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## ***ENERGY RISK MANAGEMENT***

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### **ENERGY MARKET REPORT FOR OCTOBER 5, 2010**

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OPEC's Secretary General Abdalla El Badri said world oil demand is expected to grow to 106 million bpd by 2030 compared with the current 86 million bpd. He said that demand is increasing for energy in all its forms, whether wind power, hydroelectric power, solar energy or nuclear energy but oil will continue to dominate the world energy market until 2050.

The National Hurricane Center said the chance of a low pressure system north of the Virgin Islands will strengthen into a tropical depression over the next 48 hours increased to 60% from 50%. Computer models forecast the disturbance will not threaten the Gulf of Mexico. Elsewhere, the NHC said an area of low pressure in the Atlantic Ocean about 950 miles east of the eastern Caribbean Islands still had no chance of strengthening into a depression over the next 48 hours.

#### **Market Watch**

The Institute for Supply Management said the US non-manufacturing sector expanded at a higher than expected pace in September. The ISM's non-manufacturing purchasing managers' index increased to 53.2 in September from 51.5 in August. The business activity/production index fell to 52.8 from 54.4 in August. The new orders index increased to 54.9 in September from 52.4.

Chicago Federal Reserve Bank President Charles Evans said the US Federal Reserve should do more monetary easing to spur an economic recovery.

The European Union's statistics office Eurostat said Euro zone retail sales in August fell by 0.4% on the month but increased by 0.6% on the year. Consumer demand is weak because unemployment in the euro zone is at an almost 12 year high of 10.1% and is expected to rise further.

South Korea's Finance Ministry said the country's industrial output is expected to post limited growth in September from the previous month on sustained export growth and higher production by major industries. Industrial output in August fell by a seasonally adjusted 1% from July.

The International Monetary Fund said global financial stability in the past six months has been set back by sovereign debt risk in Europe and continued real estate problems in the US. It trimmed its estimate of total global bank write downs related to the financial crisis between 2007 and 2010 to \$2.2 trillion from its April estimate of \$2.3 trillion.

Nobel Prize winning economist Joseph Stiglitz said ultra loose monetary policies by the US Federal Reserve and the European Central Bank are bringing chaos rather than helping the global economic recovery.

Germany's Chancellor Angela Merkel supported a French plan for tighter controls on commodity trading, deepening an alliance against financial speculators by the euro zone's top two economic powers. France and Germany may also struggle to persuade their global partners to back their position.

### API Stocks

**Crude** – up 4.442 million barrels  
**Distillate** – down 777,000 barrels  
**Gasoline** – down 4.059 million barrels  
**Refinery runs** – down 2%, at 81.6%

According to a SpendingPulse report by MasterCard Advisors LLC, US weekly gasoline demand increased by 1.1% to 9.075 million bpd in the week ending October 1<sup>st</sup>. Demand was down 152,000 bpd or 1.6% on the year. In the last four weeks, demand averaged 8.974 million bpd, down 1.5% or 140,000 bpd on the year. It reported that the US average retail price of gasoline fell by 2 cents to \$2.69/gallon.

### Refinery News

The US Coast Guard said the northern portion of the Houston Ship Channel will not reopen before Wednesday morning. It had previously expected to reopen the channel Tuesday night as it works to remove power lines and a leaning electrical tower that threatens to topple over into the waterway following a barge collision on Sunday morning. The work to remove the tower is now expected to last until late Tuesday or early Wednesday. As of Tuesday morning, there were 28 vessels waiting to enter the port and 20 in line to leave.

Valero Energy Corp and Royal Dutch Shell said that their Houston refineries were unaffected by the Houston Ship Channel shutdown. LyondellBassel said its Houston refinery operations were normal.

