



ENERGY RISK MANAGEMENT

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ENERGY MARKET REPORT FOR SEPTEMBER 28, 2010

The National Hurricane Center said a tropical depression formed south of Cuba on Tuesday. It forecast that the system will strengthen into a storm later in the day. The NHC said the tropical depression is about 180 miles south of Havana and is moving to the north-northeast at 10 mph. The system is expected to cross Cuba Tuesday night and move near the southeast Florida coast by Wednesday afternoon. The system is however not expected to gain hurricane strength.

Qatar's Oil Minister Abdullah al-Attiyah does not expect OPEC to make any changes in its production output quotas when the group meets on October 14th. He said it was difficult to predict global economic growth for next year and whether there would be any need to increase oil output to meet rising demand. He also said that an oil price of \$70 to \$80/barrel was very comfortable for consumers.

Market Watch

US consumer confidence in September fell to its lowest level since February, driven by the deteriorating labor market and business conditions. The Conference Board said its index of consumer confidence fell to 48.5 in September from a revised level of 53.2 in August. It reported that consumers' one year inflation expectation fell to 4.9% from 5% the previous month. The expectations index fell to 65.4 from 72 last month while the present situation index fell to 23.1 from 24.9 in August.

Single-family home prices fell in July and are seen stabilizing near the lows. The S&P/Case Shiller composite index of 20 metropolitan areas fell by 0.1% in July from June on a seasonally adjusted basis. The fall followed a 0.2% rise in June, which was revised down from a 0.3% increase.

The CFTC may soon propose rules on how large traders report their positions in over-the-counter swaps, data needed to set new limits on speculation. The CFTC does not yet have enough information on OTC positions that would help it set appropriate limits.

The Financial Times reported that Mexico is expected to hedge its crude exports next year at about \$65-\$70/barrel. The volume the country will hedge in 2011 will be less than 200 million barrels, down from 230 million barrels in 2010. It said Mexico paid \$1.172 billion this year for options that guarantee it a minimum \$57/barrel but was unlikely to have any gains as oil prices have traded above that level this year.

Royal Dutch Shell and Italian refiners are maintaining crude oil trade with Iran while other oil majors and refiners are halting their trade with the country amid UN imposed sanctions. A Shell spokesman said the company was complying with all legislation. Among major oil companies, BP has cut its exposure to Iranian crude and last week sources said Portugal's Galp scaled back its purchases. Britain's Guardian newspaper reported that Shell bought \$1.5 billion worth of crude oil from the National Iranian Oil Co.

API Stocks

Crude – down 2.415 million barrels
Distillate – down 2.814 million barrels
Gasoline – up 3.018 million barrels
Refinery runs – down 1.8% at 83.6%

According to a SpendingPulse report by MasterCard Advisors LLC, US gasoline demand fell by 0.3% to 8.978 million bpd in the week ending September 24th. The 28,000 bpd decline put demand at a four year low for the week. Demand was down 194,000 bpd or 2.1% on the year. In the last four weeks, demand averaged 8.99 million bpd, down 0.7% on the year. It reported that the US average retail price of gasoline fell by 2 cents to \$2.71/gallon on the week.

**September
Calendar Averages**
CL – \$75.19
HO – \$2.1016
RB – \$1.9368

Refinery News

Explorer Pipeline allocated capacity for diesel and gasoline north of Tulsa, Oklahoma through the end of October. It said the allocation on cycles 28 to 30 will not affect batches scheduled for the Magellan pipeline originating in Tulsa, Oklahoma.

