



## ***ENERGY RISK MANAGEMENT***

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### **ENERGY MARKET REPORT FOR OCTOBER 12, 2010**

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OPEC Secretary General Abdalla Salem el-Badri said he expects this week's OPEC meeting to be "normal" but there will be focus on current market conditions. A senior Gulf OPEC official said OPEC is highly unlikely to change the current output ceiling when it meets on Thursday. Qatar's Oil Minister Abdullah bin Hamad al Attiyah also said OPEC is unlikely to change its production policy at its meeting. He said oil prices are reasonable for consumers and producers. Meanwhile Algeria's Energy and Mines Minister Youcef Yousfi said the country sees an oil price of \$90 to \$100/barrel as reasonable, suggesting a possible split within OPEC over oil price expectations ahead of the meeting on Thursday. On Monday, Saudi Arabia's Oil Minister Ali al Naimi reiterated that a price of

#### **Market Watch**

The National Hurricane Center said Hurricane Paula, the ninth hurricane of this season, strengthened to a Category 2 storm off Mexico's Yucatan Peninsula.

The Conference Board said its Employment Trends Index fell to 97 in September from a revised 97.3 in August. The index is up more than 9% from a year ago.

The US Federal Reserve said Fed officials in September believed that further help for the recovery may be needed soon. Fed officials discussed several approaches to aiding the economy but focused on buying additional longer term Treasury securities and ways they could make the public expect higher levels of inflation in the future.

Teekay Corp, a leading shipping company, said prolonged strike action at France's Fos-Lavera oil terminal may prompt trading companies that have held oil products in floating storage for most of the year to unwind their positions to take advantage of higher prices.

FACTS Global Energy said Iran will become an exporter of gasoline between 2011 and 2012 as new refining infrastructure comes into operation. It also stated that there will be a large amount of new refining capacity in other Middle Eastern countries coming onstream between 2014 and 2016, pressuring refineries to close in developed economies.

Socar Trading said crude exports to the US West Coast and Canada total about 5 million barrels/month.

The ICE reported that a total of 4,223 lots or 422,300 metric tons of gasoil was physically delivered against the expiry of ICE October gasoil futures. It is up from 1,348 lots delivered against the September contract.

Russia's Finance Ministry said Russia may increase its oil export duty in November to \$289-\$292/ton following an increase in oil prices. It is up from \$266.50/ton in October. The export duty on light refined fuels is expected to increase to \$207-\$209/ton, up from the current level of \$191.80/ton while the export duty on fuel oil is expected to increase to \$111-\$113/ton, up from the current level of \$103.30/ton.

**October  
Calendar Averages**  
**CL – \$82.16**  
**HO – \$2.2830**  
**RB – \$2.1274**

\$70 to \$80/barrel is ideal.

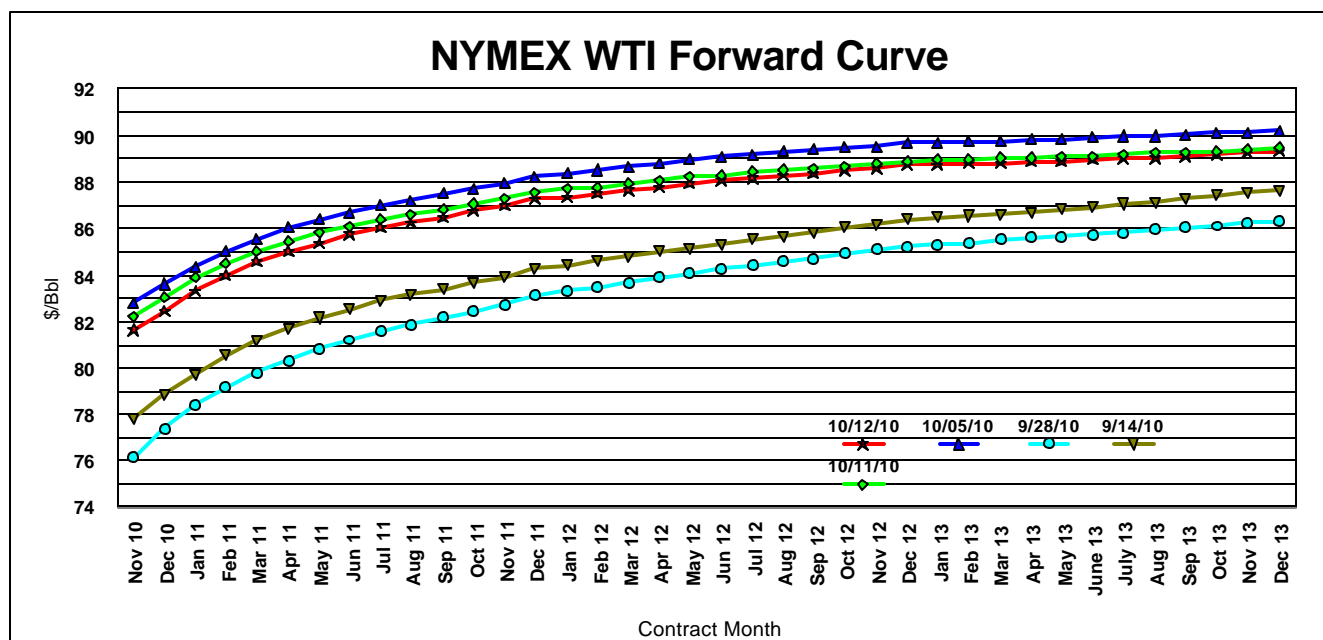
OPEC revised up its forecast for world oil demand growth this year due to stronger than expected economic growth in the first half of 2010. In its monthly oil report, OPEC increased its world demand growth forecast by 80,000 bpd to 1.13 million bpd while its non-OPEC supply forecast was also increased by 100,000 bpd. The OPEC report also indicated that demand for OPEC crude in 2010 is 300,000 bpd lower than demand for OPEC crude in 2009. The world will need OPEC to produce an average of 28.57 million bpd this year, down about 100,000 bpd from its previous forecast. OPEC produced a total of 26.667 million bpd in September, down 140,000 bpd on the month.

