



## ***ENERGY RISK MANAGEMENT***

Howard Rennell, Pat Shigueta,  
& Karen Palladino  
**(212) 624-1132 (888) 885-6100**

**www.e-windham.com**

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### **ENERGY MARKET REPORT FOR OCTOBER 7, 2010**

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The National Hurricane Center was monitoring a low pressure system in the western Caribbean Sea that had a low chance of strengthening into a depression over the next 48 hours as it heads south away from the Gulf of Mexico.

While high oil prices may prompt OPEC to increase its oil production, helping to calm the markets and limit damage to the economy, OPEC is unlikely to agree to a formal change in output when it meets in Vienna next week.

Genscape reported that oil inventories at Cushing, Oklahoma fell by 674,681 barrels to 36.84 million barrels in the week ending October 5<sup>th</sup>. It estimated that crude tanks in Cushing were filled to 71% of capacity as of Tuesday, down

#### **Market Watch**

The US Labor Department reported that initial claims for unemployment benefits fell to a near three month low last week. Initial claims fell by 11,000 to a seasonally adjusted 445,000, the lowest level since the week ending July 10<sup>th</sup>. Economists had forecast claims would increase to 455,000 from the previously reported 453,000. It reported that the four week moving average of unemployment claims fell by 3,000 to 455,750. The number of continuing claims fell by 48,000 to 4.46 million in the week ending September 25<sup>th</sup>. The insured unemployment rate fell to 3.5% from 3.6% the prior week.

According to Thomson Reuters, US retail same-store sales increased by 2.8% in September compared with a forecast of a 2.1% increase.

Kansas City Federal Reserve Bank President Thomas Hoenig, who has dissented against the US central bank's easy money policies, said he opposes any additional easing. He said the recovery proceeding modestly and reiterated his belief that the Fed should raise benchmark rates to 1% and hold to see how the recovery proceeds.

European Central Bank President Jean-Claude Trichet said economic recovery in the euro zone will continue at a moderate pace in the second half of the year with the underlying momentum remaining positive. He also stated that it is more important than ever that exchange rates reflect economic fundamentals and excessive volatility of such rates is best avoided. He said excess volatility and disorderly movements in exchange rates have adverse effects for economic and financial stability. The ECB and European governments have shown little sign of action to cap recent gains for the euro, in contrast to policies in Japan, China and the US which have led to warnings of a currency war of competitive devaluations. The EU is expected to keep the urging China to revalue the yuan even though China may not respond to foreign pressure.

The Baltic Exchange's main sea freight index increased for the first time three day of this week to reach its highest level since September 17<sup>th</sup>. The BADI increased over 7% from October 1<sup>st</sup> to October 6<sup>th</sup>, reaching 2,639 points on Wednesday on strong Chinese demand for iron ore.

The National Oceanic and Atmospheric Administration said the weather phenomenon known as La Nina is expected to strengthen in November-January. La Nina conditions are expected to start weakening early in 2011 but are expected to last at least into spring 2011 in the northern hemisphere.

**October  
Calendar Averages**  
**CL – \$82.15**  
**HO – \$2.2881**  
**RB – \$2.1158**

from 72% in the previous week.

An oil industry executive said US oil explorers are talking about forming a new insurance fund that would cover the costs of any future oil spill to avoid a scenario where smaller companies are unable to drill offshore. Some analysts have predicted that the oil spill could cause a shakeout with smaller companies being forced to sell because new regulations force them to seek insurance cover which may be either unobtainable or unaffordable.

The head of Russia’s state-controlled conglomerate Russian Technologies, Sergei Chemezov said Russia plans to pay Iran about \$800 million to compensate for its failure to deliver S-300 missile systems. Russia’s President Dmitry Medvedev banned the delivery of the missiles to Iran last month, saying that sending them would violate sanctions imposed by the UN Security against Iran.

