

**W** The  
Windham Group



## ***ENERGY RISK MANAGEMENT***

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

**www.e-windham.com**

---

### **ENERGY MARKET REPORT FOR OCTOBER 18, 2011**

---

US Energy Secretary Steven Chu said the price of oil is likely to continue rising in the coming decades due to increasing demand. Demand for oil is expected to increase from 84 million bpd in 2009 to 107 million bpd in 2035.

According to a SpendingPulse report released by MasterCard Advisors, US weekly gasoline demand increased by 2.2% on the week to 8.975 million bpd in the week ending October 14<sup>th</sup>. The increase of 189,000 bpd was the largest since September 16<sup>th</sup>. Demand was down 3.1% from a

#### Market Watch

The US National Hurricane Center said a low-pressure system over central Gulf of Mexico now has a 10% chance of becoming a tropical cyclone during the next 48 hours. The potential for development of the system has decreased as it is expected to merge with a cold front. A few computer models project the system to move over Florida in the next couple of days, posing no threat to the offshore energy infrastructure in the Gulf.

Federal Reserve Chairman Ben Bernanke said policymakers might need to use monetary policy tools to halt asset bubbles from forming in the future even though other methods are preferable.

The US Labor Department said US wholesale prices increased in September, pointing to inflation pressures that could limit the Federal Reserve's leeway in providing more stimulus to a weak economy. The Producer Price Index increased by 0.8% in September as energy prices surged. Wholesale prices were flat in August and increased by 0.2% in July. The core PPI increased by 0.2% in September.

The International Council of Shopping Centers and Goldman Sachs reported that US chain store sales increased 0.1% in the week ending October 15<sup>th</sup> to 516.6.

The National Association of Home Builders said US homebuilder sentiment increased in October to its highest level in a year and a half. The NAHB/Wells Fargo Housing Market Index increased to 18 in October from 14 the month before.

China's economic expansion slowed in the third quarter to its weakest pace in more than two years. China's GDP in the third quarter grew 9.1% on the year, the third consecutive quarterly slowdown in growth following a 9.5% growth in the second quarter and 9.7% in the first quarter. China's inflation ran at an annual pace of 6.1% in September, down from its three-year highs of 6.5% in July and well over its 2011 official target of 4%. Meanwhile China's industrial production increased by 13.8% on the year in September, up from a 13.4% annual increase in August.

German investor morale fell to its lowest level in nearly three years in October. The Zew think tank's monthly survey showed economic sentiment fell to -48.3 from -43.3 in September. It was the eighth consecutive decline and lowest level since November 2008.

Germany's Chancellor Angela Merkel expects European leaders to produce a work plan for Greece at an October 23<sup>rd</sup> summit, possibly including a permanent troika mission to monitor its debts. She said the summit should find ways to ensure the euro zone rescue fund is used effectively. She said European leaders would make an important step at the upcoming summit but further steps would be necessary.

Moody's warned it may give a negative outlook on France's Aaa credit rating in the next three months if the costs for helping bail out banks and other euro zone members stretch its budget too much. It said France's progress on fiscal and economic reforms as well as potential adverse developments in financial markets or the economy will also be taken into account under the review. France now has less room to stretch its finances than it did during the financial crisis of 2008.

The IntercontinentalExchange has not taken any action to impose fixed position limits on its European gasoil contract six months after it first announced the move. In April, the exchange said it was in discussion with market participants about restricting the volume in a single party could hold in its gasoil contract.

Goldman Sachs Group Inc's commodities trading risk fell sharply in the third quarter as it reported weaker than expected earnings. Value at Risk for commodities at Goldman Sachs averaged \$25 million per day in the third quarter compared with \$39 million in the second quarter and \$29 million in the third quarter of 2010.

year ago. The four-week demand fell 2.3% from a year ago to 8.828 million bpd. It reported that the price of gasoline increased by 2 cents to \$3.42/gallon, the first increase since September 9<sup>th</sup>.

The chief economist of the IEA, Fatih Birol said the world needs to spend \$38 trillion on energy infrastructure in the next 25 years. He said more than 50% of the expenditure needs to go on fossil fuels, \$10 trillion on oil, \$9.5 trillion on gas and \$1.1 trillion on coal. He added that \$16.9 trillion needs to be spent on electricity infrastructure. He said the Arab Spring has disrupted investment plans in oil and gas projects as some governments in the region has shifted their focus to meet increasing demands from their population.

