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## ***ENERGY RISK MANAGEMENT***

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### **ENERGY MARKET REPORT FOR OCTOBER 6, 2011**

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Iran's OPEC Governor Muhammad Ali Khatibi said Iran expects oil producers that increased output due to the lack of Libyan production to cut back on production as the country's oil output returns to the market. He did not name any country but Gulf oil producers led by Saudi Arabia increased their production to make up for the loss of most Libyan exports after civil war started in February.

The head of ExxonMobil Corp, Rex Tillerson said rising output from Libya and other oil producing regions is putting downward pressure on crude prices along with the broader economic weakness. He said some of the oil production cut due to the civil war in Libya

#### **Market Watch**

Standard Bank lowered its 2012 Brent price forecast to \$110/barrel from \$120/barrel saying it sees the oil market torn between a very tight physical market and uncertainties in the financial market. The bank also lowered its WTI price forecast to \$95/barrel from \$110/barrel. The bank expects oil prices to remain under pressure in the fourth quarter of this year and sees the spread between WTI and Brent remaining wide.

The US Labor Department said initial claims for unemployment benefits increased by 6,000 to a seasonally adjusted 401,000 in the week ending October 1<sup>st</sup>. Claims filed in the previous week fell by 33,000, the sharpest decline in more than four months. The four week moving average of new claims fell by 4,000 last week to 414,000. The report showed the number of continuing unemployment benefit claims totaled 3,700,000 in the week ending September 24<sup>th</sup>. The unemployment rate for workers with unemployment insurance for the week ending September 24<sup>th</sup> fell to 2.9% from 3%.

Thomson Reuters' same store sales index increased by 5.1% in September compared with market expectations of a 4.6% gain.

The European Central Bank left interest rates unchanged at 1.5% as an increase in inflation last month offset pressure to respond to the euro zone's worsening debt crisis by easing borrowing costs. The European Central Bank's President Jean Claude Trichet said the bank would restart its buying of covered bank bonds in November and would hold two separate tenders of year long refinancing to euro zone banks. The bank would buy up to Eur40 billion in covered bonds issued by banks, starting in November. The bank would make its purchases in both the primary and secondary markets and expects to complete the program by October 2012. Meanwhile, the UK central bank voted to buy 75 billion pounds more in assets to shield the country's economy from the euro zone debt crisis and keep the faltering recovering going.

Standard & Poors said it was likely to give Brent crude and gasoil contracts the largest percentage increase in weightings when it rebalances its commodities index for next year. Meanwhile, the WTI crude contract should see the sharpest decline in weightings on the S&P GSCI index.

The IntercontinentalExchange Inc asked two US regulators to exempt its clearinghouse from rules so that it can offer customers so-called commingling and portfolio margining offsets. It asked the US CFTC and SEC to exempt its ICE Clear Credit clearinghouse from an exchange act so that firms that are both broker dealers and futures commission merchants can hold swap positions in omnibus accounts. Without the exemption, customers would have to post higher margins.

China's Sinopec Corp has built an oil products trading desk in London, in the latest sign that Chinese companies are looking to increase their control of the flow of fuel essential to the country's economic growth.

**October  
Calendar Averages**  
**CL - \$78.89**  
**HO - \$2.7785**  
**RB - \$2.5637**

and interruptions in the North Sea and Nigeria was now finding its way back into the market.

Oil Movements reported that OPEC's oil exports, excluding Angola and Ecuador, are expected to fall by 20,000 bpd in the four weeks ending October 22<sup>nd</sup>.

