

ENERGY RISK MANAGEMENT

Howard Rennell, Pat Shigueta,

& Karen Palladino

(212) 624-1132 (888) 885-6100

www.e-windham.com

ENERGY MARKET REPORT FOR NOVEMBER 9, 2010

The EIA stated in its Short Term Energy Outlook that growth in global oil demand remains strong. It increased its demand growth estimate to 2 million bpd to 86.33 million bpd in 2010, up from its previous demand growth estimate of 1.73 million bpd. World oil demand in 2011 is estimated to increase by 1.44 million bpd to 87.77 million bpd. The EIA also stated that most of the 1 million bpd projected growth of non-OPEC supply in 2010 comes from the US, Brazil, and the former Soviet Union. Non-OPEC supply is estimated to total 51.47 million bpd in 2010 and fall by 250,000 bpd to 51.22 million bpd in 2011. It estimated that OPEC oil production will increase by 310,000 bpd to 29.41 million bpd in 2010 and increase by 520,000 bpd to 29.93 million bpd in 2011. Commercial oil inventories held by OECD countries stood at an estimated 2.76 billion barrels or 60 days of forward supply at the end of the third quarter of 2010. The EIA reported that US petroleum demand in 2010 and 2011 is expected

Market Watch

The US Commerce Department said inventories at US wholesalers increased in September more than twice as much as expected. Wholesale inventories increased by 1.5% to a seasonally adjusted \$416.95 billion. Sales of distributors increased by 0.4% to \$353.88 billion.

The US Labor Department said in its monthly Job Openings and Labor Turnover Survey that job openings fell by 163,000 to a seasonally adjusted 2.9 million. August job openings were downwardly revised to 3.1 million. In September, the job openings rate fell to 2.2% from 2.3% in August.

The National Federation of Independent Business said its small business index for October increased by 2.7 points to 91.7, the third consecutive monthly increase. It said small business owners continued to liquidate inventories and weak sales trends gave little reason to order new stock.

China signaled its intention on Tuesday to tighten its monetary by unexpectedly increasing the yield on bills at a central bank auction and announcing new rules to curb inflows. One of the measures directed against inflows, requiring banks to hold a minimum amount of dollars overnight, sparked a day of unprecedented yuan volatility, with the Chinese currency ending sharply higher against the dollar.

BarclayHedge said Commodity Trading Advisors saw global assets under management increase by 9% in the third quarter to \$245.9 billion from \$223.4 billion in the second quarter. It said the average CTA had returned 2.5% over the quarter while the largest CTAs had averaged a return of 3.7%. Meanwhile Eurekahedge Pte reported that hedge fund assets exceeded \$1.6 trillion, reaching the highest level in more than two years, as managers returned an average of 2.3% last month and up 7.3% for the year.

According to PricewaterhouseCoopers, the total value of US oil and gas sector mergers and acquisitions valued at over \$50 million increased by nearly 20% during the third quarter. The study counted 39 announced deals valued at \$17.6 billion during a quarter dominated by the movement of oil and gas producing assets. So far this year, there have been 141 deals worth more than \$50 million with a total value of \$100.4 billion.

API Stocks

Crude – down 7.398 million barrels
Distillate – down 3.995 million barrels
Gasoline – down 3.448 million barrels
Refinery runs – up 3.1% at 84.3%

to increase by 270,000 bpd to 19.04 million bpd and by 120,000 bpd to 19.16 million bpd, respectively. Its estimates for 2010 and 2011 were both up 70,000 bpd or 0.37% from its previous estimate. Gasoline demand in 2010 is expected to increase by 30,000 bpd to 9.03 million bpd while demand in 2011 is expected to increase by 50,000 bpd to 9.08 million bpd. Distillate demand in 2010 is expected to increase by 120,000 bpd to 3.75 million bpd while demand in 2011 is expected to increase by 30,000 bpd to 3.78 million bpd in 2011. US oil production is expected to increase by 140,000 bpd to 5.5 million bpd in 2010 while production in 2011 is estimated to fall by 40,000 bpd to 5.46 million bpd. The EIA reported that the price of WTI crude is expected to average \$83/barrel this winter, up \$5.50/barrel from last winter and up \$3/barrel from its previous estimate. It expects gasoline retail prices to average \$2.84/gallon this winter, up 19 cents on the year while retail diesel fuel prices are expected to average \$3.09/gallon this winter, up 29 cents on the year.

