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ENERGY MARKET REPORT FOR OCTOBER 18, 2010

OPEC Secretary General Abdullah al-Badri said the average compliance of OPEC members with output quotas is 61%. He also said Iran's OPEC presidency will not tarnish the reputation of the oil cartel.

The US National Hurricane Center said a low pressure system in the Caribbean near the coast of Nicaragua still has a 30% chance of developing into a tropical depression over the next day or two. The computer weather models forecast the Caribbean system would not threaten

the northern Gulf of Mexico. Elsewhere, the NHC was monitoring a low pressure system in the eastern Atlantic about 850 miles southwest of the Cape Verde Islands with a 10% chance of becoming a tropical depression.

The EIA reported that the US average retail price of diesel increased by 0.7 cents to \$3.073/gallon in the week ending October 18th. The price of diesel is up 36.8 cents or 13.6% on the year. The EIA also reported that the US average retail price of gasoline increased by 1.5 cents to \$2.834/gallon on the week. The price of gasoline is up 26 cents or 10% on the year.

Market Watch

The Federal Reserve said US industrial production fell by 0.2% in September compared with August's 0.2% increase. Capacity utilization fell slightly to 74.7% in September from a revised 74.8% the previous month. Manufacturing fell by 0.2% in September.

Federal Reserve Bank of Chicago President Charles Evans said as part of a broader attempt to help stimulate economic activity, the Federal Reserve may have to allow inflation to overshoot levels consistent with price stability. The Federal Reserve Bank of Atlanta Dennis Lockhart is giving support to the Federal Reserve embarking on a program of asset buying to help spur growth in the US economy. His comments came as market expectations are increasing that Federal Reserve officials will soon restart a program to buy long term assets, in a bid to spur growth.

The Deputy head of the People's Bank of China, Yi Gang said reforms to China's yuan currency will be gradual but added that the country aims to increase its flexibility. He said Yuan reform will also help ease inflation pressures.

French President Nicolas Sarkozy and Germany's Chancellor Angela Merkel said European Union countries that fail to take measures to reduce their deficits within six months should be sanctioned.

Rhine freight rates to carry fuel from the storage hub of Rotterdam to France, Germany and Switzerland increased to 11 month highs on Monday due to the French refinery strike. The cost of shipping for the route between Rotterdam and Karlsruhe, Germany has nearly doubled to \$17/ton since the strike started on September 27th.

Refinery News

**October
Calendar Averages**
CL – \$82.28
HO – \$2.2796
RB – \$2.1314

Colonial Pipeline Co extended shipping restrictions to its Linden, NJ mixed products delivery line, L2, as current nominations approach levels which would exceed the company's ability to lift product for shipment every five days. L2 services deliveries to the Federal terminal in Elizabeth, the Hess and BP terminals in Newark and IMIT in Bayonne. It issued a Freeze Notice for current nominations on cycles 54 and 55.

Credit Suisse said US refined products margins were mixed last week. Margins in the Northeast increased by 35 cents to \$8.03/barrel last week while margins in the Rockies increased by 88 cents to \$17.46/barrel and margins in the West Coast increased by 79 cents to \$15.14/barrel. Margins in the Midwest fell by 76 cents to \$10.83/barrel while margins in the Gulf Coast fell by 51 cents to \$8.64/barrel.

ExxonMobil Corp started scheduled maintenance on several processing units at its 238,600 bpd refinery in Joliet, Illinois. The work is expected to last several weeks. Production will be slightly impacted but all customer needs will be met.

