



ENERGY RISK MANAGEMENT

Howard Rennell, Pat Shigueta,

& Karen Palladino

(212) 624-1132 (888) 885-6100

www.e-windham.com

ENERGY MARKET REPORT FOR OCTOBER 9, 2009

The IEA said world oil demand will recover at a faster pace than previously expected for the rest of the year and next as the economy recovers. It increased its demand estimates for the rest of 2009 by 530,000 bpd from its previous estimate to 85.2 million bpd while its demand estimate for all of 2009 was increased by 200,000 bpd from its previous estimate to 84.6 million bpd. It also increased its world oil demand growth estimate for 2010 to 1.42 million bpd, up 150,000 bpd from its previous projection. World demand is estimated to average 86.05 million bpd next year. The IEA also reported that

Market Watch

The US National Hurricane Center is watching two low pressure systems near the Lesser Antilles in the eastern Caribbean Sea. It gave both systems a low chance of becoming tropical cyclones over the next two days. It said regeneration of the remnants of Tropical Depression Henri is unlikely. Meanwhile, a tropical wave near the Windward Islands became less organized overnight. It did not expect the system to develop as it moved over northern Venezuela.

The US Commerce Department reported that the US trade gap narrowed unexpectedly in August as services trade pushed exports slightly higher and imports fell by a slightly larger amount. The monthly deficit was \$30.7 billion, down 3.6% from a revised estimate of \$31.9 billion for July.

Barclays Capital said commodity assets under management worldwide increased by 7% to \$224 billion in the third quarter, supported mostly by fresh investment flows. Barclays estimated that worldwide commodities assets under management increased by \$15 billion in the third quarter, the third highest end-quarter total, \$46 billion below the Q2 2008 record high of \$270 billion and up from 2008 year end low of \$164 billion.

Citigroup announced it will sell its Phibro LLC unit to Occidental Petroleum Corp. Primarily a trader in oil and gas, Phibro's assets consist of cash, marketable securities and readily saleable commodity positions. It said the sale of Phibro does not affect its client-facing commodities business lines. The sale is expected to close in the fourth quarter pending regulatory approvals.

Royal Dutch Shell Plc has provisionally booked a second supertanker for floating gasoil storage. The vessel, which can hold as much as 2 million barrels, is dry docked in Singapore and may be the first very large crude carrier to be cleaned for gas oil.

The Baltic Exchange's main sea freight index, which tracks rates to ship dry commodities, reached another seven week higher on Friday. The index increased by 1.81% or 48 points to 2,695 points on Friday in an eighth consecutive session of gains. However brokers and analysts said there need to be a stronger increase in overall demand for raw materials to sustain gains. The Baltic Capesize index increased by 2.93% on Friday and was at its highest level since August 20th.

The API's petroleum stock report will be delayed until Wednesday, October 14th at 4.30pm EDT due to the Columbus Day holiday. The EIA's weekly petroleum stock report will also be delayed until Thursday, October 15th at 11am EDT.

October Calendar Averages
CL – \$70.73
HO – \$1.8158
RB – \$1.7562

China's fuel oil demand is expected to grow 2.5% in 2010 from 6.8% in 2009. It forecast China's average fuel oil demand to reach 650,000 bpd this year and fall to 600,000 bpd next year. Oil stocks in developed OECD countries fell to the equivalent of 60.7 days of future demand at the end of August, down from 61.4 days at the end of July. In regards to OPEC, supply from the 11 OPEC members subject to output targets increased by 170,000 bpd to 26.4 million bpd. It cut compliance with output cuts to 62%

from 66% in August. Due to higher demand, the IEA estimates OPEC will need to pump 28.4 million bpd next year, up 200,000 bpd from its previous estimate. It said Venezuela's crude oil production in September reached 2.24 million bpd, up 30,000 bpd on the month. The IEA also said poor refining margins will keep global refinery runs from increasing in the fourth quarter. Global crude throughput is forecast to reach 73.2 million bpd in the fourth quarter, down 200,000 bpd on the month.

An aide to Iran's Supreme Leader Ayatollah Ali Khamenei said Iran will "blow up the heart" of Israel if it is attacked by Israel or the US.