In its 2010 World Energy Outlook, the IEA raised its mid and long term oil price forecast despite cutting oil demand growth estimates by 2035. It said oil prices will exceed \$200/barrel in 2035. It said world oil supplies will come close to a peak by 2035 when oil prices exceed \$200/barrel as China and other emerging economies drive demand higher. The IEA expects conventional crude output to flatten out in the next 10 years. The IEA cut its world oil demand estimate for the next 25 years by 6 million bpd to 99 million bpd. The IEA said OPEC will make up more than half of world oil supplies within the next 25 years. It said OPEC's rising share of oil supply would be driven by output growth in Iraq and Saudi Arabia while non-OPEC output would fall. It estimates Iraq's oil output at 7 million bpd in 2035 compared with its current level of 2.4 million bpd and estimates Saudi Arabia's oil production at 14.6 million bpd compared with its current level of 8.3 million bpd. The IEA also stated that eliminating fossil fuel subsidies would increase the global economy, environment and energy security. Eliminating fossil fuel consumption subsidies by 202 would cut global energy demand by 5% and reduce carbon emissions by nearly 6% by then.

Qatar's Oil Minister Abdullah bin Hamad al-Attiyah said production quotas are unlikely to be changed when OPEC meets next month. Separately, Algeria's Energy Minister Youcef Yousfi said oil prices are reasonable and relatively comfortable for both producers and consumers.

White House oil spill commission co-chair Bill Reilly said major systematic changes to the oil industry are necessary to prevent big oil spills. He said the industry will need to create a self regulating organization that can set drilling standards.

The National Hurricane Center said a low pressure system in the Caribbean Sea 100 miles north of Aruba and Curacao had just a 10% chance of developing into a tropical cyclone during the next 48 hours. The system was producing disorganized showers and thunderstorms over the central and northeastern Caribbean however environmental conditions were only marginally favorable for development.

According to a SpendingPulse report by MasterCard Advisors, US weekly gasoline demand fell by 0.4% or 39,000 bpd to 8.986 million bpd in the week ending November 5th. In the last four weeks, demand averaged 9.091 million bpd, down 2% or 182,000 bpd on the year. It reported that the US retail price of gasoline was unchanged at \$2.80/gallon.

October
Calendar Averages
CL – \$85.52
HO – \$2.3516
RB – \$2.1516

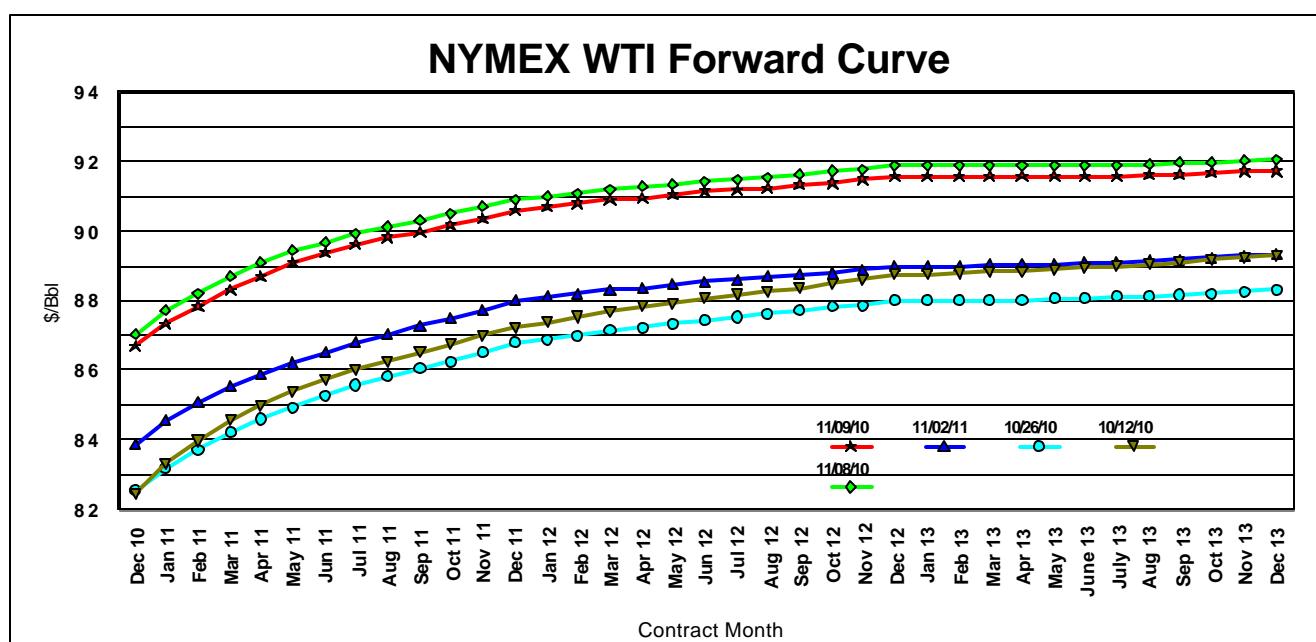
Euroilstock reported that total oil and product inventories in October increased by 0.8% on the month but fell by 0.3% on the year to 1.128 billion barrels. It reported that crude oil inventories in October increased by 2.3% on the month and by 0.2% on the year to 470.85 million barrels while gasoline