**Refinery News**

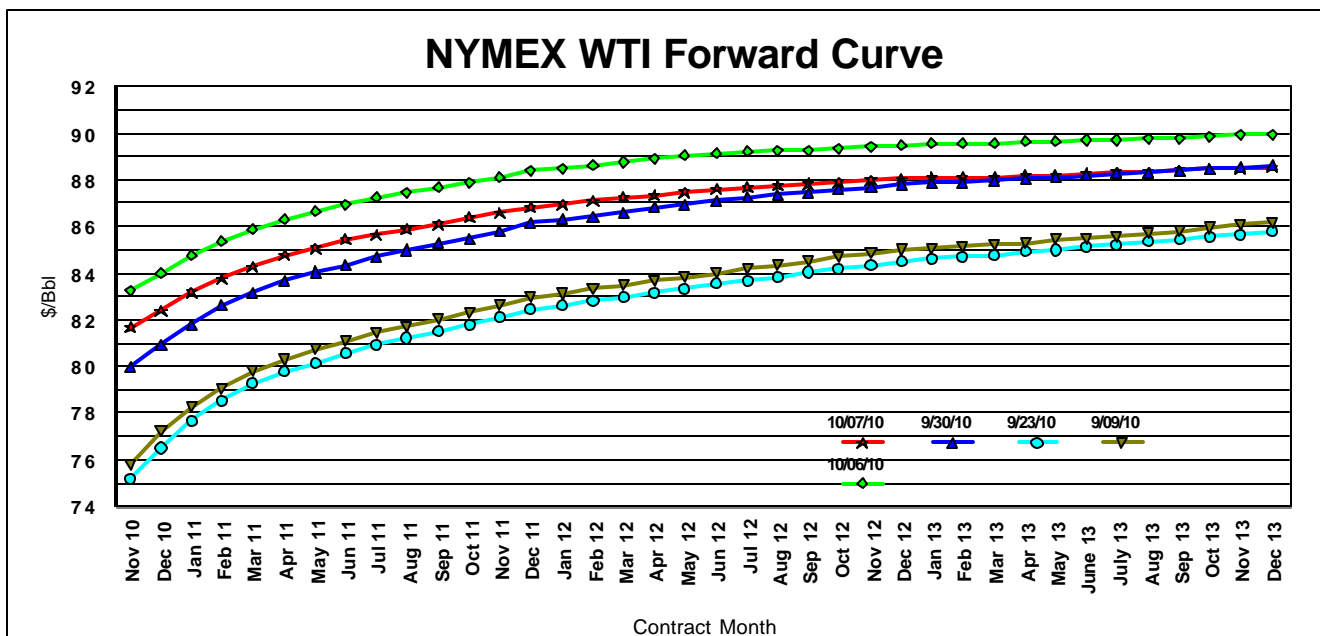
The US Coast Guard said no ships were waiting to leave the Houston Ship Channel on Thursday morning while 33 ships were waiting to enter the waterway. There are 12 more ships than on an average day waiting to move into the channel following its closure for three days due to downed power lines.

Valero Energy Corp expects no lingering impact on operations at its 140,000 bpd Houston, Texas refinery from the closure of the Houston Ship Channel.

Tesoro Corp extended an overhaul of a fluid catalytic cracking unit at its 166,000 bpd refinery in Martinez, California. The unplanned repairs started in late September and were originally expected to last a week, finishing up on Wednesday but are now expected to last at least another week. Tesoro Corp also delayed the restart of its 120,000 bpd Anacortes, Washington refinery, which has been shut since a deadly April explosion, causing LA wholesale gasoline prices to rally 5 cents.

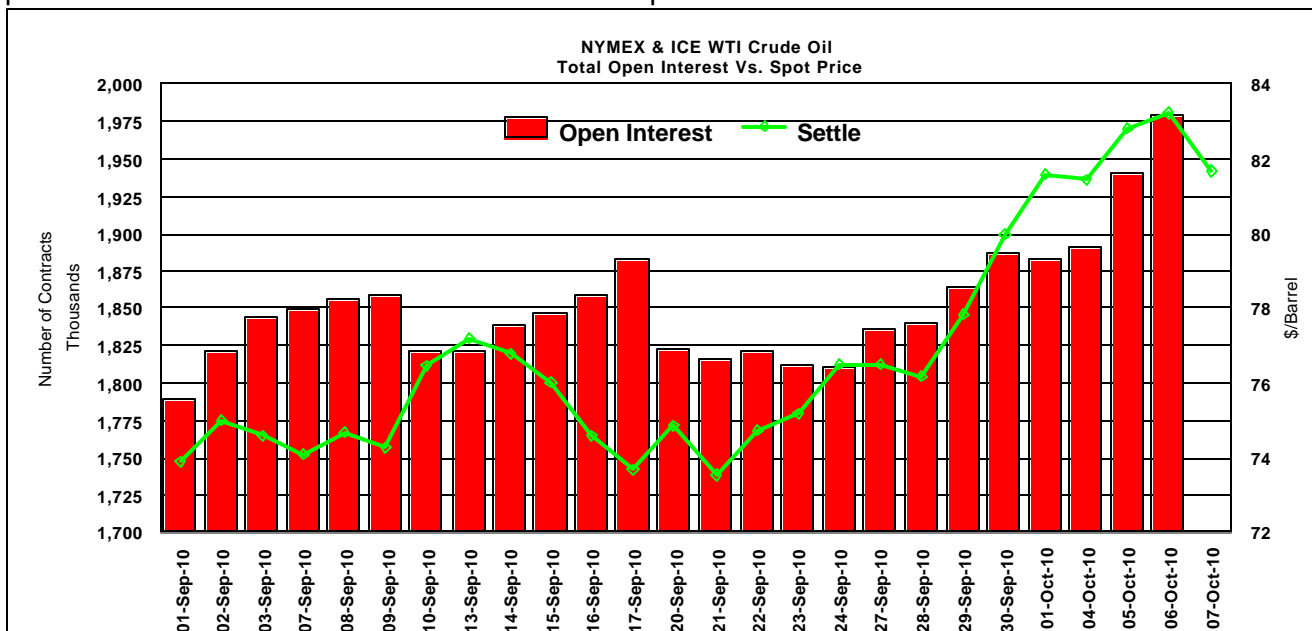
ConocoPhillips said the shut down of a third party hydrogen plant caused flaring at its 120,000 bpd Rodeo, California refinery.

