



ENERGY RISK MANAGEMENT

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ENERGY MARKET REPORT FOR OCTOBER 26, 2009

OPEC's President Jose Botelho de Vasconcelos said OPEC ministers will increase its output to protect the global economic recovery at a meeting in December if oil prices increase to \$100/barrel. He said both producers and consumers were comfortable with oil

prices at between \$75/barrel and \$80/barrel and that higher prices could put a brake on the world economy. Before increasing output, OPEC will first have to ensure that oil market fundamentals, in terms of supply and demand, are balanced.

Market Watch

According to a Reuters survey, US crude oil is expected to average \$69.73/barrel in the fourth quarter of 2009, up from a previous estimate of \$68.32/barrel. US crude would average \$60.05/barrel for 2009 as a whole, compared to a forecast of \$59.20/barrel in September. Crude oil is estimated to average \$74.00/barrel in 2010.

Water levels on the Rhine and Danube Rivers in Germany fell again. Surcharges have been imposed on cargo customers on the German stretches of both rivers to compensate vessel owners for lost revenue as their ships cannot sale fully loaded because of low water levels.

The UAE's Oil Minister Mohammed al-Hamli said OPEC sees the oil market as well supplied, despite signs of economic recovery and a price rally. He declined to predict actions by OPEC when it meets in December.

The IEA's Executive Director Nobuo Tanaka said he continues to believe that world energy prices could spike within the next several years due to underinvestment, which could lead to a supply crunch around 2014-2015. He also praised Russia, whose production reached a record in September of 10 million bpd, saying the country has been playing a calming role for the world oil markets in recent months.

Western diplomats and intelligence officials said intelligence agencies estimate it would probably take Iran a minimum of 18 months to develop a nuclear weapon if it chose to build one. A Western diplomat said the assessment was based on the assumption that Iran would need at least six months to purify its uranium stocks to weapons-grade level and another 12 months to build the actual nuclear

weapon. The diplomats said it is possible Iran has another undeclared enrichment plant hidden somewhere, similar to the recently exposed site near Qom, which IAEA inspectors visited for the first time on Sunday. An intelligence official said that even if Iran had another such plant it would probably not be able to produce significant quantities of enriched uranium and would therefore not have much of an impact on the presumed timeline.

**October
Calendar Averages
CL – \$75.24
HO – \$1.9404
RB – \$1.8809**

Iran's Foreign Minister Manouchehr Mottaki said Iran could deliver some of its low-enriched uranium abroad to be upgraded or buy the fuel directly. He said Iran is considering the UN brokered agreement which envisages shipping out Iran's low-enriched uranium abroad to be converted into nuclear fuel and would announce a decision within days. Iran's Foreign Minister also said Iran expects its first nuclear power plant to start before the end of the year as scheduled. He expects Russia's Atomstroyexport and the Russian government to honor their commitments to launch the Bushehr nuclear plant on time. Separately, Iran's Foreign Minister said Israel is too weak to carry out any attack on Iran's nuclear sites.

Nigeria's main militant group, the Movement for the Emancipation of the Niger Delta reinstated a ceasefire on Sunday in the Niger Delta to allow for peace talks with the government. The militant group lifted a three month old ceasefire this month and threatened to resume its campaign of violence against the country's oil industry.

The EIA reported that the US average retail price of diesel increased by 9.6 cents to \$2.801/gallon in the week ending October 26th. It also reported that the US average retail price of gasoline increased by 10 cents to \$2.674/gallon on the week.