**Refinery News**

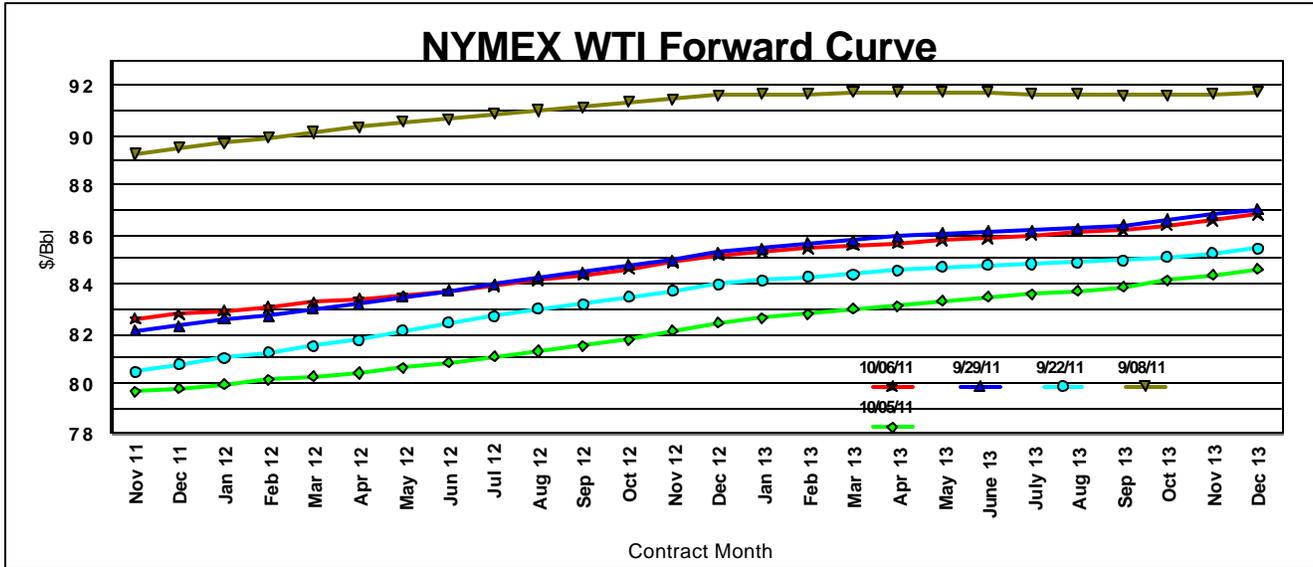
Enbridge said it was talking with a joint venture partner to build a rail terminal facility at Cushing, Oklahoma in addition to the planned 800,000 bpd Wrangler pipeline. It said it would decide in the next couple of months whether it would proceed with the project. A lack of pipeline capacity from oil storage tanks at Cushing to Gulf Coast refineries has created a glut at the oil hub. As a result, several companies have used rail cars and trucks to move crude to refineries for processing. Current capacity of crude by rail shipments from the Bakken into Cushing is about 130,000 bpd, with hopes by producers such as Hess Corp and others to expand it to about 500,000 bpd.

A Kinder Morgan spokesman said the joint crude by rail venture between Watco Companies LLC and Kinder Morgan Energy Partners that would bring Bakken crude from North Dakota to Oklahoma has not started operations yet. The project would include terminals in Dore and Stanley in North Dakota as well as a terminal in Stroud, Oklahoma, with direct access to oil storage at Cushing.

Refiners along the Gulf Coast are benefiting from increasing supplies of crude produced at the Eagle Ford shale play in southeast Texas. Marathon Petroleum Corp is running Eagle Ford shale at its 76,000 bpd refinery in Texas City, Texas. Flint Hills runs about 60,000 bpd of Eagle Ford at its 300,000 bpd refinery in Corpus Christi while Valero Energy Corp plans to run 60,000 bpd next year at its 100,000 bpd refinery in Three Rivers, Texas, up from 40,000 bpd. Valero also plans to increase runs of Eagle Ford at its Corpus Christi refinery to 45,000 bpd from about 25,000 bpd.

PBF Energy reported a release of materials from a cat cracker unit due to a boiler malfunction at its 182,200 bpd Delaware City, Delaware refinery. It said it adjusted operations in the unit and was attempting to repair the boiler.

Valero Energy Corp said planned work on a compressor at its 132,000 bpd Benicia, California refinery has been completed with no material impact on production.