stocks increased by 0.8% on the month but fell by 5.1% on the year to 112.71 million barrels and middle distillate stocks fell by 0.4% on the month and by 2.2% on the year to 399.98 million barrels. Fuel oil stocks fell by 0.3% on the month but increased by 5.9% on the year to 111.41 million barrels and naphtha stocks fell by 3.8% on the month but increased by 16.9% on the year to 33.44 million barrels. It reported that crude intake in October fell by 8.8% on the month and by 4.5% on the year to 10.156 million bpd. Capacity utilization fell to 85.52% in October from 85.8% in September.

Iran said it was ready to hold talks in Turkey in late November or early December. In a letter, Iran's chief nuclear negotiator, Saeed Jalili, told European Union foreign affairs chief Catherine Ashton that he was ready to meet in Istanbul on November 23rd or December 5th. He did not state what the discussions would focus on. Earlier, Iran's Foreign Ministry spokesman Ramin Mehmanparast said Iran will not discuss its nuclear program in the proposed meeting.

Nigeria's President Goodluck Jonathan invited the country's labor unions Tuesday for emergency talks aimed at averting a nationwide strike over a new national minimum wage for workers. The Nigerian Labor Union, which represents blue-collar industrial workers and the Trade Union Congress, which represents white collar employees said they would begin a three day warning strike Wednesday over the government's alleged refusal to implement the monthly minimum wage of 18,000 naira.

Nigeria's main militant group, the Movement for the Emancipation of the Niger Delta said it was responsible for an attack on an Afren oil rig late on Sunday and that it was holding crew members kidnapped from the facility.



In two separate lawsuits, meat producers, restaurant chains and oil companies are all challenging the US EPA's decision to increase the amount of ethanol that can be blended into gasoline. They said the EPA acted illegally when it made its decision in October to increase ethanol levels in gasoline from 10% to 15%. A lawsuit filed by the Grocery Manufacturers Association, the American Meat Institute and the National Council of Chain Restaurants said the EPA cannot allow higher levels of ethanol for new cars while continuing to study its effect on older vehicles. They also contend that increasing the use of ethanol in cars will increase corn prices and make food more expensive. Meanwhile a lawsuit filed by the API said the EPA should have waited to rule on the issue until certain tests are completed.

Refinery News

Coffeyville Resources reported emissions due to repairs at its 115,700 bpd refinery in Coffeyville, Kansas.

The National Cooperative Refinery Association restarted its 80,000 bpd refinery in McPherson, Kansas over the weekend following routine turnaround that started on October 1st.

China's Sinopec Corp plans to increase its crude runs at its 462,000 bpd Zhenhai refinery in eastern China to 1.8 million metric tons in November from 1.77 million tons in November to produce more diesel to ease a supply shortage. In addition to the 10,000 ton increase in diesel production at Zhenhai the crude run increase implies the company will reduce its jet fuel production to increase diesel output by a further 20,000 tons. Sinopec also plans to cut petrochemical production and increase diesel output at its Maoming refinery in Guangdong province, increasing diesel output by 60,000 tons compared with an originally planned 347,000 tons in November.

Japan's Idemitsu Kosan Co plans to shut one of its four crude distillation units in 2011 for scheduled maintenance. It is scheduled to shut its 220,000 bpd crude distillation unit at its Chiba refinery from April-May 2011.

Tokyo Electric Power Co more than halved its oil consumption for power generation from a year earlier. Its crude oil consumption fell by 68.3% on the year to 26,000 kiloliters while its fuel oil consumption fell by 60.7% on the year to 94,000 kiloliters. Its LNG consumption fell by 5.3% on the year to 1.406 million tons while its coal consumption fell by 55.5% on the year to 142,000 tons.

Production News

The Norwegian Petroleum Directorate said Norway's oil production in October increased to a preliminary average of 1.87 million bpd, up from 1.83 million barrels in September. It also reported that Norway produced 9.3 billion standard cubic metres of natural gas in October from 5.7 bcm in September. Production of NGL and condensate increased to a preliminary 365,000 bpd in October from 239,000 bpd in September.

