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## ***ENERGY RISK MANAGEMENT***

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

**www.e-windham.com**

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### **ENERGY MARKET REPORT FOR OCTOBER 11, 2011**

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In its latest monthly report, OPEC cut its global oil demand growth forecast for a fourth consecutive month, citing an economic downturn in developed countries and efforts by China and India to cut demand. OPEC cut its global oil demand growth forecast this year by 180,000 bpd. It expects demand to grow by just 880,000 bpd to 87.781 million bpd in 2011. It estimates oil demand to increase by 1.19 million bpd next year, down 70,000 bpd from its previous estimate. It estimated demand for its own crude remained unchanged for 2011 compared with its previous estimate. Its OPEC oil demand estimate for 2012 was however cut by 100,000 bpd on the year to 29.9 million bpd. OPEC cut its

#### **Market Watch**

According to court documents and a US official, US authorities broke up an alleged plot to bomb the Israeli and Saudi Arabian embassies in Washington and assassinate the Saudi ambassador to the US. US Attorney General Eric Holder said the plot was directed and approved by elements of the Iranian government. Prosecutors filed criminal charges against Manssor Arabasiar, a 56 year old naturalized US citizen who holds Iranian and US passports and Gholam Shakuri, a member of a special operations unit of the Iranian Islamic Revolutionary Guard Corps. Meanwhile, a spokesman for Iran's UN mission said US allegations about an Iranian plot to assassinate the Saudi ambassador and bomb the Israeli and Saudi embassies in Washington are baseless.

The International Council of Shopping Centers and Goldman Sachs reported that US chain store sales in the week ending October 8<sup>th</sup> fell by 0.1% on the week but increased by 2.8% on the year to 516.3.

Large companies that handle financing for securities and derivatives markets said there was little change in credit terms being offered in the June-August period but noted that came after a lengthy period of easing. The Fed survey showed that clients' willingness to take on risks had decreased somewhat, on net, over the past three months.

The US Federal Reserve released for public comment the Volcker rule proposal that would restrict Wall Street's ability to trade for its own profit in stocks and other financial instruments. The Volcker provision aims to prevent banks from recklessly engaging in risky trades by prohibiting them from short term trading for their own profit in securities, derivatives and other financial products. It would also prohibit banks from investing in or sponsoring, hedge funds or private equity funds.

The CFTC Commissioner Scott O'Malia said it could cost the financial industry more than \$100 million to comply with the new position limits plan being proposed by the CFTC. Separately, the chairman of the US Commodity Futures Trading Commission said regulators of the US and United Kingdom this week are expected to discuss the idea of formally registering high speed electronic trading firms. Such a move could give regulators a better idea of the identities of the firms that use computer driven strategies to power a large portion of the day's trades in stocks, futures and options markets. He said the suggestion would be on the table when he joins counterparts for two days of meetings in London later this week.

2011 non-OPEC supply growth forecast by 140,000 bpd to 360,000 bpd due to lower output in Canada, the UK, Brazil and Azerbaijan. In 2012, non-OPEC producers would still be able to increase supply by 830,000 bpd, relatively unchanged from its previous estimate. OPEC said its own output fell by 77,000 bpd in September to 29.9 million bpd and should average around the same level in 2012 to meet demand on OPEC's crude.

**October  
Calendar Averages**  
**CL - \$81.39**  
**HO - \$2.8258**  
**RB - \$2.6207**

OPEC's Secretary General Abdullah al-Badri said OPEC is comfortable with the situation in the global oil market. He dismissed concerns about the impact of returning Libyan oil and fears of a new economic recession. OPEC's Secretary General said the oil market remained balanced and prices were acceptable. He said Libya's oil production is expected to reach 1 million bpd in six months and the pre-war rate as quickly as one year. He said it was too early to say whether OPEC needed to change its policy when it next meets on December 14<sup>th</sup>. He however said that he expected the group to reach a consensus on output policy.

