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## ***ENERGY RISK MANAGEMENT***

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### **ENERGY MARKET REPORT FOR OCTOBER 15, 2010**

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OPEC's Secretary General Abdalla Salem el-Badri said that a price of \$75 to \$85/barrel remains the acceptable range to avoid hurting a world economy emerging from recession. In regards to Iraq, he said OPEC will not need to discuss Iraq's quota for years, despite the country increasing its reserves recently.

Shipping company, ICAP reported that crude oil stored globally in floating storage increased to 40 million barrels as of October 15<sup>th</sup>, up from its estimate of 36 million barrels on October 8<sup>th</sup>. ICAP also reported that volumes of distillate, such as diesel and gas oil, held in floating storage in the English Channel fell by 2.7 million barrels to 14.1

#### Market Watch

Federal Reserve Chairman Ben Bernanke made the case for new steps by the Fed to increase economic growth, saying inflation was running below the Fed's objective of 2% and that the economy was on course to grow too slowly to bring down unemployment. He said the Fed is still prepared to provide additional support to a weak economy if needed to return inflation over time to levels consistent with its mandate. He said while the Fed contemplates doing more, officials will take account of the potential costs and risks of pursuing unconventional policies and added that anything that is done will be contingent on incoming information about the economic outlook and financial conditions. He stopped short of calling for new action.

Atlanta Federal Reserve President Dennis Lockhart said US economic growth is too weak at the moment to lower unemployment and inflation is currently at levels that raise concern about deflation.

The US Labor Department said the seasonally adjusted Consumer Price Index for September increased by 0.1% from August, when consumer prices increased by 0.3%. The underlying inflation rate was unchanged in September. Friday's CPI data showed that compared to September 2009, consumer prices increased 1.1%. Core prices were 0.8% higher than a year earlier.

The Commerce Department reported US retail sales increased for a third consecutive month in September. Retail sales increased 0.6% in September after sales increased a revised 0.7% in August. The Commerce Department also reported that inventories at US businesses increased more than expected in August. Inventories increased by 0.6% in August to a seasonally adjusted \$1.387 trillion. The estimate for August was revised to an increase of 1.1%. The inventory-to-sales ratio in August was 1.27, up from July's 1.26.

The Thomson Reuters/University of Michigan's preliminary October reading on the overall index on consumer sentiment came in at 67.9, down from 68.2 in September and below the average 69 estimate expected by economists. Consumer sentiment unexpectedly fell in early October to its weakest level since July. The survey's gauge of consumer expectations increased to 64.6, above last month's 60.9 level. The measure on consumers' 12 month economic outlook increased to 70 compared with 61 in September. The survey's one year inflation expectations measure increased to 2.6% from 2.2% in September, while its five to ten year inflation outlook index was unchanged from September at 2.7%.

The New York Federal Reserve Bank said its Empire State manufacturing activity index increased to 15.73 from 4.14 in September. Economists had expected an October reading of 6.5.

The Conference Board's Leading Economic Index for China increased 0.7% in August to 149.9, a slightly slower pace of growth than in July. The July increase was revised up to 0.8% from 0.5%, while the June level was lifted to 1.2% from 0.7%.

**October  
Calendar Averages**  
**CL – \$82.21**  
**HO – \$2.2800**  
**RB – \$2.1296**

million barrels by October 15<sup>th</sup> from mid-September.

According to the API, demand for refined petroleum products in September increased by 1.8% over the same period last year to 18.931 million bpd. Distillate demand in September increased by 6.9% on the year to 3.8 million bpd while gasoline demand increased by 0.1% on the year to 8.9 million bpd.

On the supply side, domestic crude oil production increased to 5.5 million bpd, up 1.5% on the year. Imports of crude oil and products fell by 7% to 10.9 million bpd. Total imports in September accounted for 57.6% of US oil demand, down from 63% a year earlier.

Iran’s Foreign Minister Manouchehr Mottaki said a new offer to resume talks over its nuclear program was “good news.” He wants to discuss specific dates for talks. The European Union’s foreign affairs chief Catherine Ashton on Thursday proposed a new round of talks in Vienna next month.

A spokesman for the Movement for the Emancipation of the Niger Delta threatened another bombing in Nigeria’s capital of Abuja over the arrest of its alleged leader, Henry Okah, in South Africa. The ex-leader of MEND was arrested a few weeks ago in Johannesburg, a day after two car bombings in Nigeria’s capital. He has denied any involvement in the bombings.

