



ENERGY RISK MANAGEMENT

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

www.e-windham.com

ENERGY MARKET REPORT FOR OCTOBER 10, 2011

The chief executive of Saudi Aramco Khalid Al Falih said crude prices have recently fallen to a more reasonable range and are still healthy enough to support investment. He added that he has previously assured the market that Saudi Aramco has plenty of spare production capacity that can be deployed to address any shortage in the market. He also stated that Saudi Arabia is unlikely to proceed with plans to raise its oil output capacity to 15 million bpd, as expansion plans in other producing countries such as Iraq and Brazil should be enough to satisfy world markets.

Iran's OPEC governor Mohammad Ali Khatibi said Iran will not push for production quotas to be cut at the next OPEC meeting. He said there is no need to reduce OPEC's production ceiling.

Market Watch

The Organization for Economic Cooperation and Development said its composite leading indicator for its 33 member countries fell for a fifth consecutive month in August to 100.8 from 101.4 in July and signaling a slowdown in economic activity. Only Germany, Russia and the US kept readings above 100 while Japan was the only country not yet headed for a clear slowdown, registering a 1 point decline in its composite leading indicator to 102.5 from 102.6.

China's economy is likely to grow an annual 9.4% in 2011 before slowing further to 9.2% in 2012. The Chinese Academy of Social Sciences cut its forecast on China's economic growth this year from a previously estimated 9.6%. It said that the full year inflation is likely to be 5.5% in 2011, well above the 4% target set by the government at the beginning of the year.

Greece said it has no plans to nationalize more of the country's banks and welcomes a Franco-German plan to recapitalize banks. Separately, Greece's statistics service reported that its industrial output in August fell by 11.7% on the year following a decline of 2.8% in July.

French national statistics office reported that the country's industrial production index increased by 0.5% in August on the month to 95.8.

Franco-Belgian bank Dexia agreed early on Monday to the nationalization of its Belgian banking division and secured 90 billion euros or \$121 billion in state guarantees in a rescue that could pressure other euro zone governments to strengthen their banks. Under the terms of the rescue, Belgium would pay Dexia Group 4 billion euros or \$5.4 billion to buy Dexia Bank Belgium. Dexia also secured state guarantees of up to 90 billion euros to secure borrowing over the next 10 years. As part of the bank's breakup Dexia is also in talks to sell its Luxembourg unit.

Meanwhile, Moody's Investor Service said France's participation in a rescue of Dexia has no impact for now on the country's AAA credit rating, which still has a stable outlook. Separately, Standard & Poor's credit rating agency confirmed Belgium's sovereign debt ratings at AA+ with a negative outlook and France's ratings at AAA with a stable outlook.

Russia's acting Finance Minister Anton Siluanov said Russia needs crude oil prices to average \$117.20/barrel in order to balance the 2012 budget compared with an average oil price of \$108/barrel to balance this year's budget.

Deutsche Bank is expected to take over BHF bank's energy derivatives unit by the end of the year in a bid to strengthen its position in exchange traded energy derivatives. BHF is the largest clearer of energy derivatives on the European Energy Exchange, with a share of 40%.

Saudi Arabia has started to try 85 alleged members of an al Qaeda linked cell which attacked three housing compounds for foreigners in Riyadh in 2003. The attack marked the start of a violent al Qaeda campaign that included plots against military bases, foreigners and industrial and energy facilities between 2003 and 2006.

**October
Calendar Averages**
CL - \$80.66
HO - \$2.8128
RB - \$2.5996

Non-OPEC oil producer Oman sees oil prices at a range of \$90 to \$100/barrel in 2012 and is not expecting any major changes in the market. Oman expects to exceed its crude oil production target by at least 5% in 2011 to reach up to 920,000 bpd this year. Oman produced a total of 188.78 million barrels of crude from January 1st to August 31st, with average daily production increasing to 881,900 bpd from 858,200 bpd in the same period of 2010. Oman's oil exports increased to 177.19 million barrels in January to August from 175.92 million barrels in the corresponding period last year.