The Obama administration on Tuesday lifted a moratorium on deepwater drilling, bringing an end to a more than four month ban. US Interior Secretary Ken Salazar announced that oil and gas drilling in the deepwaters may resume, provided they comply with regulations.

The executive director of IEA, Nobuo Tanaka said any delays to new offshore deepwater oil and gas drilling could have a significant impact on the oil market. He said only a third of the world's oil production comes from offshore projects and added that it will increase to 50% by 2015. He said sanctions on Iran's energy sector will hinder the goal of energy security and price stability as the country is deprived of investment in its oil and gas sector to achieve production growth. Meanwhile, the chief economist of the IEA, Fatih Birol said there is no sign of a double dip recession in the world's large developing energy consumers. He said the reliance of emerging economies such as China and India may be sufficient to protect the rest of the world from a return to a recession.

PIRA Energy Group said major oil producers are likely to need higher oil prices to compensate for the impact of a weaker US dollar on their non-dollar imports. Should the dollar depreciate by another 10%, Saudi Arabia, Venezuela and Nigeria would need oil prices in the \$81-\$85/barrel price range, Iran would require \$95/barrel, Algeria would require \$97/barrel and Russia and Iraq would require \$98 and \$112/barrel, respectively to balance their budgets.

The chief executive of Weatherford International said the Gulf of Mexico oil spill will cut the number of producers in the region by squeezing out smaller companies that cannot afford the risk of a disaster. He said deepwater oil production across the world would become more expensive in the wake of the



spill.

The EIA reported that the US average retail price of diesel increased by 6.6 cents to \$3.066/gallon in the week ending October 11<sup>th</sup>. The price of diesel is up 46.6 cents or 17.9% above a year ago. The EIA also reported that the US average retail price of gasoline increased by 8.7 cents to \$2.819/gallon on the week. The price of gasoline is 33 cents or 13.3% above a year ago.

According to the SpendingPulse report released by MasterCard Advisors, US retail gasoline demand fell by 0.7% last week to 9.012 million bpd. Demand is up 0.1% on the year. Over the last four weeks, gasoline demand fell by 1.2% on the year. It reported that US average retail price of gasoline increased by 7 cents to \$2.76/gallon in the week ending October 8<sup>th</sup>.

Iran's Foreign Ministry spokesman Ramin Mehmanparast said Iran blamed European Union Foreign Affairs chief Baroness Ashton for the deadlock over nuclear talks with world powers, urging her to be more active in pursuing the talks. The European Union Foreign Affairs chief represents the six world powers, the US, the UK, China, France, Russia and Germany in negotiations with Iran.

### **Refinery News**

Colonial Pipeline froze nominations for its main distillate line for Cycle 60 on Tuesday as demand for space exceeded pipeline capacity.

Valero Energy Corp reported an upset at its No. 1 sulfur recovery unit at its 100,000 bpd Three Rivers refinery in Texas. The upset had no impact on its production.

BP Plc warned of planned flaring between October 13<sup>th</sup> and October 20<sup>th</sup> at its 265,000 bpd refinery in Carson, California.

