



ENERGY RISK MANAGEMENT

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ENERGY MARKET REPORT FOR SEPTEMBER 21, 2010

The National Hurricane Center said Hurricane Igor moved northeastward on Tuesday on a track that will pass energy operations in eastern Canada. Meanwhile Tropical storm Lisa formed in the far eastern Atlantic. It was the 12th named storm of the 2010 Atlantic season. Tropical Storm Lisa was located about 530 miles west-northwest of the Cape Verde Islands and posed no immediate threat to land or energy assets. It predicted some strengthening of Tropical Storm Lisa this week but did not see it becoming a hurricane at least through Sunday.

According to a SpendingPulse report released by MasterCard Advisors, US weekly gasoline demand increased by

Market Watch

The US Commerce Department said US housing starts unexpectedly increased by 10.5% in August to a seasonally adjusted annual rate of 598,000. Economists had expected overall housing starts to fall by 0.2% to 545,000 in August. It revised down July's figure to 541,000 from 546,000. Single family housing starts increased in August by 4.3% to an annual rate of 438,000 while building permits increased by 1.8% to a seasonally adjusted annual rate of 569,000.

The Federal Reserve signaled that it is uncomfortable with the recent very low levels of inflation and said they expect the economy's recovery from a deep recession to be modest in the near term. It however deferred taking any new steps to increase the recovery. The fading boost from the fiscal stimulus and growing business uncertainty about taxes and regulation are expected to stimulate growth. Fed officials reaffirmed they expect short term interest rates to remain close to a record low close to zero for an extended period due to low inflation and high unemployment.

Commodity Futures Trading Commission chairman Gary Gensler said it will propose new rules for derivatives clearinghouses and set a deadline for firms to report their swap trades. At a meeting scheduled for October 1st, the commission will vote on proposals to implement the over-the-counter derivatives provisions in the Dodd Frank Wall Street law enacted in July. The CFTC chairman said the agency will propose governance procedures at clearinghouses, exchanges and swap trading platforms. It will also propose rules targeting clearing venues that are deemed systemically important to the US financial market. The Dodd Frank law gives the CFTC and the Securities and Exchange Commission broad new powers to regulate the over-the-counter derivatives market. It will require players in the market to execute many of their deals on trading platforms and route their swaps through clearinghouses. If the swap is not suitable for clearing, then each counterparty to the trade will have to post collateral and abide by stricter capital requirements.

Russia's Finance Minister Alexei Kudrin said Russia will seek to balance its budget by 2015, based on oil at \$70/barrel.

CME Group Inc will introduce derivatives markets tied to volatility in crude oil and grain prices in the fourth quarter. Similar volatility futures for corn and soybean prices are expected to launch in the first quarter of 2011.

The Baltic Exchange's main sea freight index fell to its lowest level in a month on Tuesday. The index fell for the seventh consecutive session by 2.51% or 66 points to 2,562 points. The Baltic's capesize index fell by 4.16% while the Baltic's panama index fell by 0.72%.

API Stocks

Crude – up 2.231 million barrels
Distillate – up 2.509 million barrels
Gasoline – up 2.422 million barrels
Refinery runs – down 0.2% at 85.4%

1.9% or 170,000 bpd to 9.006 million bpd in the week ending September 17th. Gasoline demand fell by 0.9% or 84,000 bpd on the year. In the latest four weeks, gasoline demand averaged 9.034 million bpd. Year to date gasoline demand is up 0.8%. It reported that the US average retail price of gasoline increased by 5 cents to \$2.73/gallon.

The IEA's chief economist, Fatih Birol said the BP oil spill in the Gulf of Mexico will have little or no effect on the medium-term outlook for offshore drilling and supplies. He said that while some projects may be delayed in the short term, the need to increase future oil supplies meant governments will not impose regulations in the wake of the BP spill that caused the oil spill. He also stated that there was little evidence that oil prices between \$70 and \$80/barrel were damaging the economy but he warned producing countries it would be dangerous for them to try and push prices higher.

Iran's President Mahmoud Ahmadinejad said that if the US started a conflict with Iran it would be a war with no limits.

Separately, Iran's Foreign Minister spokesman Ramin Mehmanparast said Iran is ready for talks with world powers in the near future on its nuclear program. During a meeting with Iran's President Mahmoud Ahmadinejad on Sunday UN chief Ban Ki-moon expressed hope that Iran will engage constructively in negotiations with international powers on the nuclear showdown.

