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ENERGY RISK MANAGEMENT

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ENERGY MARKET REPORT FOR OCTOBER 23, 2009

Iran on Friday faced a new nuclear deadline Friday and new international pressure to agree on a uranium enrichment deal brokered by the UN's IAEA. Iran has given mixed signals over whether it is ready to send virtually all of its uranium abroad. Iran's envoy to the IAEA, Ali Asghar Soltanieh, called the proposal positive but it was not clear whether top officials in the hardline Iranian regime would approve the proposal. Iran's representative to the IAEA, Ali Asghar Soltanieh said Iran will reply next week. The IAEA said it hoped Iran will provide a positive response next week, when it responds to the deal on its nuclear program. Meanwhile, Russia's Foreign Minister Sergei Lavrov said Russia has agreed to a proposal by the UN's IAEA to help reduce Iran's stockpile of low-enriched uranium.

Market Watch

The US National Hurricane Center said a low pressure system extending over eastern Cuba, Jamaica, Haiti and the Dominican Republic has little chance of developing into a tropical cyclone over the next 48 hours. The system will most likely move slowly west-northwest with no significant development.

Deutsche Bank energy economist Adam Sieminski said oil prices may reach \$100/barrel sometime in the next two quarters as the US dollar weakens against the euro. He said if the dollar weakens further to \$1.60 against the euro, oil prices could rally to the triple-digit level. He said that oil prices at \$80/barrel is not high enough to derail the global recovery, however the economics team would start looking for weaker overall consumption at \$100/barrel. Deutsche Bank has kept its 2010 oil price outlook at an average \$65/barrel.

Total chief executive Christophe de Margerie warned of an oil supply crunch if environmental policies deter investment in oil and gas before sufficient alternatives are in place.

Barclays Capital said the three year historical data on positions held by swap dealers, money managers and others in US commodities do not support calls for more regulation against speculators, particularly in oil. It said the new data showed swap dealers did not increase their positions in crude oil when the market rallied last year. The new data showed swap dealers' net positions in crude never exceeding 4.5% of the market's total open interest since 2006 and often moving in opposite direction to prices. It said swap dealer positions actually declined when oil reached record highs in 2008.

According to Reuters, the CFTC's disaggregated Commitment of Traders report shows that swap dealers have more than doubled their gross position from 640,000 contracts to 1.4 million contracts. Swap dealers now account for more than one in every three futures and options position on the NYMEX, up from 28% three years ago. Most of the growth in swap dealers' positions has come in the form of increased exposure to time spreads rather than outright longs or shorts. Spread positions have increased more than 1.5 times from 395,000 contracts to 1.051 million contracts while combined long and short positions have remained relatively unchanged at about a third of this amount or 300,000-400,000 contracts. If swap dealers' position of 1.4 million contracts is combined with managed money funds, with 604,000 contracts, and other reportables, with 698,000 contracts, financial players' combined positions or 2.7 million contracts outnumber traditional market users by a ratio of 3:1.

France confirmed it approved proposals from the IAEA that aim to break the deadlock on the Iranian nuclear program. The US however is still awaiting Iran's formal response to the proposal. Earlier this week, the UN's IAEA Mohamed ElBaradei set a Friday deadline for Iran, France, Russia and the US to give their formal approval to an arrangement under which Russia would further enrich Iranian low-enriched uranium in Russia. Russia would enrich the material to the 19.75% needed to use it in a research reactor that makes radio-isotopes for medical use.

**October
Calendar Averages**
CL – \$75.03
HO – \$1.9349
RB – \$1.8719

The official IRNA news agency reported that IAEA inspectors will depart for Iran on Saturday to inspect Iran's second uranium enrichment plant near the holy city of Qom. The IAEA staff will stay for two or three days. The Qom plant is being built inside a mountain and the inspection scheduled to occur on Sunday was fixed during a recent visit to Iran by IAEA chief Mohammed ElBaradei.

