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ENERGY RISK MANAGEMENT

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ENERGY MARKET REPORT FOR OCTOBER 4, 2011

Iran's Oil Minister Rostam Qasemi said Iran will call on other OPEC members to maintain their output quotas at their next meeting.

Meanwhile, Qatar's Oil Minister Mohammed al-Sada said Qatar sees no need yet for OPEC to meet before its next scheduled meeting in December.

However he stated that OPEC is monitoring closely the impact on oil demand of slowing economic growth and debt crisis in Europe. He said concerns over the debt crisis in the euro zone were pushing oil prices lower, rather than issues related to supply and demand. Separately, a member of Kuwait's Supreme Petroleum Council said Kuwait is not worried about

Market Watch

Goldman Sachs Group Inc cut its Brent crude price forecast for 2012 after its economists cut their global GDP projections. It expects global GDP growth to fall to 3.5% from its previous estimate of 4.3%. Goldman Sachs lowered its 2012 forecast for Brent crude to \$120/barrel from a previous estimate of \$130/barrel. It also cut its forecast for WTI crude to \$109/barrel from its previous estimate of \$123.50/barrel. It said the price gap between Brent and WTI crude may narrow as new rail and barge capacity help to prevent bottlenecks. It expects the Brent premium over WTI to narrow to \$16/barrel by the end of the year and to \$6.50/barrel in the next 12 months. Brent is currently trading \$26.76 above WTI. It said in the long term, the price gap will narrow due to the large amount of new rail capacity due to come online by the second quarter of 2012. In addition, barge transportation capacity could increase by 30,000 bpd by mid-next year in Kansas and Oklahoma.

Meanwhile Barclays Capital reiterated its forecast of \$115/barrel for Brent crude in 2012. An analyst at Barclays said the macro-economic situation is unlikely to be as grim as predicted.

The US Commerce Department said new orders for US factory goods fell in August for the second time in three months. It said orders for manufactured goods fell 0.2% after a downwardly revised 2.1% increase in July.

The International Council of Shopping Centers and Goldman Sachs reported that US chain store sales in the week ending October 1st increased 0.1% on the week and by 3.7% on the year to 516.8.

Federal Reserve Chairman Ben Bernanke said the Fed's latest step to help the US economy should bring down long term interest rates by about 20 basis points. He said its decision to increase its share of long term government bonds should provide some moderate support to the economy. The Fed is selling \$400 billion of its US Treasury securities maturing in the next three years and replacing them with longer term bonds. He called on Congress and the White House to do their part to help. He also told US lawmakers that Europe's ongoing debt crisis can significantly hurt the US economy even though US banks have a limited direct exposure to Greece and other troubled euro-zone countries. He added that China's undervalued currency is hurting the global recovery.

The European Central Bank abandoned plans to reduce troubled banks' dependency on its funding after it failed to find a suitable solution and due to fears it would reduce pressure on governments to resolve the problems. The ECB was working on plans for over 18 months in a bid to steer itself away from the emergency support of the banking sector. A source said the view is that as Emergency Liquidity Assistance money lent to banks is underwritten by national central banks rather than the ECB, it keeps the necessary pressure on governments to solve the problems rather than shifting the responsibility to the ECB.

The euro zone is on track to secure approval for modifications to its bailout fund by a summit on October 18th, although Slovakia, one of three countries in the 17 country bloc yet to ratify the changes, remains an obstacle. Slovakia's Finance Minister said its parliament will vote on extending the powers of the 440 billion euro European Financial Stability Fund next week, just days before European leaders meet in Brussels on October 17th. National leaders agreed on July 21st to give the EFSF the power to provide precautionary loans to countries at risk from financial market pressure and to buy sovereign bonds in the secondary market to help support struggling states. The EFSF, used to bail out Ireland and Portugal, will also be allowed to lend governments money to recapitalize banks. Apart from Slovakia, the Netherlands and Malta still have to approve the changes.

CME Group's daily trading volume in September fell 18% on the month following a record level in August. It said its daily volume in September averaged 14 million contracts, up 16% on the year. It reported that its energy volume fell 4%.