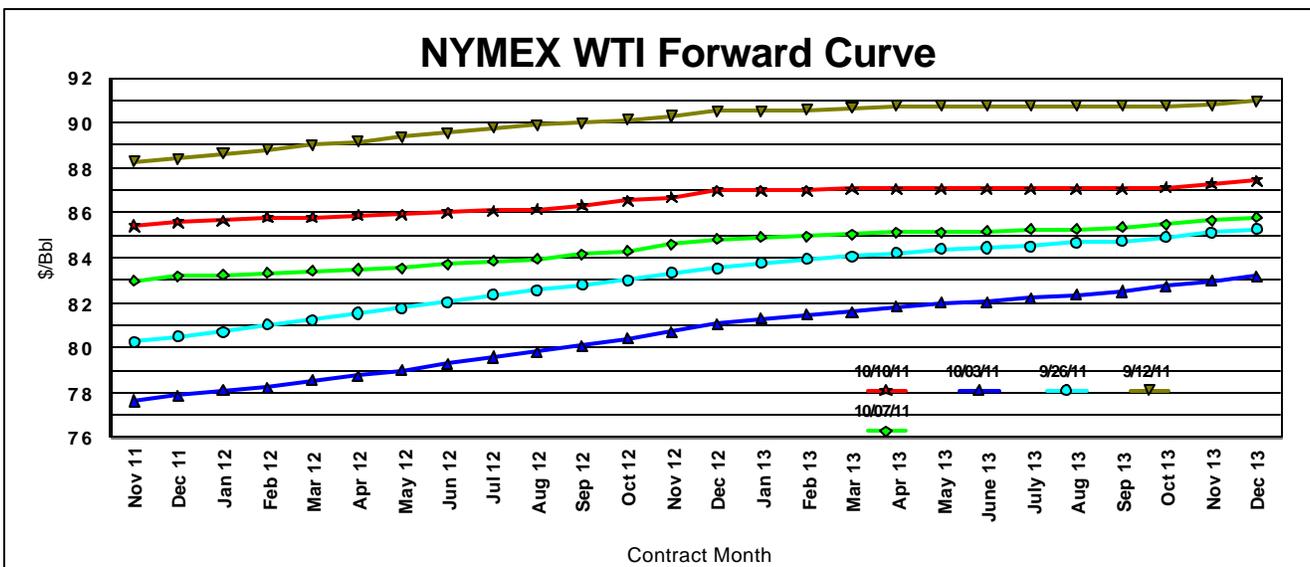
The head of the IEA, Maria van der Hoeven said Libya may be able to return to its pre-war level oil output earlier than 2013 if oil companies resume activities there as quickly as they seem to be doing. The IEA expects Libya to return to an oil production of about 1.7 million bpd in 14 to 15 months' time at the minimum.

The IEA said annual global spending on extending infrastructure will need to more than triple by 2030 in order to bring access to modern energy supplies to all of the world's poorest people.

Iraq's deputy prime minister Hussein al-Shahristani said oil contracts signed by Iraqi Kurdistan's regional government must be rewritten and that recent government payments to international producers in the region in no way validate the contracts. He said he could not predict when a final draft of the central oil law would be sent to the full parliament.

Libya's deputy oil minister said the country's oil sector will be freed up under the new government and companies will have more say over exploration, projects and operations. He however stated that the sales of the country's sweet oil would remain in the hands of a single body. Separately, the chairman of Libya's National Oil Co, Nuri Berruien said the country is now producing 400,000 bpd, 25% of its prewar level, a figure that may increase above 600,000 by the year end.

Nigerian oil unions said about 2,000 of their members began a three day warning strike on Monday to protest against what they said was the government's failure to protect workers from a resurgence in kidnappings. Meanwhile, a committee appointed by the president to investigate post-election violence said Nigeria risks revolution if the government does not addressing increasing frustration in the country. Three days of rioting started in Nigeria's mainly Muslim north, where there was harsh opposition to President Goodluck Jonathan, who defeated his main opponent.