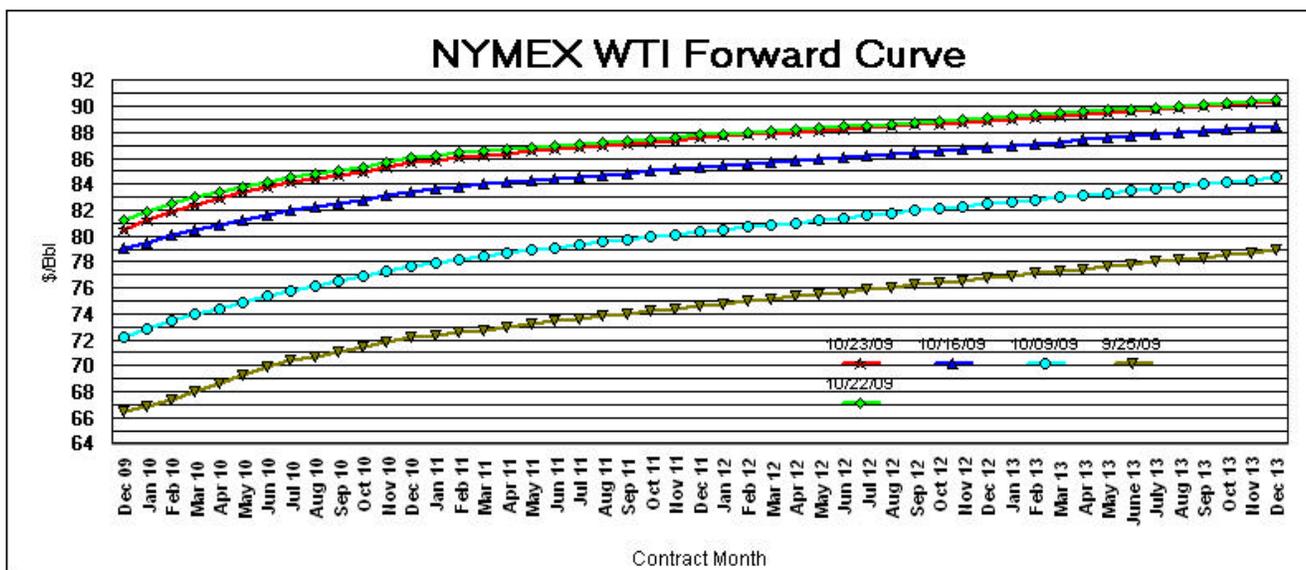
The US Commodity Futures Trading Commission chairman Gary Gensler said US House proposals to regulate the over-the-counter derivatives market should be improved to ensure that hedge funds and financial firms are required to clear their swaps. He said the bills approved by two Congressional committees may not go far enough because they only regulate swap trades between derivatives dealers and major market players. He expressed concern that hedge funds and other financial firms may not be subject to some of the clearing requirements because they would not be considered to be major market players in the two US House bills. He said the bills create a somewhat narrow definition of major swap participants, which may not capture the thousands of hedge funds that use the markets.

Refinery News

Valero Energy Corp said it is shutting a 36,000 bpd hydrocracker at the west plant of its 315,000 bpd Corpus Christi, Texas refinery to fix a leak. The unit was originally shut due to a small fire on October 7th then began restarting last Sunday before the latest outage. There is no estimate on how long the repair work will last.

ConocoPhillips will shut a fluid catalytic cracking unit and hydrofluoric acid alkylation unit at its Train, Pa refinery for maintenance after deciding to delay a broader turnaround of the refinery to 2011 from early 2010. It is expected to shut the units possibly within the next several weeks.

Lyondell Basell said operational issues in a processing unit were causing flaring at its 270,000 bpd Houston, Texas refinery on Friday. The company declined to identify the unit in question.



Tesoro Corp plans to restart a crude distillation unit at its 58,000 bpd refinery in Salt Lake City, Utah on Friday. The unit was shut on Wednesday afternoon due to a power outage.

South Korea's Korea National Oil Corp said the country's crude imports in September fell by 1.6% on the year to 67.99 million barrels or 2.266 million bpd due to a slow economy and refinery maintenance. Domestic oil product demand in September fell by 2.6% on the year to 60.01 million barrels. South Korea's private crude stocks at the end of September fell by 3.5% from a year earlier to 65.34 million barrels. Average crude oil stocks in the January to September period this year stood at about 70.35 million barrels.

