



ENERGY RISK MANAGEMENT

Howard Rennell, Pat Shigueta,
& Karen Palladino

(212) 624-1132 (888) 885-6100

www.e-windham.com

ENERGY MARKET REPORT FOR OCTOBER 20, 2009

Oil prices at around \$80/barrel have prompted some investment in new projects however current prices are buoyed by factors that could prove temporary. OPEC Secretary General Abdullah al-Badri said some speculation in oil trading is a normal part of the market but excessive levels should be curbed. He doubts oil prices will remain at \$80/barrel, saying the high level of oil stored on tankers will likely push crude further under the \$80/barrel peak it reached on Tuesday. Oil prices at \$80/barrel are not justified by fundamentals. He said OPEC wants to see oil stored at sea decline before it considers raising production to halt a rally in prices. He however said it is too early to discuss any possible output policy decision ahead of OPEC's December meeting. He also said OPEC members are reviving major oil projects that had been put on hold due to the oil price drop last year from record highs. Seven of 35 oil projects delayed in member countries have been revived due to the

Market Watch

The Labor Department said lower energy prices pushed US wholesale prices lower in September, leaving a larger than expected monthly decline in the Producer Price Index. The PPI for finished goods fell by 0.6% on a seasonally adjusted basis in September after increasing by 1.7% in August. Core PPI fell by 0.1% compared with expectations of a 0.1% increase. It is up 1.8% from a year ago. The PPI data showed a 2.4% decline in energy prices in September after an 8% increase the previous month.

The Commerce Department said housing starts increased a third time in four months in September. Housing starts increased 0.5% to a seasonally adjusted 590,000 annual rate compared to the prior month. It is lower than the 2% increase expected. Year over year housing starts in the US were 28.2% lower than the pace of construction in September 2008. Building permits in September fell 1.2% to a 573,000 annual rate. Economists had expected permits to increase by 2.8% to a rate of 596,000.

BP Group chief executive Tony Hayward said dollar weakness has played a major part in oil's move to \$80/barrel. He also said oil price rise is being driven by the fundamentals of supply and demand. Meanwhile, BP Group chief economist Christof Ruehl said oil prices will likely remain strong over the coming months, driven by expectations of increasing demand and a relatively high level of OPEC output discipline. He said the price is dependent on the expectations of economic recovery and whether OPEC could maintain discipline with agreed output cuts. Separately, BP's chief executive said the company may seek to increase its drilling position in Canada. He also said governments, particularly in the US and Europe, need to play a more active role in helping the oil industry meet rising energy demands while mitigating carbon emissions.

ConocoPhillips' chief executive James Mulva said it is unclear whether current oil prices will hold and added that investments have been slow to catch up as a result. He said he is unsure if an oil price of \$75/barrel will last. He said he expects it will be hard for crude supply to meet demand in the years ahead, with output possibly peaking below 100 million bpd.

Hess Corp's chief executive John Hess said the company could seek external funding options, such as debt or share issues, if its own cash flows are insufficient to meet the cost of developing its projects. He said the company's internal cash flows would meet most of its needs but other sources of cash could also be tapped. If oil prices were low for a long time, it could delay its plans to develop new fields. He said an oil price above \$60/barrel is needed to sustain investment.

Chevron Corp's chief economist Edgard Habib said no currency can challenge the dollar's dominance in oil trading as 64% of the world's reserves are in dollars.

API Stocks

Crude – up 3.847 million barrels
Distillate – down 998,000 barrels
Gasoline – down 558,000 barrels
Refinery runs – up 0.3%, at 81.5%

rally in prices. In regards to the dollar, he said he knew of no plans to shift international oil trade away from its dollar denomination. He reiterated that oil trade denomination issues were the concerns of individual OPEC members rather than group policy.

Qatar's Oil Minister Abdullah al-Attiyah said oil demand is increasing and added that OPEC will monitor the situation but added that he was confident there would be no shortage of supply. He also said he believes oil trade would continue to be denominated in US dollars.