Iran's Oil Minister Rostam Qasemi said his country would try to maintain current output levels for OPEC when the group meets in December.

The chief economist of the IEA, Fatih Birol said it is very important that oil producers in the Middle East and North Africa continue to invest in increasing their oil production capacity. He said in the next 10 years, more than 90% of the growth in global oil production needs to come from Middle East and North African countries. Separately, he stated that the oil import bill in Europe, the US and Japan is close to the level reached in 2008, when high prices were a contributing factor in the severe recession. When expenditures on oil increase to about 5% of GDP, it has historically caused economic problems.

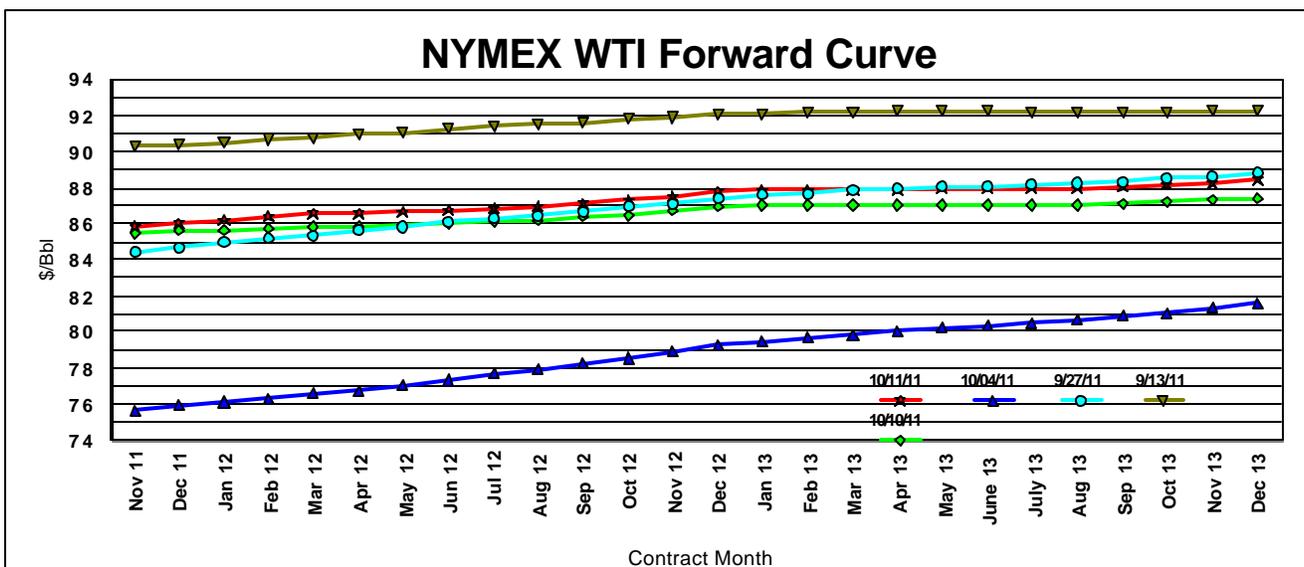
Russia's First Deputy Prime Minister Igor Sechin said Russia and China resolved a dispute on oil supplies. Russia's Rosneft had complained of not receiving payments for oil supplies to China because of differences over tariffs.

Petrobras' chief executive Sergio Gabrielli de Azevedo said global oil demand will keep growing faster than global gross domestic product, despite declining demand in the US and Europe.

Officials said two people were killed when gunmen torched an oil tanker carrying fuel for NATO troops in Afghanistan in the southwestern Pakistani province of Baluchistan on Tuesday.

The International Maritime Bureau said pirates have hijacked an oil tanker and its crew off the Nigerian coast. The pirates boarded the tanker on Saturday.

The EIA reported that the US average retail price of diesel fell by 2.8 cents to \$3.721/gallon in the week ending October 11<sup>th</sup>. It reported that the US average retail price of gasoline fell by 1.6 cents to



\$3.417/gallon on the week.

