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## ***ENERGY RISK MANAGEMENT***

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### **ENERGY MARKET REPORT FOR OCTOBER 26, 2010**

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US Secretary of State Hillary Clinton said that Iran should be allowed to have civilian nuclear power but renewed accusations that it was seeking nuclear weapons. She also called on Iran to return to talks with the international powers on its nuclear program. Meanwhile, Iran said that the content, date and venue of a new round of talks with six major world powers on its nuclear program have yet to be finalized. This comes days after European Union foreign policy chief Catherine Ashton, who represents the

major powers in talks with Iran, proposed that the negotiations be held in Vienna on November 15-17. In a letter to Iran, she insisted that the main focus of the talks would be the question of the Iranian nuclear program.

#### **Market Watch**

The CME Group reported that algorithmic or automated trading systems have increasingly been used in CME Group markets. It reported that during the third quarter of 2010, automated trading in its markets totaled 45.61% of the total electronic volume, with message traffic of 66.06%. Foreign exchange traders accounted for 67.73% of the volume and 85% of the message traffic generated. Energy traders accounted for 33.77% of the electronic volume traded, with 59.7% of the message traffic generated. Crude futures and options traders accounted for 34% of the volume and 59% of the traffic message.

The Standard & Poor's/Case-Shiller 20 city home price index fell 0.2% in August from July. Fifteen of the cities showed monthly price declines. US home prices fell 2.4% in the 12 months through August.

State Street said confidence among institutional investors fell in October as flows into emerging markets were offset by a flight from developed economies. Its global investor confidence index fell to 86.2 from a downwardly revised 88.1 in September. Its North America index fell to 84.9 in October from 88.1 in September. European investors' confidence also fell to 96.4 from 97 in September. Asian investors' confidence fell to 103.3 from 107.7.

Britain's economy grew twice as fast as expected in the third quarter. The Office for National Statistics said Britain's economy grew 0.8% between July and September, down from a nine-year high of 1.2% in the second quarter but twice the 0.4% most economists had expected. In annual terms, Britain's economy grew by 2.8% in the third quarter, the fastest rate in three years and up from 1.7% in the previous quarter.

Under newly proposed rules, the CFTC's anti-fraud and anti-manipulation power would increase. It would implement provisions in the Dodd-Frank financial law, with expands the CFTC's authority and allows it to regulate the \$615 trillion over-the-counter derivatives market. The CFTC however does not propose specific bans on high frequency trading practices and is seeking more public comment. A CFTC official said the new anti-manipulation powers, position limits will help improve the metals market.

**API Stocks**

**Crude** – up 6.432 million barrels  
**Distillate** – up 818,000 barrels  
**Gasoline** – down 1.805 million barrels  
**Refinery runs** – up 0.7% at 81.6%

Industry sources said some European oil companies are considering whether to continue buying Iranian oil in 2011 as sanctions have made financial transactions with Iran more difficult. Portugal's Galp GALP.LS and another European oil company are considering whether to continue purchasing oil from Iran next year.

Iran's state-run Press TV reported that Iran started loading fuel into its Bushehr nuclear plant. Iran has stated that the Russian built, 1,000 Mw nuclear plant will start producing energy in early 2011.

The API reported that third quarter US drilling activity increased by 45% from last year as oil and natural gas producers moved to exploit onshore reserves that only recently became economically feasible to tap. It reported that 11,297 new wells were drilled during the third quarter, with oil well completions of 5,451, up 60% and natural gas well completions of 4,434, up 28% on the year.

According to a SpendingPulse report by MasterCard Advisors LLC, US gasoline demand fell by 1.7% to 9.097 million bpd in the week ending October 22. The 161,000 bpd decline was the largest in any week since September 10<sup>th</sup> and put demand at a two week low. Demand fell by 251,000 bpd or 2.7% on the year. In the last four weeks, demand averaged 9.111 million bpd, down 1.3% or 119,000 bpd on the year. It reported that the US retail average price of gasoline was unchanged at \$2.82/gallon, up 22 cents or 8.5% on the year.

**Refinery News**

The restart of Tesoro Corp's 120,000 bpd Anacortes, Washington refinery has been delayed after a boiler at the refinery was damaged over the weekend.

Delek US Holdings Inc resumed operations at its 58,000 bpd Tyler, Texas refinery following a partial power outage caused by severe weather late Sunday.

ConocoPhillips reported a unit upset followed by a release of sulfur dioxide and sulfur trioxide Monday evening at its 239,400 bpd Westlake, Louisiana refinery. It said the unit was stabilized.

Alon reported a loss of power at its 80,000 bpd refinery in Krotz Springs, Louisiana. It said the power outage led to flaring.

BP Plc said a sulfur recovery unit process frame at its 405,000 bpd Whiting, Indiana refinery tripped on Sunday.