Turkey's Trade Minister Zafer Caglayan said that no Turkish banks or companies were in violation of UN sanctions imposed on Iran over its nuclear program. He was reacting to reports that Turkey and other US allies were allowing Iranian banks with suspected links to Iran's nuclear program to conduct business within their borders. Western diplomats are concerned that if Turkey becomes a virtual safe haven for Iranian banking activities, it will be easier for Iran to avoid sanctions.

Refinery News

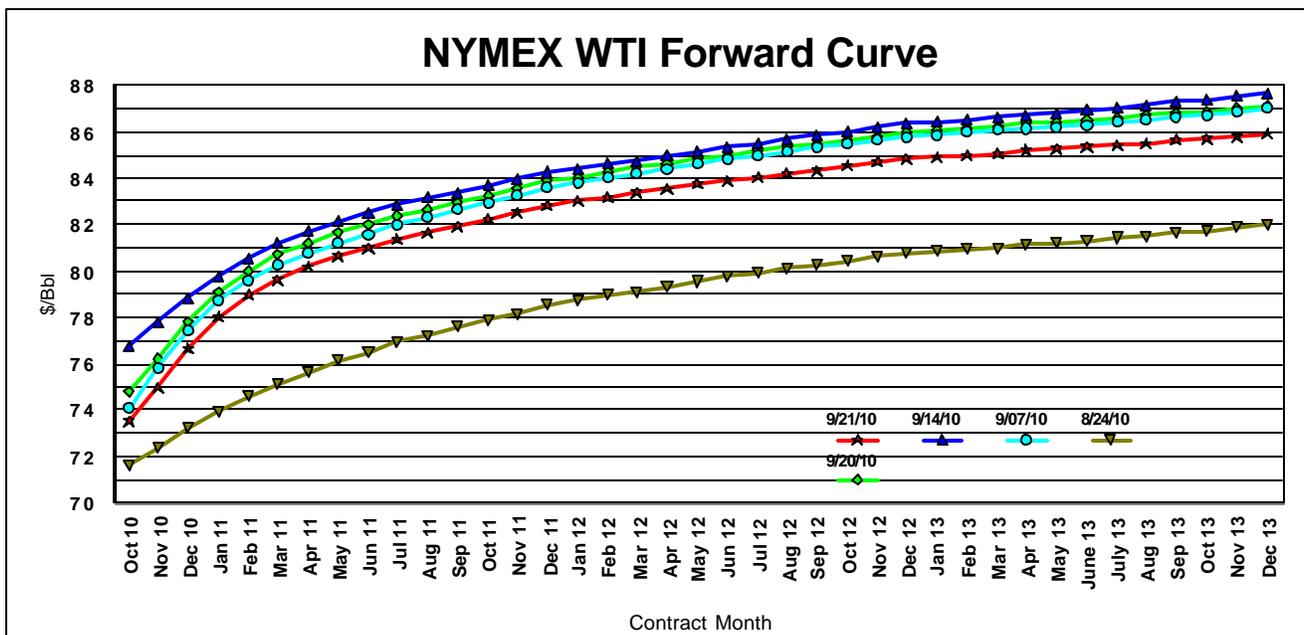
Spain's Cepsa has delayed a 10 day maintenance outage at its 130,000 bpd crude distillation unit at its San Roque refinery until the first week of October. Maintenance on the RZ-300 platforming unit was also postponed until October.

According to Euroilstock, refinery output in Europe fell by 0.6% on the month and 0.2% on the year to 11.819 million bpd in August. It reported that gasoline production fell by 0.7% on the month and by 6.9% on the year to 2.871 million bpd while middle distillate production fell by 0.9% on the month but increased by 0.1% on the year to 5.848 million bpd. Fuel oil production increased by 0.3% on the month but fell by 0.5% on the year to 1.346 million bpd while naphtha production fell by 3.6% on the month but increased by 8.8% on the year to 766,000 bpd. Refinery crude intake increased by 0.1% on the month and by 2.8% on the year to 11.249 million bpd while refinery capacity utilization increased to 85.87% in August from 85.75% in July.

China and Russia agreed to invest about \$5 billion in a joint oil refinery in the Chinese city of Tianjin. The refinery, a joint venture between China National Petroleum Corp and Russia's OAO Rosneft, will have a capacity of 260,000 bpd. The refinery is expected to process crude from Russia and the Middle East. The refinery is expected to purchase 183,000 bpd of crude at spot market prices from Russian companies. Rosneft said the refinery will be completed in 2015 and have a light products yield of more than 80%.