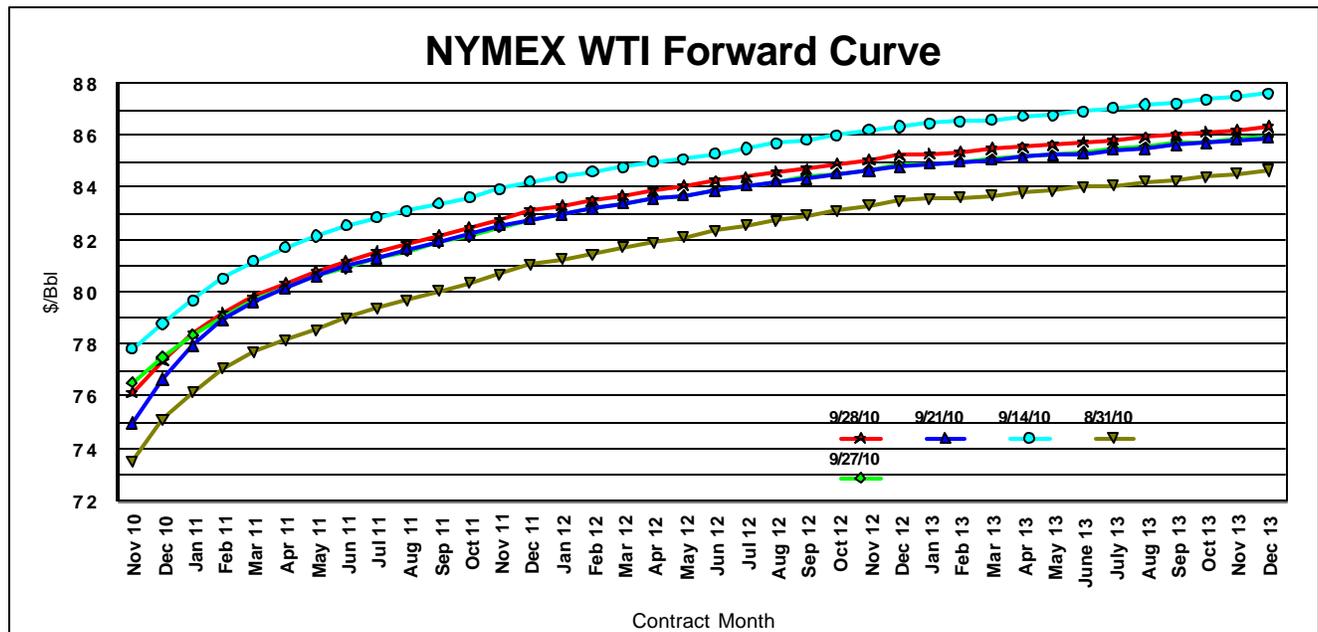
Valero Energy Corp expects the sale of its 195,000 bpd refinery in Paulsboro, New Jersey to close some time in the fourth quarter. PBF Energy, a refining venture controlled by private equity companies Blackstone Group and First Reserve, said it agreed to buy the refinery for \$360 million.

A spokeswoman at the Marseille Port Authority said striking workers at the Fos-Lavera hub were blocking 30 vessels from entering the port. There were 16 oil product vessels and 8 crude oil tankers. Port workers at the Fos-Lavera oil hub started a rolling strike on Monday to secure job guarantees as part of a port reform.

Japan’s Cosmo Oil Co restarted its 100,000 bpd crude distillation unit at its Sakai refinery following the completion of planned maintenance. Meanwhile its 100,000 bpd crude distillation unit No. 1 at its Chiba refinery is undergoing maintenance from September 13th to November 8th and its 50,000 bpd crude distillation unit No. 5 at its Yokkaichi refinery is scheduled to undergo maintenance on October 13th to November 4th.

India’s Reliance Industries shut a 330,000 bpd crude unit at its 660,000 bpd refinery in western Gujarat state for about a month.

Indonesia’s Pertamina is scheduled to shut a 200,000 bpd crude distillation unit at its Balikpapan refinery in early October. The unit is scheduled to shut down for two weeks.



China's Ministry of Commerce said the country is increasing non-state import quotas for both crude and fuel oil for 2011 by 15% from this year's levels, in line with the country's commitments as a member of the World Trade Organization. The government is setting the crude oil import quota for non-state oil traders next year at 29.1 million metric tons and the fuel oil import quota at 16.2 million tons.

Iran's Oil Ministry website SHANA reported that Iran started exporting gasoline. An official at the National Iranian Oil Co said the first shipment of gasoline was exported from Iran. He said by producing gasoline in some petrochemical complexes, Iran reached self sufficiency in gasoline and will soon export more gasoline shipments.