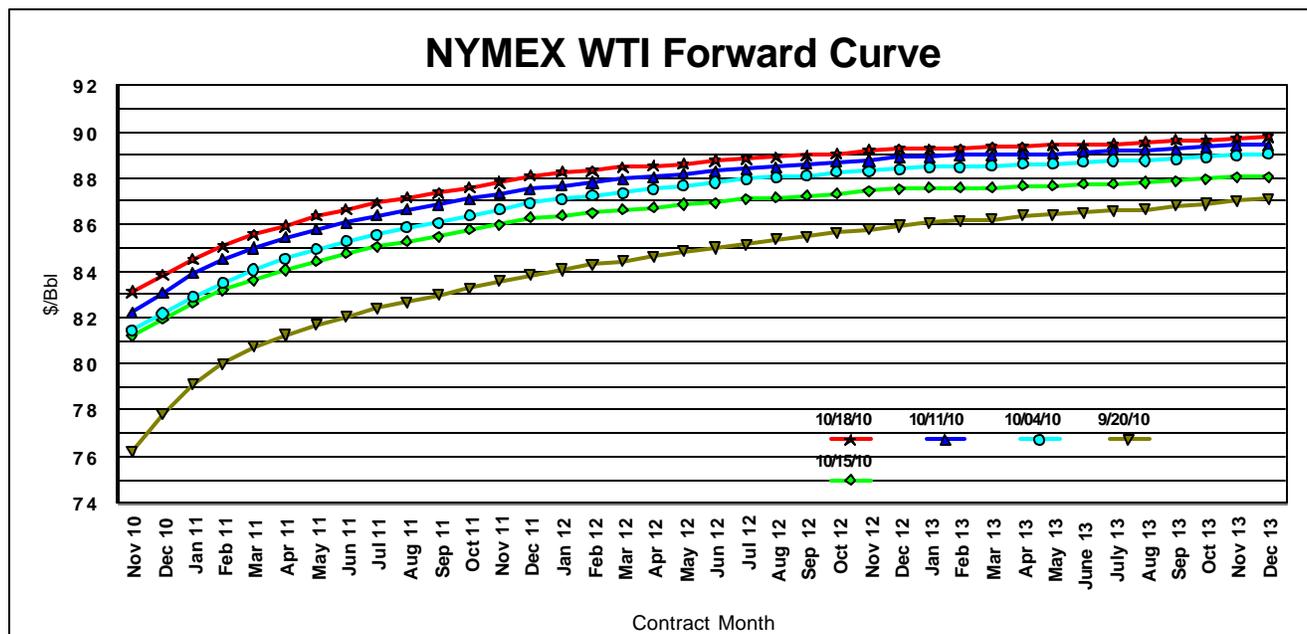
Motiva Enterprises LLC reported that a tail-gas treating unit will be shut for maintenance at its 285,000 bpd Port Arthur, Texas refinery.

ConocoPhillips reported the startup of a sulfur unit at its 247,000 bpd Sweeny, Texas refinery in Texas.

Husky Energy Inc's 160,000 bpd refinery in Lima, Ohio started 40 days of planned turnaround maintenance on its fluid catalytic cracking unit and coker unit on Friday.

The Port of Marseille said the strike at the Fos-Lavera terminal was blocking 65 tankers, including 47 oil and product tankers.

The Union Francaise des Industries Petrolieres said continuing strike action has almost completely stopped production at French oil refineries and added that although there is no physical shortage of oil products in the country there is a perception of a shortage that is leading to panic buying.



The EA said France started to tap its emergency fuel reserves as an increasing number of petrol stations started to run dry on Monday. It said France had about 98 days of oil stocks. Nationwide strikes over pension reform have spread to the country's 12 oil refineries over the past seven days, adding to the impact of a three week long strike at France's Fos-Lavera terminal over working conditions and a port reform. Some refiners have started to declare force majeure. ExxonMobil Corp is in the process of declaring force majeure on a number of French fuel supply contracts to supermarkets. A CFDT union official said ExxonMobil's Fos-sur-Mer refinery in France can continue producing fuel at minimum output for about 4 days until October 21st or 22nd. Meanwhile, Petroplus said it started a partial shutdown of its Reichstett refinery in eastern France over the weekend and will completely shut the refinery this week. Workers at Total's Feyzin refinery voted to extend a strike until Wednesday while workers at its Donges refinery voted to extend the strike until Friday. French Industry Minister Christian Estrosi said no fuel shortages are expected in France.

