



ENERGY RISK MANAGEMENT

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ENERGY MARKET REPORT FOR OCTOBER 12, 2011

The IEA said world oil consumption will grow less than expected this year and next as the pace of economic growth slows. It stated that demand will grow by 1.25 million bpd next year, down 160,000 bpd from its previous estimate. It cut global oil demand by 50,000 bpd for 2011 and by 210,000 bpd for 2012. Meanwhile, the IEA upgraded its estimate for Libyan oil production at the end of the year to 600,000 bpd and said further upward revisions are possible but also cautioned that exports may be slower to resume due to damage to shipping terminals and local demands for oil. The IEA also warned of lower oil output from countries outside OPEC due to weather and maintenance shutdowns. The IEA cut its estimate for non-OPEC production by 300,000 bpd in the

Market Watch

The Mortgage Bankers Association said its seasonally adjusted index of mortgage application activity increased by 1.3% in the week ending October 7th. Its seasonally adjusted index of refinancing applications increased by 1.3% while the index of loan requests for home purchases increased by 1.1% and refinancing share of mortgage activity was unchanged at 79.1% of total applications.

The Dow Jones-UBS Commodity Index will add Brent crude to its components for the first time next year. The DJ-UBS index, the world's largest index with \$80 billion, would give Brent a 5% weighting while cutting the US crude oil weighting to 9.7% from 15%.

The European Union's Statistics Office said industrial production in the 17 countries using the euro increased by 1.2% on the month in August for a 5.3% year on year increase. Its output was much stronger than expected. The European Commission expects economic growth in the euro zone to slow to 0.1% quarter on quarter in the third and fourth quarters of 2011 from 0.2% in the second quarter.

The National Oceanic and Atmospheric Administration said colder than normal temperatures are expected in the Pacific Northwest and northern Plains states during December through February. It said warmer than normal temperatures are expected in the southern Plains and across the Gulf Coast states while the Northeast heating oil region does not yet show a clear seasonal trend. The Northeast region shows equal chances of normal, above normal or below normal temperatures for the season.

ICE reported that a total of 1,120 lots or 112,000 metric tons of gasoil was physically delivered against the expiry of ICE October gasoil futures. It is down 439 lots from September.

Parties in the outgoing Slovak government reached an agreement with a leftist opposition leader on ratifying a plan to strengthen the euro zone's European Financial Stability Facility rescue fund. Slovakia is the only member of the euro zone not to ratify the plan to increase the EFSF's powers and fight the spreading debt crisis. Ratification by all 17 members is needed for the changes to take effect. Germany and France have promised to propose a comprehensive strategy to fight the debt crisis at an EU summit on October 23rd.

The EIA announced that the agency would issue the report on proved resources within the first few months of 2012 after it announced earlier this year that budget constraints would prevent them from doing so. The EIA said it would also revive work on a report that identifies annual sales of fuel oil and kerosene. In addition to the report on oil and gas reserves, the EIA also suspended an analysis of planned refinery outages and the collection of state level data on wholesale petroleum product prices, among other projects. It also reduced data collection on electricity exports and imports.

API Stocks

Crude – down 3.805 million barrels
Distillate – down 3.119 million barrels
Gasoline – down 1.193 million barrels
Refinery runs – down 1.5%, at 83.4%

fourth quarter and 200,000 bpd in 2012. The IEA also stated that global refinery crude runs will be lower in the third and fourth quarters of 2011 than forecast last month, as maintenance in Asia and a fire at Royal Dutch Shell's Pulau Bukom refinery in Singapore curtailed Asian refinery runs. Third quarter refinery runs are expected to average 75.5 million bpd, down 50,000 bpd from its previous estimate while