Refinery News

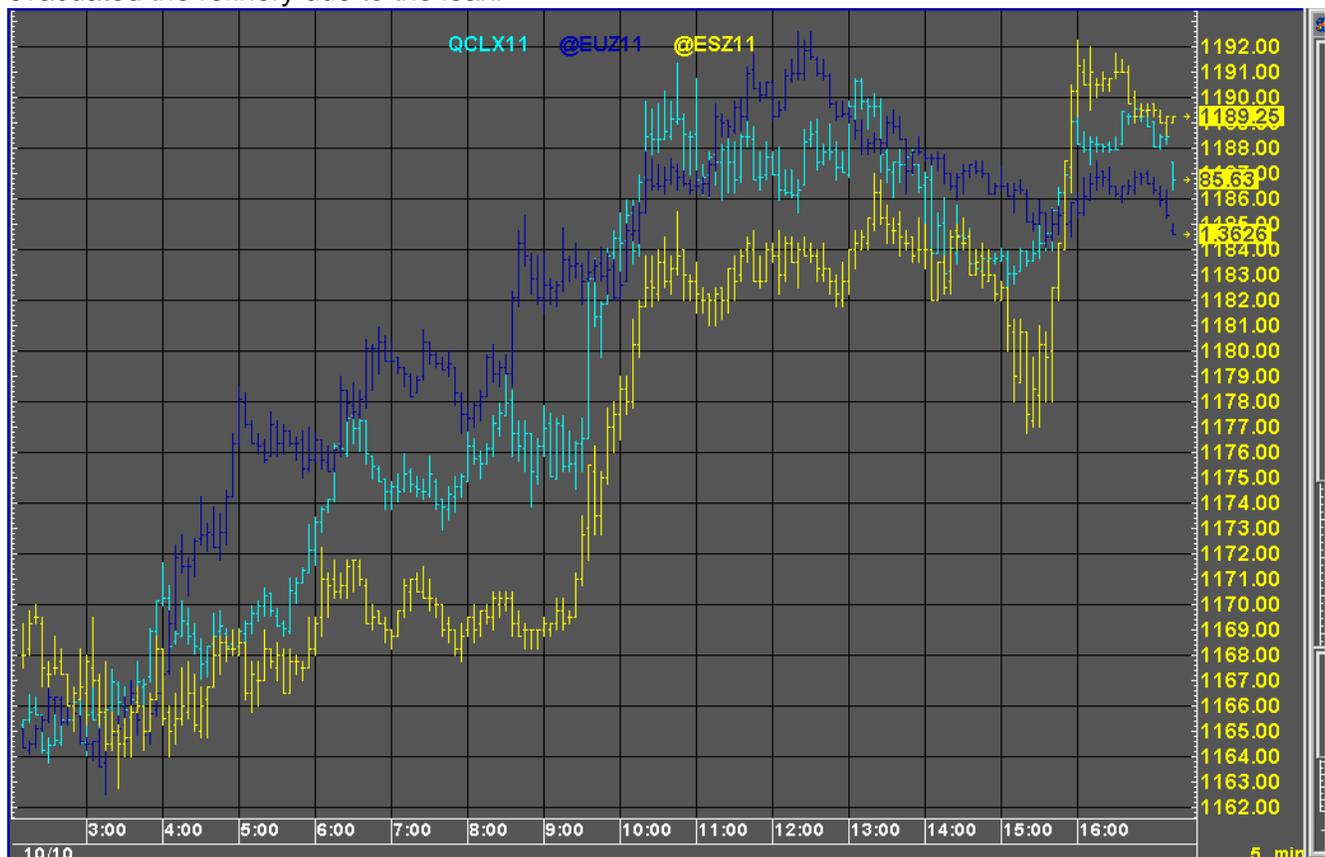
Colonial Pipeline said it was allocating its main gasoline line north of Collins, Mississippi for Cycle 58 as nominations on its line exceed the company's ability to meet the five day lifting cycle.