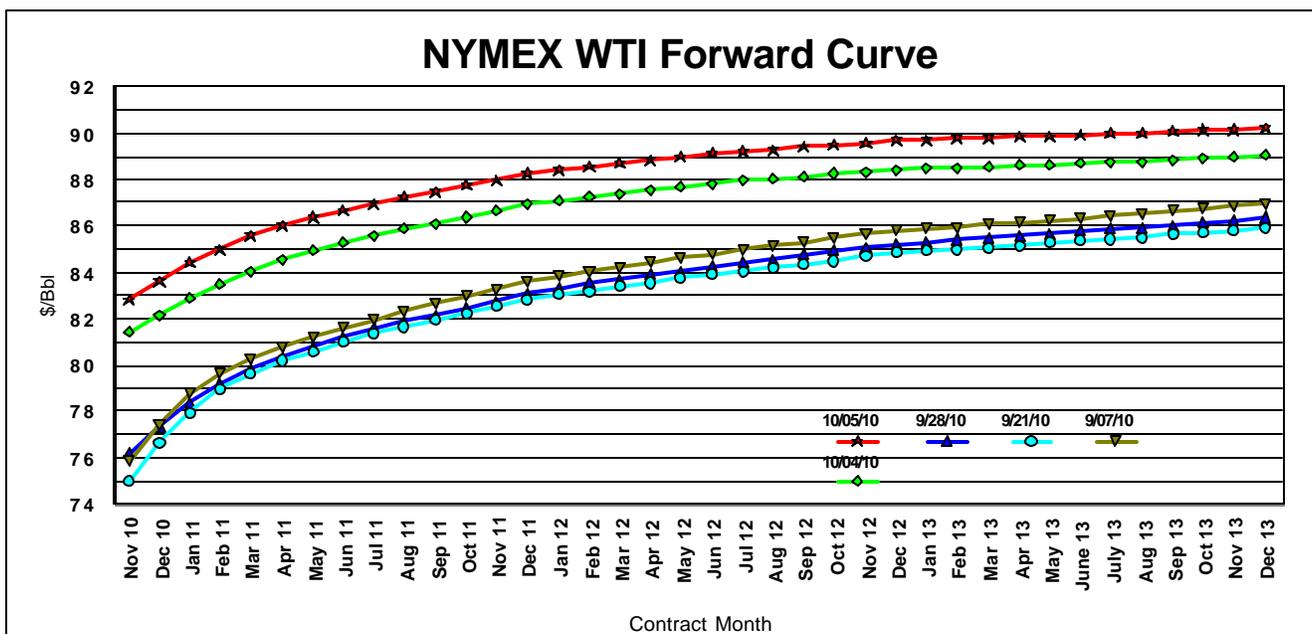
The Marseille port authority said the Fos-Lavera strike in its 9<sup>th</sup> day is blocking 15 refined product vessels and 15 oil tankers. The strike at the oil terminal will continue on Wednesday. The strike is expected to halt output at Total's crude distillation unit at its Feyzin plant on October 12<sup>th</sup> if the strike continues. The strike is expected to halt output at Petroplus' Reichstett refinery by the end of next week.

Shell Oil Co reported flaring at its 156,400 bpd refinery in Martinez, California due to repairs on the flare system.

**October  
Calendar Averages**  
CL – \$81.96  
HO – \$2.2937  
RB – \$2.1016

Enbridge Inc said it is planning a new pipeline to help move crude from the Cushing, Oklahoma terminal to Houston, Texas. It said the new line could initially move 150,000 bpd to the Houston area from Cushing. The line, called Monarch, could be expanded to as much as 350,000 bpd.

Explorer Pipeline Co said it canceled a planned shutdown on some parts of its pipeline on Monday. It said some terminal destinations were full. It also said its pipelines were full north of Tulsa, Oklahoma.



Blueknight Energy Partners LP expects to complete its Eagle North pipeline reactivation project in the fourth quarter, connecting Valero Energy Corp's Ardmore refinery with the Cushing, Oklahoma terminal for the first time. The pipeline could carry up to 32,000 bpd of crude oil.

Venezuela's PDVSA has shut its 104,000 bpd catalytic cracking unit at its Amuay refinery for repairs that should take two weeks. A source said processing would be increased at the Cardon refinery to compensate.

Japan's Cosmo Oil Co said a 24,000 bpd fluid catalytic cracking unit at its 100,000 bpd Sakai refinery has been closed for a few days due to technical problems.