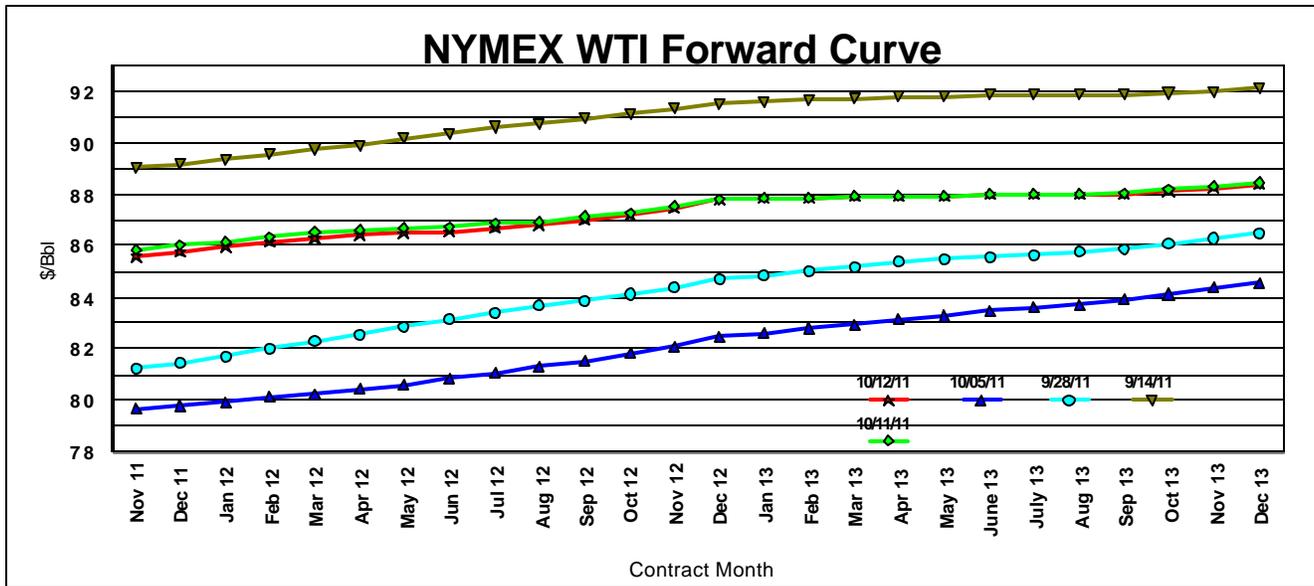
runs are expected to average 75.3 million bpd in the fourth quarter, down 75,000 bpd from its previous estimate.

The EIA, in its latest Short Term Energy Outlook, said that the expected pace of global oil consumption growth for 2011 is slightly lower in this month's outlook. It estimated demand growth of 1.32 million bpd in 2011, down from its previous estimate of 1.37 million bpd. It expects world petroleum consumption to continue growing from its record high level of 87.1 million bpd in 2010 and reach 88.4 million bpd in 2011 and 89.8 million bpd in 2012. It expects non-OPEC production to grow by 500,000 bpd in 2011 to 52.27 million bpd and by 840,000 bpd to 53.11 million bpd in 2012. Meanwhile, OPEC's oil production is expected to fall by 30,000 bpd to 29.74 million bpd in 2011 and increase by 270,000 bpd to 30.01 million bpd in 2012. OPEC's oil production in September increased by 350,000 bpd on the month to 30.35 million bpd. The EIA expects OECD commercial inventories to fall in both 2011 and 2012. Days of forward supply would fall slightly but remain relatively high at 58 days during the fourth quarter of 2010, 57 days during the fourth quarter of 2011 and 56 days during the fourth quarter of 2012. The EIA estimated that US petroleum consumption in 2011 would fall by 230,000 bpd to 18.95 million bpd, down 0.32% from its previous estimate while demand in 2012 would increase by 10,000 bpd to 19.05 million bpd, down 0.21% from its previous estimate. Gasoline demand in 2011 is estimated to increase by 180,000 bpd to 8.81 million bpd, down 0.23% from its previous estimate while demand in 2012 is expected to increase by 40,000 bpd to 8.85 million bpd, down 0.23% from its previous estimate. Distillate demand in 2011 is expected to increase by 40,000 bpd to 3.84 million bpd, down 0.52% from its previous estimate while demand in 2012 is expected to increase by 40,000 bpd to 3.87 million bpd, down 0.77% from its previous estimate. Domestic crude production is expected to increase by 180,000 bpd to 5.65 million bpd in 2011 and by 70,000 bpd to 5.72 million bpd in 2012. Commercial crude inventory levels ended September at an estimated 336 million barrels, down 26 million barrels on the year but 7 million barrels higher than the previous 5 year average. Commercial crude oil stocks are expected to fall to 317 million barrels by the end of 2012. Total gasoline stocks at the end of September was estimated at 214 million barrels, down 5 million barrels on the year but 6 million barrels above the 5 year average while distillate stocks was estimated at 157 million barrels, down 10 million barrels on the year but 7 million barrels above the 5 year average. In regards to prices, the EIA stated that the US refiner average crude oil acquisition cost would average about \$99/barrel in 2011 and \$98/barrel in 2012, down from its previous estimates of \$100/barrel and \$103/barrel, respectively. The price of gasoline is expected to average \$3.52/gallon in 2011 and \$3.43/gallon in 2012 while the price of diesel is expected to average \$3.80/gallon in 2011 and \$3.73/gallon in 2012. The EIA also reported that it expects households heating primarily with heating oil to spend an average of about \$193 more this winter than last winter as a result of a 10% increase in prices and a 1% decline in consumption.

