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ENERGY MARKET REPORT FOR OCTOBER 25, 2010

The US National Hurricane Center said Hurricane Richard was downgraded to a tropical storm on Monday as it passed over northeastern Guatemala and is expected to continue to weaken. The storm is expected to weaken to a tropical depression before it enters Mexico's Bay of Campeche on Monday night or early Tuesday.

The IEA's executive director Nobuo Tanaka said recent increases in oil reserves in Iraq, Iran and Venezuela are good news but it remains unclear whether they will contribute to future supply. Separately, he

Market Watch

The National Association of Realtors said sales of previously owned US homes increased in September by 10% on the month to an annual rate of 4.53 million units. Although the increase exceeded economists' expectations for a 4% increase to a 4.3 million unit pace, they remained below the 5 million unit pace normally associated with a healthy market. The nation median home price fell by 2.4% from September last year to \$171,700.

The Federal Reserve Bank of Dallas' Texas monthly manufacturing index in October stood at 2.6 compared with -17.7 in September.

The Obama administration on Monday announced rules that will require improvements in the fuel efficiency of commercial trucks and buses. The regulations announced jointly by the Transportation Department and Environmental Protection Agency represent the first national standards on greenhouse gas emissions of trucks and buses. The regulation, which would not be final until mid-2011, is expected to cover new trucks for model years 2014-2018. Some vehicles will be required to reduce greenhouse gas emissions and fuel consumption by 20% by the 2018 model year.

Germany's cabinet will vote on Wednesday on a proposal to raise the maximum level of bioethanol allowed in blended gasoline to 10% in January 2011 from 5%. The move is part of its efforts to meet European Union plans to raise biofuel use to protect the environment.

Weather Services International said temperatures are likely to average lower than normal in Western Europe from November to January while Scandinavia and eastern parts of mainland Europe are likely to be warmer.

The Japan Meteorological Agency said Japan will see mostly average temperatures from November to January. All four regions, including northern Japan, will have a 40% chance of average temperatures during the period.

Clean petroleum tankers rates on top global export routes were mixed on Monday with subdued activity and increasing vessel availability keeping the Long Range market at its lowest level in almost a year. Increasing supply has been compounded by less clean oil products being held in floating storage on Long Range tankers at the moment.

The International Swaps and Derivatives Association said the outstanding amount of over-the-counter derivatives increased during the first half of 2010 despite calls by regulators to move much of the market on to exchanges. The ISDA said the total notional amount outstanding of OTC derivatives amounted to \$466.8 trillion as of June 30, up 1% from the end of 2009.

**October
Calendar Averages**
CL – \$81.96
HO – \$2.2659
RB – \$2.1112

stated that the French government has not informed the IEA of any intention to use its strategic oil stocks to stave off problems with fuel supply.

The volume of Iranian crude stored at sea has declined by as much as 4 million barrels to 16 million barrels due to an increase in Asian demand this month. Asian refiners have more than offset waning demand from European buyers who have increasingly shunned Iranian crude because of international sanctions. China imported 2.4 million tons or 19.3 million barrels from Iran.

The EIA reported that the US average retail price of diesel fell by 0.6 cents to \$3.067/gallon in the week ending October 25th. The price of diesel is 26.6 cents above a year ago. The EIA also reported that the US average retail price of gasoline fell by 1.7 cents to \$2.817/gallon in the week ending Monday. The price of gasoline is 14.3 cents or 5.3% above a year ago.

A CFTC official said mini-flash crashes occur all too often following a surge in high frequency trading. He said US regulators should look for ways to hold traders accountable. The CFTC on Tuesday will announce new draft rules to prevent disruptive trading practices. The regulatory agency faces tight deadlines to write regulations to implement the Wall Street reforms that Congress passed in July to increase oversight of the \$615 trillion over-the-counter derivatives market.

