



## ***ENERGY RISK MANAGEMENT***

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### **ENERGY MARKET REPORT FOR OCTOBER 17, 2011**

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OPEC's governor for Iran, Muhammad Ali Khatibi said the next OPEC meeting may debate how to accommodate returning Libyan crude. However he said we cannot expect all members to accommodate returning Libyan crude since only some producers increased their output to make up for lost Libyan barrels. He dismissed fears of oil prices falling, suggesting Libyan resumption could be offset by high seasonal demand.

The head of Libya's National Oil Co Nouri Berouin said the country's oil production increased to 400,000 bpd, about 25% of its pre-war production level. He reiterated his forecast that flows would reach pre-war levels within 15 months. Libya's online refining capacity is operating at about 90,000 bpd.

#### Market Watch

The National Hurricane Center said a low pressure system located over south-central Gulf of Mexico still has a 40% chance of becoming a tropical cyclone in the next 48 hours. A few computer models project the system to move over Florida in the next couple of days avoiding the offshore energy infrastructure in the Gulf of Mexico.

The Federal Reserve reported that US industrial production increased by 0.2% in September, with a modest gain in manufacturing and a sharp decline in utilities caused by moderating weather. The report showed that overall production was flat in August, revised down from a previously estimated 0.2% increase. The Fed data showed that industries used 77.4% of their capacity last month, up from 77.3% in August.

The New York Fed's Empire State general business conditions index was relatively unchanged in October at minus 8.48 from minus 8.82 in September. New order increased to 0.16 from minus 8 while inventories increased to minus 8.99 from minus 11.96.

Total SA chief executive Christophe de Margerie said the price of Brent crude is likely to remain between \$100 and \$110/barrel next year, shrugging off the threat of a global economic slowdown putting downward pressure on the market.

Meanwhile, BP Plc's chief executive Bob Dudley said the price of Brent crude is likely to fall to a range between \$90 and \$100/barrel in the near future. He however stated that he did not expect the US to go into a double dip recession.

The National Weather Service said US heating demand this week is expected to be 14.5% below normal. Demand for heating oil this week will average 25.3% below while heating demand for natural gas will average 13.2% below normal.

Germany's Finance Minister Wolfgang Schaeuble warned against unrealistic expectations that this weekend's European Union summit can come up with a definitive solution to the euro zone's sovereign debt crisis. Expectations of the October 23<sup>rd</sup> summit have steadily built up since Chancellor Angela Merkel and France's Nicolas Sarkozy promised in bilateral talks on October 9<sup>th</sup> to unveil a comprehensive new euro zone crisis package, including an agreement on how to recapitalize Europe's banks.

Kinder Morgan announced that it buying El Paso Corp, which would create the country's largest pipeline operator. In announcing the tie-up, Kinder Morgan said it would try to sell El Paso's exploration and production business in a deal, or package of deals.

**October  
Calendar Averages**  
**CL - \$82.98**  
**HO - \$2.8869**  
**RB - \$2.6744**

Iran's Foreign Minister Ali Akbar Salehi said that Iran plans to produce the first of its own enriched nuclear fuel within five months. He said the plate, made of uranium enriched to 20% would be tested at Tehran's research reactor, which is currently running on low-enriched nuclear fuel imported from Argentina in 1993. He said about 70 kilograms or 20% enriched uranium has been produced in Iran so far.

Separately, Iran's Foreign Minister said the country would examine US allegations it planned to assassinate a Saudi ambassador and called on Washington to send evidence of the plot it has dismissed as baseless propaganda. Supreme Leader Ayatollah Ali Khamenei warned the West Iran would counter any inappropriate measure taken against it and said he had no fear of military or sanctions threats. US President Barack Obama said the foiled plot should lead to tighter sanctions against Iran and reiterated that all options are on the table to deal with Iran. UN Secretary General Ban Ki-moon said he had passed correspondence about the US suspicions of Iran's involvement in the alleged plot to the UN Security Council.

The EIA reported that the US average retail price of diesel increased by 8 cents to \$3.801/gallon in the week ending October 17<sup>th</sup>. It was the first gain in six weeks. It reported that the price of diesel was up 72.8% on the year. The EIA also reported that the US average retail price of gasoline increased by 5.9 cents to \$3.476/gallon on the week. Gasoline prices are up 64.2 cents/gallon or 22.7% on the year.

