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ENERGY MARKET REPORT FOR OCTOBER 13, 2010

OPEC's President and Ecuador's Oil Minister Wilson Pastor-Morris said OPEC is in consensus to keep the current output ceiling unchanged when it meets in Vienna on Thursday. He forecast oil prices will remain in the \$70-\$80/barrel range for next year. Meanwhile, Venezuela's Oil Minister Rafael Ramirez said it is seeking an oil price of \$90-\$100/barrel next

Market Watch

The US EPA will approve increasing the amount of ethanol in gasoline for cars made since 2007 by 50%. The EPA will approve a request from the Growth Energy coalition of ethanol producers to increase the amount of ethanol in a gallon of gasoline to 15% from 10% now. Ethanol groups also expect EPA to approve the corn based fuel, known as E15, for cars built from 2001 to 2006 by December.

China's National Bureau of Statistics said China's business confidence index increased to 135.9 at the end of September from 133 three months earlier. The business climate index increased to 137.9 in the third quarter from 135.9 in the previous quarter.

The CFTC said today that it will unveil more proposals on October 19th and October 26th for detailed regulations required for it to take in its oversight of the OTC derivatives market. At an October 19th special meeting the agency will consider issuing rules for public comment on position reports for physical commodity swaps and swaptions; a formal definition for an agricultural commodity, which will help to define whether ethanol is treated as an agricultural or energy product.

year, joining similar demand by other OPEC members. He however said he does not expect a reduction of production at OPEC's meeting on Thursday. The UAE's Oil Minister Mohammad Al Hamli said current crude oil prices are a reflection of market fundamentals. Qatar's Oil Minister Abdullah bin Hamad al Attiyah said OPEC is unlikely to change production policy at its meeting. Kuwait's Oil Minister Sheikh Ahmad al-Abdullah al-Sabah said he was not concerned by increasing oil prices. The head of the Libyan National Oil Co, Shokri Ghanem said he expects OPEC to leave its production quota unchanged at its meeting on Thursday. He also reiterated his view that he would like to see the price of oil increase to \$100/barrel. Iraq's Oil Minister Hussein al-Shahristani said a crude oil production quota for Iraq will not be discussed by OPEC in 2011.

In its Short Term Energy Outlook, the EIA said world oil consumption growth for 2010 was revised up slightly to 1.7 million bpd in response to stronger than expected growth in oil demand during the first half of 2010 in China as well as in the OECD. Total oil demand in 2010 is estimated at 86.06 million bpd, up 13% from its previous estimate while demand in 2011 is estimated at 87.44 million bpd, up 0.09% from its previous estimate. Non-OPEC supply will increase by 900,000 barrels to 51.36 million bpd in 2010, up 0.37% from the previous estimate but fall by 240,000 bpd to 51.12 million bpd, up 0.22% from its previous estimate. OPEC crude oil production is expected to increase by 320,000 bpd to 29.42 million bpd in 2010 and 560,000 bpd to 29.98 million bpd in 2011. OPEC surplus capacity should remain near 5 million bpd compared with 4.3 million bpd in 2009. Commercial oil inventories

API Stocks

Crude – down 4.007 million barrels
Distillate – down 254,000 barrels
Gasoline – down 1.883 million barrels
Refinery runs – down 1.5% at 80.1%

held in the OECD stood at an estimated 2.78 billion barrels at the end of the third quarter of 2010, equivalent to about 60 days of forward supply and about 90 million barrels more than the 5 year average for the corresponding time of year. The EIA reported that US oil demand increased by 200,000 bpd to 18.97 million bpd in 2010 and increase to 19.09 million bpd in 2011. It is up 0.26% and 0.32% from its previous