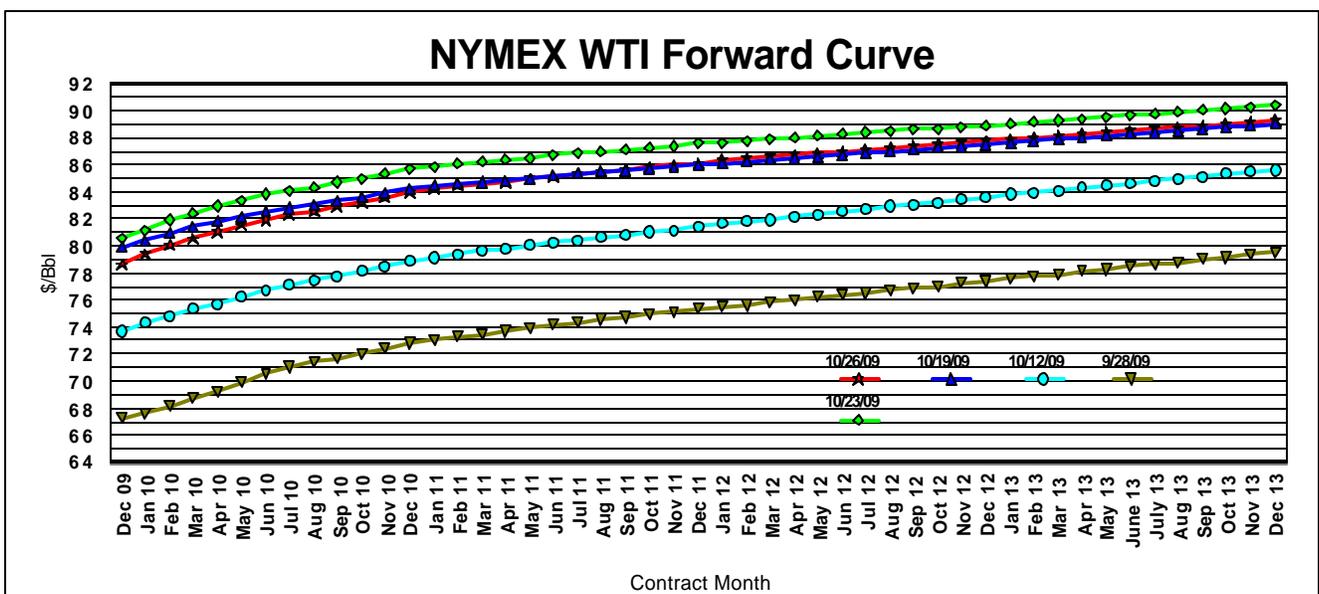
Refinery News

Colonial Pipeline allocated shipments of gasoline for cycle 62 on its main gasoline line north of Collins, Mississippi as demand for shipping space exceeds pipeline capacity.

Credit Suisse reported that US refinery margins increased last week. West Coast margins increased by \$3.06 to \$10.57/barrel in the week ending October 23rd while margins in the Midwest increased by \$1.89/barrel to \$7.53/barrel on the week. Margins in the Northeast increased by \$1.36/barrel to \$7.53/barrel while margins in the Gulf Coast increased by 83 cents to \$4.77/barrel and margins in the Rocky Mountain region increased by 23 cents to \$9.73/barrel.

Citgo Petroleum Corp plans to begin restarting a fire-damaged alkylation unit at its 163,000 bpd Corpus Christi, Texas refinery no later than October 31-November 1 weekend. Repairs on the unit, damaged in a July 19 fire were completed on Friday.

Valero Energy Corp said its 36,000 bpd hydrocracker unit at its 315,000 bpd Corpus Christi, Texas refinery is expected to be at planned rates within a few days after it was restarted over the weekend. The gasoil hydrocracker was shut on Thursday to repair a leak found after the unit restarted on



October 18th. Separately, Valero shut a stabilizer tower at the west plant of its Corpus Christi, Texas refinery for required maintenance. The work will run from October 26th-27th. Valero Energy also reported that it shut a fluid catalytic cracking unit at its 199,500 bpd Texas City, Texas refinery on Sunday to repair a slide valve.

Three refineries in Montana were hit by a brief power outage that struck the cities of Billings and Laurel on Friday night. A spokeswoman for the Cenex Harvest States refinery in Laurel said the 59,600 bpd refinery was back to planned operations. Also affected by the brief output were ConocoPhillips' 58,000 bpd refinery and ExxonMobil Corp's 60,000 bpd refinery in Billings, Montana.

Chevron Corp reported flaring at its 279,000 bpd refinery in El Segundo, California on Saturday.

BP Plc reported a crude unit malfunction at its 455,790 bpd Texas City, Texas refinery. It also stated that a brief processing problem at the refinery on Friday had no meaningful impact on operations. BP Plc also reported that it expects flaring to take place at its 265,000 bpd Carson, California refinery for about six days starting Tuesday.

Hovensa said unplanned work on a 150,000 bpd fluid catalytic cracker at its 500,000 bpd St. Croix refinery may end near November 6th barring unexpected developments. A spokesman did not elaborate on the nature of the repairs or when the work began.

Brazil's Petrobras may change a plan to process more heavy crude at its Okinawa refinery, currently dedicated to lighter grades. Petrobras had considered an upgrade study which included building a unit to process heavy crude at the refinery but it postponed it earlier this year. Petrobras took control of Nansei Sekiyu last year, which has a crude distillation unit with capacity of 100,000 bpd.

Japan's Nippon Oil Corp said it finished building the country's first facility for making ethanol-based gasoline additive ethyl tertiary butyl ether (ETBE). The petroleum industry plans to market ETBE-blend gasoline, nationwide from 2010 and have biofuel blends accounting for up to 20% of the country's annual gasoline demand of about 1 million bpd.

India's Haldia Petrochemicals Ltd will fully shut its 520,000 ton/year naphtha cracking unit for 75 days of expansion work starting Friday.

