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ENERGY RISK MANAGEMENT

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ENERGY MARKET REPORT FOR OCTOBER 13, 2011

The DOE said it will cut the home heating oil reserve by 50% to 1 million barrels as supplies near the New York harbor are adequate. The DOE awarded contracts to Hess Corp to store 500,000 barrels of ultra low sulfur diesel at a terminal in Groton, Connecticut and awarded Global Companies, LLC a contract to store the same amount in Revere, Massachusetts.

President Barack Obama said that the US would attempt to rally the international community against Iran for allegedly directing a plot to assassinate the Saudi Arabian

Market Watch

The US Labor Department said initial claims for unemployment benefits fell by 1,000 to a seasonally adjusted 404,000 in the week ending October 8th. Claims filed in the previous week increased by 10,000 after falling by 33,000 in the week ending September 24th. It reported that the four week moving average of new claims fell by 7,000 to 408,000 last week. The report showed the number of continuing unemployment benefit claims totaled 3,670,000 in the week ending October 1st. It was down 55,000 from the previous week. The Labor Department reported that the unemployment rate for workers with unemployment insurance for the week ending October 1st fell to 2.9% from 3%.

The US Commerce Department said the US trade deficit with China reached a new record in August. It reported that the US deficit in international trade of goods and services with China increased to \$28.96 billion from \$26.96 billion even as the overall trade gap fell slightly. It reported that globally, the US trade deficit narrowed to \$45.61 billion from a revised \$45.63 billion. The US bill for crude oil imports in August increased to \$31.04 billion from \$29.31 billion the month before. The US paid \$37.96 billion for all types of energy related imports compared with \$37.17 billion in July.

China's trade surplus narrowed for a second straight month in September, as both imports and exports were lower than expected. China's trade surplus of \$14.5 billion in September was down from August's \$17.8 billion and less than half of the \$31.5 billion reported in July. Exports in September increased by 17.1% on the year, down from a 24.5% gain in August and imports increased by 20.9% compared with August's 30.2% increase.

JPMorgan cut its commodities trading risk in the third quarter while it increased its risk in currencies and bonds. It cut its average Value at Risk in commodities to \$15 million in the third quarter from \$16 million in the second quarter. It is up from \$13 million in the third quarter of 2010. Its VaR as a whole fell in the third quarter, averaging \$53 million compared with \$58 million in the second quarter due to reduced risks in equities as well as commodities.

The Commodity Futures Trading Commission chairman Gary Gensler said it does not have enough staff to make regular checks of clearing houses. Clearing houses are examined every three years and he said there is not enough funding to examine them on an annual basis.

DOE Stocks

Crude – up 1.344 million barrels
Distillate – down 2.929 million barrels
Gasoline – down 4.134 million barrels
Refinery runs – down 3.5%, at 84.2%

ambassador to Washington. He said the first step for the US would be to prosecute those involved and the second step would be to continue to impose sanctions on Iran and mobilize other countries to join him.

Saudi Arabia said it would hold Iran accountable for any hostile actions and condemned the plot to kill Saudi Arabia's

envoy to the US. Saudi Foreign Minister Prince Saud al-Faisal accused Iran of seeking influence abroad through “murder and mayhem.” He said this was not the first time Iran had been suspected of similar acts and condemned Iran for trying to meddle in the affairs of Arab countries. He said Saudi Arabia would have a measured response to the alleged plot. Meanwhile, Britain’s Foreign Secretary William Hague said Britain will work with the US, the European Union and Saudi Arabia to agree on an international response to an alleged Iranian backed plan to kill the Saudi ambassador to Washington.

October Calendar Averages CL - \$82.17 HO - \$2.8541 RB - \$2.6501

In response, Iran urged Saudi Arabia “not to fall into the trap” of believing US claims that Iran was behind the alleged plot, saying the accusations only served the US and Israel.

Oil Movements reported that seaborne shipments from OPEC, excluding Angola and Ecuador, increased by 160,000 bpd in the four weeks ending October 29th.

The US has decided to allow BP Plc to bid on new oil drilling leases that go up for sale in the Gulf of Mexico later this year. On Wednesday, the Interior Department issued its first set of citations related to the spill at the Deepwater Horizon rig, accusing BP and two of its contractors of breaking several rules. It said production on the available leases could reach 420 million barrels of oil and 2.7 trillion cubic feet of natural gas.

