



ENERGY RISK MANAGEMENT

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ENERGY MARKET REPORT FOR SEPTEMBER 14, 2010

The National Hurricane Center said a low pressure system in the northwest Caribbean Sea strengthened to Tropical Storm Karl before reaching the Yucatan Peninsula late Wednesday. Computer models show the system would move west across the Caribbean towards the Yucatan Peninsula and Mexico's Bay of Campeche before moving inland over central Mexico. The NHC also forecast that both Hurricane Igor and Julia would track northwest in the Atlantic.

US Energy Secretary Steven Chu said it will take decades for the US to transition away from oil to cleaner

Market Watch

Sales at US retailers posted their largest gain in five months in August. The Commerce Department said total retail sales increased 0.4% following a revised 0.3% increase in July. It was the second consecutive month of gains in retail sales.

The Commerce Department said inventories at US businesses surged during July while sales posted the largest gain in four months. Inventories increased 1% on the month to a seasonally adjusted \$1.376 trillion. Business sales in July increased by 0.7% to \$1.09 trillion, the largest increase since 2.5% in March. The inventory-to-sales ratio in July was 1.26, unchanged from June.

Small business activity in the US increased slightly in August. The Small Business Optimism Index increased 0.7 points to 88.8 in August.

Russia's government will soon approve tax breaks on oil from the northern sector of the Caspian Sea, benefitting OAO Lukoil Holdings. Russia's Energy Minister Sergey Shmatko said the Finance Ministry has endorsed a draft resolution and will be sent to Deputy Prime Minister Viktor Zubkov's customs and tariff committee for consideration. The resolution includes lower export duties for Lukoil's operations in the Caspian Sea.

BNP Paribas cut its average price forecast for US light crude futures in 2010 by \$2/barrel to \$80/barrel and by \$3/barrel to \$86/barrel for 2011. It also cut its estimate of the average price of ICE Brent in 2010 by \$1/barrel to \$80/barrel and by \$3/barrel to \$86/barrel for 2011.

The US Commodity Futures Trading Commission said Vitol Inc and an affiliate will pay \$6 million to settle charges that it misled the NYMEX about their close relationship. Vitol and Vitol Capital Management Ltd failed to disclose to the NYMEX their close relationship as they are affiliated with Vitol Group. The lack of necessary information prevented NYMEX/CME from being able to aggregate the positions of the two companies in order to correctly apply position limits and accountability levels.

forms of energy and added that it should start now.

API Stocks

Crude – up 3.333 million barrels
Distillate – down 1.524 million barrels
Gasoline – down 963,000 barrels
Refinery runs – down 0.6% at 85.6%

