



## ***ENERGY RISK MANAGEMENT***

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### **ENERGY MARKET REPORT FOR OCTOBER 27, 2010**

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#### **Refinery News**

Colonial Pipeline is allocating its main gasoline line north of Collins, Mississippi for Cycle 63 as nominations on its line exceed the company's ability to meet the 5 day lifting cycle.

Valero Energy Corp is performing planned maintenance in Complex 7 of the East Plant at its 315,000 bpd Corpus Christi, Texas refinery on Wednesday.

ConocoPhillips is preparing to restart units at its 238,000 bpd Bayway refinery in Linden, NJ after experiencing a complete power outage early Monday. It is preparing to restart a fluid catalytic

#### **Market Watch**

The US Commerce Department reported that demand for US manufactured durable goods increased more than expected in September. It stated that durable goods orders increased by 3.3% to a seasonally adjusted \$199.16 billion. New orders for durables January through September are up 15% from the same period in 2009.

The US Commerce Department also reported that US new home sales in September continued to increase, with sales increasing by 6.6% on the month to a seasonally adjusted annual rate of 307,000. Sales in August increased by 1.1% to 288,000. Year over year, new home sales in September were down by 21.5%. The data showed that at the current sales pace, it would take 8 months to sell the country's inventory of 204,000 new homes. It reported that the median price for a new home increased year over year by 3.3% to \$223,800 from \$216,600 in September 2009.

China's central bank said price pressures cannot be ignored but expressed confidence that a normalization of monetary policy will limit inflationary expectations. It warned that quantitative easing by major economies could also pose an inflationary risk, pushing up global commodity prices.

According to a Reuters survey, oil will average over \$83/barrel in 2011. In the survey, Goldman Sachs had the most bullish forecast for US crude at \$98.50/barrel next year.

Germany's cabinet approved a proposal to increase the maximum level of bioethanol allowed in blended gasoline to 10% from 5%. The change will take effect from January 2011.

ConocoPhillips said its quarterly profit more than doubled as crude oil and natural gas prices rebounded from a year ago. It reported a profit of \$3.1 billion in the third quarter compared with \$1.5 billion a year ago. Its oil and gas output in the quarter totaled 1.72 million bpd of oil equivalent, down from 1.79 million bpd of oil equivalent last year. ConocoPhillips also stated that it has no big plans for debt reduction in 2011.

The Director of the Global Energy Management Institute at the University of Houston's business school said new exchange traded funds for metals are being structured in a way that avoids new regulations by holding physical metals rather than futures. He said several firms that are setting up metals ETFs that hold stocks in physical metals, rather than derivatives, will avoid the US CFTC's proposed new rules on position limits. He cited the JPMorgan Commodity ETF Services as an example, which registered to launch an exchange traded product for copper. He said such a fund would not be subject to position limits. He said a large physical position is possible via the ETF, which could be used to create or enhance market power in the derivatives market.

### **DOE Stocks**

**Crude** – up 5.007 million barrels  
**Distillate** – down 1.613 million barrels  
**Gasoline** – down 4.387 million barrels  
**Refinery runs** – up 1.2%, at 83.7%

cracking unit. Separately, ConocoPhillips reported flaring at its 120,200 bpd refinery in Rodeo, California on Wednesday. The refinery was recovering from a loss of critical hydrogen and steam supplies on Friday.

Workers at Total's La Mede refinery voted on Wednesday to end their strike over pension reforms. The refinery's restart depends on the resumption of crude supplies from the Fos-Lavera oil terminal. Also, workers at Petroplus' Petit Couronne refinery voted on Wednesday to end their strike over pension reform. The restart of fuel production at the plant would depend on a resumption of crude supplies from the oil terminal in Le Havre. The CGT and CFDT unions said the delivery of refined oil from seven out of 12 refineries in France remained blocked on Wednesday as workers at most of its sites continued to strike in protest against the government's pension reforms. Deliveries have started at five of the refineries. The strike at the Fos-Lavera oil terminals was blocking 57 oil tankers on Wednesday. The blocked vessels included 37 crude oil and 20 oil product tankers. A CGT union spokesman said the workers at the Fos-Lavera oil hub will continue their action until a deal is found with management.

Spain's Cepsa officially started the extension that doubled the capacity of its Huelva refinery to 200,000 bpd.

India's Hindustan Petroleum Corp Ltd plans to add a new crude distillation unit at its Vizag refinery which would increase the overall capacity to nearly 300,000 bpd. It plans to build a 9 million ton/year or 180,000 bpd crude distillation unit and shut an old 1.8 million tpy or 36,000 bpd unit at the refinery.

Japan's JX Nippon Oil & Energy Corp plans to increase its crude runs by 3% on the year in November to 6.15 million kiloliters or 38.68 million barrels.