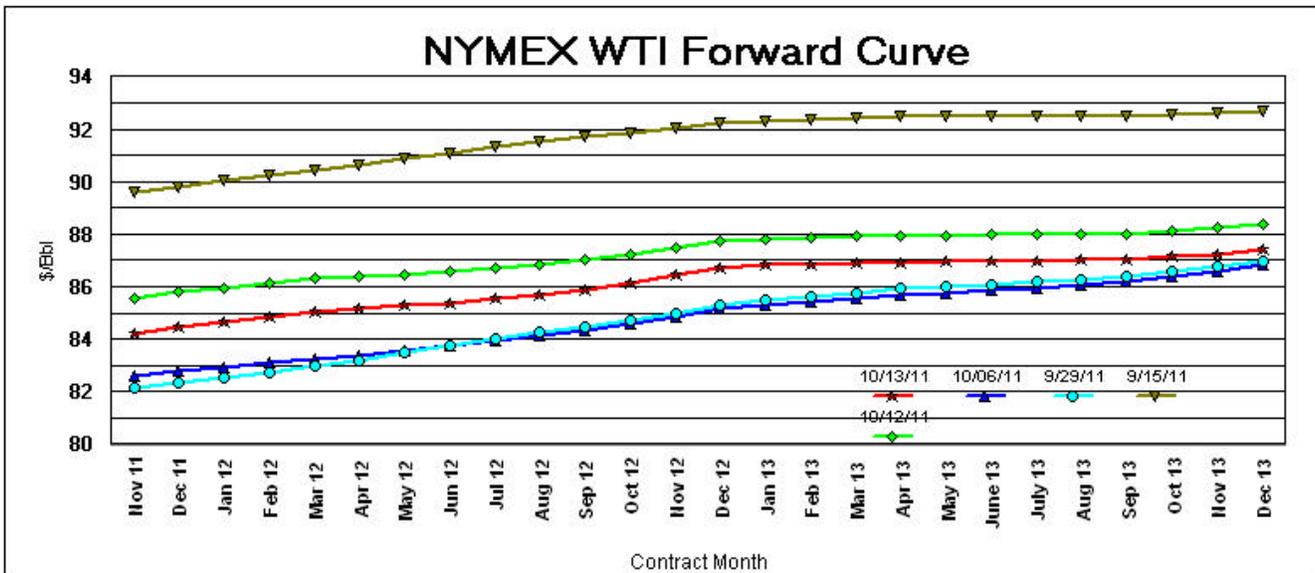
The Gulf Cooperation Council has requested an immediate meeting of the Arab League to discuss the situation in Syria.

Refinery News

Colonial Pipeline said it was allocating its main gasoline line north of Collins, Mississippi for Cycle 59 as nominations on its line exceeded the company’s ability to meet the five day lifting cycle.

Whiting Petroleum Corp is awaiting state approval for construction of a crude pipeline to replace trucks as a means of access to major crude markets for the increasing amount of shale oil from its North Dakota Bakken fields. A state regulator said an administrative law judge will likely make his recommendations about the permit to the North Dakota Public Service Commission by the end of the week. The Bakken Shale fields are estimated to hold 3.65 million barrels of oil equivalent.

ExxonMobil Corp reported an emissions event at its Baytown, Texas refinery due to the start up of a



flexicoker unit on Wednesday. It said restarting the flexicoker unit had no impact on production and all customers' needs were being met. It is the last of several units to return to service following planned maintenance underway since mid-July.

Venezuela's 180,000 bpd Petropiar heavy crude upgrader has restarted after it was closed earlier this week for equipment failure. Petropiar converts extra heavy crude from the Orinoco belt into exportable oil.

China's twelve major refineries are expected to reduce their crude oil throughput in October to the lowest level in 20 months from the highest level this year in September. The refineries plan to process 2.69 million bpd of crude in October, down 8% on the month.

A proposed oil refining and petrochemical joint venture between China's CNPC, Royal Dutch Shell Plc and Qatar signed an initial agreement with local authorities in east China's Zhejiang province, where the project would be built. The project, which includes a 400,000 bpd oil refining and 1.2 million ton/year ethylene plant, was approved by the National Development and Reform Commission in June. It is pending final government approval.

According to preliminary data from the General Administration of Customs, China's crude oil imports increased by 4% on the year to 188.36 million tons or 5.04 million bpd in the first nine months of the year. China imported 20.45 million metric tons or 4.98 million bpd of crude in September, down 12.2% on the year from 5.67 million bpd. China's refined oil product imports totaled 2.77 million tons while its exports totaled 2.24 million tons. It reported that China exported 330,000 tons of crude in September.

Gasoline stocks held in independent storage in the Amsterdam-Rotterdam-Antwerp area in the week ending October 13th increased by 11.42% on the week but fell by 28.74% on the year to 605,000 tons. Gasoil stocks fell by 8.14% on the week and by 19.17% on the year to 2.053 million tons while its fuel oil stocks increased by 15.45% on the week and by 7.96% on the year to 882,000 tons. Naphtha stocks increased by 27.91% on the week and by 633.33% on the year to 110,000 tons while jet fuel stocks increased by 21.2% on the week but fell by 27.68% on the year to 486,000 tons.