Canada's Energy Minister is concerned by European Commission move to include oil sands in fuel quality directive. He said many European firms are heavily invested in oil sands.

The Commodity Futures Trading Commission published details of its position limits rule that would cap the number of futures and swaps contracts that a single trader can hold. The rule covers 28 commodities from coffee to crude to copper, including nine crop markets that were already subject to limits, using a predetermined formula based on deliverable physical supply or open interest in the market. It includes for the first time contracts in the swaps market. All the rules would be phased in over time, with the final limits for all contract months set only after the agency has collected a year's worth of swaps data. It voted in a \$50 million minimum net capital requirement for firms to become members of clearinghouses. One key change relaxed the requirement that big commodity players aggregate all the positions held by any hedge funds or subsidiaries in which they have a stake. Instead, it retains the independent account controller regime currently in place, which views separately run trading books independently. Another eliminates a proposed conditional limits measure that would have allowed speculators in commodity markets that are settled in cash to accumulate positions of five times the limit for similar physical delivery contracts. The CFTC voted in favor of a measure to extend the effective date for some of its most contested regulations until July 16, 2012 or until the rules are finalized from December 31, 2011.

Separately, the CFTC's commissioner Dunn said there was no evidence given to the agency to support the contention that excessive speculation is affecting the market. He said position limits would not cause heating oil or gasoline prices to drop.

Armed men attacked a ship near an ExxonMobil Corp platform off Nigeria. The attack occurred on Monday near the platform off Nigeria's Akwa Ibom state.

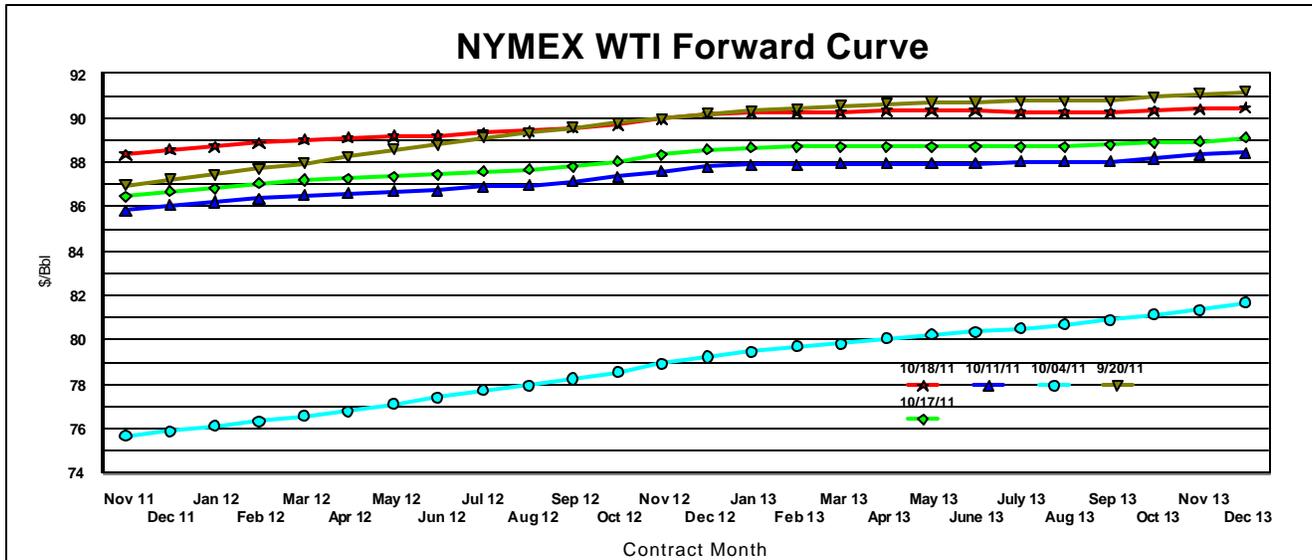
The Institute for Science and International Security, a US think tank said that while Iran's nuclear program is struggling with low performing enrichment equipment, it would still be able to produce material that could be used for nuclear weapons. It said tougher sanctions could make it more difficult for Iran to obtain key parts for its uranium enrichment work. It said Iran's main enrichment complex at Natanz is unlikely to ever produce enough low enriched uranium for nuclear power reactor the size of Bushehr.