Russia's Transneft said Russia's oil pipeline to China is due to be completed by the end of 2009 and users will be charged an export tariff of \$30-\$35/ton to deliver crude via the pipeline. The first stage of East Siberian-Pacific Ocean pipeline will have capacity to move 30 million tons/year or 600,000 bpd from the town of Taishet to Skovorodino, from where a spur will run to the Chinese border. Transneft is set to start the second stage of the link's construction to the seaport of Kazmina next year. The second link is planned to be finished in 2014 and until then, oil will be shipped to the Pacific Ocean coast by rail.

Production News

Mexico's Pemex said its crude oil production averaged 2.61 million bpd in the first nine months of the year, down 7.6% on the year. Crude oil production in September increased to 2.6 million bpd from 2.54 million bpd in August but fell from 2.72 million bpd reported last year. Pemex's crude exports in the first nine months of the year averaged 1.22 million bpd, down 13% from the 1.4 million bpd in the same period last year. Crude exports increased to 1.13 million bpd in September from 1.1 million bpd in August and 1.06 million bpd last year.

Brazil's Mines and Energy Minister Edison Lobao said the country will more than double its production of ethanol over the next 10 years from 27 billion liters to 64 billion by 2017. He made the comment during a ceremony ratifying the government's decision to increase the percentage of biodiesel mixed with diesel fuel to 5% in January.

OPEC's news agency reported that OPEC's basket of crudes increased to \$77.61/barrel on Thursday, up from Wednesday's \$76.37/barrel level.