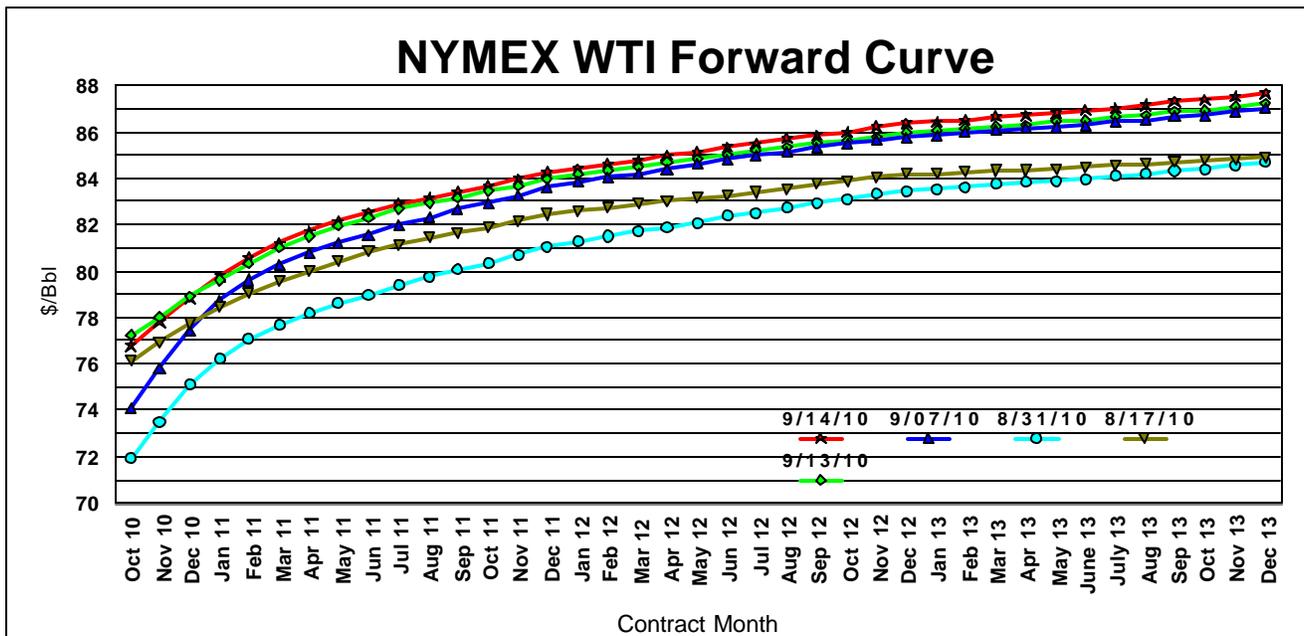
The head of the Interior Department's Bureau of Ocean Energy Management, Michael Bromwich said he hoped to offer recommendations regarding the department's deepwater drilling moratorium by the end of September.

The IEA's chief economist Fatih Birol said oil prices are likely to increase when the world economy rebounds and demand increases. He said the high cost of producing new oil from unconventional reserves such as the oil sands will push prices higher. He also stated that rising prices will not cut increasing demand in emerging economies as government subsidies shelter consumers from price pressures.

<p>September Calendar Averages CL – \$75.22 HO – \$2.0823 RB – \$1.9401</p>
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OPEC's Secretary General Abdullah El Badri said he was worried about the world economy, saying the rest of 2010 and first half of 2011 would be very difficult. He said the current price of oil is satisfactory and added that members of OPEC should take more care to stick to their agreed quotas. He also stated that OPEC is not seeking to include new members. He said oil and gas will continue to be the world's major power generation resources in the near future and the increasing use of alternative and nuclear energy resources will not diminish the role of OPEC. He added that environmental protection, technological progress and oil market instability as well as finding alternative and diverse income sources are the main short term challenges that OPEC is facing.

Iran's nuclear chief Ali Akbar Salehi said that the credibility of IAEA head Yukiyo Amano had been damaged by his criticism of Iran's decision to ban two of the agency's inspectors. He has previously stated that the two inspectors were banned because they had filed false reports about Iran's nuclear program.



According to a SpendingPulse report by MasterCard Advisors LLC, US gasoline demand fell to its lowest level in nearly two years last week. Gasoline demand fell by 3.2% or 289,000 bpd to 8.837 million bpd in the week ending September 10th. Gasoline sales were down 1.4% or 128,000 bpd from a year ago. In the latest four weeks, gasoline demand was up 0.5% or 45,000 bpd from a year earlier to 9.148 million bpd. The US average retail price of gasoline increased by 1 cent to \$2.68/gallon.

Refinery News

Cash gasoline differentials in Chicago fell 14.5 cents to 15.5 cents/gallon over spot NYMEX RBOB futures. Differentials fell as the market realized initial reaction to Enbridge pipeline outage may have

been overstated. The differentials also fell on expectations that the Enbridge pipeline would be back online in the coming few days.