China's General Administration of Customs reported that China's crude oil imports in August reached 20.9 million metric tons or 4.94 million bpd, up 13.2% on the year. It also reported that the country's diesel exports and

**September
Calendar Averages**
CL – \$74.97
HO – \$2.0951
RB – \$1.9383



stocks in August declined from July levels, a trend that will likely continue in September as refiners seek to meet demand. August diesel exports fell by 23 on the month to 396,869 metric tons. Separately, China's Xinhua News Agency reported that China's diesel stocks at the end of August were 7.3% below July levels. It also reported that China's diesel imports in August fell by 37% on the year to 112,456 tons. China's gasoline exports increased by 16% on the month to 366,754 tons due to a domestic supply surplus. Kerosene exports increased by 2.9% on the year to 481,504 tons while imports fell by 12% to 437,772 tons. China imported 1.59 million tons of fuel oil in August, down 2.2% on the year. It reported that China's commercial crude oil stocks at the end of August increased by 3.4% on the month while its commercial oil product stocks fell by 5.4%. It reported that gasoline stocks were down 2.7% on the month, diesel stocks were 7.3% lower and kerosene stocks were down 6% on the month.

Production News

Mexico's Pemex said it returned 75 workers to offshore rigs in the northern Gulf of Mexico following the passage of the Tropical Storm Karl. It said that the 14 offshore wells that were evacuated on Thursday prior to the passage of Karl had completely reestablished production by Tuesday.

A Total executive in Nigeria said that uncertainty over the government's plans for a major overhaul of the country's petroleum industry has cut investment in new projects. He said investors in large projects such as Total's new Usan deepwater offshore field set to start operations in 2012 needed assurance that the terms of contracts would not change after new industry rules take effect. He said the investment decreased because it is unclear how legislation currently before lawmakers would turn out and whether guarantees would be put in place for existing projects.

Nigeria's state oil company has set the official selling price for its benchmark crude Qua Iboe at a premium of \$1.60 over Dated Brent for October. Bonny Light and Brass River Blend crudes were also pegged at a premium of \$1.60 over Dated Brent for October.

Libya's National Oil Co has increased its October official selling prices for its crudes. The price of its benchmark Es Sider crude was increased by 50 cents to a discount of 15 cents to Dated Brent in October.

OPEC's news agency reported that OPEC's basket of crudes increased by 31 cents to \$75.26/barrel on Monday from \$74.95/barrel on Friday.

