



ENERGY RISK MANAGEMENT

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ENERGY MARKET REPORT FOR SEPTEMBER 13, 2011

According to a SpendingPulse report released by MasterCard Advisors LLC, US gasoline demand in the week ending September 9th fell by 2.4% on the week and by 3.5% on the year to 8.527 million bpd. Demand was at its lowest level for any week of the peak summer driving season since 2005. Demand fell 5.7% on the week in the Gulf Coast. The four week demand was down 2.7% on the year at 8.9 million bpd, the lowest level since March 4th. It reported that gasoline prices increased 3 cents to \$3.66/gallon, up 36.6% on the year.

Market Watch

The US Labor Department said US import prices fell in August by 0.4% on the month. Even though the decline was smaller than expected, it was the second decline in three months. It reported that in August, petroleum import prices fell by 2.1% on the month.

The National Federation of Independent Business's small business optimism index fell to its lowest level in just over a year. The index fell to 88.1 in August, down from 89.9 in July. The decline was the sixth consecutive drop and put the index at its lowest reading since a similar 88.1 posted in July 2010. The subindex of expected business conditions in the next six months fell 11% to -26%.

The International Council of Shopping Centers and Goldman Sachs said US chain store sales increased by 1.3% in the week ending September 10th to 523.8.

The Congressional Budget Office said the US economy will grow slower than expected and unemployment will remain high as the fallout of the deepest recession since the Great Depression takes its toll. It sees economic growth of about 1.5% this year and 2.5% in 2012. The US unemployment rate, currently at 9.1%, will remain close to 9% through the end of 2012.

According to a survey by Bank of America Merrill Lynch, 55% of European fund managers see Europe suffering two quarter of negative GDP growth, compared with only 14% in July.

China's Ministry of Industry and Information Technology reported that the country's industrial output is expected to increase by 13.5% in 2011. Industrial output grew 13.5% in August from a year earlier, down from July's 14% annual increase.

The IEA cut its forecast for oil demand in 2011 and 2012 due to a deteriorating world economy but warned that it may take some time for oil prices to fall due to supply problems that are likely to persist despite the restart of oil production in Libya. The IEA cut its oil demand estimate by 200,000 bpd for 2011 and 400,000 bpd for 2012. Its oil demand growth estimate for this year was cut by 160,000 bpd to 1.04 million bpd while its 2012 demand growth estimate was cut by 190,000 bpd to 1.42 million bpd. It said the oil market could be pushed into a small surplus next year if significant downside risks to the economy were to push the rate of global economic growth a third lower. The balance between oil supply and demand next year and therefore oil prices, will also depend on the speed at which Libya restores its production. The IEA expects Libya to produce between 350,000 and 400,000 bpd by the end of the year and 1.1 million bpd by the end of 2012. The IEA reported that OPEC's oil production increased by 165,000 bpd to 30.26 million bpd in August. In regards to China, the IEA slightly cut

API Stocks

Crude – down 5.052 million barrels
Distillate – up 67,000 barrels
Gasoline – up 2.758 million barrels
Refinery runs – down 1.8%, at 83.9%

its forecast for China's crude oil output this year and in 2012 due to oil spills at the Penglai 19-3 field. Production issues at the offshore field could lead to a decline in output of 50,000 bpd this year and 30,000 bpd in 2012. The IEA also stated that growth in global refinery runs would be less in the second half of the year than forecast earlier due to a weaker global oil demand outlook and extensive maintenance programs. Crude runs in the third quarter are now expected to reach 75.6 million bpd and average 75.4 million bpd in the fourth quarter.