Enbridge Inc was welding a replacement section of pipe on its 670,000 bpd Line 6A pipeline in Romeoville, Illinois. It said repairs to the pipeline will be completed later Tuesday. However the pipeline will not restart until Enbridge receives regulatory approval. It is not yet known what the regulator, the US Pipeline and Hazardous Materials Safety Administration (PHMSA) will require before the pipeline can be restarted. The PHMSA said Enbridge will not be allowed to restart its Line 6A until they are satisfied that the company's repair and follow up plans ensure the safety of the community and the environment. Separately, Enbridge Inc restarted Line 10 of its Lakehead System after it shut the pipeline to investigate a potential low volume leak near Buffalo, NY. It said the line was restarted after it found no evidence of a leak or damage to the pipeline. Line 10, which has a capacity of 70,000 bpd, was operating at full capacity before it was shut Monday morning. It is the third pipeline in Enbridge's Lakehead System to shut down for a leak investigation in less than two months. Enbridge has kept its 190,000 bpd Line 6B pipeline shut since it leaked almost 20,000 barrels into a Michigan waterway in late July.

Citgo's 165,000 bpd Lemont, Illinois refinery may shut down completely during the next 5-7 days if Enbridge's crude line 6A remains shut.

The Explorer Pipeline had a small diesel leak from a tank line at its Fauna petroleum products terminal in Houston on Monday. The line at the time of the leak was inactive.

BP Plc reported flaring on Tuesday at its 265,000 bpd refinery in Carson, California.

Murphy Oil Corp said its 125,000 bpd Meraux, Louisiana refinery was operating normally following the completion of repairs to stop a leak in a fluid catalytic cracking unit. Murphy cut production to 90,000 bpd on Thursday when the fluid catalytic cracking unit was taken offline to repair the leak.

Suncor Energy Inc began scheduled maintenance at its 80,000 bpd Sarnia refinery in Ontario during the weekend. Maintenance work on an alkylation unit is expected to last about six weeks.

Pemex said a coker plant at its Cadereyta refinery is restarting operations following an explosion last week at the refinery. Pemex said consumer fuels were not affected significantly given the overall production of the refinery.

ExxonMobil Corp's 174,000 bpd Sarpom refinery in Italy is operating at below 50% of its capacity after a fire started at a crude unit on Saturday. Exxon is assessing the damage and working on contingency plans for refinery supplies.

Saudi Arabia's Yanbu National Petrochemicals Co said a technical failure caused a temporary halt to its olefins cracking unit on Friday. The halt resulted in a drop of output from the units that depend on ethylene and propylene feedstock.

PDVSA's 12 million barrel oil terminal in Bonaire will remain closed until further notice after it suffered damage due to a fire.

France's CGT union called for three days of national strikes in the country's energy and mining sectors September 15, 23 and 29.

Kazakhstan has agreed to resume using Ukraine as a transit nation for its oil supplies to Europe and will increase transit volumes to about 8 million tons. Kazakhstan stopped shipping oil through Ukraine in January because of a dispute over transit prices and had rerouted its Europe bound oil via Poland.

At least 500,000 metric tons of Asian gasoil may be booked for shipment to Europe as traders take advantage of the widening arbitrage window. At least five newly built Aframax-class oil tankers may be provisionally booked to ship gasoil to Europe from north Asia in late September and early October.

Oil shipments remain the main area still affected at the Dalian Port following an explosion at the complex in July. Shipping services are likely to remain largely on hold through the first quarter of next year, as the company repairs pipelines damaged in the explosion.

Production News

Seahawk Drilling Inc expects to reduce the number of rigs it operates in the Gulf of Mexico by the end of the month if the pace of permitting for new shallow water wells does not increase. Seahawk has six operating rigs in the Gulf and that number could fall by two. The company had previously expected to be running 10 of its 20 rigs in the Gulf this year.

Britain's Flotta crude oil stream is scheduled to load about 63,000 bpd in October, up from 43,000 bpd in September.

Norway's Troll crude oil output will increase to about 252,000 bpd in October, up from about 87,000 bpd in September when planned maintenance cut loadings.

Iraq's crude oil exports in August fell by 1.7% on the month to 1.788 million bpd from 1.82 million bpd in July due to technical faults and sabotage on the country's northern pipeline. Iraq exported an average 1.449 million bpd from its southern terminals, up from 1.436 million bpd in July while it exported 339,000 bpd from its northern terminals, down from 374,000 bpd in July.