estimates, respectively. Gasoline demand in 2010 is expected to increase by 20,000 bpd to 9.02 million bpd, down 0.11% from its previous estimate while demand in 2011 is expected to increase by 70,000 bpd to 9.09 million bpd, down 0.11% from its previous estimate. Distillate demand in 2010 is expected to increase by 100,000 bpd to 3.73 million bpd, up 0.81% from its previous estimate while demand in 2011 is expected to increase by 20,000 bpd to 3.75 million bpd, up 0.54% on the year. US domestic crude oil production is expected to increase by 100,000 bpd to 5.46 million bpd in 2010 but fall by 60,000 bpd to 5.4 million bpd in 2011. The EIA said the US Interior Department's decision to end the deepwater drilling moratorium early will not have much effect on the EIA's forecast on US oil production in the Gulf of Mexico. US production from the Gulf is expected to fall next year by 170,000 bpd, about 50,000 bpd more than it previously forecast. In regards to prices, the EIA expects the price of WTI to average about \$80/barrel this winter, up \$2.50/barrel over last winter. It forecast that prices will gradually increase to \$85/barrel by the fourth quarter of 2011. The EIA projects the average household expenditures for space heating fuels will total \$986 this winter, an increase of \$24 from last winter. It expects households heating primarily with heating oil to spend an average of about \$220 more this winter than last winter. The average Northeast household is expected to spend 13% more or \$259 than last winter as a result of a 5% increase in consumption. It projects residential heating oil prices in the Northeast to average about \$3.06/gallon during the winter season, up 22 cents on the year. Regular gasoline retail prices increased from an average of \$2.35/gallon in 2009 to an average \$3.74/gallon in 2010 and \$2.92/gallon in 2011. Diesel prices are expected to average \$2.96/gallon in 2010 and \$3.14/gallon in 2011.

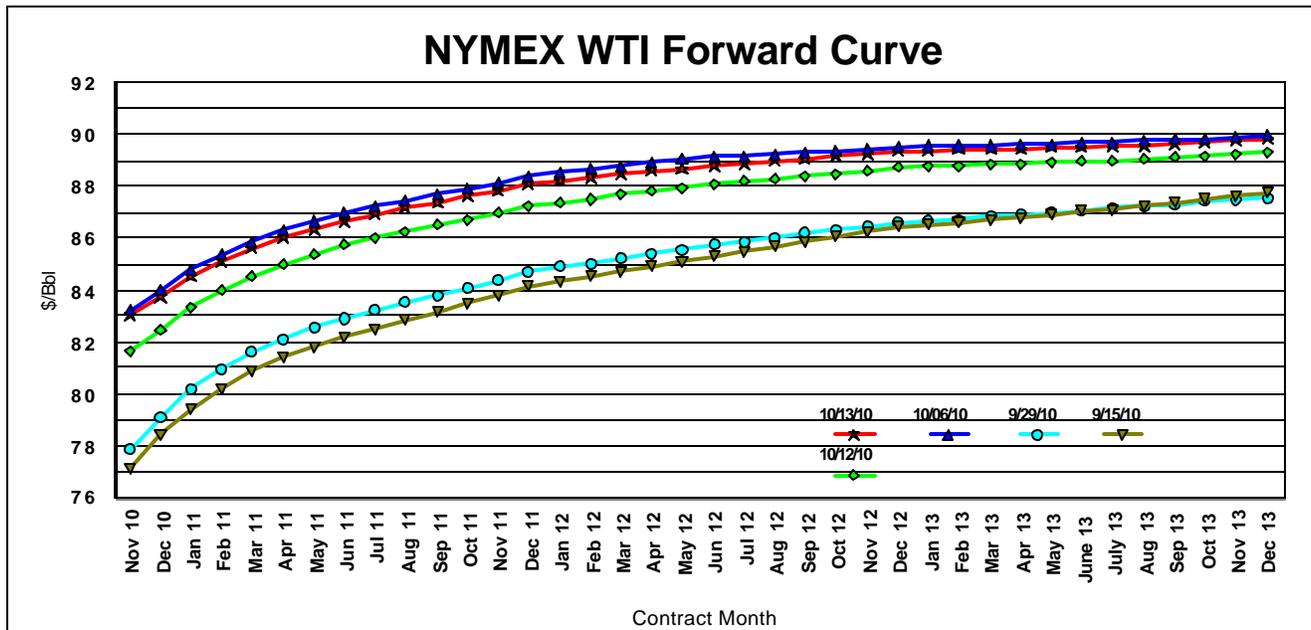
The IEA revised up its forecast for world oil demand in 2010 and 2011 after a stronger than expected third quarter. It expects world demand to reach 86.94 million bpd this year and increase to 88.16 million bpd next year, revising up its previous forecast by 300,000 barrels each year. It expects oil demand to increase 2.1 million bpd year on year in 2010 while oil demand growth in 2011 is expected to fall to 1.2 million bpd year on year. It reported that OECD stocks reached a new 12 year high of 2.79 billion barrels or 61.1 days of forward supply in late August, up from 60.5 days in July. It also reported that compliance within OPEC increased to 54% in September from 50% in August. Demand for OPEC crude and stocks is set to increase next year by 100,000 bpd to 29.3 million bpd. It also reported that crude oil in floating storage stood at 42 million barrels in September, up from 37 million barrels in August. It also reported that oil products in floating storage stood at 34 million barrels at the end of September, down from 35 million barrels in August. The IEA said refinery runs are set to average 73.8 million bpd globally in the fourth quarter, down 1.5 million bpd from the third quarter.