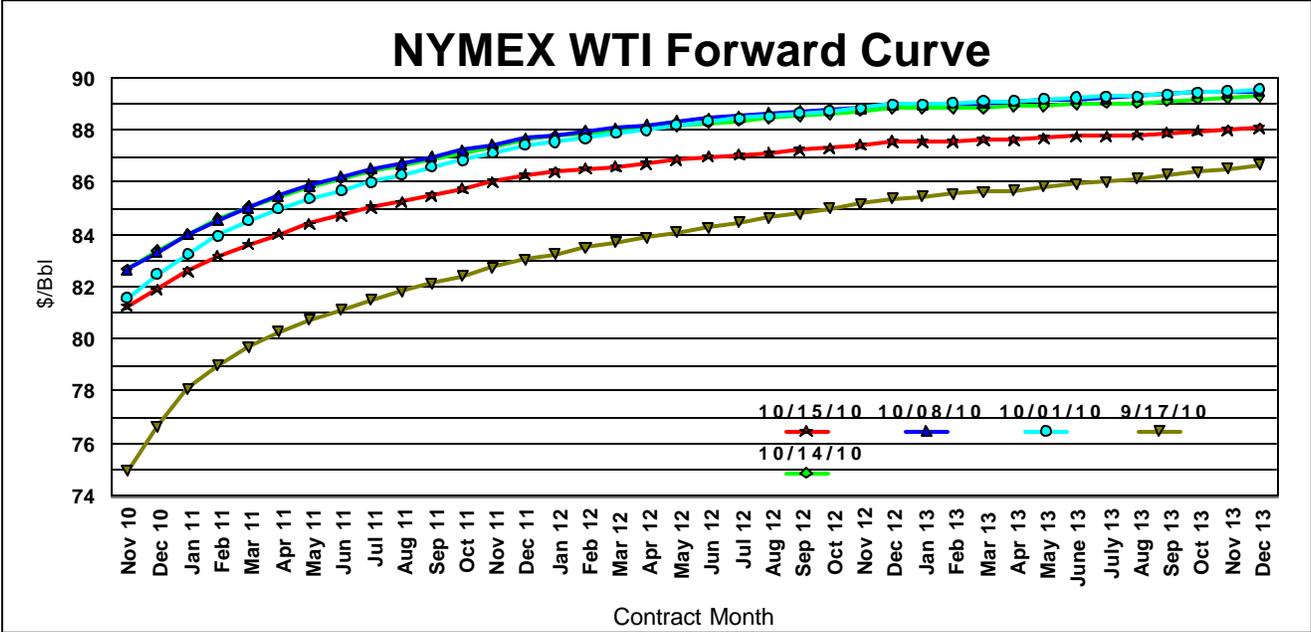
**Refinery News**

Colonial Pipeline said it was freezing nominations on the main distillate line north of Collins, Mississippi for Cycle 60 as demand for space exceeds capacity.

ExxonMobil said it discovered a leak on its jet fuel unit at its 504,500 bpd refinery in Baton Rouge, Louisiana. The leak is currently being repaired. It said there were no off-site impacts and all customers’ needs are being met. Meanwhile, a diesel hydrotreater unit which was shut due to a compressor fire returned to service on Thursday.

ConocoPhillips reported a release of material from the flare due to a loss of a compressor at its 238,000 bpd Bayway refinery in Linden, NJ on Thursday. It said it curtailed the refinery to minimize the flaring. It said a gasoline making unit is operating at reduced rates.

Coffeyville Resources reported an equipment failure followed by the release of hydrogen sulfide early Thursday at its 115,700 bpd refinery in Kansas.



Marathon Oil Corp started planned work at its 106,000 bpd refinery in Detroit, Michigan this week.

Two workers were injured at Shell's 130,000 bpd Montreal East refinery with a steam cleaning machine. The refinery halted operations last week and is in the process of being converted into a fuel terminal.

Production at all French oil refineries was disrupted on Friday due to the strikes in the energy and port industries. Workers at the refinery started to strike on Tuesday in protest of a government planned pension reform that seeks to increase the legal retirement age to 62 from 60. A rolling strike by port workers at the Fos-Lavera oil terminal that started on September 27<sup>th</sup> had already disrupted the supply of crude oil to several refineries in the country. The CGT union said industrial action will continue during the weekend after failing to reach an agreement with employers. New talks with employers are scheduled for next week. Even if the workers return to work quickly it will take several days to resume operations at the refineries. The strikes have raised concern about possible shortages. Workers at the fuel reserves are not on strike but protesters have blocked some those warehouses and the police are working to ensure access is not blocked. French President Nicolas Sarkozy dispatched riot police to reopen fuel depots blocked by striking workers. Meanwhile the pipeline supplying Paris' Orly and Roissy airports from the Grandpuits refinery was also shut due to the strike. Agence France-Presse however reported that the airports have enough fuel for a few days. A French ship broker said it would take 10 days to clear a backlog of crude oil tankers outside the Fos-Lavera port even if the strike stopped immediately. There are now at least 28 crude oil and 24 oil product tankers off Marseille.