Suncor Energy said it has not been forced to cut oil sands production because of the shutdown of Enbridge's Line 6A pipeline that delivers Canadian crude to the US Midwest. It said the shutdown of the Enbridge pipeline is starting to back up crude into Canada. Separately, Suncor Energy Inc said oil sands production is poised to increase in the next decade. Oil sands will produce nearly 3 million bpd in 2020, up from 1.2 million bpd in 2007.

Chevron Corp continues to increase production from its first offshore oil field in Brazil. It is increasing production at its Frade oil field up to 65,000 bpd. Frade has recoverable reserves of between 200 million and 300 million barrels of heavy crude and at its peak, production should reach about 90,000 bpd.

Russia's Energy Minister Sergei Shmatko said the country's oil production will reach more than 500 million tons or 10.04 million bpd this year despite a call from OPEC to lower its output. Russia last year suggested it would coordinate output cuts with OPEC.

Thailand's Ministry of Energy said the country's oil imports in August increased by 15.1% on the year and 11.5% on the month to 872,000 bpd. Crude oil imports in the first eight months of the year averaged 821,000 bpd, up 2.4% on the year. Refined oil imports increased by 51.6% on the year to 55,700 bpd in August while exports fell by 4.4% to 228,500 bpd. Domestic demand for diesel fell by 0.3% on the year and 5% on the month to 46.5 million liters/day while gasoline demand increased by 0.8% on the year but fell by 2.4% on the month to 20 million liters/day.

OPEC's news agency reported that OPEC's basket of crudes increased by 40 cents to \$75.06/barrel on Monday from \$74.66/barrel on Friday.

Market Commentary

Crude oil gave back yesterday's gains as the market responded to the possible resumption of crude oil through Enbridge's Line 6A pipeline that transports 670,000 barrels per day of Canadian crude oil to U.S. refineries. Early session trading saw prices rally as the dollar weakened to a 15-year low against the yen and a monthly low against the euro. We will have to have a wait and see approach to inventory numbers, with next week's release giving a better indication of the effects from the Enbridge leak. This week's numbers are expected to show a decline of 2.5 million barrels for last week. With refiners beginning turnaround, imports should also show declines. We expect crude oil to remain range bound, trading between \$70.00-\$80.00. From a technical view, prices may have hit a near-term top, with the inability of the October contract to experience follow-through activity above \$77.08, the 200-day moving average. With the October crude oil unable to take out yesterday's high and at the same time achieve a lower low and lower settlement, we would look for additional moves lower tomorrow, with prices working towards the \$75.85 level.

Crude oil: Oct 10 161,903 -30,884 Nov 10 275,517 +19,169 Dec 10 211,934 -2,989 Totals 1,323,899 -6,329 Heating oil: Oct 10 60,194 -4,697 Nov 10 56,587 +938 Dec 10 69,532 +6,849 Totals 327,133 +10,942 Rbob: Oct 10 64,770 -5,433 Nov 10 70,649 +4,639 Dec 10 36,158 +694 Totals 242,640 +2,277

The API reported that crude stocks built by 3.333 million barrels on the week, with a build of 2.111 million barrels in Padd 3. It reported the build in stocks as imports increased by 44,000 bpd to 8.907 million bpd. However crude runs increased by 44,000 bpd or 0.3% to 14.682 million bpd on the week. Distillate stocks fell by 1.524 million barrels on the week as apparent demand increased by 7.7% on the week and by 26.7% on the year to 4.674 million bpd while apparent demand basis its three week moving average increased by 3% on the week and by 14.4% on the year to 4.568 million bpd. The API also showed that production fell by 17,000 bpd to 4.254 million bpd and imports fell by 49,000 bpd to 202,000 bpd. Gasoline stocks fell by 963,000 barrels on the week as apparent demand increased by 1.4% on the week and by 0.2% on the year to 9.217 million bpd. The API also reported the draw as production fell by 121,000 bpd to 9.018 million bpd.

Crude Oil		Heating Oil		Rbob	
Support	Resistance	Support	Resistance	Support	Resistance
7620	7781	18965	22530	18240	
7585	7866	19236	22700	16010	22345
7320	8100	18920	22945		24880
7260			23775		27085
7190					

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