Credit Suisse reported that US regional refining margins increased more than 24% on average in the week ending October 7th. Refining margins in the Northeast increased by \$2.96/barrel to \$10.58/barrel while margins in the Midwest increased by \$1.96/barrel to \$33.43/barrel while margins in the Gulf Coast increased by \$3.60/barrel to \$34.15/barrel. Margins in the Rockies increased by 14 cents/barrel to \$50.36/barrel and margins in the West Coast increased by \$6.76/barrel to \$17.21/barrel.

ConocoPhillips reported continued flaring due to a breakdown after a fire started around a storage tank at its 139,000 bpd Los Angeles refinery in Wilmington, California.

ExxonMobil said operations at its Billings, Montana refinery are normal. It said it had no reason to believe an oil sheen on the Yellowstone River in Montana came from its Billings refinery. It said it contained the oil to minimize any environmental impact.

The fire brigade said the danger is over at Statoil's Mongstad oil refinery following an oil leak. Statoil evacuated the refinery due to the leak.



BP's 400,000 bpd Rotterdam refinery is not operating at full capacity due to planned maintenance.

Royal Dutch Shell Plc resumed production at some parts of its 500,000 bpd refinery in Singapore after shutting the complex due to a September 28th fire.

Total has set a deadline at the end of 2011 to decide whether or not to pursue the sale of its 223,000 bpd Lindsey refinery in Britain amid worsening market conditions.

Saudi Aramco is in talks with its partners in a joint venture refinery and petrochemicals project at Quanzhou in China's Fujian province about expanding the complex as part of wider plans to increase its share in the petrochemicals industry. Saudi Arabia plans to increase its share of the global petrochemicals market to 10% by 2015 from about 8% currently.

China Aviation Oil is buying a stake in an oil storage terminal in Yeosu, South Korea. It said Oilhub Korea Yeosu Co will build and operate the 8.18 million barrel terminal to store oil products and crude. Of the total, the terminal would store 4.22 million barrels of oil products and the remaining will be crude.

Production News

Royal Dutch Shell Plc declared force majeure on its exports of Nigerian Forcados crude following a leak on the Trans Forcados pipeline. The declaration follows an earlier leak in September that caused disruptions to production at some Forcados fields.

Oil production from Iraq's Rumaila oilfield in Basra has been restored to normal levels of 1.3 million bpd after a partial halt caused by pipeline bombings last week. Oil production at Iraq's Rumaila oilfield has been cut by 700,000 bpd from about 1.24 million bpd after two bombs halted its operations. Repairs to damage on the pipeline were almost finished and crude from Rumaila was flowing normally to its Zubair storage.

The Baku-Tbilisi-Ceyhan oil pipeline is expected to pump 17.35 million barrels of crude in November, down 2.5 million barrels less than the October program and a multi-month low.

Two shipping sources said all vessel traffic in and out of the Kuwait ports was halted and oil tanker traffic was halted on Monday as Kuwait customs union went on a strike.

Saudi Aramco notified lifters in Europe that it would deliver the contracted volumes in November under its long term contracts. It will deliver full, contracted volumes to at least three refiners in Europe. It also said it would supply full contracted volumes of crude in November to at least four Asian term buyers, steady with October.

Output from the four benchmark North Sea crude oil streams, Brent, Forties, Oseberg and Ekofisk is set to total 1.062 million bpd in November, up from 1.048 million bpd in October. The North Sea Forties crude stream is scheduled to load about 440,000 bpd in November compared with 445,000 bpd in October. The North Sea Oseberg crude oil stream is scheduled to load 160,000 bpd in November compared with 174,000 bpd in October. The November loading program for North Sea Ekofisk crude is scheduled at 321,667 bpd or 9.65 million barrels compared with 274,194 bpd originally planned to load in October.

Premier Oil Plc confirmed the start of oil production from the Chim Sao field. Oil production from the field is expected to plateau at about 25,000 bpd while natural gas production is expected to total 25 million cubic feet/day.

Ecuador's Petroamazonas plans to begin producing crude oil in block 31 during the first half of next year. It aims to produce about 20,000 bpd.