Iran's OPEC Governor, Mohammad Ali Khatibi said weak US dollar is driving oil prices above \$80/barrel. He said OPEC members are unlikely to increase production in a bid to stem the recent increase in oil prices. He added that demand for OPEC crude is about 29 million bpd compared with production of about 28.9 million bpd and stocks are higher than normal.

The head of the IEA, Nobuo Tanaka said the world will need an additional 11 million bpd of OPEC crude by 2030 even if ambitious climate change policies are implemented. He said about \$10 trillion of investment is needed by 2030 under the IEA's 450 ppm scenario.

France said it is participating in nuclear talks between Iran and the world powers in Vienna despite Iran saying it did not want France to be part of any deal on uranium enrichment. Later, delegations from the US and Iran met under the auspices of the IAEA's Director General Mohammed ElBaradei to discuss the proposed deal on uranium enrichment.

Nigeria's main militant group, the Movement for the Emancipation of the Niger Delta, expressed cautious optimism following a meeting between its leader and Nigeria's President Umaru Yar'Adua to discuss ways to achieve peace in the Niger Delta. A spokesman for Nigeria's President said the meeting was fruitful but gave no further details.

Under a draft European Union proposal, traders may face limits on positions they can take in the over-the-counter derivatives market. It will propose rules giving regulators the authority to set limits to counter excessive price movements or excessive concentration of speculative positions. It proposes that rules for central counterparties, which are regulated at a national level, should be harmonized across the 27 EU member states. The commission said in the draft document that it would set ambitious European targets and strict deadlines for legal and process standardization.

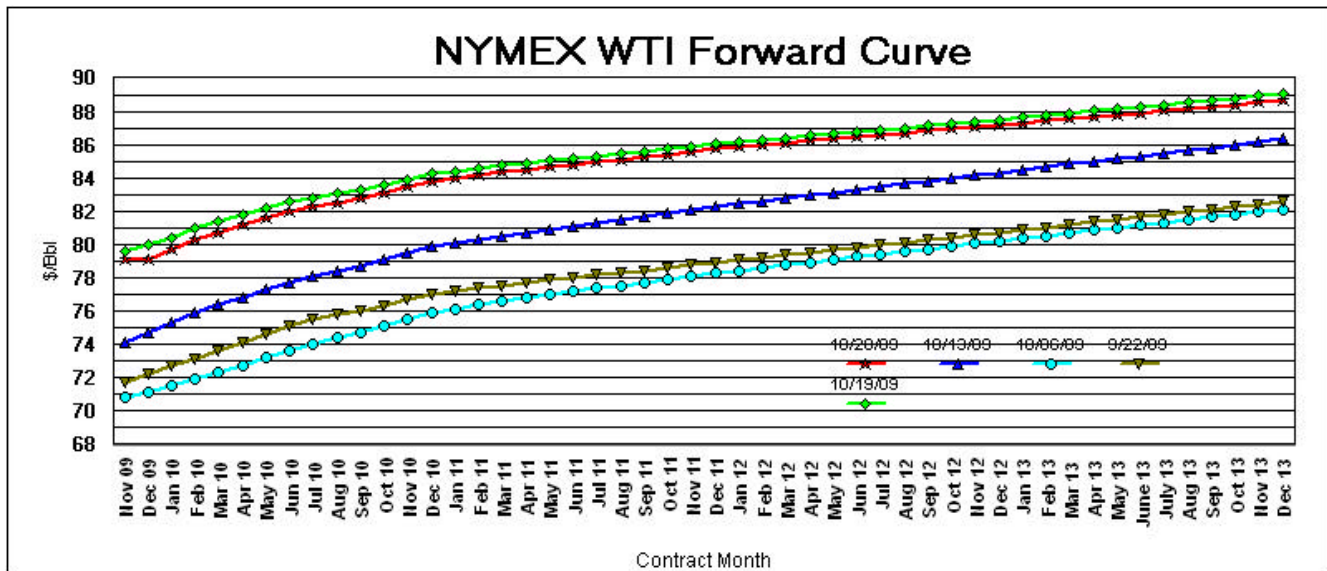
According to MasterCard Advisors LLC, US gasoline demand increased by 3.7% to 9.339 million bpd in the week ending October 16th. On a four week basis, demand increased by 3.6% on the year. On a nationwide average, the retail price of gasoline increased by 3 cents to \$2.48/gallon, the most since September 25th and down 19.7% on the year.

