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## ***ENERGY RISK MANAGEMENT***

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### **ENERGY MARKET REPORT FOR OCTOBER 19, 2010**

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The National Hurricane Center said a low pressure system in the northwest Caribbean Sea became better organized on Tuesday and has a 40% chance of strengthening into a tropical depression over the next day or two as it moves northwest towards Honduras. The computer weather models show the system will not threaten the northern Gulf of Mexico but will hit Central America over the next few days. Elsewhere, the NHC forecast no tropical systems would develop over the next 48 hours.

The strike at the Fos-Lavera oil terminal entered its 23<sup>rd</sup> day on Tuesday as workers took part in a nationwide strike against the

#### Market Watch

The US Commerce Department said US home construction unexpectedly increased in September by 0.3% to a seasonally adjusted annual rate of 610,000, a five month high. Building permits fell by 5.6% to a seasonally adjusted annual rate of 539,000. Economists expected overall housing starts to fall by 4.2% to 573,000. Single family housing starts increased by 4.4% to an annual rate of 452,000.

China's central bank unexpectedly increased its interest rates for the first time in three years. It raised its benchmark one-year deposit and lending rates by 25 basis points each. The move reflects its concern about rising domestic asset prices and inflation. As a result, the US dollar surged as the US said it would not devalue the dollar. Gold prices fell as much as 2.7% on Tuesday.

Goldman Sachs' commodities trading risk increased modestly in the third quarter for a year ago but fell slightly from the previous quarter. It assumed a Value at Risk worth \$29 million for commodities during the third quarter compared with \$27 million a year ago and \$32 million in the second quarter.

The world's largest container shipping company, Maersk Line said it would suspend about 10% of its Asia-Europe service starting in mid-November to adjust to weaker demand after the peak season.

Venezuela's President Hugo Chavez visited Iran Tuesday to increase energy and trade cooperation between the two countries. His visit is part of an international tour aimed at strengthening Venezuela's trade ties with eastern Europe and the Middle East. On the agenda are plans for a joint oil-shipping company and joint construction of petrochemical plants as well as Venezuelan participation in the exploitation of Iran's South Pars gas field.

A US CFTC commissioner, Jill Sommers said she supports proposal for swaps reporting but has grave concerns about moving forward with position limits. She said imposing speculative position limits would be a mistake without adequate data. According to a plan unveiled on Tuesday, the CFTC said about 180 trading firms, swap dealers and five clearing houses will need to report positions in 46 commodities daily starting in six to ten months, in an effort to help the agency regulate position limits for speculative trades. Five commissioners voted 5-0 to advance a proposed rule creating a swap position report for public comment. The chief counsel of the CFTC said the CFTC has the flexibility on what date position limits rule becomes effective.

**API Stocks**

**Crude** – up 2.315 million barrels  
**Distillate** – down 854,000 barrels  
**Gasoline** – down 83,000 barrels  
**Refinery runs** – up 0.8% at 80.9%

government planned pension reforms. Workers at the Fos-Lavera terminal have been on strike since September 27<sup>th</sup> to protest against the Marseille port planned restructuring, under which the oil terminal is expected to be converted into a unit in which private companies are expected to take a stake. On Tuesday, 65 ships and four barges were being prevented from docking and were waiting offshore. The Marseille port

authority said of the 20 crude oil tankers and 13 refined oil tankers were waiting off the Fos-Lavera terminal and nine crude oil tankers and five refined oil tankers were waiting off the Marseille terminal itself. A French shipping agent said it will take 11 days to clear the backlog of oil tankers outside the southern port of Fos-Lavera even if the strike ends immediately. Meanwhile all of France's 12 refineries remain shut due to the strike. The strike will continue at almost all refineries until Friday after workers voted in favor of carrying on with the strike. Strikers blocked oil product barges on the Rhine River on the French border near Strasbourg. The disruption to supplies from French refineries have increased diesel barge values and lifted freight rates on the Rhine River.

French President Nicolas Sarkozy promised to take action against strike shutdowns at all French oil refineries that have caused fuel shortages amid national protests against pension reform. Meanwhile, French Prime Minister Francois Fillon said that fuel distribution should return to normal in France within four or five days following measures to unblock supply problems from the refinery strikes.

According to a SpendingPulse report by MasterCard Advisors, US weekly gasoline demand increased by 2.7% to 9.258 million bpd in the week ending October 15<sup>th</sup>. The 246,000 bpd increase put demand at its highest level since August 20<sup>th</sup>. Demand was down 81,000 bpd or 0.9% on the year. In the last four weeks, demand averaged 9.081 million bpd. It reported that US average retail price of gasoline increased by 6 cents to \$2.82/gallon, the highest price since May 21<sup>st</sup>.