The Petroleum Association of Japan reported that the country's crude oil stocks in the week ending October 23<sup>rd</sup> fell by 10.26 million barrels on the week and by 3.38 million barrels on the year to 89.05 million barrels. Japan's gasoline stocks increased by 380,000 barrels on the week but fell by 780,000 barrels on the year to 12.42 million barrels while its kerosene stocks increased by 700,000 barrels on the week but fell by 2.03 million barrels on the year to 18.09 million barrels and naphtha stocks fell by 830,000 barrels on the week to 13.46 million barrels. Crude runs increased by 50,000 bpd on the week but fell by 10,000 bpd on the year to 3.34 million bpd. Refinery utilization increased by 1.1% on the week and by 3.2% on the year to 72%. The PAJ also reported that total oil product sales increased by 17.2% on the week but fell by 6.2% on the year to 2.67 million bpd. Gasoline sales increased by 8.2% on the week but fell by 1.8% on the year to 920,000 bpd, gas oil sales fell by 0.2% on the week and by 18.1% on the year to 490,000 bpd and kerosene sales increased by 55.3% on the week but fell by 60.9% on the year to 170,000 bpd. Naphtha sales increased by 88.6% on the week and by 147.7% on the year to 460,000 bpd while jet fuel sales fell by 10.9% on the week but increased by 16.2% on the year to 92,000 bpd.

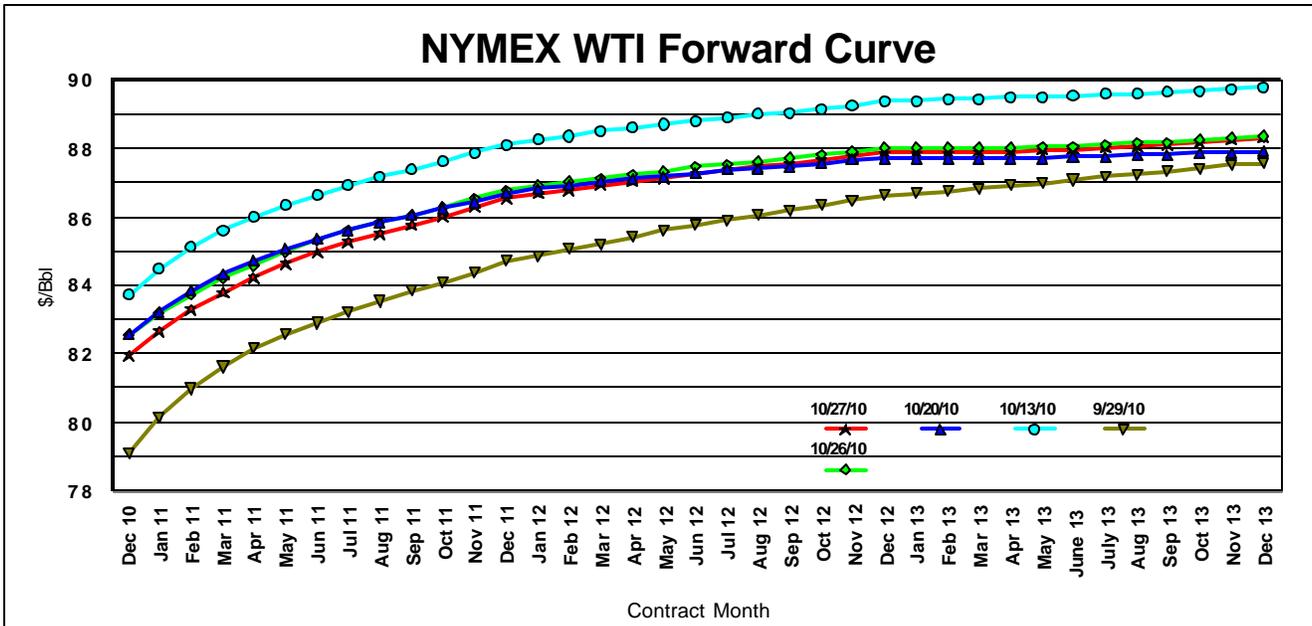
### **Production News**

Russia's Energy Minister Sergei Shmatko said Russia has no immediate plans to change the operator of the Sakhalin-1 oil and gas project off the Pacific Coast, currently led by ExxonMobil. Separately, he reported that Russia and Ukraine are close to signing a new oil transit deal.

Nigeria plans to export about 2.2 million bpd of crude oil in December, up from 2.1 million bpd in November. The country will export 78 cargoes or 68.2 million barrels in December.

