



ENERGY RISK MANAGEMENT

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ENERGY MARKET REPORT FOR OCTOBER 25, 2011

While the return of Libya's oil production has so far done little to lower crude prices, this could change within a matter of weeks as the country finishes replenishing stocks at its refineries and begins to increase exports. Libya's oil chief Nuri Berruien said output in Libya now stands at 500,000 bpd. However much of the crude has gone to meet domestic demand and only a small amount has moved into the world oil market so far.

Brazil's Petrobras adopted the price for Brent crude as its benchmark for export contracts to the US, continuing a shift away from the use of WTI as a key oil price benchmark. Brent was already the established benchmark for sales contracts in Asia and Europe, representing about 70% of the company's exports.

Market Watch

The US National Hurricane Center said Hurricane Rina, moving in the Caribbean north of Honduras, is expected to become a major hurricane as soon as late Tuesday and strike the eastern shores of the Yucatan Peninsula sometime on Thursday before making a sharp eastward turn over the weekend towards the western end of Cuba. Hurricane Rina, now a Category 2 hurricane, is not expected to make a US landfall or enter the Gulf of Mexico. It also said a low pressure system located over the south central Caribbean Sea has a 30% chance of becoming a cyclone during the next 48 hours. Upper level winds are expected to become more favorable for gradual development of this system over the next couple of days as it moves west-northwestward at 15 to 20 mph. Long range computer models vary however a few forecast the system to move west toward the Gulf of Mexico in the next few days.

The Conference Board said US consumer confidence unexpectedly fell in October to its lowest level in two and a half years. Its index of consumer attitudes fell to 39.8 in October from an upwardly revised 46.4 in September. The present situation index fell to 26.3 from 33.3 while the expectations index fell to 48.7 from 55.1.

The Federal Reserve Bank of Richmond's monthly manufacturing index stood at -6 in October, unchanged on the month.

The International Council of Shopping Centers and Goldman Sachs reported that US chain store sales in the week ending October 22nd fell by 0.8% on the week but increased by 2.4% on the year to 512.3.

According to the Federal Housing Finance Agency's monthly home price index, home prices fell 0.1% on a seasonally adjusted basis from a month earlier. August's index value was 183. Compared with a year earlier, prices were down 4%.

According to a Reuters survey, Brent crude prices are forecast to stay well above \$100/barrel despite expectations of an economic slowdown. Brent crude is expected to average \$106.80/barrel next year and \$108.60/barrel in 2013 as demand for fuel from China and emerging economies keeps the global oil market tight.

Deutsche Bank reported record performance in commodities trading in the third quarter. Its performance this year was in sharp contrast with most of its rivals, which reported weaker contributions and reduced risk exposure to commodities. Deutsche Bank did not disclose revenues in commodities trading but said it helped offset an otherwise mixed performance in sales and trading. Its average Value at Risk in all assets was 76.1 euros in the first nine months of the year, down from 95.6 million euros in 2010 of which VaR in commodities increased to 14.2 million euros from 12.7 million euros.

China's Premier Wen Jiabao said fighting inflation remained the top priority for the Chinese government. He said banks should maintain reasonable credit growth and ensure funding for key investment projects.

According to a SpendingPulse report released by MasterCard Advisors, US weekly gasoline demand in the week ending October 21st fell by 1.5% on the week and by 2.8% on the year to 8.839 million bpd. Demand fell by 137,000 bpd following an increase of 189,000 bpd a week earlier. The four week demand level fell by 2.8% on the year to 8.854 million bpd. It reported that the price of gasoline increased by 5 cents to \$3.47/gallon.

API Stocks	
Crude	– up 2.712 million barrels
Distillate	– down 1.822 million barrels
Gasoline	– up 153,000 barrels
Refinery runs	– down 0.2%, at 83.2%

Russia and China are leaning on the IAEA to soften or not issue a report expected in two weeks detailing Iran's suspected efforts to develop nuclear weapons.

Iran's President Mahmoud Ahmadinejad said western countries support Muammar Gaddafi when it suited them but bombed the Libyan leader when he no longer served their purpose in order to take the country's oil wealth. While Iran has applauded the people of Libya for overthrowing the man it considered an illegitimate dictator, Iran's President warned Libyans that the West aimed to run their country for them.