China insisted it was implementing UN sanctions against Iran after the US said it asked China to look into whether some Chinese companies were evading the restrictions. The Washington Post reported late Sunday that the US believes some Chinese companies are helping Iran to improve its missile technology and develop nuclear weapons and has asked China to prevent such activity.

Iran said some Western companies are refusing to refuel its planes in Europe and warned it will confront such measures, which it deems illegal under international law. An Iranian Foreign Ministry spokesman warned that Iran would not tolerate such measures. The Washington Post reported that several major oil firms, including British Petroleum, Royal Dutch Shell and Q8 have abruptly cancelled jet fuel delivery contracts with Iran Air. The report said the cancelled contract had impacted Iran Air flights departing from destinations such as Amsterdam, London and Stockholm. They are forced to make lengthy fuel stops either at an airport in Germany or one in Austria where Total SA and OMV AG were still providing fuel for the airline.

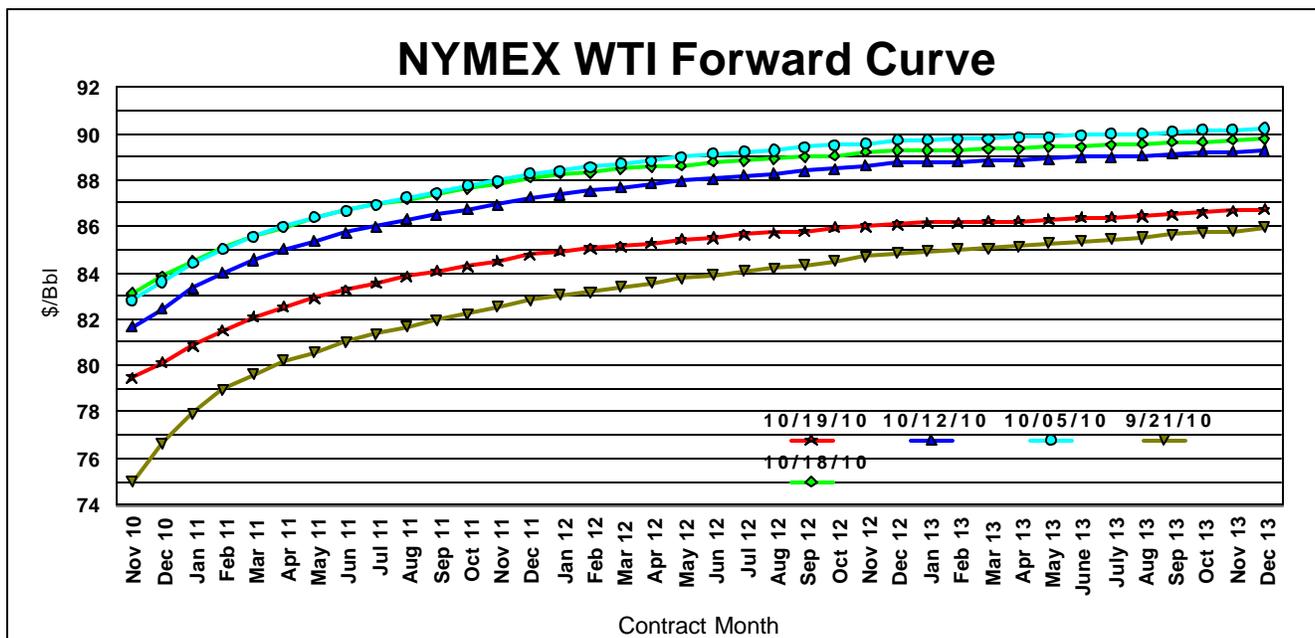
The Movement for the Emancipation of the Niger Delta reiterated a warning of possible attacks in Nigeria's capital of Abuja, after a previous threat did not materialize. It threatened a new bombing in Abuja over the arrest of MEND's alleged leader, Henry Okah, in South Africa. Meanwhile, Nigeria's secret service said it caught five suspects believed to have coordinated and carried out car bombings in the capital on October 1<sup>st</sup>.

**Refinery News**

Colonial Pipeline allocated its main gasoline line for cycle 61.

Alon USA Energy Inc reported a rupture in a transfer line at its 68,000 bpd Bakersfield refinery in California.

**October  
Calendar Averages**  
**CL – \$82.06**  
**HO – \$2.2727**  
**RB – \$2.1250**



Valero Energy Corp said it will complete its turnaround at its 235,000 bpd refinery in Aruba at the end of December or early January.

ConocoPhillips intends to shutdown its northern German oil refinery in Wilhelmshaven by the end of the year. It plans to convert the refinery into a handling terminal and fuel depot. The refinery has been offline for more than a year, first due to poor economic conditions during the recession and then following a large fire that started when ConocoPhillips attempted to restart operations this past spring.

China Petroleum & Chemical Corp's Luoyang unit has expanded its refining capacity by 25% to 200,800 bpd. A 2.6 million ton/year diesel hydrotreater came online over the weekend.