Valero Energy Corp rebounded from a prior year loss in the third quarter on stronger margins and deeper discount for the lower-quality crude it processes. It reported its refining operations were profitable on stronger margins and 6.1% volume growth. Separately, Valero said it is planning maintenance activity at five of its refineries during the first quarter. Plantwide turnarounds are scheduled to take place at its 170,000 bpd Benicia, California refinery starting in January that will last for about 36 days and at its 90,000 bpd Ardmore, Oklahoma refinery, which is scheduled to start in March and last 40 days. Valero expects to begin maintenance at its 100,000 bpd crude unit and a coker unit in Port Arthur, Texas in January, which will last about 55 days. Its St. Charles refinery in Norco, Louisiana will begin about 55 days of work at the 100,000 bpd fluid catalytic cracking unit and an alkylation unit in March. It is also scheduled to perform a 24 day turnaround at the McKee, Texas refinery's 30,000 bpd hydrocracker in March.

**October  
Calendar Averages  
CL – \$82.00  
HO – \$2.2650  
RB – \$2.1102**

The port of Marseille said the strike at the Fos-Lavera oil terminals

continued for the 30<sup>th</sup> consecutive day on Tuesday and was blocking a total of 80 ships, with 60 of those carrying oil and oil products. The blocked vessels included 40 crude oil and 20 oil product tankers. Workers allowed fuel deliveries from the Ineos Lavera refinery on Tuesday. Fuel deliveries remained blocked at seven of France's 12 oil refineries as workers at most of the sites continued to strike over the government's planned pension reforms. Deliveries have restarted at four of the refineries. Separately, the French daily Le Parisien reported that France has had to rely on its strategic fuel reserves over the past few days to avoid a shortage of fuel. It also quoted French Energy Minister Jean-Louis Borloo as saying that France was importing 100,000 tons/day of refined fuel from Britain, Russia, Italy and Spain compared to 25,000 tons in normal times. Meanwhile, France's Senate on Tuesday approved a pension reform bill that would raise the retirement age. The upper house of parliament voted 177 in favor versus 151 against the last version of the bill that the National Assembly or lower house is scheduled to vote on Wednesday.

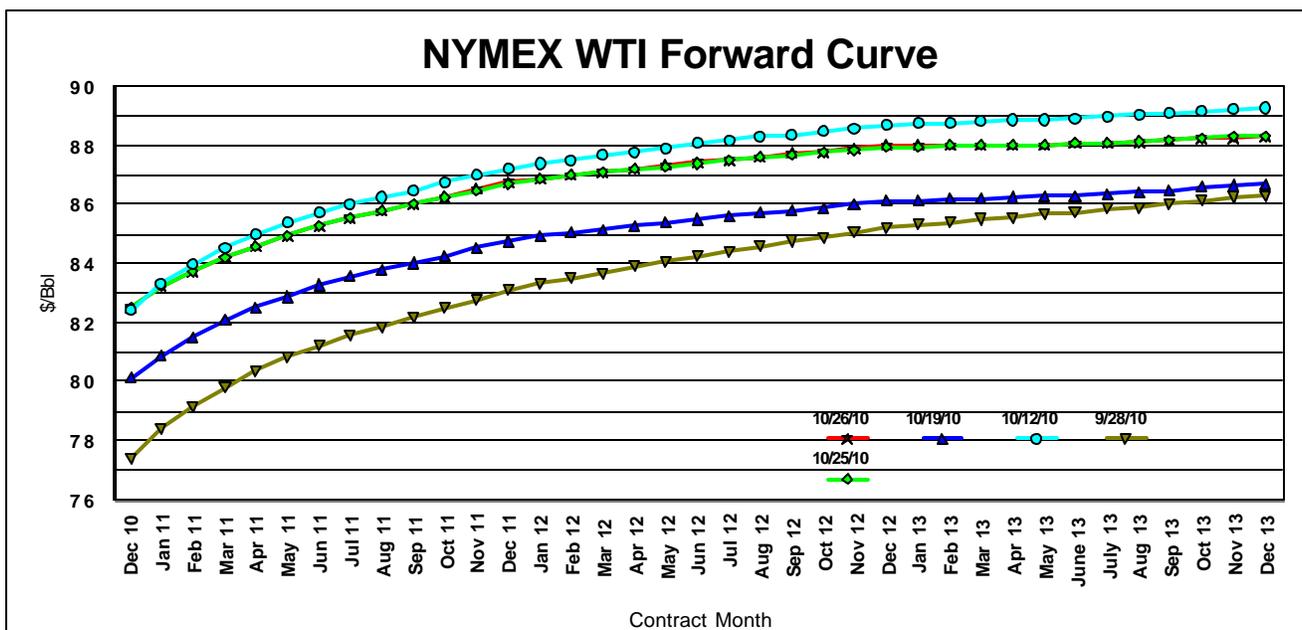
Petroplus Holdings AG announced it is shutting down its 68,000 bpd Cressier refinery in Switzerland due to the strike at the Fos-Lavera oil port. The strike has disrupted the supply of crude to the refinery. The restart of the refinery is dependent on the outcome of the strike.