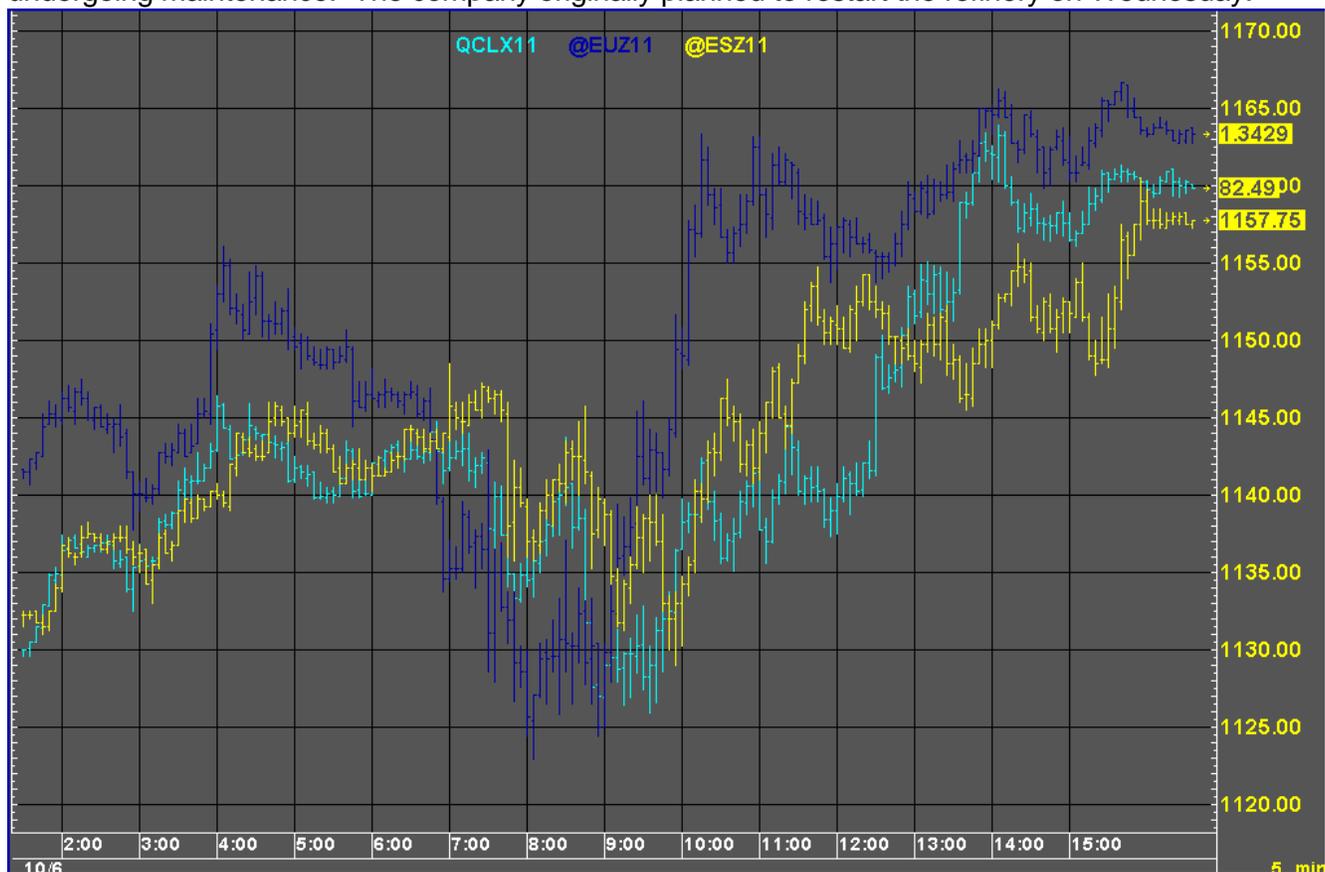


BP is expected to shutdown a crude processing unit at its Rotterdam refinery complex for planned maintenance work this week until November 10<sup>th</sup>. The refinery is expected to work at 50% of capacity during the outage.

Statoil's Danish Kalundborg refinery is currently undergoing maintenance work until November 5<sup>th</sup>. It is expected to operate at decreased capacity for five week.

Total's 360,000 bpd Antwerp refinery will undergo planned maintenance from October 18<sup>th</sup> until November 29<sup>th</sup>. Its crude distillation, fluid catalytic cracking and visbreakers units will undergo maintenance.

Japan's Cosmo Oil Co said its 100,000 bpd No. 1 crude distillation unit at its Sakai refinery is still undergoing maintenance. The company originally planned to restart the refinery on Wednesday.



Gasoline shipments to the US from Europe are expected to decline over the next two weeks as refineries on both sides of the Atlantic Ocean enter a maintenance period. Twenty tankers were booked or due to be chartered for loading in the two week period. The tankers would be able to carry about 6.3 million barrels of gasoline or 450,000 bpd over the next two weeks.

Gasoline stocks held in independent storage at the Amsterdam-Rotterdam-Antwerp area in the week ending October 6<sup>th</sup> increased by 26.87% on the week but fell by 38.92% on the year to 543,000 tons. Fuel oil stocks fell by 14.16% on the week and by 2.05% on the year to 764,000 tons while gasoil stocks fell by 5.78% on the week and by 8.78% on the year to 2.235 million tons. Naphtha stocks increased by 26.47% on the week and by 2.44% on the year to 86,000 tons while jet fuel stocks fell by 22.29% on the week and by 42.3% on the year to 401,000 tons.

Singapore's International Enterprise reported that the country's residual fuel stocks in the week ending September 6<sup>th</sup> fell by 2.746 million barrels to 17.020 million barrels. Singapore's light distillate

stocks increased by 862,000 barrels to 10.317 million barrels while its middle distillate stocks fell by 1.404 million barrels to 12.732 million barrels on the week.

The Caspian Pipeline Consortium expects a slight decline in crude shipments next year as it works on an expansion to increase capacity along the route linking Kazakh oilfields to the Black Sea. The consortium is undertaking a major expansion of the pipeline to increase annual capacity to 67 million tons by 2014 and accommodate an expected increase in Caspian region oil output. CPC General Director Nikolai Platonov said the consortium would pump slightly less crude next year than the 32 million tons planned for 2011.

