



## ***ENERGY RISK MANAGEMENT***

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### **ENERGY MARKET REPORT FOR SEPTEMBER 16, 2010**

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A Qatari oil official said Qatar sees no need for OPEC to change its oil output policy at its October meeting as prices are in a fair range.

Iran has delayed the phase out of gasoline subsidies. Iran's President Mahmoud Ahmadinejad hopes to save \$100 billion a year by phasing out subsidies for food and fuel, a policy which will push prices higher and which some analysts said could reignite the unrest that started after his re-election last year. The subsidy phase out had been due to start in

#### Market Watch

The Federal Reserve Bank of Philadelphia said mid-Atlantic manufacturers saw activity contract slightly in September. It reported that its index of general business activity for factories in its district moved to -.07 from -7.7 in August after it was at 5.1 in July.

The US Labor Department said initial claims for unemployment benefits unexpectedly fell in the week ending September 11<sup>th</sup>. Initial claims fell by 3,000 to a seasonally adjusted 450,000, the lowest since the week ending July 10<sup>th</sup>. Analysts had expected claims to increase to 460,000 from the upwardly revised level of 453,000 during the previous week. The four week moving average fell by 13,500 to 464,750. The number of continuing claims fell by 84,000 to 4,485,000 from the preceding week's revised level of 4,569,000. The unemployment rate for workers with unemployment insurance in the week ending September 4<sup>th</sup> was 3.5%, down 0.1% from the prior week's revised rate of 3.6%.

The Labor Department also reported that US producer prices increased for the second month in a row in August as energy costs increased. The Producer Price Index increased to a seasonally adjusted 0.4% for finished goods in August from July. In July, wholesale prices were up 0.2%. The report showed that for the 12 months ended in August, the producer price index increased by 3.1%, slowing down from a 4.2% annual rise in July. Energy prices increased by 2.2% in August.

The Commerce Department said the current account deficit for the second quarter widened to \$123.3 billion from a revised \$109.2 billion in the first quarter.

The National Oceanic and Atmospheric Administration forecast that above normal temperatures are expected in a wide section of the US from the desert southwest, across the central US and into the Northeast in October through December. It projects a warm start to the heating season in most of New York and Pennsylvania. In neighboring Northeast states, the NOAA sees equal chances of normal, above normal or below normal temperatures in the three month period. The entire Atlantic Coast and extending through the Southeast into western Tennessee and all of Alabama as well as areas of the Northwest have equal chances of seeing normal, above normal or below normal temperatures. Below normal temperatures are expected along the entire Pacific Coast. Above normal temperatures are expected in west Texas and surrounding states due to La Nina weather conditions.

Bank of America-Merrill Lynch said Federal Reserve attempts to increase the US economy with ultra-loose monetary policy are likely to support oil and gold next year, even if US demand remains weak. It expects the Federal Reserve to launch a new round of quantitative easing in the first quarter of next year, which would help keep interest rates low. It estimated that a 1% cut in real interest rates would result in a 3.8% increase in oil prices. It kept its forecasts for US crude oil and Brent futures in 2011 unchanged at \$85/barrel.

**September  
Calendar Averages**  
**CL – \$75.23**  
**HO – \$2.0884**  
**RB – \$1.9407**

the second half of the Iranian year, which starts on September 23<sup>rd</sup>.

Genscape reported that oil inventories at the Cushing, Oklahoma crude oil terminal increased by 93,496 barrels to 37.656 million barrels in the week ending September 14<sup>th</sup>.