Qatar's Energy Minister Mohammed Bin Saleh Al Sada has ruled out severe short term fluctuations in the oil price. He said he hoped prices would settle at a comfortable level for consumers and producers. He said the market was well supplied and OPEC was watching the market closely and stood ready to offset any shortage in demand.

The head of Kuwait Petroleum Corp, Farouk al-Zanki said that Brent crude at about \$90/barrel to \$100/barrel is acceptable, signaling the company would like to see a decline in prices from their current level.

**October
Calendar Averages
CL - \$81.92
HO - \$2.8394
RB - \$2.6367**



The US warned it would hold Iran accountable after foiling an Iranian plot to assassinate Saudi Arabia's ambassador to the US. US Attorney General Eric Holder said the conspiracy was conceived sponsored and directed from Iran and constitutes a violation of US and international law. US Vice President Joe Biden said Iran would be held accountable and added that the Obama administration is working to unite world opinion behind a possible US response. US Secretary of State Hillary Clinton said the US would consult its allies about how to further isolate Iran. The State Department warned of the possibility of more aggressive focus by the Iranian government on terrorist activity against diplomats from certain countries, to include possible attacks on the US. The US started individual briefings with UN Security Council ambassadors over the allegations. Meanwhile, Saudi Arabia vowed that Iran would be held accountable. The European Union expressed great concern about the allegations and warned of serious implications if the charges are proven. Britain said it would support measures to hold Iran accountable for its actions. The Gulf Cooperation Council condemned the alleged Iranian plot to kill the Saudi envoy to Washington, saying it harms Gulf-Iranian relations. In response, Iranian Foreign Minister Ali Akbar Salehi warned the US against confrontation over accusations Iran plotted to assassinate the Saudi ambassador to the US. He said the US allegations are a mischievous attempt to fuel tension between Iran and Saudi Arabia. He said the US would have to apologize for its words.

Iran's central bank is expected to open accounts with two Indian banks to receive part payment for India's oil imports and use that money to pay for Indian exports. Indian oil firms are expected to pay 20% of their dues to Iran through rupee accounts in India's IDBI Bank Ltd and UCO Bank. Indian oil firms would continue to pay the remaining 80% of their respective dues in euros through Halkbank.

A leading member of the Saudi royal family, Prince Turki al-Faisal said Saudi Arabia's oil reserves still rank as the world's largest, dismissing claims by Venezuela that it had surpassed Saudi Arabia. Venezuela previously stated that its proven crude oil reserves reached 296.5 billion barrels in 2010, up 40.4% on the year and higher than Saudi Arabia's 264.5 billion barrels.

According to a SpendingPulse report, US gasoline demand fell by 0.3% on the week to 8.786 million bpd in the week ending October 7th. Demand was down 2.5% or 226,000 bpd from a year earlier. It reported that the four week demand fell by 2.3% on the year to 8.811 million bpd. Gasoline prices fell 6 cents to \$3.40/gallon, the lowest level since February 25th.

Refinery News

IIR Energy reported that US oil refiners are expected to shut 1.259 million bpd of capacity in the week ending October 14th, up from 1.098 million bpd during the previous week.

Marathon Petroleum Corp said four contractors were exposed to a small amount of hydrofluoric acid during planned work at its 212,000 bpd refinery in Catlettsburg, Kentucky. It said there was no offsite or environmental impact due to the release.