API Stocks

Crude – down 3.069 million barrels
Distillate – down 1.966 million barrels
Gasoline – down 4.969 million barrels
Refinery runs – down 1%, at 84.9%

the fall in oil futures and sees no need for OPEC to take action as prices are still relatively high. He said the current decline in oil prices is likely to be temporary and does not require any action from either Kuwait or OPEC.

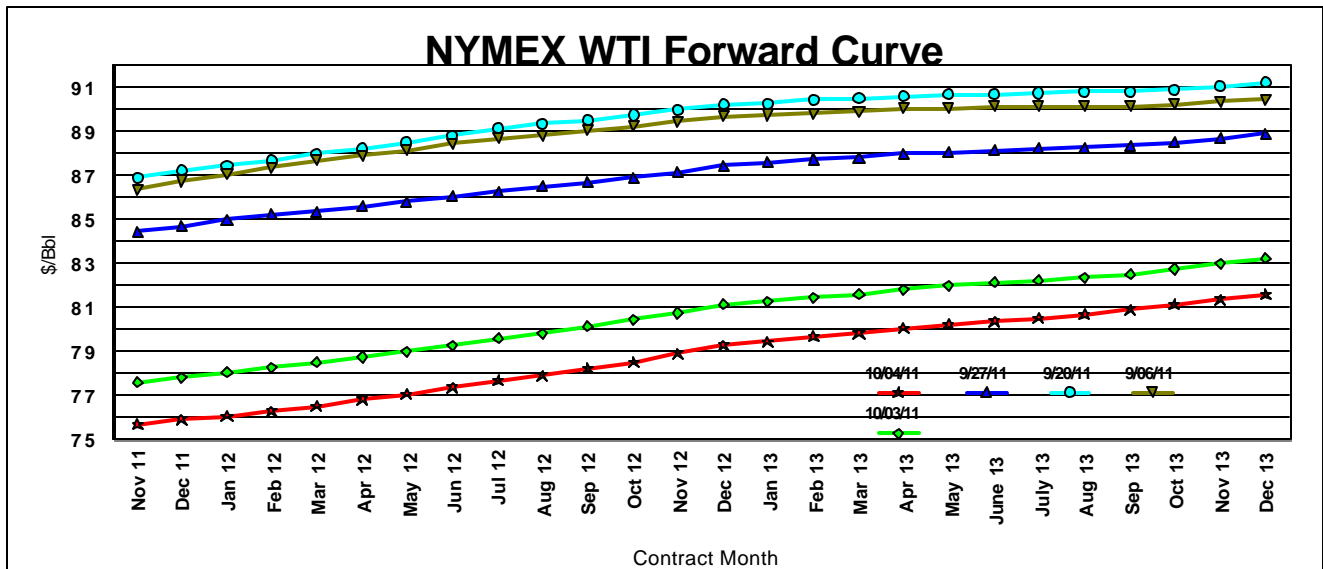
The chief economist of the IEA, Fatih Birol said he is very concerned about the health of the global economy and added that he is closely watching current consumption data in Europe, the US and emerging countries like China and India. Separately, the IEA said global subsidies for fossil fuel consumption are set to reach \$660 billion in 2020 unless reforms are passed to effectively eliminate this form of state aid. The IEA estimated subsidies at \$409 billion in 2010 compared with \$312 billion in 2009. It said eliminating fossil fuel consumption subsidies by 2020 would cut global energy demand by 5% and reduce carbon emissions by nearly 6% by then.

According to a SpendingPulse report released by MasterCard Advisors LLC, US gasoline demand in the week ending September 30th increased 0.9% or 81,000 bpd on the week to 8.815 million bpd. The increase followed three declines in the past four weeks. Gasoline demand was however down 2.9% or 260,000 bpd on the year. The four week gasoline demand fell by 2.5% on the year to 8.746 million bpd. It reported that gasoline prices averaged \$3.46/gallon, the lowest level since March 4th.

A National Research Council report said the US will likely fail to reach its long term mandate for making advanced ethanol from non-food crops and harvest waste by 2022, unless producers develop unexpected innovations in the next few years. The US mandate calls for 15 billion gallons of ethanol made from traditional sources such as corn, 4 billion gallons of advanced biofuels and 16 billion gallons of cellulosic from sources including wood, grasses or crop waste by 2022.

