

W The
Windham Group



ENERGY RISK MANAGEMENT

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

www.e-windham.com

ENERGY MARKET REPORT FOR OCTOBER 11, 2010

Saudi Arabia's Oil Minister Ali al Naimi said he is satisfied with oil markets and prices, hinting no action is necessary when OPEC meets on Thursday. He said the market is very well balanced.

Market Watch

OPEC said in a statement to the International Monetary Fund's advisory body Saturday that demand for its crude was only forecast to grow next year by 200,000 bpd as the world financial crisis continues to take a toll on the economy. Total demand is expected to increase by 1 million bpd next year, with the majority of new demand coming from emerging countries such as China and India and in Latin America. Non-OPEC supply is expected to increase by 900,000 bpd this year and by 400,000 bpd in 2011.

The chairman of Libya's National Oil Corp, Shokri Ghanem said OPEC will not change its output quotas when the group meets on Thursday but stressed that he wants to see crude oil at \$100/barrel by year end as rising commodity prices erode the group's terms of trade. He said the real value of oil is eroding while the prices of food and other commodities are rising. He said some OPEC members are content with crude in the \$70-\$80/barrel range but others, including Libya, are not. Meanwhile, Iran's OPEC Governor Muhammad Ali Khatibi said Iran does not expect any change in quotas at OPEC's meeting this week. Separately, Qatar's Oil Minister Abdallah al Attiyah said that the recent oil price strength was partially due to speculation and that crude trading around \$80/barrel was not a concern.

According to Euroilstock, inventories of crude oil and oil products in 16 European countries in September fell by 1.9% on the month to 1.124 billion barrels. Crude oil inventories fell by 2.7% on the month to 466.47 million barrels while gasoline stocks increased by 0.5% on the month to 111.61 million barrels and middle distillate stocks fell by 2.3% on the month to 400.5 million barrels. Fuel oil stocks increased by 1.5% on the month to 111.48 million barrels while naphtha stocks fell by 3.7% on the month to 34.32 million barrels. Crude intake fell by 0.4% on the month to 11.203 million bpd.

Refinery News

The difference between Gulf Coast and New York Harbor gasoline and diesel fuel pricing differentials has widely opened the arbitrage between the two hubs thereby filling Colonial Pipeline's mainline refined products transportation pipelines to capacity and forcing the company to freeze nominations for shipment on two cycles. Colonial froze gasoline and distillate product nominations for cycle 57 and cycle 59.

Several oil refineries were close to halting production as the country prepared for nationwide strikes on Tuesday. The French oil industry crisis entered a third week on Monday as strikers at the Fos-

**October
Calendar Averages**
CL – \$82.23
HO – \$2.2859
RB – \$2.1279

Lavera oil port voted to continue the strike action for a 15th day. Total SSA said over the weekend that more than half of the capacity at its La Mede oil refinery was idled and that it would fully shutdown in a couple of days. Workers at Petroplus' 154,000 bpd Petit Couronne plant in northern France started a 24 hour stoppage on Monday morning, with fuel supplies being blocked and output reduced. The Marseilles port authority said fifty-six ships were blocked Monday due to an ongoing strike at the Fos-Lavera oil terminal in southern France. Strikers are protesting national harbor reform and preventing the unloading of 56 ships, including 20 crude oil tankers, 17 refined oil product tankers, 12 natural gas tankers, four chemical product tankers and three barges. Separately, the Confederation General du Travail, a French labor union warned that power grid supplies may be reduced and in some cases cut on October 12 due to nationwide strike action to protest planned changes in the French state pension system.