A CGT union representative said local port and refinery workers stopped blocking the access road to



the oil depot at the Fos-Lavera oil terminal in southern France, enabling trucks to resume loading oil. However the representative said the strike, which was blocking the terminal for 11 days, is likely to continue on Friday. As of Thursday morning, at least 51 vessels were prevented from unloading their cargo due to the strike. Among the ships, there are 11 natural gas tankers, 18 crude oil tankers, 15 refined oil products tankers, 4 chemical product tankers and three barges. Separately, the CGT union called for an open-ended strike in the petrochemical industry starting October 12<sup>th</sup> in protest over a planned pension reform.

LyondellBasell Industries said workers at its 105,000 bpd Berre l'Etang refinery were not on strike on Thursday. Meanwhile, workers at Ineos Plc's 207,000 bpd refinery ended their 8 hour strike on Thursday after joining the strike action at the Fos-Lavera oil terminal. The French refiners body Union Francaise des Industries petrolieras or Ufip said refineries in the Fos-Lavera area did not halt production due to the strikes but reduced their output to the lowest levels.



Hovensa said it will likely restart its 150,000 bpd fluid catalytic cracking unit at its 550,000 bpd St. Croix refinery during the next 24 hours. The unit was shut late Wednesday due to complications related to a severe thunderstorm.

PDVSA said the 12 million barrel Bonaire oil terminal in the Caribbean should be operational again by Thursday following a major fire a month ago. The terminal was closed after a thunderstorm caused a fire on September 8<sup>th</sup>.

Kuwait plans to shut down its 200,000 bpd Shuaiba refinery for maintenance in April next year. The Kuwait National Petroleum Co is also planning a major turnaround at its 460,000 bpd Mina al-Ahmadi refinery in November to December for 25 days.

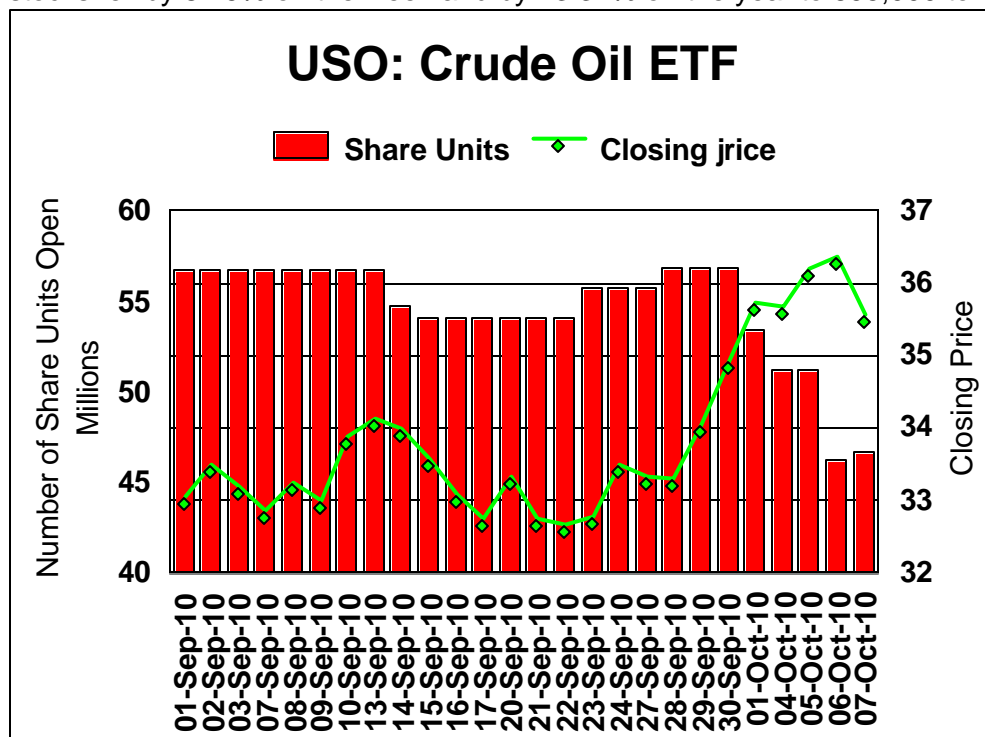
Japan's Cosmo Oil Co will likely cut its crude refining capacity to 460,000 to 500,000 bpd by the 2013/14 financial year from the current 550,000 bpd to meet a regulation calling for more efficient refining. The regulation calls for refiners to increase their ability to process heavy oil into lighter oil products by March 2014 by either building new residue cracking units or scrapping refining capacity.