### **Refinery News**

Sunoco Inc restarted a fluid catalytic cracking unit at its 178,000 bpd refinery in Marcus Hook, Pennsylvania following unplanned work on the unit. The crude distillation unit and reforming unit shut in early October are expected to be back on line by Wednesday.

ConocoPhillips is in the process of restarting a production unit at its 147,000 bpd Wilmington, California refinery. Trade sources said a hydrotreating unit was shut on October 10<sup>th</sup> due to a small fire.

<p style="text-align: center;"><b>October Calendar Averages</b> CL - \$83.42 HO - \$2.8987 RB - \$2.6805</p>
--



Valero Energy Corp's 88,000 bpd Houston, Texas refinery was impacted by a brief power interruption on Tuesday morning. Power was quickly restored at the refinery along the Houston Ship Channel and Valero was assessing the outage's impact on production.

Enterprise Products Partners LP is beginning service of a new NGL fractionator in Mont Belvieu. The unit would increase total nameplate capacity at its Mont Belvieu facility to 380,000 bpd.

India's Mangalore Refinery and Petrochemicals Ltd operated 236,000 bpd refinery in the coastal city of Mangalore in southern India is operating normally following an accident. It is expanding its capacity at the refinery to 300,000 bpd.

China's implied oil demand slowed further in September to its lowest level this year as Chinese economic growth slows and tightening credit cuts into fuel spending. The country's implied oil demand increased by 1% on the year in September to about 8.9 million bpd.

China's National Bureau of Statistics reported that the country processed 36.1 million metric tons or 8.81 million bpd of crude in September, up 1.5% on the year and 1.4% on the month. China produced 13.32 million tons of diesel in September, up 1.8% on the year and 6.87 million tons of gasoline, up 9.1%. Its fuel oil output fell by 25.5% to 1.43 million tons while its kerosene output was 1.62 million tons, up 8.3%. China's natural gas production in September was 7.87 billion cubic meters, up 5.2% on the year.

A ship carrying 1 million barrels of Sarir crude purchased by Austria's OMV AG is expected to arrive at the Italian port of Trieste in the next few days. The ship is carrying 1 million barrels of Libyan crude oil purchased from Libya's Arabian Gulf Oil Co.

According to Joint Data Initiative, Iran's gasoline imports have declined by as much as 95% over the last four years, as rising refinery capacity and lower fuel subsidies help neutralize western sanctions. Gasoline imports have declined from 204,000 bpd in June 2007 to 10,000 bpd in June 2011. The share of imports in Iran's gasoline supplies has fallen from about 40% a few years ago to less than 5% due to fuel rationing, a four-fold pump price increase and Iran's increasing ability to refine its own oil. According to the Iranian government, Iran's daily gasoline consumption had declined from about 76 million liters/day in 2006 to about 60 million liters/day or 376,931 bpd in early October 2011.

Jordan Petroleum Refinery is seeking 300,000 tons of high sulfur gas oil for the first half of next year.

Western arbitrage inflows of fuel oil to Asia for November are expected to be at above average volumes of about 4 million tons but short of on-specification cargoes, for a second consecutive month.

Industry sources said increasing domestic fuel consumption would leave less heating oil and diesel for Japan to export from November. The onset of winter and work to rebuild part of the country following the earthquake and tsunami are increasing demand for middle distillates. Tighter exports from Japan could increase regional prices for middle distillates and make it more expensive for European buyers to import Asian products. Official data showed that Japan's exports of diesel fell by over 75% to 85,000 bpd in the week ending October 8<sup>th</sup>.

### **Production News**

Two cargoes of North Sea Forties crude for October loading have been delayed to November despite the Buzzard oil field resuming normal operations. Cargo F1010, which was due to load on October 14-16, is now scheduled to load November 2-4 while cargo F1022 was believed to have been moved to early November. Two Forties cargoes for October loading and one for November loading have already been cancelled and at least one other October cargo has been deferred to November.