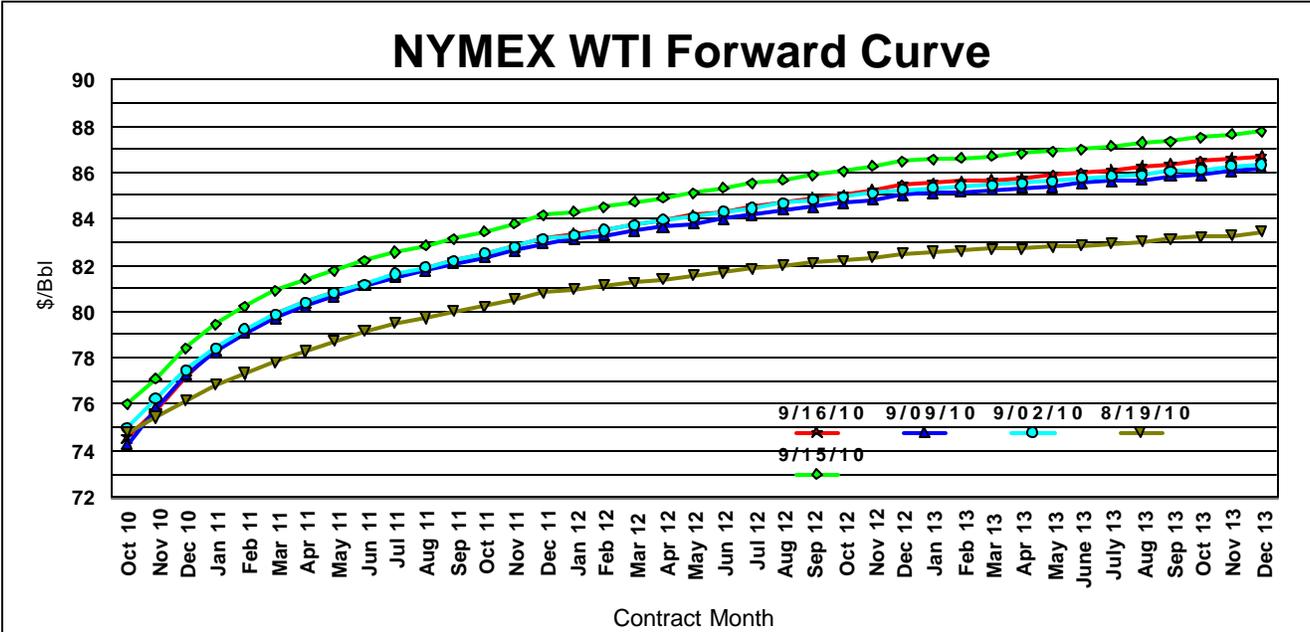
ICAP shipping said oil products held in floating storage fell by 4.4 million barrels to 34.2 million barrels in September to the lowest level since June 2009. The floating storage fleet now consists of 45 vessels compared with 51 in mid-August. The majority of the volumes are being held in tankers in the English Channel, where nearly 17 million barrels of distillates are in floating storage. Of the total, 46% of the volume is gasoil and 37% is jet fuel.

According to a Reuters survey, oil market is expected to remain comfortably in a surplus next year. The growth in oil supplies from countries outside OPEC will fall next year however global demand will also rise at a slower pace. The survey found that demand for oil will increase by 1.5 million bpd in 2011, down from an increase of 1.7 million bpd in 2010. Oil demand in 2010 is estimated at 86.4 million bpd. Production from outside OPEC is expected to increase by 200,000 bpd next year, down from this year's 700,000 bpd increase. The call on conventional OPEC production will increase by 800,000 bpd in 2011 to 29.8 million bpd.

CFTC chairman Gary Gensler outlined the agency's plan of action in implementing provisions of the Dodd-Frank law enacted in July and for the first time gave estimates on exactly how many firms could be affected by changes to the swaps market. He said initial estimates are that there could be in excess of 200 companies that will seek to register as swap dealers. In addition about 20-30 new entities will register as swap execution facilities or designated contract markets in addition to the 16 futures exchanges already regulated. He said the CFTC seeks consistency with the European Union's newly unveiled plan to revamp the swaps market. Separately, the CFTC chairman said the CFTC is looking at test orders that inadvertently went live on CME Group's electronic Globex trading platform on Monday. He said there may be lessons from the mistake. He said the error was small, identified quickly and that the exchange operator is cooperating well with the regulator.