Euro zone leaders are expected to call on the European Central Bank to continue buying bonds to support Italy's and Spain's debt market ahead of a summit on Wednesday. However Germany said it opposed such a step. Germany's Chancellor Angela Merkel said she did not want a declaration from politicians telling the ECB what to do. The ECB has been buying Italian and Spanish bonds for more than two months in an effort to push down their debt yields and funding costs, with investors fearing that both countries could be headed the same way as Greece, Ireland and Portugal, all of which have received EU/IMF bailouts.

Refinery News

Colonial Pipeline said it was allocating its main gasoline line north of Collins, Mississippi for Cycle 61.

ConocoPhillips reported an equipment malfunction on a process unit at its 247,000 bpd refinery in Belle Chase, Louisiana. It shutdown the equipment that malfunctioned.

BP Plc's 405,000 bpd refinery in Whiting, Indiana will undergo a month of planned work during the fourth quarter this year. It said the work would affect about half of its crude capacity for the expected one month duration of the outage. Separately, BP warned of flaring at its 265,000 bpd refinery in Carson, California. The flaring is scheduled from October 28 to November 15. It was preparing for a seasonal overhaul scheduled to start on Wednesday.

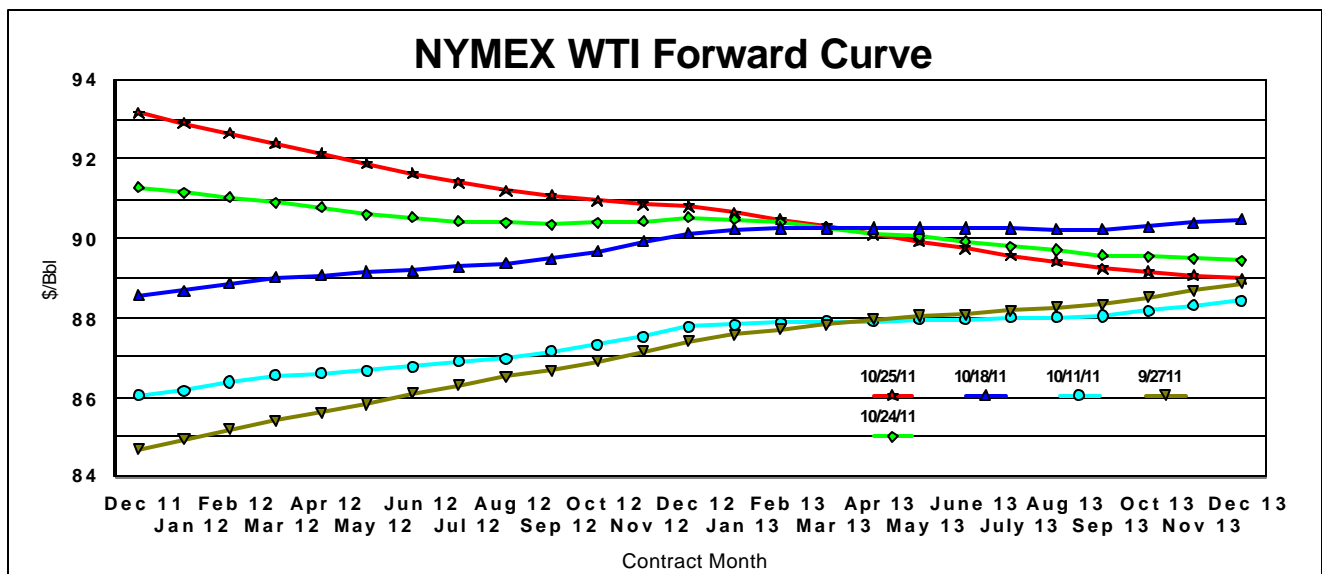
Japan's JX Nippon Oil & Energy Corp restarted its 30,000 bpd fuel oil desulphurization unit at its Kashima refinery on October 23rd following a fire on October 1st.

China's Sinopec Corp is set to increase its November crude throughput to new highs of about 18.3 million tons to replenish thin domestic diesel stocks as demand remains relatively high.

Petrobras said the deadline for Venezuela's PDVSA to pay for its 40% stake in a joint venture refinery project is November 30th. PDVSA's payment will bring to an end the long and sometimes contentious path the two companies have taken to build the Abreu e Lima refinery. The refinery will process heavy oil from both Brazil and Venezuela.