Singapore's International Enterprise reported that the country's residual fuel stocks in the week ending October 12th fell by 176,000 barrels to 16.844 million barrels. Its light distillate stocks fell by 1.307 million barrels to 9.010 million barrels while middle distillate stocks fell by 934,000 barrels to 11.798 million barrels on the week.

The Petroleum Association of Japan reported that the country's crude oil stocks in the week ending October 8th fell by 4.11 million barrels on the week but increased by 5.89 million barrels on the year to 99.46 million barrels. It reported that Japan's gasoline stocks increased by 170,000 barrels on the week and by 1.96 million barrels on the year to 13.68 million barrels while kerosene stocks fell by 260,000 barrels on the week but increased by 4.53 million barrels to 20.94 million barrels and naphtha stocks increased by 50,000 barrels on the week but fell by 2.36 million barrels on the year to 11.49 million barrels. Japan's crude runs fell by 60,000 bpd on the week and by 230,000 bpd on the year to 3.11 million bpd. The PAJ also reported that the total oil sales increased by 6.5% on the week and by 4.7% on the year to 2.73 million bpd.

Italy's Unione Petrolifera said refined oil products consumption in Italy fell by 1.8% in September to 6.25 million tons. Petrol consumption fell 5.1% to 810,000 tons, offsetting a 0.4% increase in diesel demand for road vehicles to 2.21 million tons in September. Consumption of refined oil products in Italy fell 1.4% on the year to 53.92 million tons in the first nine months of 2011, with car fuel demand down 0.3%.

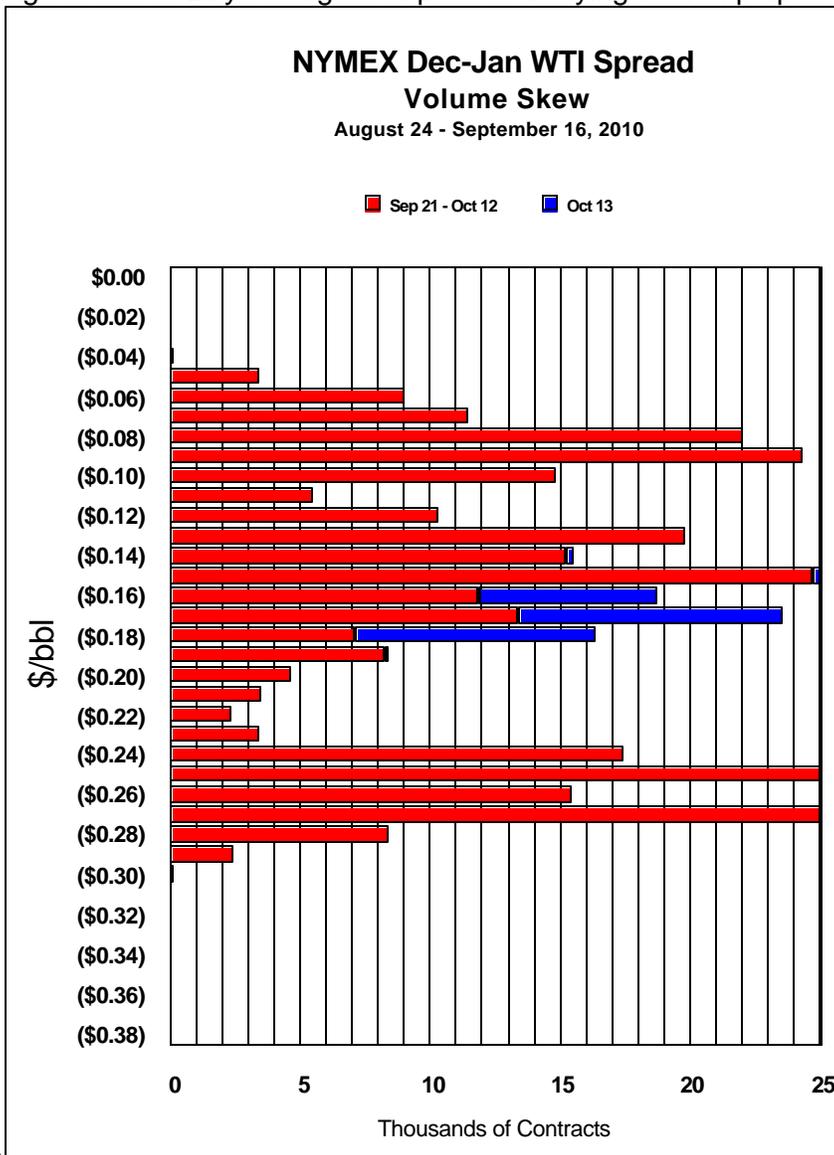
The Maritime and Port Authority of Singapore said the number of oil, gas and chemical tankers passing through the port of Singapore in September fell by 9.2% on the month and overall tonnage fell by 12.7%. Of the tankers handled by the port in September, 1,238 were oil tankers, down from 1,396 in August.