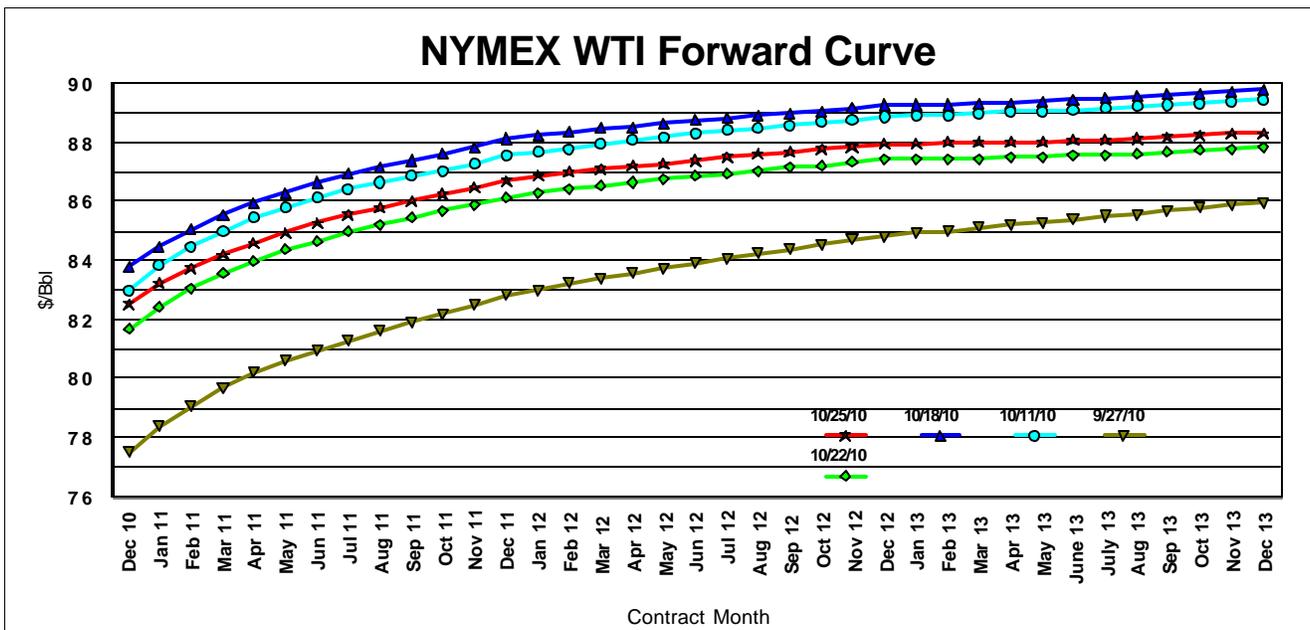
Refinery News

Credit Suisse said US refinery margins were mostly lower in the week ending October 22nd, with the Rockies region showing the only increase of 51 cents to \$17.97/barrel. Margins in the Northeast fell by 94 cents to \$7.10/barrel, margins in the Midwest fell by \$2.65 to \$8.18/barrel, margins in the Gulf Coast fell by \$1.51 to \$7.12/barrel and margins in the West Coast fell by \$3.80 to \$11.35/barrel.

ConocoPhillips' Bayway refinery in Linden, NJ experienced a power outage early Monday morning. It is working to restore power as soon as that can be done safely. The refinery was already undergoing planned maintenance and workers were investigating the cause of the power outage.

Citgo Petroleum Corp reported intermittent flaring due to instrumentation issues at the fluid catalytic cracking unit at its 167,000 bpd Lemont, Illinois refinery.

Coffeyville Resources reported the release of materials from a cold pond flare due to the malfunction



of unspecified equipment on Sunday at its 115,700 bpd refinery in Kansas.

Valero Energy Corp said it agreed to sell its 50% stake in a pipeline that brings deepwater crude oil from the Gulf of Mexico to the US for \$330 million to Genesis Energy LP. The underwater pipeline delivers crude from major Gulf deepwater production fields to the Texas coast.

Workers at eight of the 12 French refineries were still on strike on Monday while three of the refineries where workers voted to end their strike will not resume for lack of crude oil. Workers at ExxonMobil's Port-Jerome and Fos-sur-Mer refineries voted to end their strike. Earlier, labor unions said the Reichstett refinery operated by Petroplus Holdings AG in the east would reopen. Workers at the refinery voted to lift a blockade of deliveries at the plant. The rolling strike at Fos-Lavera is preventing two of those refineries from being supplied with crude. The strike at the Fos-Lavera oil port was blocking 57 oil vessels on Monday, including 38 oil tankers and 19 refined product tankers. A total of 80 vessels were blocked at the port. Meanwhile, the head of the national oil industry association said all of France's fuel distribution depots have now been cleared of blockades by strikers protesting pension reform.

A tanker carrying 11,000 cubic meters of gasoline unloaded at Rouen on Saturday in a rare import of the fuel to the French port. Another gasoline vessel is due to arrive at the port of Rouen on Wednesday. The vessel would bring about 20,000 cubic meters of gasoline.

Suncor Energy Inc began restarting units at its 135,000 bpd Edmonton, Alberta refinery on Saturday after completing scheduled maintenance that started on October 12th.