October Calendar Averages	
CL	- \$84.96
HO	- \$2.9363
RB	- \$2.6815

India's government reported that Indian refiners processed 3.1 million bpd of crude in September, up 4.4% on the year. India's crude oil imports in September fell by 9.2% on the year to 12.75 million tons or 3.11 million bpd. India's oil product sales



increased by 6.1% on the year to 11.29 million tons while its refined product imports fell by 15.81% on the year to 1.08 million tons and refined product exports increased by 6.9% on the year to 5.05 million tons.

Libya's National Oil Co has offered two more cargoes of crude for sale in mid-November. It is offering a 600,000 barrel cargo of Mellitah crude and another of Amna crude.

Turkey is seeking up to 1.21 million tons of oil products through a term tender for next year. It is seeking 90,000 to 500,000 tons of jet fuel, 90,000 to 500,000 tons of 10 ppm sulfur diesel, 30,000 to 60,000 tons of 0.1% sulfur gas oil and 50,000 to 150,000 tons of gasoline.

China Aviation Oil is seeking up to 1.38 million barrels of jet fuel for late November to December delivery.

Production News

An official with the National Transitional Council said engineers working at a Repsol oilfield in southwestern Libya have managed to pump crude to refineries in the north of the country for the first time since the end of the conflict. The Sharara field was producing 60,000 bpd and may soon reach 100,000 bpd. The production is sent to the Zawiya refinery and exports are expected to start once the plant's capacity of 120,000 bpd is reached. Libya's interim Oil Minister Ali Tarhouni said the country's oil production has reached 500,000 bpd with the resumption of the Sharara field.

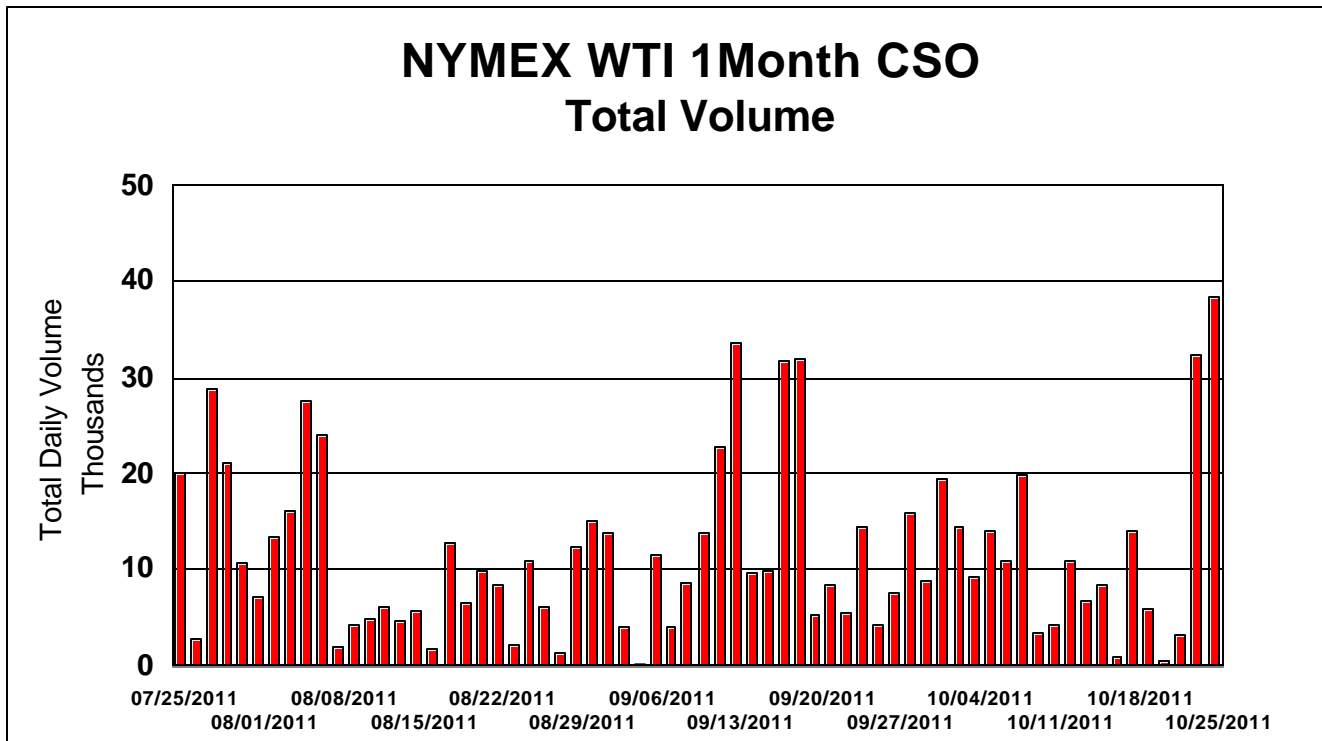
BP Plc said it wanted to return to Libya and resume oil and gas exploration work, which it halted earlier this year due to the uprising against Muammar Gaddafi. BP has no oil or gas production in the country but was preparing to start exploratory drilling in western Libya when it suspended the effort.