Refinery News

Total Petrochemical said its 174,000 bpd refinery in Port Arthur, Texas resumed planned rates following a fire and power outage last week that prompted a cut in operations.

Delek US Holdings Inc reported the startup of a fluid catalytic cracking unit at its 58,000 bpd Tyler, Texas refinery following the unit's shutdown last week.

<p style="text-align: center;">October Calendar Averages</p> <p>CL – \$73.75 HO – \$1.9013 RB – \$1.8343</p>
--



Suncor Energy said its 135,000 bpd Edmonton, Alberta refinery is operating normally despite reporting a problem on Monday that resulted in flaring. It said it is repairing a pipeline after a small leak was discovered at the refinery.

Hellenic Petroleum restarted its 150,000 bpd Aspropyrgos refinery following the completion of planned maintenance. The refinery had been shut since mid-September.

China will increase its crude processing capacity to 550 million tons or 11 million bpd by 2015 and increase its output of refined oil products to over 300 million tons. China aims to increase its annual crude throughput to 405 million tons or 8.1 million bpd by 2011 from 342.1 million tons in 2008. Several refineries will have a refining capacity of 400,000 bpd each and average capacity will be more than 100,000 bpd.

The head of the National Energy Administration, Zhang Guobao said China plans to build storage tanks in the country's northeast under its strategic petroleum reserve program. Under the SPR program, China aims to stockpile crude equivalent to 100 days of net imports by 2020, in three phases. The country has filled first phase tanks to their capacity of 16.4 million cubic meters, equivalent to 102 million barrels and construction has started on a second phase with a designed overall capacity of 26.8 million cubic meters or 169 million barrels.

Iran has purchased about 820,000 bpd of gas oil this month and is in talks to ship 2 million barrels of fuel in November as it starts to build stocks head of the winter.

Production News

US Interior Secretary Ken Salazar said the federal government will open up public lands in Colorado, Utah and Wyoming to new oil shale research and develop, although the agency plans to investigate last minute changes to existing leases issued by the Bush administration. Energy companies can submit applications for a second round of oil-shale research and development leases within 60 days after the Interior Department publishes a notice in the Federal Register.

Nexen Inc said crude oil production at the 200,000 bpd North Sea Buzzard oil field was cut over the past couple of days due to gas constraints. However it is likely to resume full rates shortly.

Nigeria's Oil Minister Rilwanu Lukman said Nigeria's current crude oil production stands at between 1.6-1.7 million bpd. The country is still in talks with China over selling some of Nigeria's oil reserves. He also expressed hope that the recent halt of militant attacks on Nigerian oil production would last.

An adviser to Nigeria's President said Nigeria's plan to allocate 10% of its oil joint ventures to Niger Delta residents will not affect the country's partnerships with international oil companies. If approved by parliament, President Umaru Yar'Adua's proposal would give residents of oil-producing states an equity stake in the national oil firm, providing hundreds of millions of dollars each year for development in the impoverished region.

Venezuela's Minister of science, technology and light industry said higher prices for Venezuelan crude is giving a much needed boost to the local manufacturing sector, which in turn will help the country's economic recovery in 2010. The 2008 drop in oil prices reduced government revenues forcing the state to authorize fewer requests from companies to buy dollars at the official exchange rate of 2.15 bolivars for \$1.

The UAE plan to increase production capacity at its Upper Zakum crude oilfield is expected to cost up to \$12 billion. Output capacity at Upper Zakum, which accounts for about a third of the UAE's planned increase to total capacity of 3.5 million bpd in 2018 from about 2.8 million bpd, is set to be completed by the end of 2015.