Shipbrokers and traders said more than 200,000 tons of Asian diesel have been provisionally booked for October loadings for shipment to Europe, in addition to the 735,000 tons booked earlier for September-October liftings. Europe is also importing diesel cargos from the US Gulf Coast, with some 400,000 tons poised to land in northwest Europe in the first half of October.

Indonesia's PT Pertamina is increasing its gasoline imports in October to about 8.5 million barrels, up from a planned 7.4 million barrels. It also plans to import 3.5 million barrels of gasoil in November, down from the planned 5 million barrels in October.

Georgia's Black Sea port of Batumi shipped 294,663 tons of crude and refined products in September, down 42.6% on the month and 42% on the year.

Estonia's main oil loading port, the Port of Tallinn, shipped 2.096 million tons of oil products in September, up 17% on the year but down from 2.308 million tons loaded in August. Total loadings for the first nine months of the year stood at 27.3 million tons compared with 23.3 million tons a year ago.

ConocoPhillips reported a malfunction on a coking unit at its 146,000 b/d joint venture in Borger, Texas.

### **Production News**

Statoil ASA has shut production from its Oseberg South crude oil platform in the North Sea for repairs. It shut the platform on September 20<sup>th</sup> after detecting some exhaust leakage from one of the platform's injection compressors. About 25,000 bpd of oil output has been shut in.

Husky Energy Inc said it will start a 16 day turnaround at the White Rose oilfield in Newfoundland on Wednesday.

Norway's Ministry of Petroleum and Energy said the country's total oil production is expected to fall to 2.2 million bpd in 2010, down 5% from 2009. Norway projected in its 2011 draft budget that oil and gas output would fall to 231 million cubic meters of oil equivalent or 1.45 billion barrels in 2011 from 234 million cubic meters in 2010.

Kazakhstan's Minister of Oil and Gas Sauat Mynbayev said the country plans to produce 130 million tons of crude oil and gas condensate in 2020.

Ecuador's central bank said the country's oil exports fell to 290,000 bpd in August from 323,000 bpd in July.

Plains Exploration & Production Co's sales volumes increased by 5% to 89,000 bpd of oil equivalent in the third quarter. The Eagle Ford Shale property is expected to have a net resource potential between 140 million and 175 million barrels of oil equivalent. Separately, India's Reliance Industries

ended talks with Chesapeake Energy Inc over a stake in the US company's position in the Eagle Ford Shale property.

Abu Dhabi National Oil Co posted the official selling price of its Murban crude at \$75.90/barrel retroactively for September term supply, up \$1.30 from the previous month.