Separately, ExxonMobil Corp's 240,000 bpd Port Jerome-Gravenchon refinery in Normandy is in the process of shutting down after operations were affected by the ongoing strike in France.

Royal Dutch Shell said it has been monitoring the strikes at France's Fos-Lavera terminal. However Shell declined to comment on whether the terminal forced the 310,000 bpd Miro refinery in Karlsruhe to reduce crude runs.

A chemical leak halted PDVSA's efforts to restart its 130,000 bpd Petroanzoategui heavy crude upgrader on Monday. A union leader said six workers were injured due to the leak.

Cepsa completed scheduled maintenance on a 130,000 bpd crude distillation unit at its San Roque refinery in Spain. The maintenance was scheduled to last 10 days after it started on October 3rd.

Glencore is in talks to buy a 70% stake in Brazilian sugar and ethanol plant Rio Vermelho for about \$80 million. The purchase would mark Glencore's first entrance into Brazil's sugar and ethanol sector. The plant currently has the capacity to crush 1.2 million to 1.3 million tons of sugar cane per season.

Production News

Saudi Arabia's Oil Minister Ali al-Naimi said the country's oil production is currently 8.1 million bpd.

Crude oil output from nine of the main North Sea streams will increase by 4.5% in November to more than 64 million barrels, the highest monthly total since July.

Angola is set to export 1.49 million bpd of crude oil in December. The provisional loading program for exports showed 48 cargoes.

Iraq's Deputy Oil Minister Abdul Kareem Luaibi said BP along with its partner China National Petroleum Corp plan to raise output from Iraq's Rumaila oilfield by 100,000 bpd in November. The field is currently producing 1.07 million bpd. He also stated that Iraq allocated \$1.4 billion to build four floating oil export terminals and three sea pipelines in the southern oil terminal of Basra in order to raise export capacity to 4.5 million bpd from the current level of 1.3 million bpd. Each terminal would be able to handle 800,000 bpd.

Turkmenistan's Dragon Oil said it planned to increase its average daily output by 50% to 75,000 bpd.

Halliburton Co expects there will be 2,500-3,000 uncompleted wells by the end of 2010 as firms drill to hold leases. It expects further deterioration in Gulf of Mexico business in the fourth quarter.

Brazil's center-south region is expected to produce 27.8 billion liters of ethanol in the 2010-2011 season. The northeast region is expected to produce 2.1 billion liters of ethanol.

OPEC's news agency reported that OPEC's basket of crudes fell to \$79.86/barrel on Friday from \$80.95/barrel on Thursday. It also reported that OPEC's basket of crudes fell by 16 cents to \$80.36/barrel in the week ending October 15th.

Market Commentary

Both gasoline and heating oil crack spreads gained today as continued strikes in France take a bit out of supplies. With local supplies being draw down, France will have to rely on outside sources for supplies. This also provided strength to crude oil, sending the November contract above \$83.00.

Market participants are awaiting movement by the Federal Reserve Bank to impose the next phase of quantitative easing, uncertain of its impact on crude oil prices. Already strapped consumers will find it difficult to pay even higher prices, which will surely happen with the introduction of the next phase of economic easing. This puts Chairman Ben Bernanke in a precarious situation. We will have to wait and see how all this pans out. From a technical standpoint, crude oil prices are at year-ago levels and are poised to head higher. We would look for a test at the projected upside level of \$84.61.

Crude oil: Nov 10 98,423 -42,492 Dec 10 397,209 +14,839 Jan 11 163,284 +5,772 Totals 1,462,622 -13,666 Heating oil: Nov 10 59,658 -4,905 Dec 10 88,160 +4,870 Jan 11 58,136 +1,672 Totals 326,228 +5,272 Rbob: Nov 10 55,802 -2,657 Dec 10 86,904 +5,937 Jan 11 44,561 +2,795 Totals 282,574 +7,659

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

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