Petroecuador exported 5.91 million barrels of crude oil in September, down 27% from 8.09 million barrels in August. Its exports of Oriente crude stood at 4.47 million barrels while exports of Napo crude stood at 1.44 million barrels. Its oil export revenue in September totaled \$526 million, up from \$524 million in August.

OPEC's news agency reported that OPEC's basket of crudes increased by 93 cents to \$75.82/barrel on Monday from \$74.89/barrel on Friday.

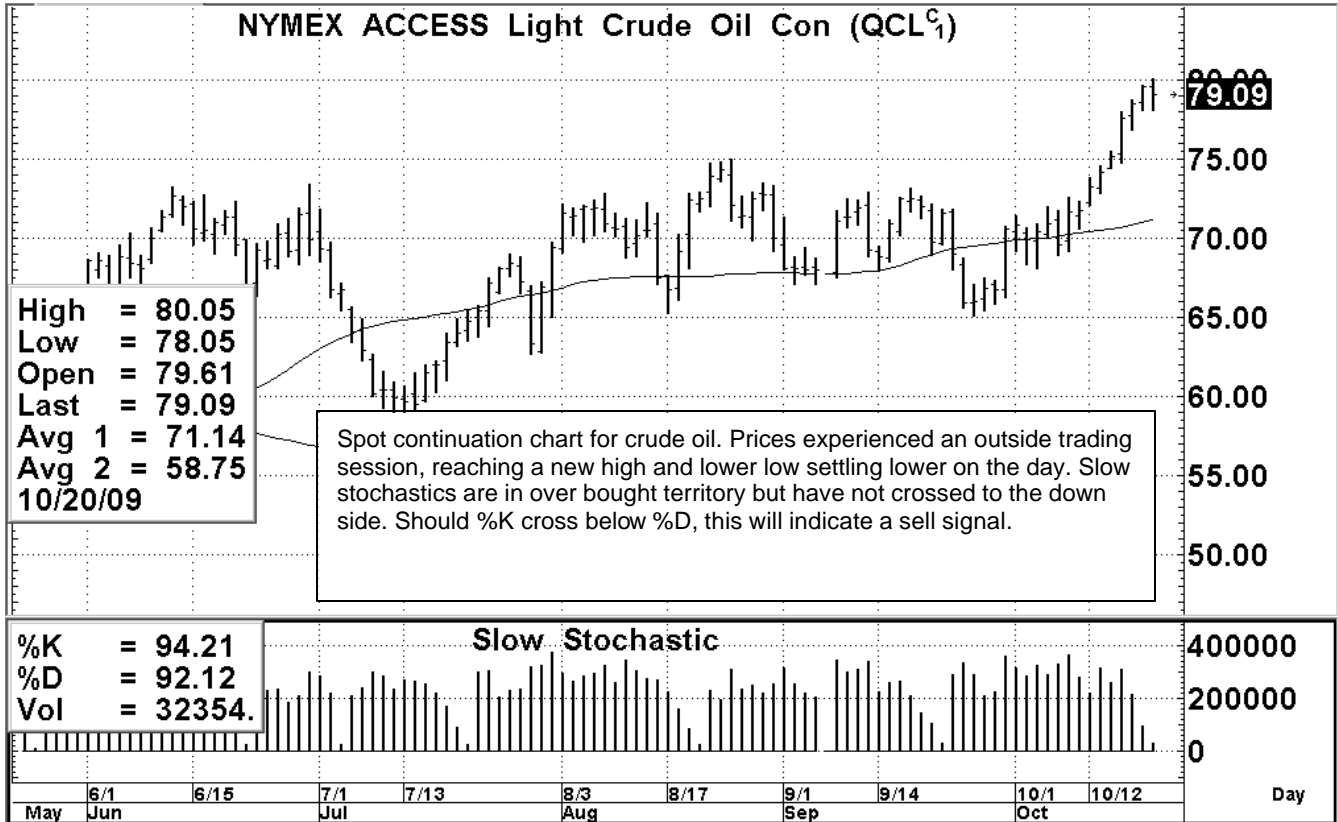
Market Commentary

After reaching new highs for eight straight days, crude oil prices fell today as it reacted to a stronger dollar, less than expected new home construction in the U.S. and an unexpected decline in the U.S. producer price index. Profit takers entered the market with the expiration of the November contract. Crude oil has been reacting to the weak dollar and rallying stock market, which brought with them signs of heightened demand in the future. This is evident in the open interest for both the \$80.00 calls, which has 38,366 contracts in open interest and in the \$85.00 calls, which has 39,858 contracts in open interest. Should this market manage to sustain strength above the \$80.00 level, a stronger rally may ensue. Despite crude oils hard run at \$80.00, volume has been trickling off, indicating that there may be less optimism than originally thought. Watchful eyes will be on tomorrow's DOE report with analysts expecting a 1.8 million barrel build in crude oil, a draw in distillate stocks of 1.3 million and a draw in gasoline stocks of 1 million barrels. These expectations are not unusual for this time of year, when refiners shut down units in order to prepare for the U.S. winter heating oil season.

Crude NOV.09 30,619 -36,619 DEC.09 367,802 +12,226 JAN.10 143,624 -2,507 FEB.10 55,805 +320 MAR.10 42,857 -265 APR.10 19,669 -1,007 Totals: 1,231,584 -29,720. Heating NOV.09 37,482 -2,976 DEC.09 76,381 +1,173 JAN.10 49,459 +813 FEB.10 21,034 -114 MAR.10 17,553 +537 Totals: 314,777 -1,308 Gasoline NOV.09 43,329 -2,164 DEC.09 80,638 +5,380 JAN.10 40,142 +3,429 FEB.10 14,836 +1,190 MAR.10 15,351 -36 Totals: 233,724 +8,067.