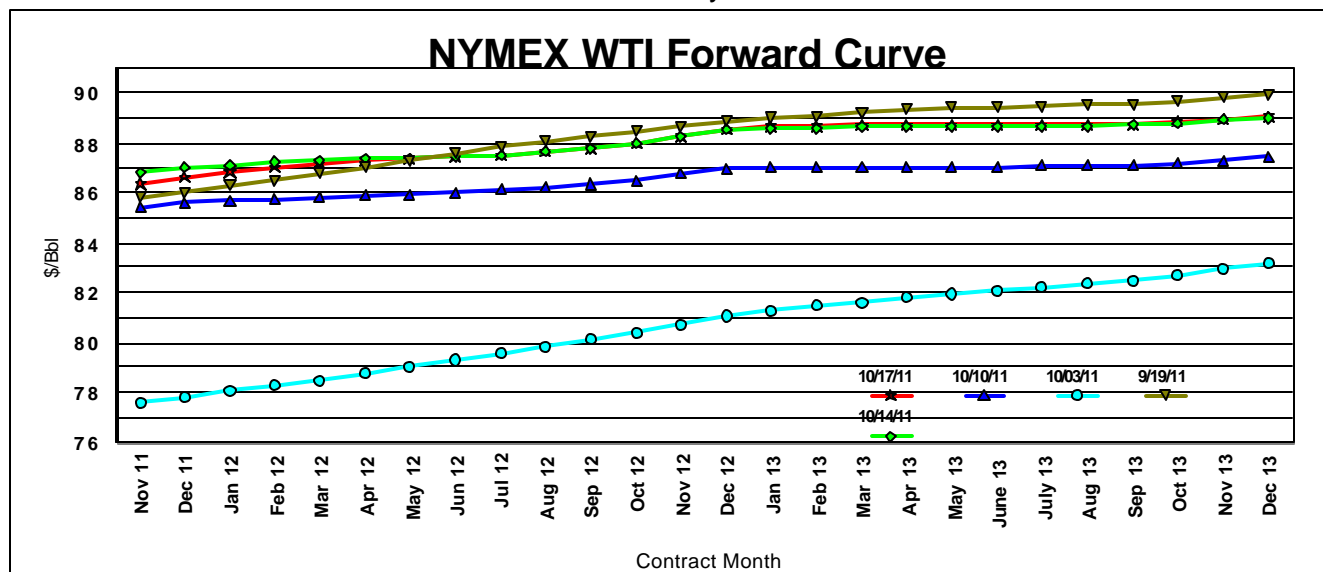
**Refinery News**

Colonial Pipeline said it was allocating its main distillate line north of Collins, Mississippi for Cycle 59.

Credit Suisse reported that US refined products margins in the week ending October 14<sup>th</sup> were weaker across most regions. Refinery margins in the Northeast fell 77 cents to \$9.81/barrel while margins in the Midwest fell by \$2.57/barrel to \$30.86/barrel and margins in the Gulf Coast fell by 22 cents/barrel to \$33.92/barrel. Margins in the Rockies region fell by \$4.72/barrel to \$45.64/barrel while margins in the West Coast increased by \$2.55/barrel to \$19.77/barrel.

PBF Energy reported a fluid catalytic cracking unit snag due to a carbon monoxide boiler outage at its 182,200 bpd refinery in Delaware City on Sunday.

BP Plc reported a process upset at its 405,000 bpd refinery in Whiting, Indiana on Sunday. The incident caused a release of sulfur dioxide at the facility.



ConocoPhillips reported unplanned flaring at its 139,000 bpd Wilmington, California refinery.

Valero Energy Corp said an upset at its 80,887 bpd refinery in Wilmington, California had no material impact on production.

ExxonMobil Corp reported a brief period of unplanned flaring at its oil refinery in Torrance, California due to equipment failure.

Royal Dutch Shell Plc restarted a second crude distillation unit, with a capacity of 110,000 bpd, at reduced rates at its 500,000 bpd Singapore refinery, a week after the first was partially restarted. The crude unit is expected to run at a reduced rate of about 75%. It is also expected to restart its distillate making hydrocracker at the refinery.