Abu Dhabi National Oil Co will supply Murban crude at 15% below

**October  
Calendar Averages**  
**CL – \$81.99**  
**HO – \$2.2636**  
**RB – \$2.1098**

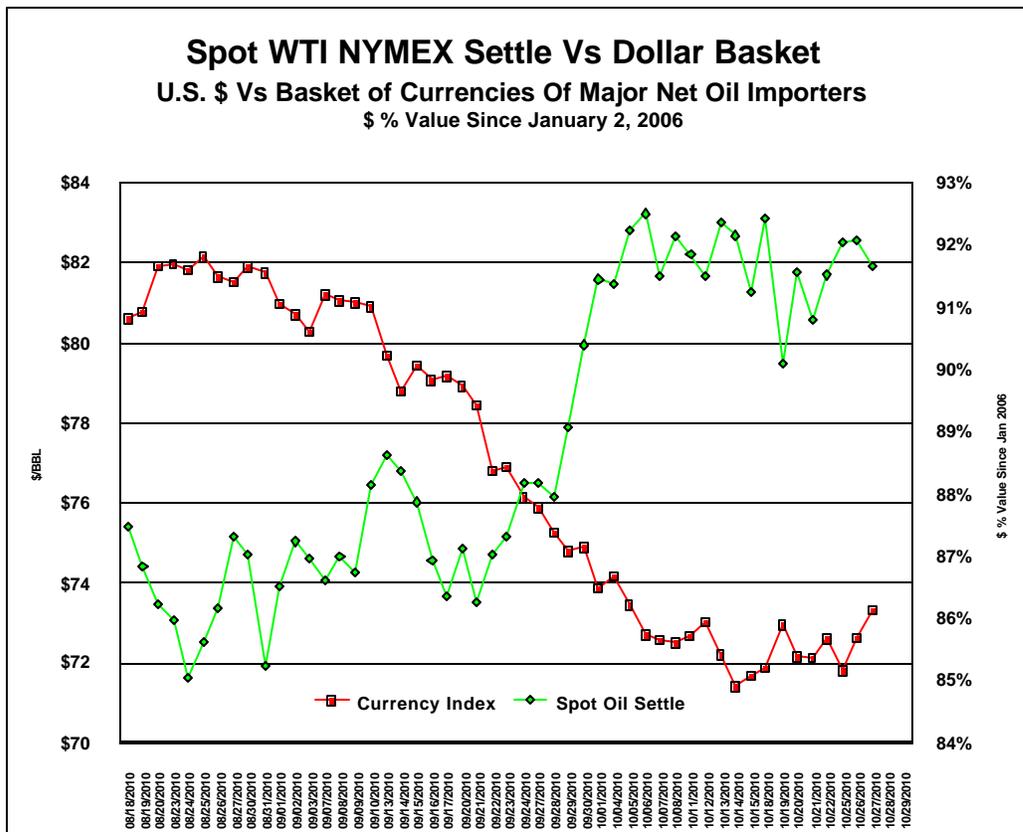


contracted volumes in December, unchanged on the month. It also plans to keep December supply of Lower Zakum crude steady from November at 15% below contracted volumes. It however will cut supply of Umm Shaif and Upper Zakum grades by 17% for December, up from a 20% cut for November.