France's Marseille port authority said 85 ships have been affected by a 24 hour strike against pension reform, of which 56 are oil tankers.

Total SA said that five out of its six refineries in France were impacted by a strike that is part of nationwide protests against planned pension reforms. Total said it decided to start the process of freezing refining operations at its Grandpuits refinery for safety reasons. Total's Feyzin refinery is operating at near normal levels. About 50% to 80% of workers at each refinery have joined the strike action. Unions in France called for a 24 hour strike Tuesday to protest against the government's plans to reform the country's pension plan and to increase the legal retirement age to 62 from 60 currently. Separately, a spokesman for French oil sector lobby UFIP said French petrol stations could face shortages in just over week if a strike at the Fos-Lavera oil terminal continues.

LyondellBasell Industries NV's French refinery is producing at a reduced rate after the strike in the Fos-Lavera oil port disrupted supply.

A spokesman for pipeline operator La Societe du Pipeline Sud-European said oil flows are continuing through the South European pipeline in spite of the strike at France's Fos Lavera oil terminal. Fos Lavera supplies oil via the pipeline, transporting 23 million metric tons of oil a year to four refineries.

Suncor Energy Inc is scheduled to conduct maintenance at its 135,000 bpd Edmonton, Alberta refinery starting October 12<sup>th</sup> to October 25<sup>th</sup>.

China National Petroleum Corp said it completed the upgrading of its Liaoyan refinery in northern China, which is now able to process 200,822 bpd of Russian crude oil. China is due to start receiving 301,000 bpd of Russian crude oil through a transnational pipeline by the end of this month, as part of

an oil-for-loan agreement signed last year. The upgrading project included the addition of a 20,100 bpd hydrocracker and a 40,200 bpd hydrotreating unit.

Taiwan's CPC Corp will reduce its daily crude runs in December to 390,000-400,000 barrels from 435,000-445,000 barrels this month and next month as its Taoyuan refinery enters the maintenance season. It plans to take its No. 1 30,000 bpd residual desulfurizer offline starting November 1<sup>st</sup> for 37 days of regular maintenance and its 100,000 bpd No. 1 crude distillation unit from December 10 for 45 days of maintenance.

China Aviation Oil Corp will enter into a four year agreement with BP Plc's Singapore unit to jointly sell jet fuel and gasoil to the Middle East, Asia and Europe. The move comes amid CAO's attempts to diversify its business beyond supplying jet fuel to China.

### **Production News**

Royal Dutch Shell Plc has already raised oil production from Iraq's Majnoon field to 70,000 bpd from 45,000 bpd. It said the risk of operating in Iraq has increased in recent months but added that operations were still going well.

The chairman of Libya's National Oil Corp, Shokri Ghanem said BP Plc expects its deepwater drilling activities in Libya to start by November after initially planning to begin operations in October. He also stated that Iraq is unlikely to meet its goal of increasing its oil production to 12 million bpd by the middle of the next decade. He said while Iraq should be allowed to increase its production, it should also be integrated into OPEC's quota system, from which it is currently exempt.

Russia's Lukoil expects to increase its production abroad while its output in Russia is expected to decline.

Iraq's State Oil Marketing Organization said Iraq set the price of its Basra Light crude bound for Europe at Dated Brent minus \$2.30, down 85 cents on the month while the price of its Basra Light crude bound for the US was set at the Argus Sour Crude Index minus \$1.10, up 5 cents and the price of the crude grade bound for Asia was set at the Oman/Dubai average minus \$1.05, up 30 cents on the month. It set the price of its Kirkuk crude bound for Europe at Dated Brent minus \$1.10, down \$1.25 while it set the price of its Kirkuk crude bound for the US at ASCI plus 40 cents, up 5 cents.

OPEC's news agency reported that OPEC's basket of crudes increased by 49 cents to \$80.44/barrel on Monday from \$79.95/barrel on Friday.