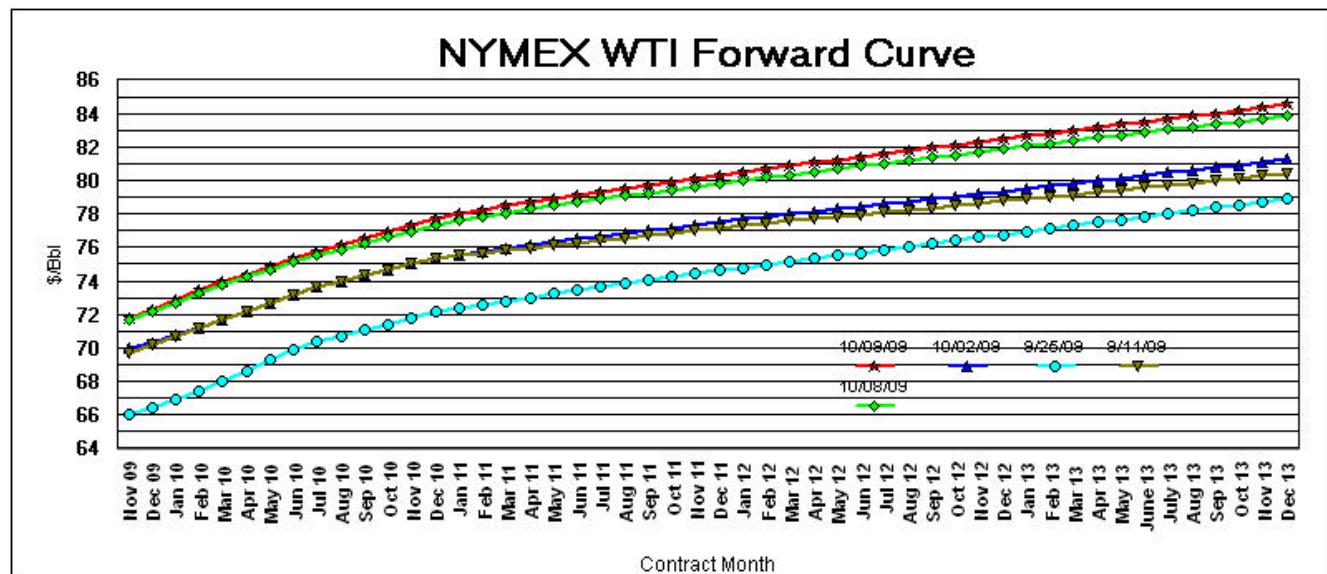
Russia's Finance Minister Alexei Kudrin said he was not involved in talks on switching to non-dollar oil payments. Earlier in the week, the UK's Independent newspaper reported that Gulf producers were in talks with France, Russia, China and Japan to replace the dollar in oil trading with a basket of currencies.

Euroilstock reported that total crude and oil product stocks in 16 European countries at the end of September fell by 0.4% on the month but increased by 2.8% on the year to 1.141 billion barrels. Crude oil stocks fell by 0.1% on the month but increased by 0.9% on the year to 475.38 million barrels while gasoline stocks increased by 0.9% on the month and by 2% on the year to 117.3 million barrels. Middle distillate stocks fell by 1.4% on the month but increased by 7.5% on the year to 410.25 million barrels. Crude oil intake increased by 3.4% on the month but fell by 3.1% on the year to 11.337 million barrels. Capacity utilization increased to 86.54% in September from 83.73% in August.

Refinery News

ExxonMobil restarted a 120,000 bpd fluid catalytic cracking unit at its 503,000 bpd Baton Rouge, Louisiana refinery after it was shut late last week.

Valero Energy Corp will restart a tank at the east plant of its Corpus Christi, Texas refinery on Friday. The restart will result in emissions of pollutants from complex 4 and tank 49.



ConocoPhillips will shut its unit 11 amine still and unit 34 sulfur recovery unit at its 146,000 bpd Borger, Texas refinery starting Friday for 15 days of maintenance work.

Total SA said a unit at its 232,000 bpd Port Arthur, Texas refinery was shut for maintenance on Friday. It said unit 821 is expected to remain shut for work until October 13th.

Petroplus has started planned maintenance at its Coryton refinery. The refinery is expected to be offline for up to seven weeks.

Japan's Toa Oil Co is set to restart one of the two crude distillation units at its Keihin refinery on Saturday following a brief period of planned maintenance. The 120,000 bpd crude distillation unit has been shut since October 1st to install a new catalyst on a desulphurization unit.

Taiwan's Formosa Petrochemical shut its 84,000 bpd No. 1 residual fluid catalytic cracking unit about two weeks earlier than expected due to mechanical problems. The unit is expected to resume operations in about 25 days.