**October
 Calendar Averages**
CL - \$76.64
HO - \$2.7382
RB - \$2.4997

Saudi Arabia blamed an unnamed foreign power for inciting unrest in its Eastern Province. Saudi Arabia's Interior Ministry said 14 people had been injured during the clashes on Monday night. The ministry vowed to use "an iron fist" against anyone who compromised the country's security. Monday night's protests were caused by the arrest of two elders. Saudi Arabia has accused Iran of seeking to expand its influence across the Middle East through its link with the Shi'ite populations of Iraq, Lebanon and Bahrain.



Canada's Natural Resources Minister Joe Oliver said the country is concerned by a report the European Commission has approved including oil from Alberta's tar sands in a proposed green ranking of fuels. The ranking of fuels is designed to enable suppliers to identify the most carbon intensive options. Canada has strongly fought the move, which it says unfairly singles out oil from the tar sands. It said Canada would not hesitate to defend its interests if oil from the oil sands was discriminated against.

Bart Chilton, a commissioner at the CFTC said traders who use computer algorithms to buy and sell shares should be required to register with the US CFTC. He said most of the high frequency traders are not registered with regulators. He called on the CFTC's other four commissioners to move forward with a rule that would require these traders to be registered next year. He estimated that in the US more than 90% of the trading is done electronically and high frequency traders account for about half of the trades in Europe and about a third in the US.

The US EPA said a Maryland man has been charged with selling \$9 million in renewable fuel credits purportedly produced by his company Clean Green Fuel, LLC. He was charged with wire fraud, money laundering and violation of the Clean Air Act in connection to trade in renewable identification numbers or RINs.

Refinery News

Enbridge Inc expects to restart its 283,000 bpd Line 6B oil pipeline, which runs from Griffith, Indiana to Sarnia, Ontario, late on Tuesday afternoon, less than a day after a power outage at a pumping station forced the line to close. It said repairs are underway and the shutdown is expected to have minimal effect on the line's shippers.

Turnaround maintenance on a flexicoker unit at ExxonMobil Corp's 560,640 bpd refinery in Baytown, Texas has been completed. The flexicoker is the last of several process units to return to service from turnaround maintenance that started in mid-July.

Petrobras said its 100,000 bpd Pasadena, Texas refinery remained out of service following a fire on Friday. The refinery's crude distillation unit was damaged by the fire.

Sunoco Inc shut a crude unit and a reformer unit at its 178,000 bpd refinery in Marcus Hook, Pennsylvania for two weeks of work.

Valero Energy Corp said six weeks of scheduled turnaround maintenance is underway at its 100,000 bpd refinery in Three Rivers, Texas. It started performing maintenance on its crude distillation unit and fluid catalytic cracking unit in late September.

PBF Energy's Delaware City refinery reported an ongoing release of materials from a cat cracker. The company is working to repair the problem with its boiler.