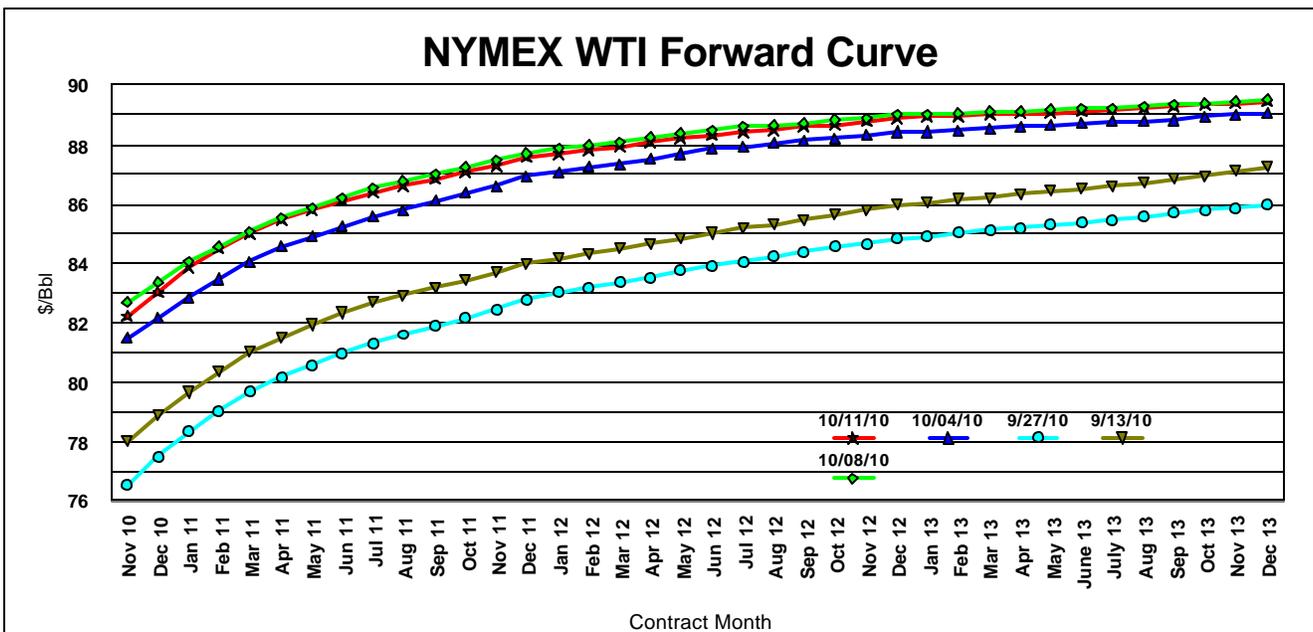
Gulf Coast Fractionators, a partnership between ConocoPhillips, Devon Energy Corp and Targa Resources Partners LP announced plans to expand the capacity of its natural gas liquids fractionation facility located in Mont Belvieu, Texas. The maximum gross fractionation capacity of the facility will be expanded by about 42% or 43,000 bpd to 145,000 bpd.

China's oil product stocks fell significantly in September due to strong domestic demand. A preliminary estimate by refiners has put the decline in fuel stocks around 10%. Both gasoline and diesel stocks fell, with diesel posting a larger decline amid strong automotive sales and high diesel demand from the power and agricultural sectors.

PetroChina Co has found commercial oil flows at wells in the Mobei oilfield in the Xinjiang Autonomous region of Northwest China and it expects to add new crude oil reserves of tens of millions metric tons. Junggar Basin is estimated to have 8.6 billion tons of crude oil resources and 2.1 trillion cubic meters of natural gas but currently only 21.4% of the oil and 3.64% of the gas have been proven.

A cargo of Omani crude stored in China is expected to load around October 20th and head to the US West Coast. Valero Energy Corp booked the Yasa Scorpion to load crude from China.

The Baku-Tbilisi-Ceyhan oil pipeline is expected to pump 23.25 million barrels of crude in November,



down 3.3 million barrels on the month. November loadings will amount to 775,000 bpd compared with 856,452 bpd in October.

Production News

Saudi Aramco has left its November term crude oil allocations for European buyers unchanged.

Production of benchmark BFOE crude, a basket of Brent, Forties, Oseberg and Ekofisk grades, will total 37.4 million barrels or 1.25 million bpd in November compared with 37.7 million barrels or 1.2 million bpd in October.

Iran said its proven oil reserves have increased by 9% to 150.31 billion barrels, partly due to new discoveries. Iran's Oil Minister Masoud Mirkazemi said oil reserves are at 150.31 billion barrels, up from a previous estimate of 138 billion barrels.