Production News

North Dakota's oil production increased to another record high in August of 444,000 bpd, up 19,000 bpd on the month. According to the North Dakota Industrial Commission, about 5,700 wells were producing in North Dakota in August.

A cargo of North Sea Forties crude from the October loading program has been further delayed. Cargo F1015, which was due to load between October 31 and November 2, has been delayed by three days. At least two Forties crude cargoes for October loading have already been canceled and one has been cancelled for November.

Some damage at one of Libya's largest oil ports is delaying the ramp up of the country's Nafoura field.



The Nafoura field has reached output of 20,000 bpd but cannot increase its production to its normal level of 70,000 bpd for now

because the Ras Lanuf oil complex is unable to accommodate the production. Production at the Eastern Libyan field restarted on October 5th but currently remains stored on site.

BP Plc chief executive Bob Dudley said it will be able to maintain its oil production at some of its largest field in the UK North Sea until 2050. He said the Clair field will be one of the fields still operating in 2050. It contains about 7 billion barrels of crude in place and the second stage of its development will start operations in 2016.

Norway's Statoil expects production at the Avaldsnes/Aldous Major oil discovery in the North Sea to start by 2017-2018. It may be the largest discovery this year and may hold 1.2 billion to 2.6 billion barrels of oil equivalent.

Total made an oil and gas discovery off Norway, according to Norway's Oil Directorate. The size of the discovery is currently estimated at between 3 and 16 million standard cubic meters recoverable oil equivalents or between 19 million and 101 million barrels.

Sweet crude and condensate exports from Australia, Papua New Guinea and East Timor are expected to increase in December as the new Kitan field in Timor Sea ramps up production and some cargoes are rolled over. A total of 24-25 cargoes will be available for December loading, up from 21.5-22.5 in the previous month. The Kitan field, which first produced crude in October, is increasing its production while Cossack and Van Gogh fields resume production after the completion of maintenance. Also some unsold cargoes from November will be rolled over, adding to December's supply.

Kazakhstan's State Statistics Agency reported that the country increased its oil and gas condensate production by 1.4% on the year to 59.8 million tons in the first nine months of the year. Kazakhstan's crude oil production in September fell by 1.4% on the year and 3% on the month to 5.545 million tons.

Russia's crude oil export duty is expected to fall by about 5% to \$392.40-\$393.60/ton in November from \$411.40 in October due to lower crude prices. The export duty on gasoline and naphtha is expected to fall to \$353.10-\$354.10/ton in November, down from \$370.20 in October while the duty on other refined products is expected to fall to \$259-\$259.80/ton from \$271.50 in October.

Market Commentary

Declining equities and inventory builds combined to drag crude oil down, with the December contract settling 1.6 percent lower on the day. According to today's release by the DOE, crude oil inventories rose 1.34 million barrels, more than the expected 800,000. With refineries still in turnaround, inventories for gasoline fell 4.13 million barrels and distillates dipped by 2.93 million barrels. Although today's release had a positive effect on gasoline, imports from Europe are expected to increase by 45 percent, with an expected 29 tankers to be loaded. Demand for gasoline continues to suffer, with this week's 10.5 percent drop marking the largest since March of 2006. Given the current unresolved global economic issues, we expect that demand will remain below averages and for gasoline futures to encounter pressure to the downside. Crude oil continues to hover just above \$83.37, the 62 percent retracement between the range of \$32.48 and \$114.83. This technical correction remains intact. For tomorrow's trading session, we would like to see a settlement above \$85.95, which would set the pace for higher moves at the onset of next week.

Crude oil: Nov 11 131,409 -30,987 Dec 11 313,861 +17,639 Jan 12 160,370 +3,842 Totals 1,422,135
-2,499 Heating oil: Nov 11 63,356 -3,232 Dec 11 63,293 +599 Jan 12 41,072 -165 Totals 294,460 -
841 Rbob: Nov 11 60,986 -1,116 Dec 11 61,245 +1,268 Jan 36,861 +2,199 Totals 270,340 +3,037

Crude Oil		Heating Oil		Rbob	
Support	Resistance	Support	Resistance	Support	Resistance
8337		26975	32777	24670	33369
7570	8759	26680	33370	24240	35915
7487	8817	27375	33510	23631	36310
7365	9060	23685		23414	
6970	9122	22960			
6423	9726				
6394	9872				
	10071				
50-day MA	84.97				
200-day MA	94.89				

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