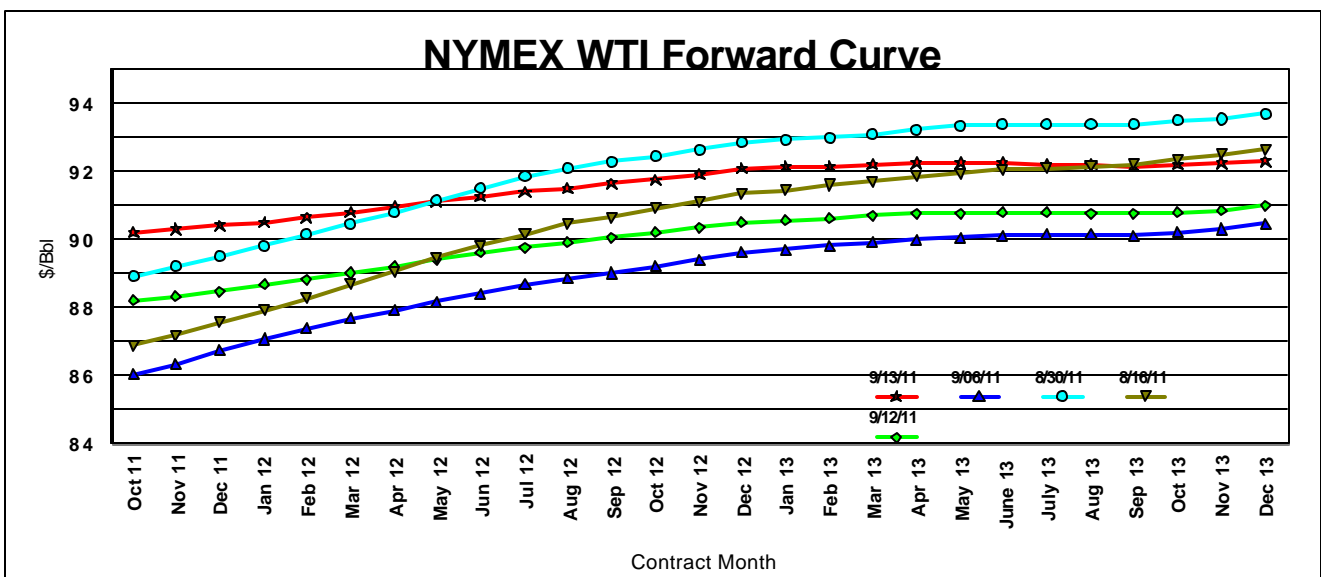
<p>September Calendar Averages CL – \$88.18 HO – \$3.0061 RB – \$2.8250</p>
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Libya's Arabian Gulf Oil Co started producing 160,000 bpd from Sarir's oil field and has started moving crude into the Tobruk pipeline. Agoco has promised to give half its early crude oil production to Vitol as payment for fuel supplied to rebels during the uprising against Muammar Gaddafi. Arabian Gulf Oil Co said Vitol delivered more than \$1 billion of fuel to the rebels. The company has already paid Vitol about \$500 million in a mixture of cash, crude oil and supplies of the feedstock naphtha. Libya's oil exports from the Tobruk oil terminal are expected to resume within a week. A member of the National Transitional Council said the country's production could approach pre-war levels within six months. Separately, the NTC member, Mustafa el-Huni said Libya will seek a larger production quota at OPEC's meeting on December 14th and wants oil prices of no more than \$100/barrel in the long run. He did not rule out requesting an absence of production allocation as OPEC has granted to Iraq following war however he emphasized a higher quota first. Libya's current OPEC quota stands at 1.5 million bpd.

Turkey's Interior Minister said Turkey may launch a cross border land offensive against Kurdish separatists in northern Iraq at any moment depending on talks with Iraq.

The Arab League accused Iran of making provocative statements targeting Sunni-ruled Gulf countries, in an apparent reference to Saudi Arabia and Bahrain. It said it was concerned by the provocative statements issued by Iranian officials and the Iranian media about a number of Gulf nations which are considered a breach of good neighborly relations.

Iran proposed meeting with major powers in a letter, suggesting the country may be ready to address some nuclear issues. The letter from Iran's chief nuclear negotiator, Saeed Jalili contains few details as to what Iran is ready to discuss with the US, Russia, China, the UK, France and Germany. However it differs from previous negotiating offers by avoiding demands the six powers are bound to reject. It states that Iran is ready to cooperate in nonproliferation and peaceful nuclear cooperation. Western diplomats however said it was part of Iran's new "charm offensive," an effort to derail plans to



refer Tehran to the UN Security Council for its nuclear defiance.

Refinery News

Colonial Pipeline is allocating its main gasoline line north of Collins, Mississippi for Cycle 53 as nominations on its line exceed the company's ability to meet the five day lifting cycle.

Chevron Corp shut a crude oil pipeline offshore Louisiana to investigate a potential leak from a connecting riser. Chevron's Main Pass pipeline system was shutdown on Monday morning, resulting in the shut in of Cypress Pipeline System as well. The incident resulted in the spill of an unknown amount of crude oil in the Gulf of Mexico.

ConocoPhillips reported flaring from a manufacturing process that included a startup at its 120,200 bpd refinery in Rodeo, California.

ExxonMobil Corp began planned maintenance on one of the process units at its 192,500 bpd Chalmette, Louisiana refinery on Sunday. The work is expected to continue for less than two weeks and is not expected to impact production.

Pasadena Refining reported a problem at its alkylation unit 2 at its 100,000 bpd Pasadena, Texas refinery. The event occurred early Tuesday when a threaded connector broke, releasing vapors to the atmosphere.

Sasol Ltd said it plans to build a plant to convert natural gas to liquid fuel in Louisiana, in its search to find new outlets for the natural gas oversupply. The company said it already acquired some land adjacent to its chemical factory in Calcasieu Parish, Louisiana for either a 96,000 bpd plant or one half that size. It said it will take 18 months to study logistics for the plant.

Syncrude Canada Ltd started planned maintenance on a major processing unit that would cut output by about 30%. The outage of Upgrader 8-2 would last 40-45 days, cutting an average of 100,000 bpd of synthetic crude production over the duration of the maintenance.