The API reported a larger than expected build in crude stocks of 3.847 million barrels on the week, with builds of 1.683 million barrels in Padd 3 and 2.788 million barrels in Padd 5. Total crude stocks are up 12.1% on the year. It reported the build in stocks as crude runs fell by 94,000 bpd to 14.187

million bpd on the week. It however showed that crude imports fell by 469,000 bpd to 8.545 million bpd. Meanwhile, the API reported a smaller than expected draw in distillate stocks of 998,000 barrels on the week. It reported draws of 1.173 million barrels in Padd 2 and draws of 1.039 million barrels in Padd 3. Total distillate stocks are up 32.8% on the year. It reported the draw in stocks as apparent demand increased by 1.4% on the week to 4.282 million bpd while apparent demand basis its three week moving average increased by 3% to 4.44 million bpd. It also showed that imports fell by 151,000 bpd or 52.6% to 136,000 bpd on the week. The API also showed that gasoline stocks fell less than expected with a draw of 558,000 barrels on the week. Stocks in Padd 1 alone fell by 2.056 million barrels on the week. It reported the draw as imports fell by 148,000 bpd or 50.9% on the week to 143,000 bpd. Apparent demand however fell by 4.4% on the week to 9.031 million bpd while apparent demand basis its three week moving fell by 2.1% to 9.247 million bpd.



Crude Support 77.60, 76.24, 74.85, 64.70, 63.38, 62.70, 61.61, 60.95	Crude Resistance , 84.83, 85.40, 86.60, 88.80
Heat Support 1.8570, 1.8280, 1.7670, 1.7375, 1.6585	Heat resistance 2.0940, 2.2110, 2.2575, 2.4200
Gasoline support 1.6010, 1.5887, 1.5370, 1.5260, 1.3520, 1.3400	Gasoline resistance 2.0210, 2.0400 20.567, 2.1100, 2.1600, 2.3350

The information contained in this letter is taken from sources, which we believe to be reliable, but is not guaranteed by us as to accuracy or completeness and is sent to you for information purposes only. The Windham Group bases its market recommendations solely on the judgment of its personnel. Reproduction in whole or part or other use without written permission is prohibited.