The chairman of Libya's National Oil Co, Nuri Berruien said Zueitina Oil Co has become the latest Libyan oil company to restart crude production and is now pumping about 30,000 bpd. Production at Zueitina resumed about two weeks ago and has now reached about half its pre-war level of 60,000 bpd. Libya is currently producing about 25% of its pre-war output of 1.6 million bpd.

Meanwhile, a strike at Waha Oil, a US joint venture in Libya, has resumed after an initial agreement between the workforce and the state oil company chief was overturned by the government.

More exports of Libyan crude are slowly moving to the market as the country increases its production. China's Unipac was the latest company to purchase Libyan crude, buying two cargoes of 1 million barrels each for delivery at the end of October.

Wintershall restarted one fifth of its former total oil production or 20,000 bpd in Libya after abandoning its operations there in February.

According to the Joint Organization Data Initiative, oil production in Saudi Arabia increased by 1.6% in August to 9.756 million bpd from 9.606 million bpd in July. Saudi Arabia exported 7.378 million bpd of crude oil and condensate in August, up from 7.189 million bpd in July.

Iraq's Prime Minister Thamer Ghadhban said the country's crude oil production is expected to reach 3 million bpd by the end of October from the current 2.9 million bpd. He said Iraq would add some 500,000 bpd by the end of 2012 to its crude oil production, bringing its total output to 3.5 million bpd.

According to India's government, the country's crude oil output in the current fiscal year is likely to increase 1.3% to 38.19 million tons or 763,800 bpd, down from last year's 11.87% growth. The increase in crude production in the year through March 2012 will be led by higher production at Cairn India Ltd's onland block in the northwestern state of Rajasthan. India's natural gas production this fiscal year is expected to fall by 1% to 51.68 billion cubic meters due to a decline in production at Reliance Industries Ltd's D6 block in the eastern offshore Krishna-Godavari basin. The government also estimated that India's refining capacity is estimated to reach 232.30 million tons or 4.65 million bpd by March 2012 from 193.4 million tons or 3.87 million bpd. The refinery throughput is seen at 164.85 million tons or 3.3 million bpd.

Azerbaijan's State Statistics Committee said its production of oil and condensate fell in January-September 2011. Oil and condensate production in Azerbaijan in the first nine months of the year fell

8% on the year to 35.47 million tons. Production of refined oil products in January-September 2011 was 4.8 million tons, up from 4.7 million tons in the same period of 2010.

Nigeria plans to reduce the benchmark oil price used for its 2012 budget to \$70/barrel from \$75/barrel due to volatile oil prices.