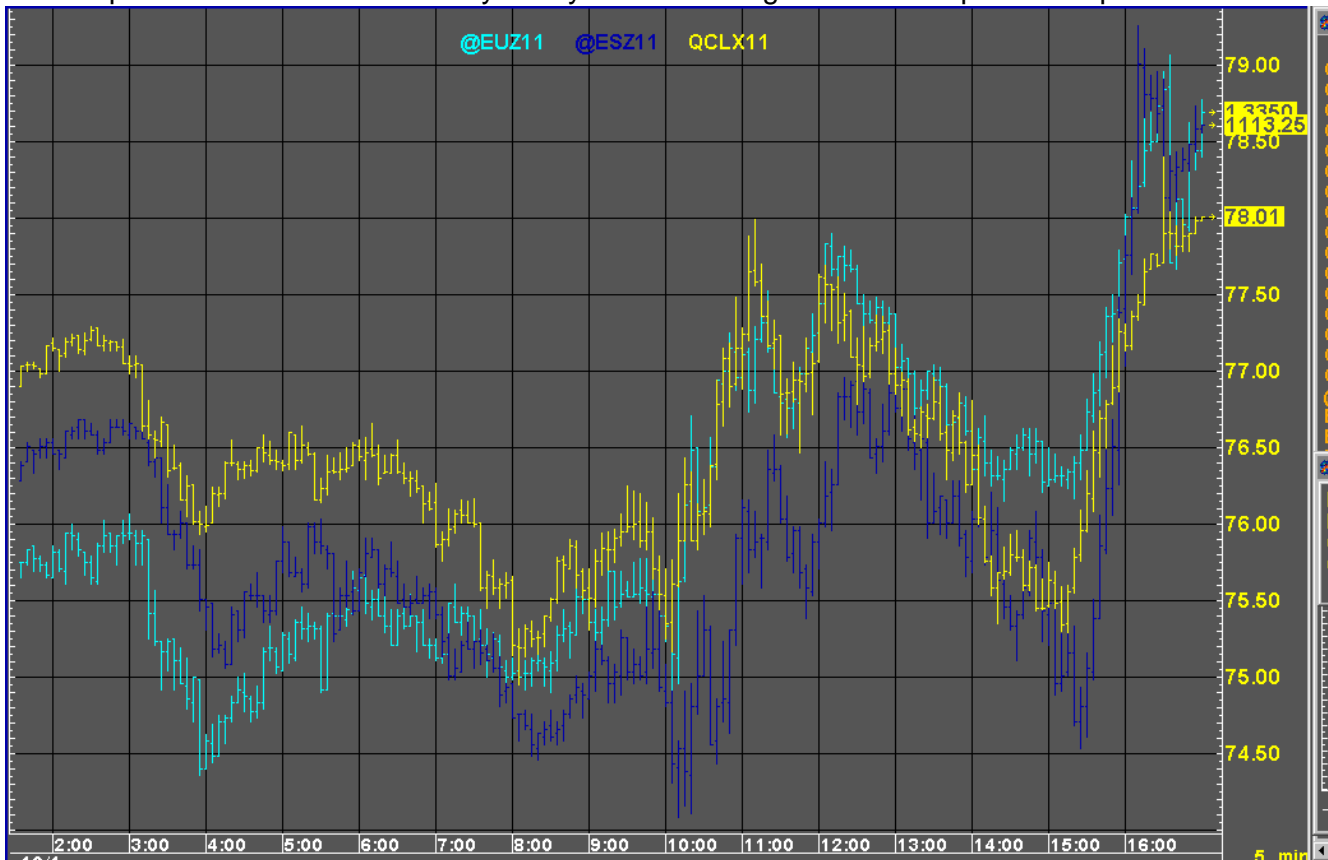
Chevron Corp is building a base oil plant at its 330,000 bpd Pascagoula, Mississippi refinery. It said the new project, which is expected to be completed by the end of 2013, would double its premium base oil production.

Planned maintenance activity in October at Hovensa's refinery in St. Croix is not expected to affect the company's ability to meet customer commitments. The maintenance work, scheduled to take place at a crude unit, a reformer unit and a coker unit at the 350,000 bpd refinery is expected to last for two to four weeks.

Japan's JX Nippon Oil & Energy Corp is still on track to restart refining at its 145,000 bpd Sendai refinery in northern Japan next March. The refinery was shut following the earthquake and tsunami on March 11, 2011. Separately, the company said it shut the 27,000 bpd desulfurizing unit at its Kashima refinery on Saturday due to a fire. It is unclear when the company can restart the unit.

Taiwan's Formosa Petrochemical Corp is restarting a residual fluid catalytic cracking unit at its refinery after it was shut at the end of July due to a fire. It is also restarting a naphtha cracker at its petrochemical complex next week instead of this week due to delays in maintenance work. Its refining capacity this month is seen at 400,000-420,000 bpd or 78% of total refining capacity.

India's Hindustan Petroleum Corp has postponed maintenance shutdowns at its Mumbai and Visakhapatnam refineries and to early next year to meet high demand for petroleum products.



Kazakhstan plans to build the country's fourth oil refinery by 2019 to meet increasing domestic fuel demand. Kazakhstan currently has three refineries with a combined capacity to process 14.5 million tons of crude per year. Meanwhile, Kazakhstan plans to increase its annual crude exports to 110 million tons by 2020 from 72 million tons forecast for this year. The country's westward crude oil exports via an expanded Caspian Pipeline Consortium would almost double by 2020. Shipments to China are expected to almost double to 20 million tons from 11 million tons forecast this year.