### **Production News**

Yemen's main oil export pipeline was blown up on Thursday in the Wadi Obeida region, east of San'a. A local tribal chief said the attack was probably the work of tribesmen seeking concessions from the government. It was the sixth act of sabotage this year on the pipeline to Ras Issa terminal on the Red Sea. About 125,000 bpd normally flows through the pipeline.

BP is holding a large position in October loading cargoes of Forties crude. It has nine or ten Forties cargoes scheduled to load in October, which represents almost half of the 23 shipments originally planned in October.

Italy's Eni SpA said it was not aware of any serious damage at one of its largest Libyan oil fields, denying a report stating that it knew about destruction of key infrastructure at the site. Eni said there is some damage but denied it was aware of any serious damage at Libya's Elephant field. Eni's chief executive Paolo Scaroni said the company expects to have its production levels in Libya back to pre-war levels in 12 months. Separately, Eni will launch a pilot of its estimated 500 million and 2.5 billion barrels reserves of recoverable oil sands project in the Republic of Congo.

The 70,000 bpd Nafoora oil field in Libya partly owned by Occidental Petroleum restarted production on Wednesday as planned.

Statoil said production at the Visund oil field was shut in for maintenance of two risers. It is not known when it started and when it would resume. The oil field was running at full output until Thursday morning ahead of the shutdown. According to the Norwegian Petroleum Directorate, Visund is expected to produce about 22,000 bpd and 940 million standard cubic meters of gas per year in 2011.

The Norwegian Ministry for Petroleum and Energy forecast Norway's total oil production at 2.1 million bpd of oil equivalent in 2011 while natural gas output is forecast at 109 billion standard cubic meters.

Separately, the Norwegian statistics bureau stated that Norway estimated in its 2012 draft budget that oil and gas output would fall to 226 million standard cubic meters of oil equivalent in 2012 from 229 million cubic meters in 2011. It said investments in Norway's offshore sector would reach a record high of 172 billion Norwegian crowns or \$29.2 billion in 2012, up from 152 billion crowns in 2011.

Brazil's OGX Petroleo e Gas Participacoes SA expects to produce its first oil by the end of 2011, falling short of initial forecasts the company had made for September or October.

A joint venture between Venezuela's PDVSA and a Russian consortium, which includes TNK-BP, Rosneft, Gazprom, Surgutneftegaz and Lukoil, in the Orinoco belt could see early output increase to 50,000 bpd in 2012 from the Junin 6 oil block. PDVSA's projection is for first output of 2,000 bpd in May next year at Junin 6 and an increase to 12,000 bpd in 2013. However Venezuela's Energy Minister Rafael Ramirez said plans were proceeding faster than expected and the aim was now to reach 50,000 bpd next year.

Ghana's GNPC said the country is unlikely to meet a target of ramping up production at its Jubilee offshore oil field to its plateau output level of 120,000 bpd by the end of the year due to technical challenges.

Thailand is aiming to revive a long stalled plan to further its ambition to be a regional hub for oil trading and biofuel in Southeast Asia. It plans to build a 112 mile rail, road and pipeline link between the Gulf of Thailand and the Andaman Sea that would speed up the transport of crude from the Middle East for refining. The country, a net oil importer, planned to increase its crude reserves excluding refined oil products to 29 days from 18 days to improve energy security.

China Aviation Oil Corp is jointly investing with Malaysia's Centralized Terminals in an oil storage terminal in Malaysia. The joint venture partners will construct, develop and operate a terminal for jet fuel, gasoil and fuel oil at Tanjung Langsat port in Johor state. The terminal would have a total storage capacity of 380,000 cubic meters.

**Market Commentary**

Crude oil extended yesterday's gains, trading towards \$83.00. An announcement to purchase bonds by the president of the European Central Bank helped to foster this move higher. Both heating oil and gasoline were also strong due to turnarounds and the curtailment of gasoline shipments out of Europe to the U.S. All three markets are in technical rebounds, additionally gaining support from stronger equity markets. Given the existing global economic peril, we would expect that moves to the upside will be limited and prices will once again succumb to another round of selling. The November crude oil contract is poised to test \$ 83.37, the 62 percent retracement of \$32.48 - \$114.83.

Crude oil: Nov 11 284,136 -6,607 Dec 11 242,140 +3,287 Jan 12 124,820 -2,967 Totals 1,429,545 - 2,238 Heating oil: Nov 11 94,478 -2,363 Dec 11 66,453 +140 Jan 12 40,726 +207 Totals 327,956 - 1,484 Rbob: Nov 11 82,960 -1,572 Dec 11 57,436 -1,553 Jan 12 28,176 +586 Totals 270,724 -623

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				
<b>50-day MA</b>	<b>85.56</b>				
<b>200-day MA</b>	<b>94.99</b>				

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