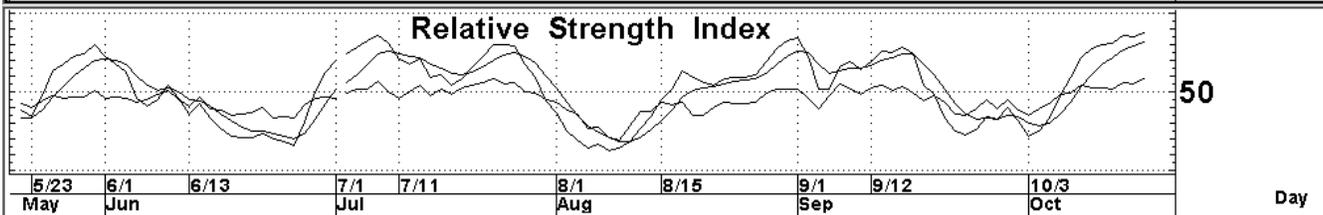
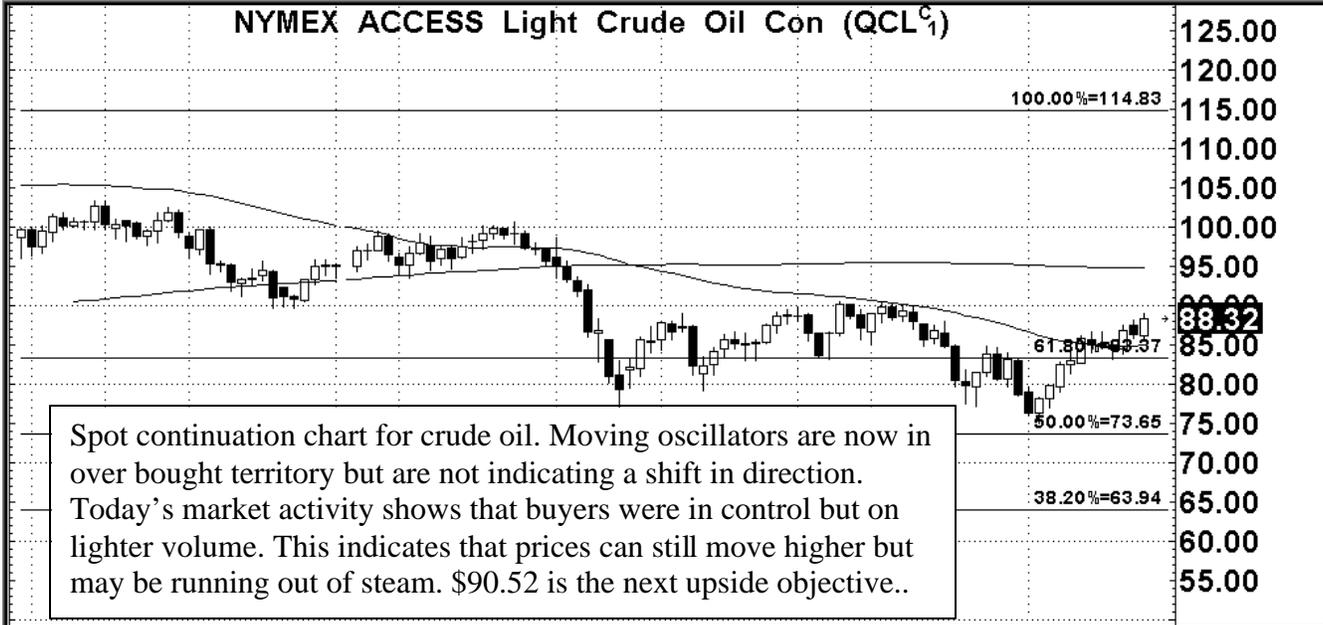
### **Market Commentary**

Early morning trade was pushed lower by news that China's economy is showing signs of weakening. China's economy grew by 9.1percent, just below the expected 9.2. This is the slowest expansion the Chinese economy has seen since the second quarter of 2009. Losses were erased after a U.S. report indicated that producer prices increased 0.8 percent. Expectations were calling for an increase of 0.2. Brent ignored the news out of China, settling the session up 99 cents. Industrial production in China should continue to take a seasonal break, further slowing demand in that region. Choppy trading patterns will continue as long as economic uncertainty persists. It appears that buyers had the upper hand today. The November contract is poised to test the \$90.52 resistance level prior to expiring.

Crude oil: Nov 11 69,568 -25,752 Dec 11 354,298 +8,555 Jan 12 171,323 +3,301 1,431,701 -6,172  
 Heating oil: Nov 11 55,402 -4,424 Dec 11 65,079 +1,171 Jan 12 45,454 +1,679 Totals 293,109 -  
 2,058 Rbob: Nov 11 49,235 -5,000 Dec 11 72,267 +4,978 Jan 12 39,874 +304 Totals 274,477 -879

Crude Oil		Heating Oil		Rbob	
Support	Resistance	Support	Resistance	Support	Resistance
8507	9052	26975	32777	24670	33369
8337	9122	26680	33370	24240	35915
7570	9443	27375	33510	23631	36310
7487	9726	23685		23414	
7365	9872	22960			
6970	10071				
6423					
6394					
<b>50-day MA</b>	<b>85.07</b>				
<b>200-day MA</b>	<b>94.78</b>				

# NYMEX ACCESS Light Crude Oil Con (QCL<sup>c</sup>)



The information contained in this letter is taken from sources, which we believe to be reliable, but is not guaranteed by us as to accuracy or completeness and is sent to you for information purposes only. The Windham Group bases its market recommendations solely on the judgment of its personnel. Reproduction in whole or part or other use without written permission is prohibited.