**Refinery News**

Enbridge Inc is on track to restart its Line 6A pipeline on Friday morning. An Enbridge spokeswoman



said late Wednesday that Enbridge had agreed with the US Pipeline and Hazardous Materials Safety Administration on the Friday restart, although PHMSA has not confirmed its approval or given any date.

Oil traders warned that US and European refineries would face supply constraints unless Saudi Arabia and Iraq supply them with more crude. North Sea and Latin American crude production is expected to fall in the next five years, making Western refiners more reliant on supplies from the Middle East and West Africa.

Valero Energy Corp chief executive Bill Klesse said that while the US economic recovery is sluggish, the independent refiner business should continue to grow with global demand for fuel. He expects refining margins to continue to grow next year with a stronger rebound in fuel demand outside North America. Separately, Valero's chief executive said the company will not make a decision whether to restart its 235,000 bpd Aruba refinery, currently undergoing maintenance, until late December or January.

Valero Energy Corp's 142,000 bpd Corpus Christi, Texas refinery is in the process of restarting a 36,000 bpd hydrocracking unit that was shut earlier this week for repairs. The impact to production from the outage was expected to be minimal.

ExxonMobil reported that a hydrocracking unit at its 560,640 bpd Baytown, Texas refinery resumed operations after it was shut on Wednesday due to instrument failure. Separately, ExxonMobil said the closure of Enbridge's Line 6A pipeline has affected production at its 238,000 bpd Joliet, Illinois refinery. It said it has made alternative crude supply arrangements.

Frontier Oil Corp restarted three sulfur recovery units at its 130,000 bpd El Dorado refinery in Kansas after they were shut down late Wednesday due to a thunderstorm.

Citgo Petroleum Corp started operations of an ultra low sulfur diesel unit at its Lemont refinery to meet new environmental regulations. The new unit has a production capacity of 42,500 bpd.

Tesoro Corp reiterated plans to restart its Anacortes, Washington refinery in early October. The 120,000 bpd refinery was shut following an explosion at a heat exchanger for the naphtha hydrotreater unit on April 2<sup>nd</sup>. Separately, Tesoro Corp's chief executive Greg Goff said the US refining market will remain under pressure in 2011. He said the market in California will take time to recover.

Brazil's Petrobras said firefighters were able to quickly control a fire that started at its 250,000 bpd Rio de Janeiro Duque de Caxias refinery, known as Reduc, early Thursday. It said the refinery is operating normally and there will be no supply disruptions due to the fire.

Japan's TomenGeneral Sekiyu shut its 38,000 bpd No. 2 and 132,000 bpd No. 3 crude distillation units at its Wakayama refinery on Wednesday for scheduled maintenance. The maintenance outage is expected to last until late October.

Italy's industry group Unione Petrolifera said the country's demand for refined oil products increased by 2.6% on the year in August to 5.95 million tons. Petrol demand fell by 4.6% to 850,000 tons while diesel demand increased by 3.3% to 1.91 million tons. In the first eight months of the year, refined oil products total demand fell by 3.3% to 48.33 million tons, with petrol demand falling by 6.3% to 6.66 million tons and diesel demand increasing by 0.1% to 16.67 million tons.

Gasoline stocks in independent storage in the Amsterdam-Rotterdam-Antwerp area in the week ending September 16<sup>th</sup> fell by 7.39% on the week but increased by 16.47% on the year to 877,000 tons. Gas oil stocks fell by 6.57% on the week and by 15.9% on the year to 2.533 million tons while fuel oil stocks increased by 7.94% on the week and by 46.08% on the year to 856,000 tons. Naphtha stocks increased by 25% on the week but fell by 9.72% on the year to 65,000 tons while jet fuel stocks fell by 0.13% on the week but increased by 6.03% on the year to 756,000 tons.