Petrobras plans to drill wells in two new pre-salt area the company received in last year's government led capitalization. The two new wells are planned for 2012.

Gunvor has cut its share in Russia's seaborne oil exports to less than 20%, down from 30%.

Iraq's Oil Ministry reported that the country will auction 12 exploration blocks on March 7 and 8 instead of January 25 and 26 as previously planned. It has been delayed to give international companies enough time to review details of the bidding round terms and also to allow for key meetings that would have to take place during the Muslim Eid al-Adha holiday next month and Christmas and New Year holidays.

Kuwait raised the official selling price for its crude oil sales to Asia for November to a record high of 90 cents/barrel above the average Oman/Dubai quotes. It is up \$1.45/barrel higher than the October official selling price.

Iraq's State Oil Marketing Organization reported that Iraq increased the official selling prices of its Basra Light crude bound for the US and Asia in November and cut the prices for buyers in Europe. Basra Light crude bound for the US in November was increased by 10 cents to \$1.60/barrel below the Argus Sour Crude Index, up from minus \$1.70/barrel in October. Basra Light crude bound for Europe was cut by \$1.10/barrel to \$4.10/barrel below Dated Brent, from minus \$3/barrel in October. For buyers in Asia, SOMO raised the price for November by \$1.60/barrel to \$1.65/barrel above the Oman/Dubai average, up from 5 cents/barrel in October. Iraq cut the price of Kirkuk crude bound for Europe and left the price unchanged for buyers in the US.

The National Iranian Oil Co set the official selling price of its Iranian Light crude bound for Northwest Europe at BWAVE minus \$1.70/barrel, up 70 cents on the month while it set the price of its Iranian Heavy crude at BWAVE minus \$3.15/barrel, up 55 cents on the month and its Forozan Blend at BWAVE minus \$3.05/barrel, up 55 cents on the month. It set the price of its Iranian Light crude bound for Asia at the Oman-Dubai average plus \$2.94/barrel, up \$1.05/barrel, its Iranian heavy at the Oman-Dubai average plus \$1.14/barrel, up 83 cents on the month and its Forozan Blend at the Oman-Dubai average plus \$1.29/barrel, up \$1.13/barrel on the month.

India's Oil Minister Jaipal Reddy said the country's state run fuel retailers are losing INR2.71 billion/day on selling some fuel products at government set prices, which is hurting their finances. The revenue losses are hurting the retailers' resources for expansion and modernization.

China's State Council said China will extend an experimental tax on oil and gas to the entire country, taxing the resources between 5% and 10%, starting November 1st. China introduced a 5% resource tax last year in the Xinjiang Uighur Autonomous Region and later extending it to 12 western provinces and regions.

Market Commentary

Last week's gain resumed, with the November contract trading just above \$86.00. Economic sanguinity permeated the market place after German Chancellor, Angela Merkel and French President Nicholas Sarkozy announced that a plan to solve the European debt crisis was in the making. Market participants viewed this as a sign that demand will grow. Crude oil for the short term should continue to edge higher, making attempts at the \$90.60 resistance area. Longer term we do not conceive that recent strength will be able to sustain itself as long as this resistance level is intact. Our bias is still to the downside, looking for a test down around the support level of \$64.23

Crude oil: Nov 11 235,653 -35,050 Dec 11 259,292 +6,423 Jan 12 139,582 +9,404 Totals 1,426,279 -12,592 Heating oil: Nov 11 80,964 -8,253 Dec 11 63,396 -345 Jan 12 40,617 +6 Totals 312,742 -8,130 Rbob: Nov 11 69,474 -9,493 Dec 11 57,514 +2,962 Jan 12 29,768 -642 Totals 262,565 -6,039

Crude Oil		Heating Oil		Rbob	
Support	Resistance	Support	Resistance	Support	Resistance
8337		26975	32777	24670	33369
7570	8759	26680	33370	24240	35915
7487	8817	27375	33510	23631	36310
7365	9060	23685		23414	
6970	9122	22960			
6423	9726				
6394	9872				
	10071				
50-day MA	85.13				
200-day MA	94.92				

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