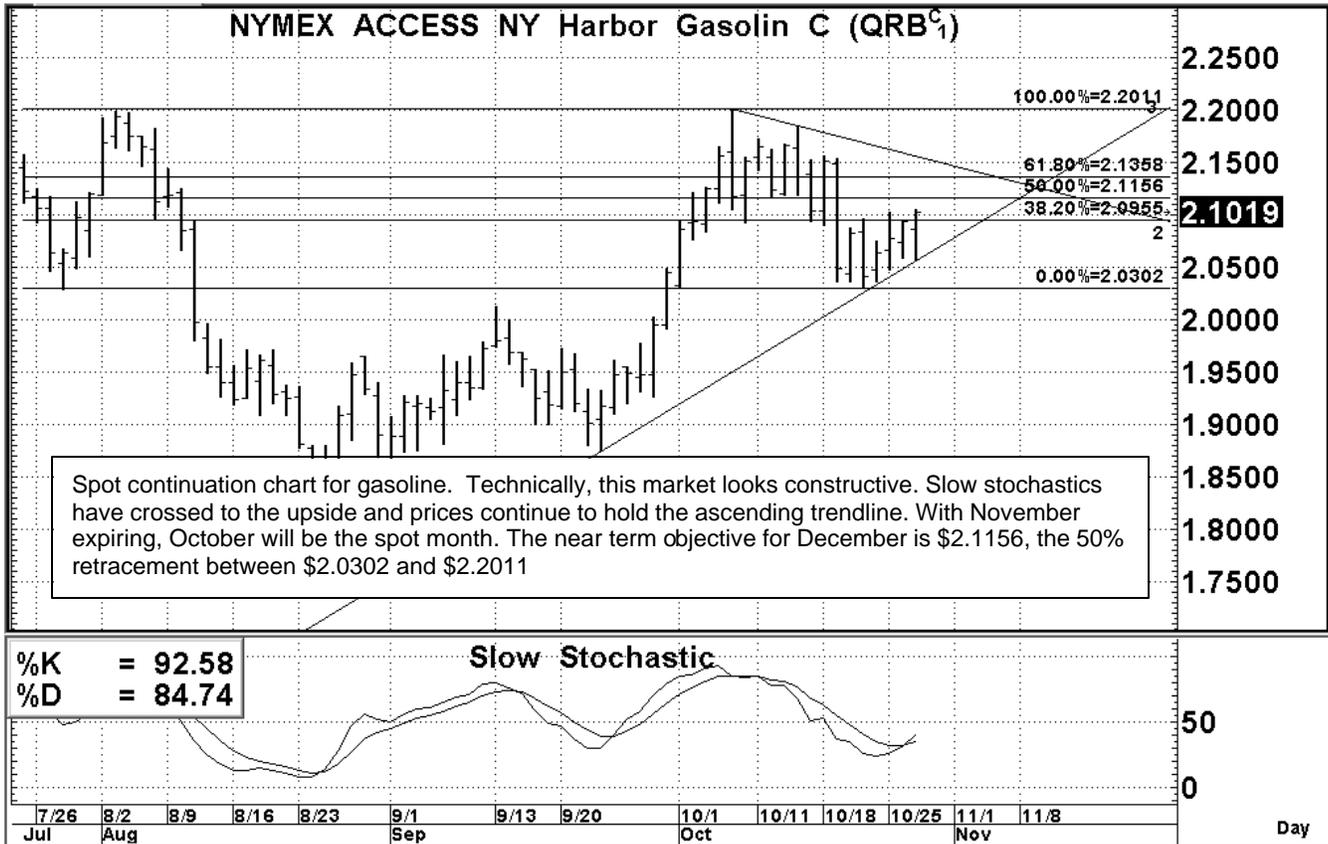
Abu Dhabi's National Oil Co plans to add 213,000 bpd to its crude production by 2012. It also has a longer term target to increase output by about 400,000 bpd to 1.8 million bpd over the next 10 years. The UAE has set an overall target to increase its oil production capacity to 3.5 million bpd by 2018 from 2.7 million bpd.

ExxonMobil Corp announced the successful drilling of Point Thomson wells. It said it has invested about \$1.5 billion, including more than \$730 million in last 2 years, on the wells and added that it is ahead of the year end 2010 target.

Brazil's Petrobras said it discovered light oil in the northeast Sergipe Basin. It however did not provide an estimate of the discovery's potential volume.



OPEC's news agency reported that OPEC's basket of crudes fell to \$79.75/barrel on Tuesday from Monday's \$80.03/barrel level.



**Market Commentary**

Gasoline proved to be the strongest of the three markets as it responded to a surprise fall in inventory numbers. Gasoline inventories, which were expected to increase 625,000 barrels, decreased by 4.39 million barrels. There is the delayed restart of the ConocoPhillips Bayway, NJ refinery that is also adding to recent support. From a technical perspective, we would look for gasoline to continue to gain strength and for the soon to be spot month, December contract to test the \$2.1156 level. Worth noting, is the strength in the November/December gasoline spread, which gained 73% on the day. This spread is now at its highest level, settling the day at .0266. Crude oil fell 61 cents on the day as the dollar strengthened on concerns that the U.S. quantitative easing package will not meet expectations. Investors may be of the train of thought that any move by the U.S. Federal Reserve has already been factored in to prices and therefore are reluctant to go long any further in this market. Up and until the meeting by the U.S. Federal Reserve, we would look for crude oil to range trade between \$83.00 and \$78.00.

Crude oil: Dec 10 376,549 -15,034 Jan 11 168,490 +169 Feb 11 71,099 +2,833 Totals 1,394,673 -5,746 Heating oil: Nov 10 20,650 -7,375 Dec 10 100,328 +789 Jan 11 68,156 +1,174 Totals 324,021 -4,293 Rbob: Nov 10 21,500 -7,760 Dec 10 98,802 +971 Jan 11 52,028 +1,869 Totals 277,065 -1,707

Crude Oil		Heating Oil		Rbob	
Support	Resistance	Support	Resistance	Support	Resistance
7943	8330	21860		20300	21156
7921	8270	21650	23775	20130	22345
7760	8461	20700		18750	24880
7598	8610			18240	27085
7298	8715			<b>16010</b>	

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