Singapore's International Enterprise reported that residual fuel stocks fell by 1.514 million barrels to 21.767 million barrels in the week ending September 15<sup>th</sup>. The country's light distillate stocks fell by 1.302 million barrels to 10.56 million barrels while its middle distillate stocks built by 1.065 million barrels to 14.268 million barrels on the week.

Traders and shipbrokers said at least seven vessels have been fixed to carry 660,000 tons or about 5 million barrels of gas oil from northeast Asia to the UK as refinery outages and run cuts increase European demand. Shell and Vitol have chartered three vessels each, carrying 1.95 million barrels and 2.25 million barrels of gas oil, respectively.

### **Production News**

Mexico's Communications and Transport Ministry said the ports of Cayo Arcas and Dos Bocas were closed on Thursday as Tropical Storm Karl gained hurricane strength after moving into the Gulf of Mexico. The port of Coatzacoalcos remained open. The National Hurricane Center said Tropical Storm Karl strengthened into a hurricane and was expected to reach land late Thursday or early Friday.

Crude oil output from nine of the main North Sea streams will increase by 9.9% in October to 2.017 million bpd from 1.836 million bpd in September.

Norway's Oil and Energy Ministry said 41 oil and gas firms have applied to explore for petroleum in mature areas off Norway. It added that it aimed to award licenses in late 2010 or early 2011.

Angola plans to ship at least 52 cargoes or 50 million barrels of crude oil in November.

Iraq's Oil Ministry reported that Iraq is planning to sign an agreement with Turkey on Sunday to extend the operation of the 450,000 bpd pipeline from Iraq's northern Kirkuk oil fields to Turkey's port of Ceyhan after they agreed to renew the deal. The ministry however did not give any details of the deal, which expired in March.

Brazil's National Petroleum Agency said that domestic crude output reached its highest level in August as offshore oil installations continued to increase their output. Brazil produced 2.078 million bpd of crude in August, up from 2.056 million bpd in July. Combined domestic crude oil and natural gas production also reached a record in August, with output at 2.471 million bpd of oil equivalent, up from 2.448 million bpd of oil equivalent in July.

Devon Energy Corp said it will move forward with the third phase of its Jackfish oil sands project. It said the Jackfish 3 is expected to produce an average of 35,000 bpd. It is expected to start construction at Jackfish 3 near the end of 2011, with startup targeted for 2015. The Jackfish 2 remains on schedule for startup in late 2011. It said the three phases of Jackfish represent about 900 million barrels of gross estimated recoverable reserves.

OPEC's news agency reported that OPEC's basket of crudes fell by 17 cents to \$75.37/barrel on Wednesday from \$75.54/barrel on Thursday.

**Market Commentary**

Crude oil fell again today as the resumption of oil flow through Enbridge’s pipeline draws near. At one point during the trading session the October crude oil contract fell as much as 2.5 percent after Enbridge announced that it would begin to send oil through the pipeline early tomorrow. Prices are just about where they were last week prior to reports of the pipeline leak. Weather-wise there doesn’t appear to be any production threatening storms heading into the Gulf of Mexico, providing additional pressure on prices. Financial influences should once again step to the forefront of this market and at this point in time there is a lack of steady positive growth. Coming into tomorrow’s session, we would look for a test down around the \$73.07 support level.

Crude oil: Oct 10 123,077 –19,881 Nov 10 316,320 +9,881 Dec 10 210,844 –1,870 Totals 1,340,646 +4,254 Heating oil: Oct 10 54,026 –3,294 Nov 10 63,644 +4,248 Dec 10 66,328 +799 Totals 323,659 +2,912 Rbob: Oct 10 58,439 –3,044 Nov 10 77,056 +3,447 Dec 10 35,587 +644 Totals 242,857 +86

Crude Oil		Heating Oil		Rbob	
Support	Resistance	Support	Resistance	Support	Resistance
	7781	18965	22530	18240	
7367	7866	19236	22700	<b>16010</b>	22345
7307	8100	18920	22945		24880
7260			23775		27085
7190					

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