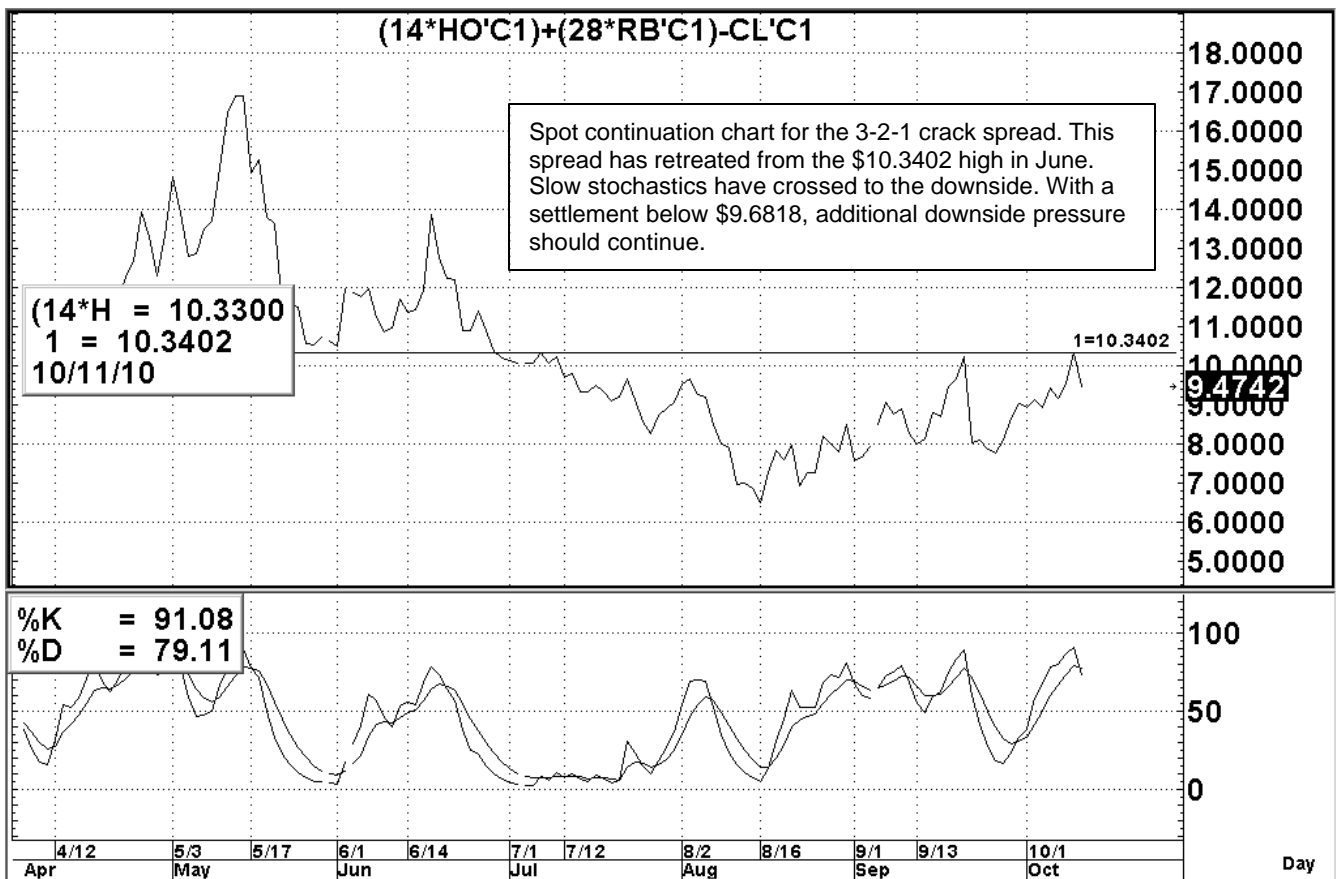
### **Market Commentary**

Crude oil slipped for the second straight day as investors lost their appetite for commodities as an investment tool due to the dollar's strength. Market participants are also awaiting this Thursday's OPEC meeting, which is to take place in Vienna. Indications are so far that OPEC will leave output unchanged, as members appear to be comfortable with prices at current levels. The 3-2-1-crack spread has retreated from the \$10.3402 resistance level established in July. Strikes in France had given strength to this spread, on expectations that stilled refineries in France and closed ports could possibly lead to a shortage of supplies. From a technical perspective, this spread should continue to narrow. Crude oil remains within the \$85.00-\$65.00 range established back in May. As a near term objective, we would look for crude oil to retrace back to \$78.00 and would reassess the market at that point.

Crude oil: Nov 10 211,068 -34,320 Dec 10 303,295 +20,952 Jan 11 148,492 +11,585 Totals 1,421,941 +786 Heating oil: Nov 10 83,422 -4,647 Dec 10 77,422 -503 Jan 11 53,595 +202 Totals

328,200 -3,146 Rbob: Nov 10 74,778 -3,994 Dec 10 68,259 +5,075 Jan 11 37,450 +4,399 Totals  
 266,931 +7,659

Crude Oil		Heating Oil		Rbob	
Support	Resistance	Support	Resistance	Support	Resistance
7975	8461	19236		18240	
7921	8610	18965	23775	<b>16010</b>	22345
7760	8715	18920			24880
7598					27085
7278					



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