China's General Administration of Customs reported that the country's crude imports in September reached 23.29 million tons or 5.7 million bpd, up 35% on the year. Its crude exports increased by 1.98% to 392,054 tons. China imported 270,526 tons of natural gas in September. It also reported that China's diesel and gasoline exports were relatively steady in September from a month earlier. Diesel exports in September fell by 7% on the month but increased by 25.3% on the year to 368,096 tons while gasoline exports increased by 5% on the month but fell by 23.7% on the year to 385,695 tons. Meanwhile, China imported 1.62 million tons of fuel oil in September, up 1.87% on the year and 147,758 tons of diesel, up 17.9% on the year. China's kerosene exports in September reached 517,318 tons, down 3.38% on the year while imports totaled 617,191 tons, up 23.4% on the year.

Japan's Ministry of Finance reported that the country's crude oil and condensate imports in September fell by 0.8% on the year to 17.8 million kiloliters or 3.72 million bpd.

India's refiners processed 12.16 million tons or 2.971 million bpd of crude in September, down 10.2% from 13.54 million tons a year earlier. India's crude oil production in September increased by 12.5% on the year to 3.11 million tons or 761,100 bpd.

India's Bharat Petroleum Corp bought 2 million barrels of Nigerian crude for December loading via a tender.

Vietnam's crude oil exports are estimated to have fallen by 44.3% in the first 10 months of the year to 6.69 million tons or 161,300 bpd.

Production News

Mexico's Pemex said the country's oil production has been unaffected by Tropical Storm Richard. It said it is closely watching the storm.

Nigeria plans to export 13 full cargoes of Qua Iboe crude for December loading.

China's National Energy Administration said the country's crude oil production is expected to reach 200 million metric tons or 4 million bpd this year, up 5.5% on the year. China's refinery runs are expected to reach 390 million tons. Oil product output is expected to reach 250 million tons.

BP Plc agreed to sell four fields in the deepwater of the Gulf of Mexico to Japan's Marubeni Corp for \$650 million as the oil major seeks to raise cash to pay for its oil spill in the region. BP has committed to sell up to \$30 billion in non-core assets to pay for the clean up of the oil spill in the Gulf of Mexico. When Marubeni Corp completes the purchase by early 2011, its oil and gas upstream assets will total 50,000 bpd of crude oil equivalent, up 43% from the current level of 35,000 bpd.

China's domestic energy information portal C1 Energy reported that the country will increase its gasoline and diesel retail prices effective Tuesday in line with higher international crude oil prices. The National Development and Reform Commission will increase maximum gasoline and diesel prices by CNY230 and CNY220/metric tons, respectively. The price increase represents a 3% increase over current average gasoline and diesel retail ceiling benchmarks of CNY7,990 and CNY7,260/ton. The National Development and Reform Commission said China will likely announce a new pricing mechanism this year that will be more transparent than the current one.

OPEC's news agency reported that OPEC's basket of crudes fell to \$78.54/barrel on Friday from \$79.26/barrel on Thursday. It also reported that OPEC's basket of crudes fell by \$1.41/barrel to \$78.95/barrel in the week ending October 22nd from \$80.36/barrel the previous week.

Market Commentary

Crude oil traded in a choppy fashion, giving back early session gains, as the market responded to a weak dollar. With the lack of drastic changes in the underlying fundamentals of this market and continued attachment to the dollar, investors remain cautious when it comes to putting on new length. Range bound trading should continue, with crude oil taking direction from the dollar. Gasoline remained strong for the seventh straight week as strikes in France take a bit out of supplies. Nine out of eleven refineries remain idle; with the remaining two operating under reduced rates. This has left shortages of European exports to the U.S. short. Investors are taking advantage of what they hope will be supply shortages here. As long as prices can hold above the \$2.0300 support level, we would look for longs to hold onto their positions.

Crude oil: Dec 10 388,298 -10,938 Jan 11 166,510 +3,486 Feb 11 68,676 +746 Totals 1,388,865 -8,064 Heating oil: Nov 10 32,894 -2,780 Dec 10 97,053 +799 Jan 11 66,474 +1,777 Totals 329,357 +2,261 Rbob: Nov 10 33,883 -4,273 Dec 10 99,161 +5,966 Jan 11 49,227 +1,488 Totals 282,267 +4,108

Crude Oil		Heating Oil		Rbob	
Support	Resistance	Support	Resistance	Support	Resistance
7943	8350	21860		20300	
7921	8270	21650	23775	20130	22345
7760	8461	20700		18750	24880
7598	8610			18240	27085
7298	8715			16010	

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