### **Refinery News**

Colonial Pipeline said it was allocating its Linden Delivery Line L2 for Cycle 55. It is also allocating its main distillate line north of Collins, Mississippi for Cycle 58.

Chalmette Refining resumed normal operations at its 192,500 bpd Chalmette, Louisiana refinery on Tuesday following an overnight sulfur plant malfunction.

Sunoco Inc shut a fluid catalytic cracking unit at its 178,000 bpd Marcus Hook, Pennsylvania refinery for unplanned maintenance on Tuesday. The refinery's other units, including an atmospheric crude distillation unit and a reformer unit were already under maintenance when the fluid catalytic cracking unit was shut.

Petrobras' 100,000 bpd Pasadena, Texas refinery is expected to remain shut through the end of October for repairs following a September 30<sup>th</sup> crude distillation unit fire.

Suncor Energy Inc said its 135,000 bpd refinery in Edmonton, Alberta will operate at reduced rates for the next two weeks because of a disruption to its hydrogen supplies. It declined to specify how much refined product will come out of the refinery while the company waits for its hydrogen supplier to return to normal rates.

Euroilstock reported that refinery runs in 16 European countries fell in September to 82.53% from 84.36% in August. It reported that crude oil and oil product inventories fell by 1% on the month and by 2.4% on the year to 1.083 billion barrels. Gasoline stocks increased by 2.1% on the month but fell by 1.4% on the year to 109.23 million barrels while distillate stocks fell by 1.5% on the month and by 2% on the year to 391.88 million barrels. Its fuel oil stocks fell by 1.7% on the month and by 10.5% on the year to 99.84 million barrels.

Total SA chief executive Christophe de Margerie said refining and marketing is not a dying industry in Europe but rather a business readjusting to changing global demand and consumer behavior. He said Total's disinvestment from some of its European refining operations reflected market dynamics and was not symptomatic of an industry in permanent decline.

Libya's National Oil Corp said it will give priority to sending crude oil to domestic refineries in the early stage of ramping up production and has no immediate plans to export crude oil from ports other than Tobruk.

Shell's partial restart of its 500,000 bpd Singapore refinery has hit a snag that will result in a delay of about 10 days before it can start producing high margin base oil. The problem is due to a malfunctioning furnace in its Lube Oil Complex. Its 210,000 bpd crude distillation unit is running at a reduced operating rate of about 50%.

China's Sinopec will cut its crude oil throughput at its 260,000 bpd Gaoqiao refinery in October by 13% on the month to 188,400 bpd after a fire caused the shut down of a coking unit.

PetroChina's Dushanzi refinery is expected to resume normal operations this week after an almost two month turnaround. It shut its 200,000 bpd refinery in northwestern Xinjiang region from August 9<sup>th</sup> for regular maintenance. The crude distillation unit is restarting and is now processing about 157,700 bpd.

Japan's Cosmo Oil Co expects to restart its 100,000 bpd No. 1 crude distillation unit at its Sakai refinery this week following a delay to its restart. It has been shut since August 22<sup>nd</sup> for planned maintenance and was originally scheduled to resume operations on October 5<sup>th</sup>. Meanwhile its 85,000 bpd No. 6 crude distillation unit at its Yokkaichi refinery started planned maintenance on Tuesday.

Petrovietnam said construction of the 200,800 bpd Nghi Son refinery will start in the last quarter of the year after a delay of about six months. The refinery will be designed to process Kuwaiti oil.

Italy's Eni sold the first cargo of light sweet Kitan crude from its new field in the Timor Sea to an unnamed oil major for processing at a Singapore refinery. It has provisionally booked an oil tanker to load 300,000 barrels of Kitan crude on October 21<sup>st</sup> and is bound for Singapore.