The December loading program for North Sea Brent crude is scheduled to load 4.2 million barrels, down 600,000 barrels from November. The volume is equivalent to 135,484 bpd, down from 160,000 bpd in November.

The North Sea Forties crude oil stream is scheduled to load about 16.2 million barrels or 523,000 bpd in December, up from 520,000 bpd in November. The December program for North Sea Oseberg crude is scheduled at 5.4 million barrels, up 600,000 barrels from November. It is equivalent to 174,194 bpd compared with 160,000 bpd in November. The December program for North Sea Gullfaks crude is scheduled at 6.84 million barrels, down 855,000 barrels on the month. It is equivalent to 220,645 bpd compared with 256,500 bpd in November. The December program for North Sea Flotta crude is scheduled to load 3.25 million barrels, up 1.3 million barrels on the month. It is equivalent to 104,839 bpd compared with 65,000 bpd in November.

Azeri Light oil exports will increase by over 1 million barrels in December. Traders said Azeri Light crude deliveries from Turkey's port of Ceyhan will increase in December to 25.3 million barrels from 24 million barrels in November. The increase in exports comes after exports of Azeri Light crude outside Europe from the November program almost halved from October to 4.5 million barrels because of higher freight rates and wide Dubai-Brent spread.

The Baku-Tbilisi-Ceyhan oil pipeline is expected to pump 25.3 million barrels of crude in December, up 2.05 million barrels on the month. December loadings will amount to 816,129 bpd compared with 775,000 bpd in November.

Brazil's Petrobras will not meet its 2010 oil output target of 2.1 million bpd at its operations in Brazil. It said its output this year will be more than 2.5% under target due to a higher than expected number of programmed stoppages at production rigs.

OPEC's news agency reported that OPEC's basket of crudes increased to \$84.62/barrel on Monday, up from \$84.33/barrel on Friday.

Market Commentary

Once again strength in the dollar put pressure on crude oil as investors curbed their appetite for commodities as an investment hedge. Products on the other hand held on to their gains as we await tomorrow's release of the DOE numbers. Expectations are calling for an inventory draw in distillate stocks of 1.85 million barrels and gasoline inventories are expected to decrease by 900,000 barrels. After six straight days of higher settlements, the December crude oil contract, after experiencing an outside trading session, settled down .34 cents. This market should continue to be financially driven, with the underlying fundamentals suppressing moves higher. With today's outside trading session and lower settlement, technically this market should move lower. Our near term downside objective is \$84.20.

Crude oil: Dec 10 305,805 -23,629 Jan 11 246,324 +21,797 Feb 11 92,949 +1,080 Totals 1,492,666 +4,111 Heating oil: Dec 10 93,172 -3,042 Jan 11 77,707 +944 Feb 11 28,646 +102 Totals 326,773 +864 Rbob: Dec 10 81,909 -5,792 Jan 11 76,113 +2,361 Feb 11 21,424 +30 Totals 282,738 -293

The API reported an unexpected draw in crude stocks of 7.398 million barrels on the week, with draws of 4.505 million barrels in Padd 3 alone. Crude stocks in Padds 2 and 5 also fell by 1.629 million barrels and 1.351 million barrels, respectively. Crude stocks drew as imports fell by 762,000 bpd to 8.588 million bpd. It also reported the draw in crude stocks as runs increased by 572,000 bpd to 14.368 million bpd on the week. The API also reported draws in distillate stocks and gasoline stocks. Distillate stocks fell by 3.995 million barrels on the week, with draws of 1.49 million barrels in Padd 2 and 1.669 million barrels in Padd 3. It reported the draw as distillate production fell by 24,000 bpd or 0.6% to 4.218 million bpd. Apparent demand fell slightly by 0.9% on the week but increased by 21.5% on the year to 4.981 million bpd while apparent demand basis its three week moving average increased by 4.6% on the week to 4.822 million bpd. Gasoline stocks fell by 3.448 million barrels on the week as apparent demand increased by 0.3% to 9.568 million bpd. Apparent demand basis its three week moving average also increased by 1.1% to 9.508 million bpd.

Crude Oil		Heating Oil		Rbob	
Support	Resistance	Support	Resistance	Support	Resistance
8610	8749	23795		20300	
8420	8890	23390	24200	20130	22345
8330	9100	23490	24680	18750	24880
7943		23574	24950	18240	27085
7911				16010	
7760					

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.