China's Sinopec Group and Kuwait signed a preliminary pact to build a 300,000 bpd refinery and 1 million ton/year ethylene complex in southern China's Zhanjiang city. A feasibility and environmental impact assessment reports are expected to be completed by about March 2010 before being submitted to the government for approval. Kuwait has yet to finalize foreign partners for the project.

China's PetroChina last week completed the construction of a commercial oil storage base with a capacity of 1.3 million cubic meters in Daxie Island, Ningbo of Zhejiang Province. PetroChina said the base, including a berth with a capacity of 300,000 tons, could be put to use immediately. A PetroChina official said China's total refined oil products storage capacity reached 52 million cubic meters or 327.6 million barrels at the end of 2008. He estimates that Chinese oil firms will expand their product tanks to 70 million cubic meters or 441 million barrels by 2015. By 2015, the top two oil firms' refined products capacity is likely to exceed 40 million cubic meters or 252 million barrels from the current level of 27.68 million cubic meters, while private firms' capacity will reach 28 million cubic meters or 176.4 million barrels from the existing 24.36 million cubic meters.

According to Reuters, China's apparent oil demand in September increased by 12.5% on the year and 5.8% on the month to 8.17 million bpd. It was the sixth consecutive increase in demand and the fastest rate since June 2006 as refiners operated at record rates amid a sustained recovery in

economic activity. China's net crude imports increased by 16.4% on the year but fell by 3% on the month to 4.092 million bpd while its net product imports fell by 29.7% on the year but increased by 271.1% to 177,416 million bpd. China's crude oil production increased by 0.8% on the year but fell by 0.5% on the month to 3.826 million bpd.

China exported 505,505 tons of gasoline in September, steady from August but more than double the 201,452 tons exported last year while diesel exports totaled 293,759 tons, down about 25% on the month.

Production News

Nexen Inc said crude oil production at the North Sea Buzzard oil field returned to full rates over the weekend after a cut for about one week due to gas constraints. Crude oil production at the field was cut about a week ago due to export-gas constraints caused by third party issues.

Japan's Inpex Corp said it halted oil output from the Griffin oilfields in offshore western Australia on Friday after 15 years of commercial production. Output reached a peak of more than 80,000 bpd in the early stage of the project but has declined to less than 4,000 bpd this year due to natural depletion.

Russia's Energy Minister Sergey Shmatko said crude oil produced in Eastern Siberia should be subject to zero export duty for five to seven years.

Nigeria lowered its November official selling price for all of its main crude oil grades. The November official selling price for Bonny Light crude and Qua Iboe crude was cut by 35 cents to dated Brent plus \$1.30.

Nigeria plans to export four standard cargoes of Bonny Light crude for December, down one on the month. It is also scheduled to export five Bonga cargoes, five Forcados, five Erha cargoes, three Antan cargoes and two Okwori cargoes. It may also export one Pennington cargo for December loading.

Market Commentary

A strong dollar brought crude oil to its lowest fall in a month as investors turned away from commodities as a financial hedge. Prices have risen sharply over the past month, driven higher by hopes of an economic recovery and a weak dollar. As expected, this market will continue to react to any economic news but will ultimately move in conjunction with the supply/demand situation. As prices move away from the \$85.00 mark, those less optimistic in the ability of this market to sustain its recent strength have been exiting long positions. Today's market activity follows an outside trading session with a lower settlement on Friday. From a technical perspective, it appears that the December contract is approaching the 38% \$75.52 retracement number between the range of \$81.99 and \$65.05. Slow stochastics have crossed to the downside, which should bring with it additional moves lower. We would continue to look for the December contract to work towards the aforementioned retracement level and would re-evaluate the market at that time.

Crude DEC.09 354,527 -11,679 JAN.10 148,904 -3,874 FEB.10 59,697 -2,029 MAR.10 45,988 -2,378 APR.10 20,473 -827 Totals: 1,202,360 -26,322. Heating NOV.09 28,112 -1,584 DEC.09 85,321 +1,884, Jan.10 52,602 +336 FEB.10 23,788 +1,413 MAR.10 18,438 +323 Totals: 320,011 +2,681 Gasoline NOV.09 27,648 -4,204 DEC.09 93,499 +2,744 JAN.10 45,529 +171 FEB.10 18,066 +1,303 MAR.10 17,258 +923 Totals: 241,750 +1,504.

Crude Support	Crude Resistance
77.60, 76.24, 75.00, 64.70, 63.38, 62.70, 61.61, 60.95	, 84.83, 85.40, 86.60, 88.80
Heat Support	Heat resistance
1.9740, 1.8570, 1.7670	2.2110, 2.2575, 2.4200
Gasoline support	Gasoline resistance
1.9901, 1.9650, 1.8840, 1.8730	2.1100, 2.1600, 2.3350

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