South Korea's Hyundai Oilbank said it started construction of an \$85 million commercial oil storage facility with a capacity of 300,000 kiloliters to be completed in late 2013. The facility would be built at the port of Ulsan. The refiner, with a capacity of 390,000 bpd, aims to store oil products from South Korean, Japanese and Singaporean shippers.

Indonesia's Pertamina is expected to import about 3.5 million barrels of high sulfur gasoil in November, about a third less than this month. It imported about 4 million barrels last November.

Enterprise Products Partners LP is starting its open commitment period for its ethane pipeline from Marcellus/Utica Shale to the Gulf Coast. The open commitment period runs from October 11<sup>th</sup> through Thursday, November 10<sup>th</sup>. The pipeline is expected to begin commercial operations in the first quarter of 2014.

Sugarcane industry association Unica said sugar mills in Brazil's center-south region kept up their pace of sugarcane crushing in the second half of September. Mills in the region crushed 36.67 million metric tons of sugarcane in the second half of last month, up 35% on the year. In the last two weeks of September, center south sugar production increased by 44% to 2.84 million tons and ethanol fuel output increased 7.7% to 1.62 billion liters. Ethanol production so far this year has declined 16% to 16.99 billion liters.

State-owned refiners in India may not import gas oil through the spot market for at least one month due to a sufficient supply. The lack of demand is caused by two refineries coming online and an expected decline in industrial output.

### **Production News**

A cargo has been dropped from the November loading program of North Sea Forties crude. Cargo F1122 which was due to load on November 29-December 1, has been canceled. Currently 21 cargoes of Forties crude is expected to load in November.

Royal Dutch Shell said its force majeure on Nigerian Forcados crude exports would be lifted by late-October or November if all repair work is completed as planned.

A Kuwaiti oil official said exports of crude oil and oil products out of the country are moving normally and all customer commitments will be met while the customs union pledged to continue a strike that stranded sea tanker traffic on Monday. Oil shipments from Kuwait were halted on Monday after the customs union went on strike, blocking the clearance process necessary for vessels to depart and discharge. However on Tuesday, shipping sources said Kuwait had secured port clearance for stranded oil ships and at least four tankers departed from the Mina al Ahmadi port.

Libya's Agoco said it is planning to restart two more oilfields by mid-October, increasing its output to just over 300,000 bpd.

Russia will continue to increase crude shipments via the Polish Baltic port of Gdansk in October and expects to send two more cargoes of 100,000 tons each.

KazTransOil said eight contract workers died at a Kazakh oil storage facility on Tuesday after a fire started during routine maintenance work. Workers were cleaning equipment at its Aktau oil pumping station in the country's southwest when the fire started.

OPEC's news agency reported that OPEC's basket of crudes increased to \$104.67/barrel on Monday from \$103.22/barrel on Friday.

### **Market Commentary**

Early morning losses were reversed, as the market was pulled higher by news of unplanned maintenance at Sunoco's Marcus Hook refinery and a higher equity market. Gasoline proved to be the strongest of the three markets. Crude oil is still in a technical correction as can be seen on the chart below. Based upon the candlestick formation, a near term bottom has occurred. It appears that the bulls had control of the market for most of the session, continuing last weeks run-up. Today's volume outpaced yesterday's, indicating further confidence that prices will continue their rebound. The near-term objective remains \$90.60.

Crude oil: Nov 11 193,087 -42,566 Dec 11 283,109 +23,817 Jan 12 147,268 +7,686 Totals 1,420,172 -6,107 Heating oil: Nov 11 73,145 -7,819 Dec 11 61,793 -1,603 Jan 12 39,311 -1,306 Totals 301,348 -11,394 Rbob: Nov 11 65,551 -3,923 Dec 11 59,404 +1,890 Jan 12 32,178 +2,410 Totals 264,296 +1,731

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				
<b>50-day MA</b>	<b>84.97</b>				
<b>200-day MA</b>	<b>94.89</b>				

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