**October
Calendar Averages
CL – \$82.26
HO – \$2.2850
RB – \$2.1317**

The IEA said the 17 day strike at France's Fos-Lavera oil terminal has forced authorities to swap-in oil from commercial stocks elsewhere in the country to top-up emergency strategic stocks held in the Marseille area. It said France has not drawn down stocks in response to the situation, but it has maintained its minimum emergency level using a technique referred to as relocalization.

Separately, the IEA said Iran may be unable to keep up its announced strategy of converting petrochemical plants to increase its production of gasoline. The IEA said Iran relied on imports to cover about 30% of its gasoline demand for the first seven months of the year. Import volume may fall to as low as 25,000 bpd in August and September compared with 85,000 bpd in July.

The IEA said Brazil's ethanol production will continue to grow and will be a source of an increase in oil



supply outside OPEC. For 2010 and 2011, annual Brazilian ethanol production is expected to grow an average by 50,000 bpd to 475,000 bpd and 520,000 bpd, respectively.

The EU energy chief Guenther Oettinger said halting existing offshore oil drilling platforms from working isn't a realistic way to ensure oil-spills don't happen in the European Union.

Refinery News

Magellan Pipeline said it is experiencing short term outages of ultra low sulfur grade diesel at some terminals in the northern tier of its pipeline system. The diesel fuel outages are due to high demand as the agricultural harvest continues in the Midwest.

Oil terminals at the Fos Lavera oil terminal remained blocked on Wednesday as the strike entered its 17th day. Marseille port authorities said 55 cargo ships and three barges are waiting to unload their cargoes. They include four chemical carriers, nine liquefied natural gas carriers, 12 crude oil tankers and 14 petroleum product tankers. Another nine crude oil tankers, two petroleum product tankers, two LNG carriers and one chemical carrier are blocked off the Mediterranean port of Marseille.

An official from the CGT union said all French refineries but one either halted output or are working at minimum levels due to a nationwide strike Wednesday against planned pension reform. The official also said that Total SA halted fuel delivery from its refineries. He said there may be fuel shortages in the country within eight to ten days. CGT and CFDT union officials said strikers are blocking fuel supplies at eight of France's 12 refineries on Wednesday. The only refinery operating normally is a refinery in Reichstett in eastern France. Total has halted operations at the 231,000 bpd Donges refinery, the 97,000 bpd Grandpuits refinery and the 158,000 bpd La Mede refinery. Its 118,000 bpd Feyzin refinery and 331,000 bpd Gonfreville refinery has started the process of halting output. Workers at Total's refineries voted to continue the strike at least until Thursday. Workers at its Donges refinery voted to extend the strike until Monday.

Hovensa LLC's 145,000 bpd fluid catalytic cracking unit at its 500,000 bpd St. Croix refinery is expected to reach normal rates by the weekend. The unit was shut down on October 6th as a safety precaution after a weather related electrical outage. The unit was restarted Friday.