Planned maintenance activity continues at Hovensa's 350,000 bpd oil refinery in St. Croix. The work scheduled to take place at a crude unit, a reformer unit and a coker unit was expected to last for two to four weeks.

India's Bharat Petroleum Corp's 120,000 bpd Bina refinery may begin operating at full capacity by the end of October, slightly ahead of schedule. It will help India cut its fuel imports. The refinery was expected to reach full capacity by the end of the year.

Japan's Cosmo Oil Co said its 100,000 bpd Sakai refinery resumed normal operations on Sunday following a delay to its restart. The company originally planned to restart the refinery on October 5<sup>th</sup> after planned maintenance started on August 22<sup>nd</sup>.

China's National Development and Reform Commission reported that the country's apparent consumption of refined oil products increased to 180.43 million metric tons in the January-September period, up 5.7% on the year. Gasoline consumption increased by 7.5% while diesel consumption increased by 5%. China's apparent consumption of refined oil products totaled 20.56 million metric tons in September. The NDRC said China's stockpile of oil products at the end of September totaled 11.48 million tons, down from a peak in February of 15.61 million tons. Meanwhile, China's crude oil output totaled 151.83 million tons in the January-September period, up 1.6% on the year. China's crude oil production in the third quarter fell to 50.07 million tons, down 2.6% on the year. In the first nine months of the year, China processed 303.37 million tons of crude, up 4.6% on the year.

Taiwan's August crude imports in August fell by 49% on the month to 13.9 million barrels from 27.3 million barrels in July. Refinery throughput for August was 15.6 million barrels or 504,000 bpd, down 41.4% on the month. Demand for oil products in August fell by 13% to 22.3 million barrels.

Saudi Aramco sold 90,000 tons of bunker grade fuel oil for early November loading. Unlike most of the Middle East origin cargoes traded in the past two months, the on-spec cargo is expected to be brought to Singapore, instead of remaining in the region.

Iraq has tendered to buy a total of about 2.43 million tons of oil products for delivery in the first half of 2012. Iraq's State Oil Marketing Organization is seeking to buy about 1.365 million tons of gasoline, 773,500 tons of gasoil and 292,000 tons of kerosene to cover its needs in the first six months of the year.

Thailand's Ministry of Energy reported that the country's gas oil exports more than doubled from June to August as the country's worst floods in 50 years reduced demand for the oil product. Its gas oil exports totaled 146,428 bpd in August, up from 59,165 bpd in June.

## Production News

According to the provisional program, Angola's loading volumes of crude are expected to fall in December to 1.69 million bpd from 1.81 million bpd in November.

A Gulf oil source said the UAE produced 2.5 million bpd of crude in September, down from about 2.6 million bpd in August.

Norway's DNO said it diverted a third of its Iraqi crude production to domestic markets to improve the stability of its revenue stream. It said it found three buyers for a total of 675,000 barrels from its Tawke and Bastora fields at prices between \$50 and \$55/barrel. Exports from the DNO's Tawke field reached 70,000 bpd earlier this year before technical problems restricted the flow. Exports now average 25,000 bpd.

## Market Commentary

Prices edged lower today on remarks made by the German finance minister stating that the European summit would not produce a sure fix to the European debt issue. Strength in the dollar added to today's downward move. With economic uncertainty lingering over the market, prices will remain choppy. The November crude oil contract traded above the weekly \$ 86.41 trendline we wrote about in Friday's wire but settled just below it. It appears that buyers and sellers were fairly balance today according to the candlestick formation. Short-term technicals appear to be getting ready to cross to the downside and based upon this we would look for dips down around the 50-day moving average of \$84.89.

Crude oil: Nov 11 95,320 -13,194 Dec 11 345,743 +14,981 Jan 12 168,022 -2,922 Totals 1,437,873 +8,232 Heating oil: Nov 11 59,826 -2,241 Dec 11 63,908 +192 Jan 12 43,775 +424 Totals 295,167 -1,490 Rbob: Nov 11 54,235 -2,841 Dec 11 67,289 +2,102 Jan 12 39,566 +407 Totals 275,356 +2,309

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	9052	23685		23414	
6970	9122	22960			
6423	9726				
6394	9872				
	10071				
<b>50-day MA</b>	<b>84.89</b>				
<b>200-day MA</b>	<b>94.79</b>				

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