A leak from an oil pipeline at Total SA's 153,000 bpd oil refinery in Vlissingen, Netherlands was plugged soon after it started. The damage to the pipeline, which occurred on October 20<sup>th</sup>, and caused an estimated 200 cubic meters of oil to leak, was caused by a drainage machine. The continuing repair work to the pipeline was going well. The pipeline transports crude from the Maasvlakte oil terminal in Rotterdam to the refinery.

Japan's TonenGeneral Sekiyu has likely restarted two crude distillation units at its Wakayama refinery following the completion of scheduled maintenance. The two crude units at scheduled to be restarted in late October.

Taiwan's Formosa Petrochemical Corp will keep runs at its 540,000 bpd refinery at 83% of capacity until year end due to limited crude feedstock. It will also keep output at two of its 84,000 bpd residual fluid catalytic cracker at 75% of capacity.

China's apparent oil demand increased by 7% on the year to 8.79 million bpd in September, the highest level since June's record of 8.9 million bpd.



Chinese oil firms bought as much as 18 million barrels of Middle East crude for November loading. Unipet booked eight Very Large Crude Carriers to load 16 million barrels of crude from November 2-12. Zhuhai Zhenrong also chartered a VLCC from the Middle East during the same period.

Three tankers have been booked to carry a total of 290,000 tons of low-sulfur gas oil from South Korea to the UK, loading during the end of October to mid-November. Vitol booked the Totonno Bottiglieri to carry 80,000 tons of diesel from South Korea to the UK, loading on November 15<sup>th</sup> while Shell booked the NS Bravo to ship 130,000 tons of gas oil on a similar journey, loading on November 1<sup>st</sup>. The third fixture, Desh Mahima, was chartered to carry 80,000 tons of diesel for loading on October 29<sup>th</sup>.

### **Production News**

Mexico's Transport and Communications Ministry said its Cayo Arcas crude oil export terminal was temporarily closed Tuesday due to strong wind and waves in the southern Gulf of Mexico due to remnants of tropical storm Richard. The other two oil export terminals of Pajaritos and Dos Bocas remained open.

Chevron Nigeria Ltd said it is working with the leadership of the National Union of Petroleum and Natural Gas Workers in Nigeria to resolve the current strike action against its contractor. Union officials started the dispute with Chevron about two weeks ago following the alleged firing of elected union officials at Logistics and Facilities Affairs Ltd. Chevron confirmed it is engaging with the leadership of Nupeng and the management of LFA over the lingering strike action of their work force.

Algeria's Finance Ministry said the country expects its energy production and exports to fall in 2011, cutting its earnings from oil and gas down 4.5%. Revenues from oil and gas sales abroad are set to fall to \$42.2 billion from the \$44.2 billion forecast for this year.

Nigeria will export seven, 975,000 barrel cargoes of Agbami crude for December loading. It will also export three cargoes of Amenam crude for December loading. The country will export at least 62 cargoes of crude for December loading.

### **Market Commentary**

Crude oil, which began the session trading lower on the strength in the dollar, finished the day just above unchanged, at \$82.55 a barrel. A positive U.S. consumer confidence number, which increased to 50.2, helped to boost prices. Today's inside trading session marks the third straight day that prices have settled higher. There is currently resistance up around the \$83.30 level and with moving oscillators currently supportive of prices, this would be our near term objective. The spot month gasoline crack is now at its lowest level since November of 2009. This weakness may be halted momentarily due to the fact that planned maintenance at ConocoPhillips Bayway, NJ refinery will take longer than expected. The Bayway location experienced a power outage yesterday, which could delay the restart of operations. This will lead to a shortage of supply in the New York Harbor, lending strength to the gasoline crack spread. Traders will most likely play this spread with caution as we await tomorrow's inventory numbers. Either way, from a technical perspective this spread appears due for a rebound. Currently trading at \$4.49, we would easily see this spread up around the \$7.00, barring any significant inventory surprises.

Crude oil: Dec 10 391,583 +3,285 Jan 11 168,321 +1,811 Feb 11 68,266 -410 Totals 1,400,419 +11,554 Heating oil: Nov 10 28,025 -4,869 Dec 10 99,539 +2,486 Jan 11 66,982 +508 Totals 328,314 -1,043 Rbob: Nov 10 29,260 -4,623 Dec 10 97,831 -1,330 Jan 11 50,159 +932 Totals 278,772 -3,495

Crude Oil		Heating Oil		Rbob	
Support	Resistance	Support	Resistance	Support	Resistance
7943	8330	21860		20300	
7921	8270	21650	23775	20130	22345
7760	8461	20700		18750	24880
7598	8610			18240	27085
7298	8715			<b>16010</b>	

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