Venezuela's PDVSA and Brazil's Petrobras reached an agreement last year to build a refinery in Pernambuco state. However financing troubles could force PDVSA out of the joint venture refinery project in Brazil. PDVSA has not yet paid for its share of the investment costs and has so far been unable to obtain financing from the Brazilian National Development Bank or BNDES for the project. The Abreu e Lima refinery will have installed capacity to process 230,000 bpd.

China's twelve major refineries accounting for more than a third of China's capacity plans to process 2.87 million bpd of crude oil in October, down 2.7% on the month. The October volume represents 90% of the total refining capacity.

According to preliminary data from China's General Administration of Customs, China imported 23.29 million metric tons or 5.7 million bpd of crude in September. It is up from August's level of 20.9 million tons imported. China's crude oil imports in the first three quarters of 2010 increased by 24.1% on the year to 181.16 million tons. China imported 2.8 million tons of oil products in September, exceeding the 2.09 million tons of oil products it exported during the month.

Production News

Venezuela's Oil Minister Rafael Ramirez said he expects the country's oil reserves to increase to 316 billion barrels next year. Venezuela's oil reserves increased by 23% in late 2009 to 211.173 billion barrels.

Saudi Arabia's al-Hayat newspaper reported that there are no planned projects to increase Saudi Arabia's oil capacity, which currently stands at 12 million bpd. It said Saudi Arabia has a spare production capacity of 4 million bpd which means that the country's total current production capacity estimated at about 12 million bpd does not need to be increased.

Oil executives said problems with security, political instability and poor infrastructure mean plans by Iraq to expand its crude oil production over the next few years are overambitious. Iraq's output currently stands at 2.4 million bpd and few oil executives see large additions to that production over the next few years, short of a goal of 4 million bpd within three years and 12 million bpd in seven years.

Ecuador's Central Bank reported that the country's crude oil exports totaled 80.73 million barrels or 332,239 bpd in the first eight months of the year, down from 81.2 million barrels or 334,136 bpd last year.

Colombia's Mines and Energy Minister Carlos Rodado said the country's oil production for 2010 is likely to end the year significantly above the government's production target of 800,000 bpd.

Russia's Rosneft will explore for offshore oil deposits in Georgia's breakaway Abkhazia region, a potentially rich source of hydrocarbons.

OPEC's news agency reported that OPEC's basket of crudes fell by 80 cents to \$79.64/barrel on Tuesday from \$80.44/barrel on Monday.

Enbridge reported today that it expects to meet all scheduled oil deliveries this month despite Line 6A pressure restrictions. The company said it has no estimate for the duration of pressure restrictions on the line. Capacity was reduced to 493,750 b/d from a normal level of 670,000 b/d.

Market Commentary

Crude oil prices moved higher today as the dollar weakened and Chinese imports increased. Prices increased by 2 percent at one point during the trading session; with the November contract peaking at \$83.45. This is the ninth day in a row that crude oil has settled above \$80.00, making it the longest period since May. It is difficult to conceive that prices will be able to sustain strength given the still unsettled global economic situation and the supply/demand scenario. We would look for prices to remain economically sensitive and to continue to range trade between \$85.00 and \$65.00. The 3-2-1-crack spread came under pressure as expected. With tomorrow's DOE numbers expected to show a decrease of 1.5 million barrels in gasoline and a slight decrease in distillates, this spread should firm, providing a selling opportunity. We would look to sell this spread on failed attempts to trade above \$10.33, with a downside objective of \$7.770.

Crude oil: Nov 10 184,603 -26,465 Dec 10 334,668 +31,373 Jan 11 153,468 +4,976 Totals 1,442,044 +20,103 Heating oil: Nov 10 75,153 -8,269 Dec 10 79,832 +2,410 Jan 11 55,033 +1,438 Totals 324,517 -3,683 Rbob: Nov 10 69,059 -5,719 Dec 10 72,394 +4,135 Jan 11 40,297 +2,847 Totals 269,889 +2,958

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

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