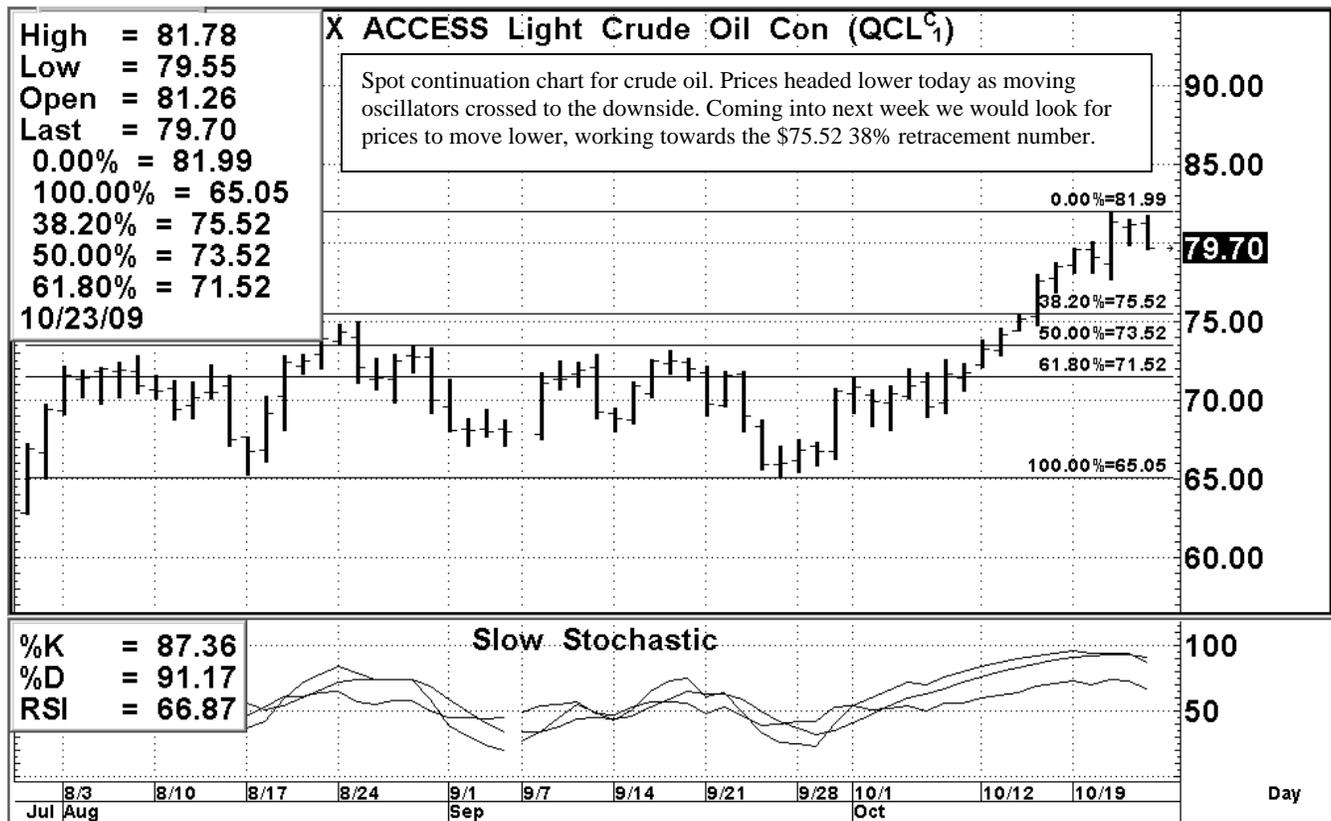
Market Commentary

Crude oil settled lower on the day as financial investors took profits prior to the weekend. The dollar gained again today against a basket of currencies as the equities markets posted declines, further influencing today's market sell-off. Traders were expecting that signs of an economic recovery would bring about demand but this has yet to materialize. While inventory levels have declined, demand has also fallen. The market sold off after the floor session closed and the stock market settled lower on the day. Technically, there appears to be more downside potential, as the slow stochastics crossed to the downside. We would look for the December contract to work lower with an attempt at \$75.52, the 38% retracement between the range of \$81.00 and \$65.05. Today's sell-off brought with it a wave of selling in the December \$85, \$90 and \$100 option calls. Calls are bets that a commodity will rise above the strike price. The selling of these strike prices indicates uncertainty that this market will be able to sustain its strength. In yesterday's wire we referenced buying the \$80 put and selling the \$75 put. This play settled at \$1.69 yesterday and \$1.81 today. We suggested risking \$1.50 with hopes of gaining \$3.50. This option play still appears to be profitable for anyone wishing to take advantage of a market sell-off.

The latest Commitment of Traders report showed that non-commercials in the crude market increased their net long position by 5,547 contracts to 74,383 contracts in the week ending October 20th. The

combined futures and options report showed that non-commercials increased their net long position by 12,149 contracts to 163,780 contracts on the week. The funds increased their total long position by 28,345 contracts to 284,762 contracts on the week. The disaggregated report showed that producers/merchants increased their net short position by 5,951 contracts to 191,973 contracts while swap dealers cut their net long position by 10,416 contracts to 112,814 contracts. Managed money increased their net long position by 19,395 contracts to 130,712 contracts while other reportables increased their net short position by 13,848 contracts to 56,329 contracts and nonreportables switched from a net short position of 6,044 contracts to a net long position by 4,776 contracts. Meanwhile, the combined futures and options report also showed that non-commercials in the product markets also increased their net long position. Non-commercials in the heating oil market increased their net long position by 2,685 contracts to 37,956 contracts while non-commercials in the RBOB market increased their net long position by 21,416 contracts to 62,060 contracts on the week.

Crude DEC.09 366,506 +6,700 JAN.10 152,778 +3,595 FEB.10 61,726 -1,024 MAR.10 48,366 +1,735 APR.10 21,300 -1,384 Totals: 1,228,682 +14,385. Heating NOV.09 29,696 -3,744 DEC.09 83,437 +2,674, Jan.10 52,266 +2,641 FEB.10 22,375 +288 MAR.10 18,115 +103 Totals: 317,330 +271 Gasoline NOV.09 31,852 -2,686 DEC.09 90,755 +3,420 JAN.10 45,358 +2,632 FEB.10 16,763 -12 MAR.10 16,335 -68 Totals: 240,246 +2,839.



Crude Support	Crude Resistance
77.60, 76.24, 75.00, 64.70, 63.38, 62.70, 61.61, 60.95	84.83, 85.40, 86.60, 88.80
Heat Support	Heat resistance
2.0535, 1.9740, 1.8570, 1.7670	2.2110, 2.2575, 2.4200
Gasoline support	Gasoline resistance
1.9901, 1.9650, 1.8840, 1.8730	2.1100, 2.1600, 2.3350

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