Mercuria has cancelled two tankers provisionally booked this week to carry 220,000 tons of Asian gas oil to Europe for early and end of October loading. It cancelled the fixtures due to tightening East-West arbitrage economics.

Shell won the majority of Rosneft's spot Urals tender for delivery from Primorsk. Shell was awarded four 100,000 ton Urals vessels for delivery in October while Gunvor, Vitol and BP won one vessel each.

Production News

According to a Reuters survey, OPEC's oil production in September has fallen to the lowest level since November 2009 because of reduced output from Angola and declines from the UAE and Iran. Supply from the 11 OPEC members bound by quotas, excluding Iraq, averaged 26.63 million bpd in September, down from a revised level of 26.87 million bpd in August. Total OPEC supply fell by 60,000 bpd to 29.07 million bpd. It reported that Angola's oil production fell by 210,000 bpd to 1.59 million bpd while the UAE cut its production by 20,000 bpd to 2.27 million bpd and Iran cut its output by 20,000 bpd to 3.63 million bpd. Iraq's oil production increased by 180,000 bpd to 2.44 million bpd.

Iraq's cabinet approved a \$733 million contract for oil export expansion to Leighton Offshore Private Ltd. The project is expected to increase Iraq's oil export capacity from the southern city of Basra to 3 million bpd from 1.8 million bpd.

Iraq's Oil Ministry accused provincial officials and local police of raiding an oilfield developed by China's CNPC in southern Wasit province in a dispute over oil contracts. Security at oilfields is a primary concern for the Iraqi government as it tries to increase production. Provincial officials went to the field on Sunday to investigate complaints about contracts Iraq had signed with CNPC. However the Oil Ministry said al-Ahdab was a sovereign site subject to the control of the federal government only.

ExxonMobil said the start of a new field at its Sakhalin-1 project will keep its output relatively flat next year by offsetting a production decline at an older field. It said the older Chayvo field is expected to produce 125,000 bpd next year, down from 150,000 bpd this year. The new field, Odoptu, will produce 30,000 bpd in 2011, bringing total Sakhalin-1 output to 156,000 bpd, up 8% from 144,000 bpd expected this year.

India's Oil Minister said the country is seeking additional supplies of crude oil from Kuwait. India currently purchases 11 million tons/year of crude from Kuwait. Meanwhile, Kuwait's Oil Minister Sheikh Ahmad al-Abdullah al-Sabah said Kuwait is willing to consider raising long term crude supplies to India but wants to use its own vessels to ship the crude.

Royal Dutch Shell Plc said it was close to completing a program that would make all its 112 oil wells in Ogoni community in the Niger Delta less vulnerable to attacks and theft.

OPEC's news agency reported that OPEC's basket of crudes increased slightly to \$75.06/barrel on Monday from \$75.01/barrel on Friday.

Market Commentary

Weak gasoline demand pressured crude oil, sending the November contract to a \$75.53 low. Prices fell as much as 61 cents late in the session after a report by MasterCard Inc. indicated that gasoline demand fell 0.2 percent during the week of September 24. This market should continue to experience choppy trading sessions as it reacts to both the equities market and the underlying fundamentals. With supplies sitting where they are, it is difficult to believe that any signs of strength will be sustained. We would much rather be sellers than buyers at this point in time and would remain so until definitive signs of steady demand growth appears. From a technical standpoint, choppy sideways trading activity should remain, with key resistance set at \$78.00.

Crude oil: Nov 10 352,137 +1,175 Dec 10 231,047 +12,902 Jan 11 97,007 -2,017 Totals 1,334,661 +16,364 Heating oil: Oct 20,554 -7,720 Nov 10 92,873 +1,376 Dec 10 71,322 +232 Totals 328,942 -4,191 Rbob: Oct 10 21,111 -6,736 Nov 10 96,003 +3,940 Dec 10 40,581 +2,104 Totals 239,022 +846

Crude Oil		Heating Oil		Rbob	
Support	Resistance	Support	Resistance	Support	Resistance
	7727	19236	22530	18240	
7367	7800	18965	22700	16010	22345
7307	7866	18920	22945		24880
7260	8000		23775		27085
7190	8130				

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