Venezuela's Petropiar 180,000 bpd heavy oil upgrader halted its operations following an explosion early Tuesday. The explosion occurred in a compartment used to collect derivative products from processing heavy crude oil. Petropiar currently produces more than 160,000 bpd and is scheduled to have an output of 175,000 bpd by next year.

Hess Corp is planning to proceed with the development of a deepwater oil and gas project in the US Gulf of Mexico. The project is planned for the Tubular Bells discovery made in 2003 about 135 miles southeast of New Orleans. Drilling is expected to begin next year with initial production expected in 2014, assuming all necessary government permits are received.

Nigeria's crude oil exports are expected to reach 1.9 million bpd in December, up from 1.89 million bpd in November.

Sudan has been producing on average 117,900 bpd of oil since South Sudan became independent in July. South Sudan took most of the country's oil reserves when it gained independence after a referendum in January agreed under a 2005 peace deal. Sudan's total oil production from north and south in the first half was 459,900 bpd. South Sudan, which produces about 300,000 bpd, needs to use northern refineries and export facilities as the country's only pipeline goes from southern fields to the Red Sea port of Port Sudan.



Canadian Pacific Railway Ltd expects demand to ship oil by rail from the prolific Bakken field to continue to increase, with 80% of the crude destined for Gulf of Mexico refineries. It said crude by rail demand is now about 13,000 carloads per year or 8.5 million barrels. In June, Canadian Pacific Railway said demand on an annualized basis was about 8,000 carloads or 5.2 million barrels.

Market Commentary

Crude oil moved sharply higher again today, with the December contract reaching its highest level in almost three months. At the same time, Brent has been moving sideways within a downward channel, unable to surpass resistance set at \$115.50. While Brent remains below this level, WTI broke above key resistance set at \$90.52. This has led to shrinkage of the premium Brent has been enjoying for quite some time. Should stockpiles at Cushing continue to decline, WTI could easily surpass Brent. Currently, the December WTI remains below the 200-day moving average of \$94.75, making this our objective.

The shape of the forward curve for WTI is indicative of spreads that have moved dramatically over the past couple of days. With the recent strength in the front end of the curve, it appears that weak shorts are scrambling to cover. Worth mentioning, is the December 11 to December 12 spread, which gained as much as \$4.68 since the end of last week. This represents a 284 percent shift in this spread alone. Around the same time last year, the December 11 to December 12 spread experienced sharp gains

as well, only to fall back into negative territory. Not until Cushing can erase more of its negative value in comparison to other blends, would we be convinced that the December 11 would continue to gain against the December 12 contract.

Enclosed in this wire is a chart of the total volume for the one month CSO for WTI. Over the past few trading sessions volume has increased dramatically. Total volume on Monday was currently set at 32,440, with 10,050 of this total done in calls. Of this, there were 7,920 contracts traded in Flat call for December 11 to December 12. It appears that positions are being closed out at this level and positions are being taken on in the + .25 and + .50 levels. Today the volume in these calls reached 38,400 lots with 15,750 done in calls with 4800 lots only done in the flat calls.

Crude oil: Dec 11 358,527 +6,628 Jan 12 170,083 -2,599 Feb 12 67,763 -7,221 Total 1,384,341 -2,347 Heating oil: Nov 11 37,226 -5,508 Dec 11 81,162 +1,562 Jan 12 48,436 -739 Totals 299,092 -1,891 Rbob: Nov 11 33,649 -5,093 Dec 11 87,755 +4,261 Jan 12 39,467 +342 Totals 280,795 +841

Crude Oil		Heating Oil		Rbob	
Support	Resistance	Support	Resistance	Support	Resistance
9052		26975	32777	24670	33369
8507	9726	26680	33370	24240	35915
8337	9872	27375	33510	23631	36310
7570	10071	23685		23414	
7487	11483	22960			
7365					
6970					
6423					
50-day MA	85.37				
200-day MA	94.76				

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