Separately, the managing director at National Iranian Oil Co, Ahmad Ghalebani said Iran will increase its output capacity by 60,000 bpd when two new oilfield projects, the Darkhovian and Jofair oil fields, come on stream in the next 30 days.

Russia's OAO Surgutneftegaz is planning to extract 61 million metric tons or 447 million barrels of oil in 2011 compared with 59.5 million tons and 60 million tons in 2010.

Colombia's oil licensing agency, ANH said the country's oil production in September increased to about 798,000 bpd, up 17.3% on the year. Colombia's Mines and Energy Minister Carlos Rodado previously stated that he expected the country's oil production to average 767,000 bpd for 2010.

Petroecuador exported 9.2 million barrels or 305,812 bpd of crude in September, up 32% on the year. Exports of Oriente crude totaled 6.5 million barrels in September while exports of Napo crude totaled 2.67 million barrels.

Venezuela has formally approved China's involvement in a joint venture to tap 400,000 bpd of oil from Junin Block 4 in the Orinoco extra heavy crude belt region. China National Petroleum Corp has a 40% stake in Junin block 4, where production is expected to start at 50,000 bpd in 2012 and reach its maximum by 2016, when a new upgrader in the area is due to start operations.

Kuwait Petroleum Corp increased its official selling price by 20 cents to \$2.10/barrel below the average of Oman/Dubai assessments for November term supply to Asia.

National Iranian Oil Co cut its official selling prices for November term supply to Northwest Europe and the Mediterranean. The price of its Iranian Light crude bound for Northwest Europe was cut by 20 cents to BWAVE minus \$2.20, the price of its Iranian Heavy crude was cut by 75 cents to BWAVE minus \$3.50 and the price of its Forozan Blend was cut by 75 cents to BWAVE minus \$3.45. The price of its Iranian Light crude bound for the Mediterranean was cut by 60 cents to BWAVE minus \$3, the price of its Iranian Heavy crude was cut by 95 cents to BWAVE minus \$4.50 and the price of its Forozan Blend was cut by 95 cents to BWAVE minus \$4.45. The price of its Iranian Light crude bound for Asia was increased by 89 cents to the Oman/Dubai average plus 17 cents, the price of its Iranian Light crude was increased by 25 cents to the Oman/Dubai average minus \$1.73 and the price of its Forozan Blend was increased by 25 cents to the Oman/Dubai average minus \$1.65.

OPEC's news agency reported that OPEC's basket of crudes fell by \$1.12/barrel to \$79.95/barrel on Friday from \$81.07/barrel on Thursday. It also reported that OPEC's basket of crudes increased by \$3.99/barrel to \$80.52/barrel in the week ending October 8th.

Market Commentary

Crude oil was unable to hold on to Friday's gains as the dollar strengthened against the Euro and the Japanese Yen. Without any incentive from the fundamentals of this market, investors are once again focusing on the global economics when it comes to decision-making. This market remains over supplied, while demand continues to struggle, making it difficult to sustain strength. Perhaps overdone to the upside, crude oil should make a retracement back to its breakout level of \$78.05. Last week prices dipped and tested a weekly trendline, failing to trade back below it. We would look for another test at this trendline, which is set at \$79.75.

Crude oil: Nov 10 259,758 -17,059 Dec 10 288,604 +28,329 Jan 11 139,958 +12,574 Totals 1,451,455 +38,253 Heating oil: Nov 10 88,857 -2,842 Dec 10 77,930 -67 Jan 11 53,530 +1,859 Totals 332,734 +1,768 Rbob: Nov 10 79,326 -6,481 Dec 10 64,114 +5,621 Jan 11 33,279 +2,003 Totals 261,227 +4,223

Crude Oil		Heating Oil		Rbob	
Support	Resistance	Support	Resistance	Support	Resistance
7975	8461	19236		18240	
7804	8610	18965	23775	16010	22345
7727	8715	18920			24880
7367					27085
7307					

The information contained in this letter is taken from sources, which we believe to be reliable, but is not guaranteed by us as to accuracy or completeness and is sent to you for information purposes only. The Windham Group bases its market recommendations solely on the judgment of its personnel. Reproduction in whole or part or other use without written permission is prohibited.