China's twelve major refineries plan to process 2.66 million bpd of crude oil in October, unchanged on the month. It represents about 89% of their total refining capacity.

PetroChina will increase its crude processing in October at its Jinxi refinery by more than 60% to 98,900 bpd from 60,800 bpd in September following an extended period of maintenance. It shut a 60,000 bpd crude unit, a catalytic cracking unit and a continuous reformer starting July 20th for regular repair that was previously scheduled to be completed on September 4th.

China's aviation fuel market is likely to grow at 7-8% next year to 14 million tons or 307,000 bpd, up from this year but down from a double digit pace in the previous few years as global trade slows.

Ethanol industry participants in Brazil downplayed rumors that Brazil could import corn based ethanol from the US. They said ethanol imports from the US face hurdles such as import tariffs, freight costs, storage costs that increase the imported ethanol price to about 1.23 Brazilian real or 70 cents per liter in Brazil. As a result, imports at current exchange rates are not feasible as domestic costs hover just above 1 Brazilian real.

Production News

Saudi Arabia plans to keep its crude allocations to the US unchanged in November.

Baker Hughes reported that the number of rigs searching for oil and natural gas in the US increased by 17 to 1,041 in the week ending October 9th. The number of rigs searching for oil increased by 2 to 305 while the number of rigs searching for natural gas increased by 14 to 726.

North Sea BFOE, Brent, Forties, Oseberg and Ekofisk, crude is scheduled to load 1.36 million bpd in November, slightly lower than the 1.38 million bpd in October. Britain's North Sea Brent crude oil stream is scheduled to load about 120,000 bpd or 3.6 million barrels in November, down from 155,000 bpd or 4.8 million barrels in October. Meanwhile, the North Sea Forties crude system is scheduled to load 660,000 bpd or 19.8 million barrels in November compared with 658,065 bpd or 20.4 million barrels in October. The Oseberg crude oil stream is scheduled to load 183,333 bpd or 5.5 million barrels of crude in November compared with 214,516 bpd in October. The North Sea Ekofisk crude system is scheduled to load 399,333 bpd or 11.98 million barrels in November, up from 354,839 bpd or 11 million barrels in October.

Norway's North Sea Statfjord crude oil stream is scheduled to load about 199,500 bpd in November, up from 165,000 bpd in October.

The Norwegian Petroleum Directorate said Norway's oil production fell to 1.87 million bpd in September from 1.89 million bpd in August.

The BP-led Baku-Tbilisi-Ceyhan pipeline is expected to pump about 820,000 bpd in November, down from 852,000 bpd in October.

Ukraine's ambassador to Azerbaijan, Boris Klimchuk said Ukraine has started purchasing oil from Azerbaijan. Ukraine has bought two batches of oil amounting to 80,000 metric tons each in the Black Sea ports of Supsa and Ceyhan, adding that the country plans to buy a third, 80,000 ton batch of oil. Ukraine plans to supply the 240,000 tons of oil to the Kremenchug refinery through the Odessa-Kremenchug pipeline.

Mexico's Pemex said it is evaluating performance in the Chicantepec oil region but is not planning to suspend work there. Meanwhile, Mexico's Deputy Energy Minister Jordy Herrera said the country is concerned about the oil levels at its Chicantepec field but added that rash decisions should not be taken on drilling projects there. On Thursday, the head of the National Hydrocarbons Commission said Pemex should rethink the way that it is going about developing Chicantepec, where results have been below expectations.

Venezuela's crude exports fell in September, which implies that its oil production fell by 130,000 bpd to just below 2.6 million bpd.

Chevron Corp said higher oil prices will lead to significantly better profits from exploration and production in the third quarter than the previous one. Its US oil-equivalent production in July and August increased by 6% to 741,000 bpd from 700,000 bpd during the previous quarter while international output fell by 24,000 bpd to 1.946 million bpd.

According to the PIW, global oil balances returned to surplus in September as both OPEC and non-OPEC producers added oil to a market that is still not quite ready for it. Global supply increased by 869,000 bpd in September to an average 85.1 million bpd, ahead of demand by more than 450,000 bpd.

Total expects to increase its oil output in Angola by at least a third over the next two years as a new offshore oilfield comes onstream. Total said the new deep undersea stream, known as Pazflor, is likely to add 200,000 bpd to the firm's output. It expects to produce over 700,000 bpd in Angola by 2011.

