on expectations that delays in the Turkish Straits will increase as increasing traffic is set to pass the vital waterways in daylight hours. Shipping and port agent sources said container ships were now only able to make passages in daylight hours due to hazard restrictions.

Nigeria plans to end costly fuel subsidies in the 2012 fiscal year to release funds for infrastructure projects and to create jobs. Subsidizing fuel, mainly diesel, petrol and kerosene, costs the government 1.2 trillion naira or \$7.5 billion in lost revenue but removing the support will be unpopular with many Nigerians who see it as the only benefit they gain from living in an oil rich country. Previous efforts to remove subsidies have resulted in nationwide strike action.

Saudi Aramco set the price of its Extra Light crude bound to the US in November at the Argus Sour Crude Index plus \$1.80/barrel, down 95 cents on the month. It set the price of its Light crude at the ASCI minus 20 cents/barrel, down 40 cents on the month; it set the price of its Medium crude at the ASCI minus \$2.15/barrel, unchanged on the month and it set the price of its Heavy crude at the ASCI minus \$3.75/barrel, up 70 cents on the month. Saudi Aramco set the price of its Extra Light crude bound for Europe at BWAVE plus \$1.15/barrel, down \$1.15 on the month. It set the price of its Light crude at BWAVE minus \$1.40/barrel, down 70 cents on the month; it set the price of its Medium crude at BWAVE minus \$3.25/barrel, down 55 cents on the month and it set the price of its Heavy crude at BWAVE minus \$5.40/barrel, down 40 cents on the month. Saudi Aramco set the price of its Super Light crude at the Oman-Dubai average plus \$5.65/barrel, up 30 cents on the month; it set the price of its Extra Light crude at the Oman-Dubai average plus \$4.65/barrel, up 80 cents on the month; it set the price of its Light crude at the Oman-Dubai average plus \$2.70/barrel, up \$1.05 on the month; it set the price of its Medium crude at the Oman-Dubai average plus \$1.15/barrel, up \$1.45 on the month and it set the price of its Heavy crude at the Oman-Dubai average minus 45 cents, up \$1.70 on the month.

Qatar Petroleum has increased its crude oil official selling prices retroactively for September term supply, posting Qatar Land at \$110/barrel, up \$1.85/barrel on the month.

Market Commentary

Crude oil was up more than 4 percent, supported by stronger equities, Europe's proposal to cure its economic ills, inventory declines and growth in the private payroll sector in the U.S. Once again crude oil traded in tandem with the euro and the S&P. Based upon examination of an overlay chart of all three markets, a dip in the S&P below 1068.00, should mean lower prices for crude oil. For the short term we would expect prices to continue a technical rebound and as long as they remain below the \$90.60 area, this market is still in a downtrend.

Crude oil: Nov 11 290,743 -2,599 Dec 11 238,853 +13,711 Jan 12 127,787 +3,714 Totals 1,431,783 +16,725 Heating oil: Nov 11 96,841 -1,887 Dec 11 66,313 +2,643 Jan 12 40,519 +1,290 Totals

329,440 +2,965 Rbob: Nov 11 84,532 -2,179 Dec 11 58,989 +691 Jan 12 27,590 +1,232 Totals
 271,347 +4,862

Crude Oil		Heating Oil		Rbob	
Support	Resistance	Support	Resistance	Support	Resistance
7570	7982	26975	32777	24670	33369
7487	8500	26680	33370	24240	35915
7365	8817	27375	33510	23631	36310
6970	9060	23685		23414	
6423	9122	22960			
6394	9726				
	9872				
	10071				
50-day MA	85.86				
200-day MA	95.03				

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