A crude oil pipeline in the UAE that aims to bypass the Strait of Hormuz and is scheduled for completion by year end, faces a six month delay due to design changes. The Abu Dhabi Crude Oil Pipeline project, with a capacity of 1.5 million bpd, would allow the UAE to increase its exports from its

Fujairah terminal on the Gulf of Oman. The pipeline would link Abu Dhabi National Oil Co's Habshan oilfields to the port of Fujairah.

India's Essar Oil Ltd plans to export at least 205,000 metric tons of gasoil in October because of an extended monsoon season, which led to flooding in northern India and weaker domestic demand.

Gasoline inventories in independent storage in the Amsterdam-Rotterdam-Antwerp area in the week ending October 7<sup>th</sup> fell by 3.26% on the week but increased by 14.41% on the year to 889,000 tons. Gas oil stocks increased by 0.91% on the week but fell by 15.17% on the year to 2.45 million tons while fuel oil stocks fell by 15.58% on the week but increased by 58.22% on the year to 780,000 tons. Naphtha stocks fell by 44.44% on the week and by 78.81% on the year to 25,000 tons while jet fuel stocks fell by 8.19% on the week and by 23.37% on the year to 695,000 tons.



Singapore's International Enterprise reported that the country's residual fuel stocks fell by 269,000 barrels to 21.899 million barrels in the week ending October 6<sup>th</sup>. It also reported that the country's light distillate stocks built by 92,000 barrels to 12.275 million barrels and middle distillate stocks fell by 173,000 barrels to 12.938 million barrels on the week.

**Production News**

The November loading program for Danish North Sea DUC crude oil is set at 4.2 million barrels, down 600,000 barrels on the month.

Barclays Capital said Iraq's decision to increase its proven oil reserves figure by 25% to 143 billion barrels will make almost no difference to its ability to increase production over the next 10 years. It stated that Iraq's physical and political infrastructure is not in place to increase output.

OPEC's news agency reported that OPEC's basket of crudes increased by \$1.37/barrel to \$81.51/barrel on Wednesday.

**Market Commentary**

The oil market settled sharply lower on Thursday after the market retraced its recent gains on the renewed strength in the dollar. The energy complex, which found support from a weakening dollar in recent days, traded lower amid a rebound in the dollar against the euro and a basket of other currencies combined with a fall in the equities markets. The oil market posted an outside trading day as it traded off its high of \$84.43 to a low of \$81.00 ahead of the close. It settled down \$1.82 at \$81.44. Meanwhile, the product markets also ended the session in negative territory, with the heating oil market settling down 5.6 cents at \$2.2518 and the RBOB market settling down 3.79 cents at

\$2.118. The heating oil market retraced more than 38% of its move from a low of \$2.0943 to a high of \$2.3341 as it sold off to a low of \$2.2404. Similar to the crude market, the RBOB market posted an outside trading day as it traded off a high of \$2.2011 to a low of \$2.105. The oil market will remain driven by the dollar's move. Technically, the crude market is seen finding support at \$80.29, its 38% retracement level from a low of \$73.58 to its high of \$84.43, followed by \$79.01, its 50% retracement level and \$77.72, its 62% retracement level. Resistance is seen at \$82.00, \$83.50, \$84.43 and \$84.61.

Crude oil: Nov 10 314,185 -4,465 Dec 10 252,700 +12,561 Jan 11 124,858 +4,957 Totals 1,435,056 +27,123 Heating oil: Nov 10 99,011 -3,727 Dec 10 75,798 -708 Jan 11 49,695 +1,042 Totals 334,519 -2,502 Rbob: Nov 10 98,399 -1,816 Dec 10 54,955 +2,029 Jan 11 30,776 -137 Totals 262,267 +2,696

Crude Oil		Heating Oil		Rbob	
Support	Resistance	Support	Resistance	Support	Resistance
8100	8461	22142	23338	21050	21550
8029	8610	21859	23341	20756	22011
7901	8715	21382	23775	20368	22225
7772		20943		19980	22345

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