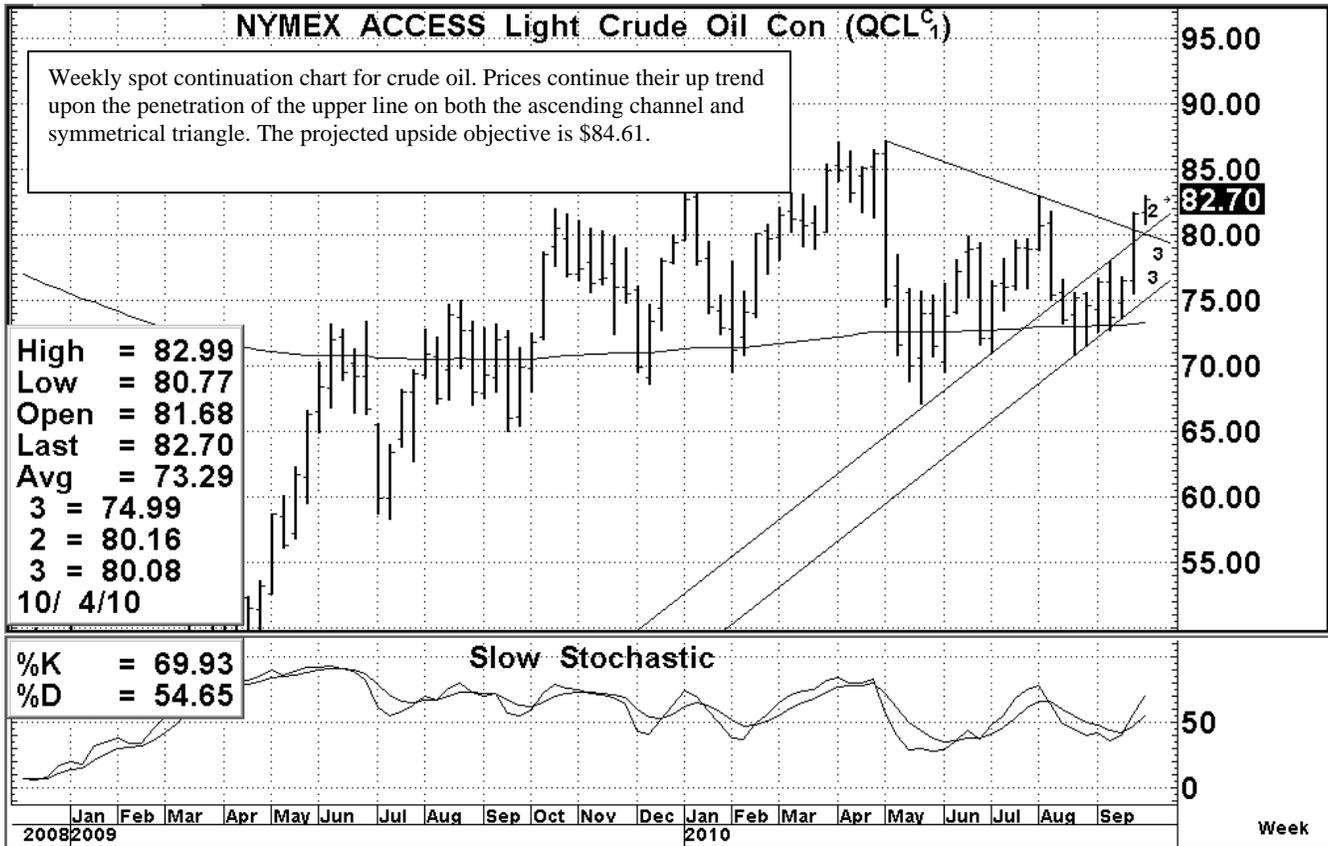
OPEC's news agency reported that OPEC's basket of crudes increased by 43 cents to \$79.95/barrel on Monday from \$79.52/barrel on Friday.

**Market Commentary**

Crude oil settled up 1.6 percent, increasing on thoughts that the Japan Central Bank's decision to keep the benchmark interest rate at "virtually zero" would spread to other central banks. Expectations are that the U.S. Federal Reserve Bank would do the same, which in turn pressured the dollar, bringing additional interest to commodities as a financial hedge. Crude oil reached an eight-week high, topping the day at \$82.99 late in the session. Strikes in France continued to delay shipments into the Port of Marseille, France's biggest oil port. As of now there are reportedly 44 ships, of which 15 are crude tankers and 14 oil-product carriers that have yet to make it to port. The Houston Ship Channel remained closed and is not expected to reopen until tomorrow, awaiting repairs to a tower damaged when a ship ran into it. This caused power cables to fall. There are 15 tankers awaiting arrival at the Houston port and ship channel. These two factors also gave strength to the market. All-in all the true underlying fundamentals remain the same. This market is still heavy in supply as demand struggles. For this reason, we believe that without any steady shift in the supply/demand scenario, this market will continue to find difficulty in maintaining strength. Technically, this market should continue to work higher, trading towards the projected \$84.61 upside objective.

Crude oil: Nov 10 320,419 -7,565 Dec 10 232,917 -3,037 Jan 11 111,397 +4,952 Totals 1,367,601 +136 Heating oil: Nov 10 105,801 -1,636 Dec 10 79,488 +143 Jan 11 47,725 +1,837 Totals 341,127 +1,002 Rbob: Nov 10 104,290 -394 Dec 10 49,765 +921 Jan 11 30,023 -38 Totals 257,229 +3,629

Crude Oil		Heating Oil		Rbob	
Support	Resistance	Support	Resistance	Support	Resistance
7945	8461	19236		18240	
7865	8610	18965	23775	<b>16010</b>	22345
7727	8715	18920			24880
7367					27085
7307					



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