Royal Dutch Shell has offered to buy back all the distillate cargoes that it has been unable to deliver and has declared force majeure on due to a fire at its refinery in Singapore last week. Shell made the offer under an agreement known as a book out to Singapore trader Hin Leong, European trader Glencore, BP and JP Morgan for the gas oil and jet fuel cargoes totaling 1.48 million barrels originally scheduled for loading on September 29-October 11.

Estonia's main oil loading port, the port of Tallinn, shipped 1.815 million tons of oil products in September, down 13.4% on the year and down from 1.89 million tons loaded in August.

Low water levels in the Rhine River may lead German households to postpone the restocking of their heating oil tanks for winter as high freight costs add to already strong fuel prices. The combination of weak euro/dollar and recent high temperatures in Europe has slowed German demand. German households usually restock their heating oil tanks in autumn but thus far have held off doing so this year.

Production News

Libya's Es-Sider terminal should be ready to resume exports within two and a half months. The chairman of Libya's National Oil Co, Nuri Berruien said it will take two months maximum to ready the port for exports and then about two weeks to fill the tanks for the first shipment. The damaged Es-Sider terminal normally loads more than 300,000 bpd of production.

The Norwegian Petroleum Directorate said Norway's oil production will continue to decline despite a recent oil discovery that may be the third largest ever. The Avaldsnes/Aldous Major South find may hold 1.2 billion to 2.6 billion barrels of oil equivalent.

A Kuwaiti OPEC delegate said Kuwait's oil production increased to 2.87 million bpd in September compared with 2.8 million bpd in August due to an increase in market demand.

Italy's Eni sees production at the offshore Bouri field in Libya restarting late October or early November.

Brazil's National Petroleum Agency reported that the country's crude oil production fell in August by 1.2% on the month and 1.3% on the year to 2.052 million bpd due to planned maintenance work at several offshore platforms. The country's natural gas production fell to 66.5 million cubic meters/day from 66.9 million cubic meters/day in July but increased from 62.5 million cubic meters/day last year.

India's Oil and Natural Gas Corp aims to raise its crude oil production by 14.6% by March 2014 to 28 million tons or 560,000 bpd and its gas production by 58% to 36.5 billion cubic meters by March 2017.

Kazakhstan is expected to produce 80.4 million tons in 2011 and increase to 132.1 million tons by 2020. Kazakhstan's KazMunaiGas plans to increase its oil production to 33.7 million tons by 2020 from this year's expected 22.1 million tons. It is expected to increase its output to 24.4 million tons by 2015.

Abu Dhabi National Oil Co posted the official selling price of its Murban crude at \$110.90/barrel retroactively for September term supply, up \$1.85/barrel from the previous month.

OPEC reported that the OPEC basket of crudes fell below \$100/barrel for the first time since February. The average price fell to \$99.65/barrel on Monday, down \$1.92/barrel from Friday's level.

Market Commentary

Crude oil dipped to its lowest level since September 2010, as fear over the global economy mounted. Prices momentarily turned around, responding to statements by U.S. Federal Reserve Chairman, Ben Bernanke, that the central bank would take action, if necessary. For the short term, we would look for a bit of a technical rebound, with a test up around \$80.90, the 38.2% retracement between \$90.52 and \$74.95. Additional moves to the downside should bring an attempt to trade at \$63.94, the 62% retracement from \$114.83 and \$32.48.

The crude market though remains firmly in sync with the currency and equities market again today following these two markets significantly higher after the close. (see chart)

Crude oil: Nov 11 293,342 -7,046 Dec 11 225,142 +572 Jan 12 124,073 -111 Totals 1,415,058 +2,165 Heating oil: Nov 11 98,728 -5,013 Dec 11 63,940 -558 Jan 12 39,229 -126 Totals 326,475 -2,653 Rbob: Nov 11 86,711 +111 Dec 11 58,298 +1,341 Jan 12 26,358 -117 Totals 266,485 +3,314

Crude Oil		Heating Oil		Rbob	
Support	Resistance	Support	Resistance	Support	Resistance
7570	7964	26975	32777	24670	33369
7487	8500	26680	33370	24240	35915
7365	8817	27375	33510	23631	36310
6970	9060	23685		23414	
6423	9122	22960			
6394	9726				
	9872				
	10071				
50-day MA	86.17				
200-day MA	95.08				

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