Taiwan's Formosa Petrochemical Corp restarted a third crude distillation unit at its 540,000 bpd refinery following a fire at the end of July. It is also expected to restart a naphtha unit this week which was shut following a separate fire in May.

PetroChina's Qinzhou refinery operated at 182,600 bpd or 91.3% of capacity in its first year of operation. The refinery processed 9.13 million tons of crude oil since it started operating on September 8, 2010.

China's National Bureau of Statistics stated that China processed 36.78 million metric tons or 8.69 million bpd of crude oil in August, up 4.5% on the year but down 1.9% on the month. It reported that China produced 13.77 million tons of diesel in August, up 3.1% on the year and 7.04 million tons of gasoline, up 9.3% on the year. Its fuel oil production reached 1.34 million tons, down 17.3% on the year while kerosene output reached 1.69 million tons, up 12.3% on the year.

Saudi Aramco Total Refining and Petrochemical Co or Satorp said its 400,000 bpd refinery complex at Jubail on the Persian Gulf coast is expected to be fully operational in the fourth quarter of next year. The oil in the first topping unit is scheduled for mid-December 2012. The Jubail complex will refine Saudi heavy crude into a range of fuels from gasoline to petroleum coke for domestic consumption and export.

Brazil's Petrobras said it was still in talks with PDVSA to complete a joint venture deal to build a refinery in Brazil's Pernambuco state. PDVSA is still facing several hurdles to officially take its expected 40% stake in the 230,000 bpd Abreu e Lima refinery currently under construction. Petrobras plans to increase refining capacity by 3.6 million bpd by 2015 from its current capacity of 1.9 million bpd to meet expectations for growing fuel demand in Brazil.

Production News

Crude oil production from nine North Sea grades is expected to fall by 2.9% in October to 1.761 million bpd due in part to lower supplies from the Forties and Ekofisk streams. Shipments of Forties have been subject to delays and cancellations since May due to production problems at Nexen's Buzzard oilfield and other installations. Loading delays have persisted into September and in October the Forties stream is scheduled to load 445,000 bpd, down from 480,000 bpd originally planned in September. Ekofisk crude shipments have also been disrupted. The Ekofisk stream is expected to load 274,000 bpd in October, down from 283,000 bpd in September.

Denmark's DONG Energy said it will shut in production and evacuate the North Sea Sire platform due to a storm warning.

Statoil said it quickly extinguished a fire that started in an air compressor compartment on its Huldra platform in the North Sea on Tuesday. It said no one was hurt during the incident. It said it will resume its gas and condensate production when the situation normalizes. According to the Norwegian Petroleum Directorate, Statoil and its partners were expected to produce 1,000 bpd of oil at Huldra in 2011 and 0.46 billion cubic meters of gas for the year.

Oman Petroleum Co is planning to award \$1.04 billion of contracts for work in its oil and gas fields before the end of the year. The company is expected to award six contracts this year for the Hasirah and Hawqa gas fields as well as steam injection work at the Al Ghubar oil field and a power station at Kekhwaier.

Russia's OAO Rosneft is in talks with two companies, including ExxonMobil Corp to replace Chevron Corp as partner in the Black Sea offshore Val Shatsky field. It said that by the end of the year, Rosneft and ExxonMobil will conclude drafting a plan to develop three Arctic fields in the Kara Sea.

Market Commentary

Crude oil worked higher today, gaining on expectations that the DOE report will reflect another decrease in stock levels. Expectations are calling for a draw of 2.9 million barrels in crude oil stocks due to storm related shut-ins in the Gulf of Mexico. The October contract settled above \$90.00 for the second time since the beginning of August, stopping just below the 50-day moving average of \$90.57. With the settlement above \$90.00, prices should advance towards \$100.00. While WTI was rallying, the Brent slipped; brought down by spread selling after the IEA made a revision in its global demand numbers. The spread between WTI and Brent has narrowed by \$2.00 over the past two days. This revision also pressured both heating oil and gasoline. Gasoline has been trading along side the Brent ever since Brent began its ascent. Low imports have been supporting the gasoline, despite demand in the U.S. remaining below the norm. The IEA's demand revision should continue to put pressure on prices and open the door for an increase of imports to the U.S. The thought process is for gasoline to remain weak along with the Brent.

Crude oil: Oct 11 190,400 -26,267 Nov 11 246,583 +21,043 Dec 11 202,519 +89 Totals 1,488,947 -2,843 Heating oil: Oct 11 83,652 -2,080 Nov 11 56,964 +3,674 Dec 11 52,753 +454 Totals 322,094 +5,246 Rbob: Oct 11 71,979 -796 Nov 11 54,240 +562 Dec 11 43,361 -474 Totals 269,263 +527

Crude Oil		Heating Oil		Rbob	
Support	Resistance	Support	Resistance	Support	Resistance
8500	9057	27020	32777	25145	33369
7552	9122	26680	33370	24240	35915
7487	9726	27375	33510	23631	36310
7365	9872	23685		23414	
6423	10071	22960			
6394	10222				
6119					

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