Indonesia's crude oil shipments for loading in October totaled 17.29 million barrels or 560,00 bpd. Of the total, 3.26 million barrels or 105,160 bpd are scheduled for export and 7.24 million barrels for domestic plants.

Kuwait Petroleum Corp set its official selling price of its crude bound for Asia at a 70 cent discount to the Oman/Dubai average for November.

OPEC's news agency reported that OPEC's basket of crudes increased to \$67.83/barel on Thursday from \$67.75/barrel on Wednesday.

Market Commentary

The oil market today posted an inside trading day after it retraced some of Thursday's gains early in the session and remained rangebound. The market traded lower as the dollar bounced back from yesterday's weakness. The crude market posted a low of \$70.62. However it bounced off its low and rallied to a high of \$72.24 as a positive demand outlook from the IEA outweighed the renewed strength in the dollar. Also, the US Commerce Department reported that the US trade gap narrowed unexpectedly in August. The market later remained range bound as it traded back below the \$71.00 level before it traded back to its high ahead of the close. It settled up 8 cents at \$71.77. The market is still seen trading within its recent range, with support seen at \$69.01 and resistance seen at \$73.91, basis its upward trending channel. Meanwhile the product markets ended mixed, with the heating oil market settling up 59 points at \$1.8528 and the RBOB market settling down 1.17 cents at \$1.7680. The heating oil market continued to trend higher as it bounced off a low of \$1.8263 and rallied to high of \$1.8705 early in the session. It retraced some of its gains by mid-day before further buying ahead of the close pushed the market back towards its high. Similar to the crude market, the RBOB market posted an inside trading day as it bounced off a low of \$1.7514 to a high of \$1.7927 early in the session. The markets are seen retracing their gains as fundamentals remain bearish. The heating oil market is seen finding support at \$1.8260, \$1.80, \$1.7701, \$1.7679 and \$1.7377 while the RBOB market is seen finding support at \$1.7610, \$1.7550, \$1.7514 and \$1.7480.

The Commitment of Traders report showed that non-commercials increased their net long position by 7,864 contracts to 50,006 contracts in the week ending October 6th. The combined futures and options report also showed that non-commercials in the crude market increased their net long position by 7,540 contracts to 130,440 contracts on the week. The combined disaggregated report showed that producers/merchants cut their net short position by 11,114 contracts to 162,572 contracts while swap dealers cut their net long position by 2,979 contracts to 37,188 contracts. Managed money increased their net long position by 29,240 contracts to 109,771 contracts, other reportables cut their net long position by 21,701 contracts to 20,669 contracts and nonreportables switched to a net short position of 5,057 contracts. Meanwhile, non-commercials in the product markets also increased their net long positions after they cut their positions during the previous week. Funds in the heating oil market increased their net long position by 6,741 contracts to 32,180 contracts while non-commercials in the RBOB market increased their net long position by 7,633 contracts to 35,996 contracts on the week.

Crude NOV.09 240,606 -27,715 DEC.09 245,184 +9,759 JAN.10 109,864 +14,810 FEB.10 43,244 +2,149 MAR.10 34,947 +2,165 APR.10 19,543 +807 Totals: 1,249,906 +6,611 Heating NOV.09 57,670 -631 DEC.09 62,002 +2,183 JAN.10 41,436 -290 FEB.10 20,606 +393 MAR.10 16,376 -102 Totals: 309,283 +2,448 Gasoline NOV.09 73,473 -3,862 DEC.09 39,424 +3,645 JAN.10 28,158 +1,908 FEB.10 8,702 +460 MAR.10 13,944 +379 Totals: 195,715 +2,419

Crude Support	Crude Resistance
71.20, 70.88, 70.62, 69.01, 68.65, 68.05, 66.22, 65.05	72.29, 73.91, 73.55, 73.85, 75.00, 76.13
Heat Support	Heat resistance
1.8260, 1.8000, 1.7701, 1.7679, 1.7377, 1.6866, 1.6585, 1.4870, 1.4220, 1.4130, 1.3720	1.8705, 1.8878, 1.9057, 1.9440, 2.0420, 2.0465
Gasoline support	Gasoline resistance
1.7610, 1.7550, 1.7514, 1.7480, 1.7141, 1.7028, 1.6885	1.7927, 1.8086, 1.8403, 1.8565, 1.8734, 1.9029

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