Royal Dutch Shell has postponed a maintenance shutdown of a hydrocracker at its Pernis refinery until the spring of next year. The maintenance was scheduled to take place in autumn.

Taiwan's CPC shut a 100,000 bpd No. 10 crude distillation unit last week at its Talin refinery for a 34 day regular maintenance period. It is scheduled to close another crude distillation unit of the same capacity at its Taoyuan plant in December for 45 days of maintenance work. It is also expected to shut a 30,000 bpd No. 1 residual desulphurizing unit at its Taoyuan refinery on November 1<sup>st</sup> for 37 days of maintenance. During November, CPC is expected to skip spot gasoline exports.

Ineos declared force majeure on Friday on ethylene oxide, a petrochemical product, from its French refinery near the Fos-Lavera oil terminal. The refinery was running at reduced rates.

Total SA said the third quarter European refining margin indicator was \$16.40/metric ton, down 47% from \$31.20/ton in the second quarter. However the European Refining Margin Indicator, which reflects the theoretical margin at a complex refinery in Rotterdam, is up 37% compared with \$12/ton in the third quarter of 2009.

Germany's MWV said the country's total sales of oil products increased by 8.7% on the year in September to 7.1 million metric tons. Germany's heating gasoil sales increased by 34.4% on the year to 2.09 million tons while its diesel sales increased by 0.2% on the year to 2.85 million tons, its high sulfur fuel oil sales increased by 16.6% to 450,000 tons and its gasoline sales fell by 2.2% to 1.71 million tons.

Russia's Rosneft signed a deal to pay \$1.6 billion for PDVSA's 50% stake in four Ruhr Oel refineries in Germany. The refineries have a combined capacity of 1.04 million bpd.

Brazil's Petrobras and Denmark's Novozymes AS signed an agreement to develop second generation biofuel from sugarcane bagasse. The commercial potential of cellulosic ethanol in Brazil is substantial

due to the large amount of sugarcane residues known as bagasse. The enzymes break down the bagasse, which enables fermentation into ethanol.

**Production News**

Crude oil exports through the Caspian Pipeline Consortium are scheduled at 2.82 million tons or 20.7 million barrels in November, down 52,300 tons from October.

India on Friday launched its ninth round of oil and gas field auctions with a hope that recent easing of state control over pricing of gasoline and natural gas and the world economic recovery will help it attract more foreign companies to explore. It has invited bids by March 18<sup>th</sup> for 34 exploration blocks. The blocks comprise of eight deepwater, seven shallow water and 19 onland blocks.

Russia's Prime Minister Vladimir Putin said Russia is ready to lift export duties on all oil supplied to Belarus after the countries sign documents related to a creation of a common economic area. Russia plans to create a common economic area with Belarus and Kazakhstan in 2012.

OPEC's news agency reported that OPEC's basket of crudes increased by 5 cents to \$80.95/barrel on Thursday from \$80.90/barrel on Wednesday.

**Market Commentary**

The price of a barrel of crude oil fluctuated today, initially trading above \$83.00 a barrel, only to fall below \$82.00. The choppy trading session came on the heels of an announcement by Federal Reserve Chairman, Ben Bernanke, that the U.S. may need additional economic easing. Crude oil has once again become detached from its underlying fundamentals, tying itself closer to the movement in the dollar. The November contract finished the week down 2 percent as it traded within last week's range. Inside trading sessions are often followed by periods of sideways activity, prior to the market resuming its trend. Technical indicators are supportive of this market, with the slow stochastic moving oscillator pointing to the upside. As long as crude oil can remain above the \$79.43 support level, prices should continue to work higher.

The Commitment of Traders report showed that non-commercials in the crude market increased their net long position by 11,259 contracts to 209,535 contracts in the week ending October 12<sup>th</sup>. The disaggregated futures and options report showed that managed funds continued to increase their net long position for the fourth consecutive week by 10,198 contracts to 178,738 contracts in the latest week. The report showed that producer/merchants cut their net short position by 11,606 contracts to 147,465 contracts while swap dealers increased their net short position by 30,904 contracts to 74,306 contracts.

Crude oil: Nov 10 140,915 -22,011 Dec 10 382,370 +9,246 Jan 11 157,512 -1,216 Totals 1,476,288 +948 Heating oil: Nov 10 64,563 -5,675 Dec 10 83,290 +1,167 Jan 11 56,464 +234 Totals 320,956 -3,295 Rbob: Nov 10 58,459 -5,887 Dec 10 80,967 +4,711 Jan 11 41,766 +1,079 Totals 274,915 +4,076

Crude Oil		Heating Oil		Rbob	
Support	Resistance	Support	Resistance	Support	Resistance
7943	8461	19236		18240	
7921	8610	18965	23775	<b>16010</b>	22345
7760	8715	18920			24880
7598					27085
7298					

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