Harvest Pipeline said its Gardendale crude pipeline in the Eagle Ford Shale play of southern Texas is expected to be fully operational by April 2012. It expects to have 350,000-450,000 bpd of pipeline capacity available to Eagle Ford producers once its projects are complete. The Gardendale pipeline is one of three Harvest lines currently under construction in the region. It is expected to provide 250,000 bpd of capacity from Gardendale, Texas to Corpus Christi. Harvest is also constructing a 90,000 bpd line from Falls City, Texas to Three Rivers, Texas where it would connect to Valero's 100,000 bpd Three Rivers refinery. It is also in the process of building a line from Cotulla, Texas to Fowlerton, Texas.

Shell Canada said it restarted a bitumen upgrading unit at its 255,000 bpd facility in Scotford, Alberta on Tuesday but expected no impact to production. The unit was shut for unplanned work on September 28th.

Japan's Idemitsu Kosan Co's planned shutdown of its 160,000 bpd No. 1 crude distillation unit at its Aichi refinery will start this weekend at the earliest.

China's Ministry of Commerce said China would issue fuel oil import quotas to companies that are not state-owned totaling 16.2 million metric tons for 2012, unchanged on the year. In January-August, Chinese companies imported 18.6 million tons of fuel oil, up 19% on the year.

Royal Dutch Shell sold its first cargo of high sulfur gasoil in Singapore on Wednesday since it declared force majeure on product shipments from some customers at its Singapore refinery. It sold 150,000 barrels of gasoil to Glencore for loading on October 27-31.

Production News

Norway's Oil Directorate said the country's oil and gas production will probably remain unchanged over the coming decade. In 2010, Norway's oil production totaled 1.8 million bpd.

Danish Underground Consortium's oil production from Denmark's part of the North Sea fell about 1.6% in September from the previous month. Oil and condensate output fell to 189,100 bpd in September from 192,100 bpd in August. Its natural gas exports increased to 390 million cubic meters in September from 360 million cubic meters in August.

A Kuwaiti union official said about 3,000 Kuwait customs employees ended a two day strike on Wednesday after the Kuwaiti government promised to meet their demands. The strike halted vessel traffic in and out of Kuwaiti ports on Monday, including at least five oil tankers. Meanwhile a spokesman for Kuwait's oil sector, Sheikh Talal al-Khaled al-Sabah said Kuwait's crude and oil product exports were not affected by the ongoing customs workers' strike and added that Kuwait would meet all of its contractual commitments.

Agip KCO said the Kashagan oil field is expected to start operations at the end of 2012.

Ecuador's central bank reported that the country's average oil production increased by 4% to 499,000 bpd between January and August from 480,000 bpd last year. Petroecuador, Petroamazonas and Rio Napo produced an average of 357,000 bpd in the first eight months of the year while private

companies' oil output was 142,000 bpd. The country's total oil production in the first eight months of 2011 was 121.29 million barrels. In August, Ecuador's oil production increased by 1% to 495,500 bpd from 491,500 bpd in July.

A plan to revamp China's current fuel pricing scheme and a new scheme for its natural gas pricing has been submitted to State Council for approval. An industry source said after the new pricing is implemented, refineries will be able to break even or even make small profit, reversing their current loss making situation.

Market Commentary

Crude oil fluctuated on both sides of unchanged as market participants absorb the latest IEA report and continued to mull over current global economic conditions. The latest report by the IEA forecasted demand for the remainder of this year and into the next year to soften by 160,000 barrel per day setting global demand at 1.25 million barrels per day. The spread differential between Brent and WTI widen today as Brent reacted to the release of a proposed solution to Europe's economic woes. Relief regarding the European debit issue supported heating oil on expectations that exports of diesel fuel to that region would increase. Upon examination of the candlestick formation, it appears that buyers and sellers were well balance in the December contract, which settled 28 cents lower on the day. Barring any significant change in inventory numbers, we expect that this market will continue to edge towards the \$90.60 level.

Crude oil: Nov 11 162,396 -30,691 Dec 11 296,222 +13,113 Jan 12 156,528 +9,260 Totals 1,424,634 +4,462 Heating oil: Nov 11 666,588 -6,557 Dec 11 62,694 +901 Jan 12 41,237 +1,926 Totals 295,301 -6,047 Rbob: Nov 11 62,102 -3,449 Dec 11 59,977 +573 Jan 12 34,662 +2,484 Totals 267,303 +3,007

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	84.97				
200-day MA	94.89				

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