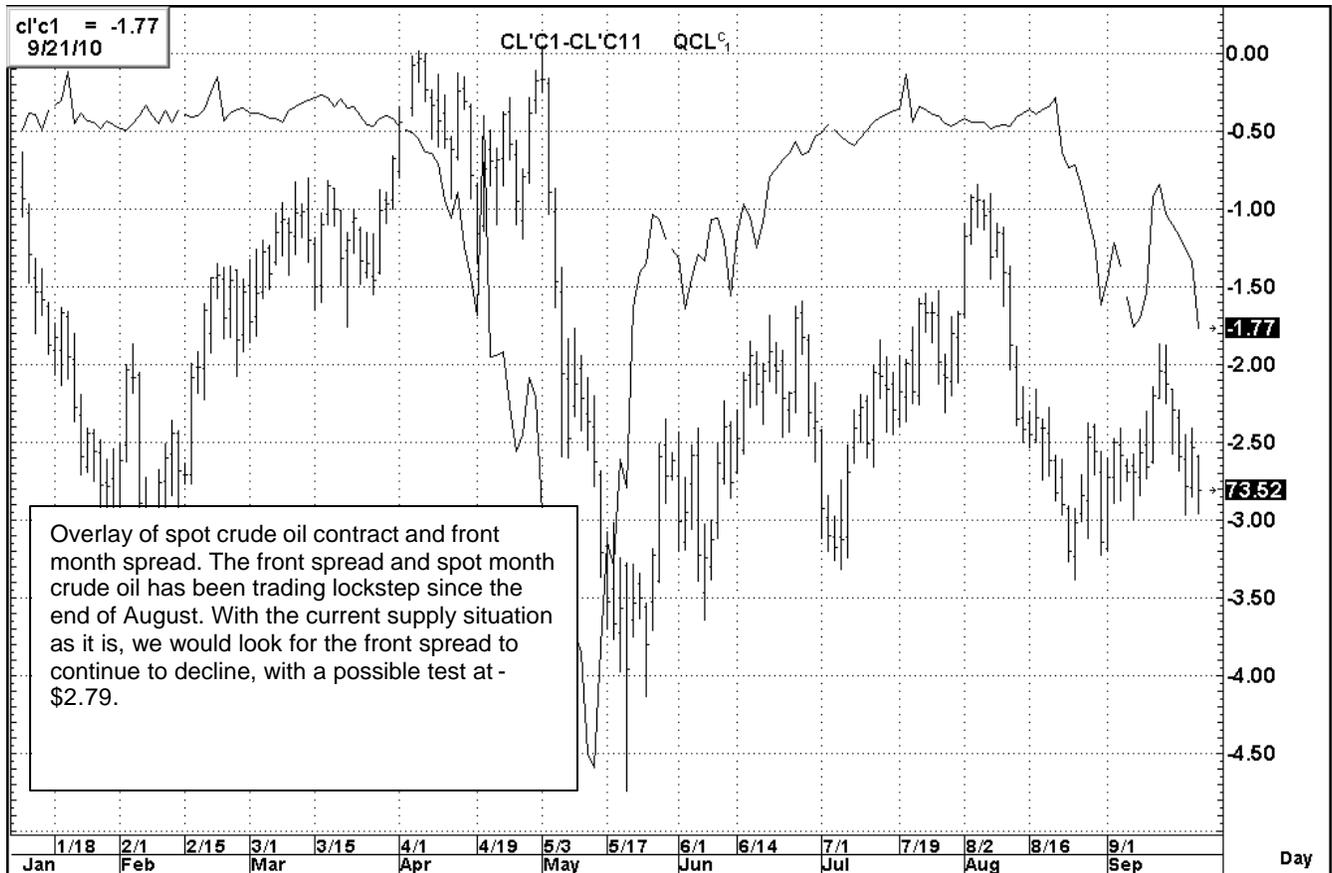
Market Commentary

Crude oil prices resumed their decline, one-day after making gains; with the November contract settling \$1.22 lower on the day. Mixed economic signals continue to make it difficult for traders to confidently buy into this market. Stockpiles of both products and crude oil remain high, leaving reluctant refiners on the sidelines when it comes to running crude oil through their units. Tomorrow's inventory numbers are calling for a decline of 1.7 million barrels in crude oil stocks, with gasoline stocks expected to come in at unchanged and heating oil expected to increase 200,000 barrels. The front month crude oil spread continues to trade deeper into contango, aided by the restart of supplies through Enbridge's pipeline to the Midwest. With supplies of both crude oil and its products running high, this spread should encounter further pressure. Currently, there is key support at -\$1.76 based upon a spot continuation chart for this spread. Should this level become penetrated, we would look for additional moves lower, with the next support level set at -\$2.79.

Crude oil: Nov 10 360,238 +9,858 Dec 10 218,142 -915 Jan 11 79,169 -932 Totals 1,337,747 -20,540 Heating Oil: Oct 10 44,636 -4,888 Nov 10 77,027 +6,346 Dec 10 69,901 +1,294 Totals 330,905 +2,158 RBOB: Oct 10 47,111 -5,963 Nov 10 81,331 +425 Dec 10 39,095 +494 Totals 241,697 -4,366.

The API reported an unexpected build in crude stocks of 2.231 million barrels on the week. It reported builds of 1.189 million barrels and 1.898 million barrels in Padds 1 and 5, respectively. It reported the build in crude stocks as imports increased by 313,000 bpd to 9.22 million bpd. It also showed that crude runs fell by 19,000 bpd to 14.663 million barrels on the week. The API reported a larger than expected build in distillate stocks of 2.509 million barrels, with a build of 2.131 million barrels in Padd 1. The API reported the build in distillate stocks as apparent demand fell by 9.9% on the week and by 8% on the year to 4.21 million bpd while apparent demand basis its three week moving average fell by 3.5% on the week but increased by 7.2% on the year to 4.407 million bpd. The API showed that distillate stocks also built as production and imports increased by 51,000 bpd or 1.2% to 4.305 million bpd and by 61,000 bpd or 30.2% to 263,000 bpd, respectively. The API also reported an unexpected build in gasoline stocks of 2.422 million bpd, with a build of 1.643 million barrels in Padd 3 alone. It reported that gasoline imports increased by 110,000 bpd or 43.7% to 171,000 bpd. It reported the build in gasoline stocks as apparent demand fell by 5% on the week to 8.76 million bpd while apparent demand basis its three week moving average fell by 2.6% to 9.023 million bpd.

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



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