India's Reliance Industries will shut a crude distillation unit for scheduled maintenance at its 660,000 bpd refinery for about a month starting in November.

Indian Oil Corp is considering expanding capacity at two refineries to meet increasing demand within the country. It is seeking to increase the capacity of its Koyali refinery to 320,000-360,000 bpd from the current level of 274,000 bpd. It may also expand capacity at its Mathura to 220,000 bpd from 160,000 bpd.

German household heating oil stocks increased to 62% of capacity as of October 1<sup>st</sup>, up from 60% at the beginning of September.

China's Customs Statistics Information Center showed that the country's diesel exports fell to 370,000 tons in September while imports increased to 150,000 tons, cutting net exports by about 70,000 tons from August. China's gasoline exports increased by 20,000 tons to 390,000 tons while fuel oil imports increased to 1.62 million tons and kerosene imports increased to 420,000 tons.

Three tankers have been fixed to ship a total of 215,000 tons of Asian gas oil to Europe despite a closed arbitrage. The Cape Tampa was fully fixed to carry 60,000 tons of gas oil from Japan to UKC while the Paramount Hatteras was provisionally booked to ship 75,000 tons of diesel from South Korea to UKC and the Cape Endeavor was provisionally chartered to carry 80,000 tons of gasoil on a similar voyage. The loading dates for the three tankers are October 28, October 25 and November 8<sup>th</sup>, respectively.

## **Production News**

Angola plans to ship a lower volume of crude in December compared with November. The plans indicate at least 1.49 million bpd of crude earmarked for December compared with 1.75-1.8 million bpd in November. The plan shows 48 cargoes with a total volume of 53.76 million barrels for December.

Russia's oil production is expected to reach its peak this year and could fall by 2.4% in 2011, unless the country's oil taxation system is changed. Russia could see its production, which is currently at 10 million bpd, fall to 9.7 million bpd next year and to 9.5 million bpd in 2012.

Kuwait Oil Co said it expects the country to add a significant amount to its oil reserves by March 2011. Some of the additional oil reserves will come from the world's largest oilfield, Burgan which is currently pumping 1.75 million bpd. The field holds about 70 billion barrels or about 70% of Kuwait's 101.5 billion barrels of reserves.

A senior Iraqi oil official said Iraq may hold a licensing auction to award the Nassiriya oil field to international companies in order to upgrade it. The official did not say when an auction would take place. A Japanese consortium led by Nippon Oil Corp and including Inpex Corp and JGC Corp had been in talks with the Iraqi government over the field for several months but talks ended in January without agreement. Separately, Iraq's Deputy Oil Minister Ahmad al-Shammaa said the Oil Ministry has invited international companies to submit documentation in order to prequalify them to build four refineries planned to meet increasing domestic demands.

Libya's National Oil Co has cut its November official selling prices for its benchmark Es Sider crude oil. Es Sider differential for November term supply was cut by 25 cents from October to Dated Brent minus 40 cents.

OPEC's news agency reported that OPEC's basket of crudes fell by 83 cents to \$79.03/barrel on Monday from \$79.86/barrel on Friday.

## **Market Commentary**

Yesterday's market gains were quickly given back with the announcement by China's central bank that it would raise interest rates for first time since 2007. This brought about concerns that demand in the world's second largest energy consuming country would be crimped. With this, the dollar fell, making commodities less appealing to investors. Today's sell-off was further fueled by expectations that stock levels increased last week as refiners slowed units in order to perform seasonal maintenance. Expectations are calling for a decrease in crude oil stock levels of 1.5 million barrels. Crude oil experienced its largest one-day sell-off since February, falling 4.32 percent on the day. With expiration of the November contract tomorrow, we will have to wait and see if December will continue to slide. Gasoline was hit the hardest, falling to its lowest level in two weeks. This sell off may be attributed to an expected decline in fuel consumption, which is expected to decrease by 0.7 percent. We expect for all three markets to continue to trade under choppy conditions, taking intermittent signals from the economy and underlying fundamentals. We would look to buy and sell against the listed support and resistance numbers.

Crude oil: Nov 10 62,541 -35,882 Dec 10 407,611 10,402 Jan 11 167,957 +4,673 Totals 1,448,990 -13,632 Heating oil: Nov 10 57,535 -2,123 Dec 10 87,593 -567 Jan 11 58,388 +252 Totals 325,270 -958 Rbob: Nov 10 55,847 +45 Dec 10 85,775 -1,129 Jan 11 46,545 +1,984 Totals 283,888 +1,314

Crude Oil		Heating Oil		Rbob	
Support	Resistance	Support	Resistance	Support	Resistance
7943	8461	21860		20130	
7921	8610	21650	23775	18750	22345
7760	8715	20700		18240	24880
7598				<b>16010</b>	27085
7298					

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