



ENERGY RISK MANAGEMENT

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ENERGY MARKET REPORT FOR OCTOBER 28, 2009

A member of Kuwait's Supreme Petroleum Council said Kuwait will use its spare crude capacity increase its production if needed to halt oil prices from rally to \$100/barrel and above. He said Kuwait is currently producing 2.2 million bpd and has a capacity to produce 2.7 million bpd, leaving 500,000 bpd of idle capacity. However he stated that OPEC is unlikely to increase its output substantially even if prices rise above \$100/barrel.

Qatar's Oil Minister Abdullah al-Attiyah said OPEC is ready to increase its production if it finds that there is a real shortage in oil supplies. He said current oil prices are strongly tied to the

Market Watch

According to the Commerce Department, manufacturers' orders for durable goods increased by 1% in September to a seasonally adjusted \$165.67 billion, the fourth increase in six months. Separately, the Commerce Department said new home sales unexpectedly fell in September following five consecutive increases. Single family home sales fell by 3.6% to a seasonally adjusted annual rate of 402,000 compared to the prior month. The August figure was revised down to 417,000.

The Institute for Supply Management said its index of manufacturing activity showed the manufacturing sector expanded a second month in a row in September to 52.6.

Valero Energy Corp's chief executive Bill Klesse warned US lawmakers that the proposed climate bill could have a "staggering" direct impact on his company and cost the refining industry about \$4.1 billion/year. He said the proposed legislation to cut greenhouse gas emissions would only exacerbate the current challenges by forcing US refiners to further reduce or even close operations in the face of rising costs and unrealistic emission reduction targets. Climate legislation calls for reducing greenhouse gas emissions 20% below 2005 levels by 2020.

Saudi Aramco will switch to Argus sour index for US crude sales. Aramco has been using WTI crude prices published by Platts. The switch may represent the single largest recent move away from WTI that has long served as the standard for pricing oil in the US.

Nigeria's President Umaru Yar'Adua approved 200 billion naira or \$1.34 billion in federal funding to build roads, hospitals and schools in the Niger Delta. The funding is the latest effort by the president to develop the impoverished region and halt years of unrest that has kept Nigeria from pumping above two thirds of its installed capacity.

US dollar and not determined by supply and demand.

DOE Stocks

Crude – up 778,000 barrels
Distillate – down 2.134 million barrels
Gasoline – up 1.619 million barrels
Refinery runs – up 0.7%, at 81.8%

Iran's envoy to the UN's IAEA, Ali Asghar Soltanieh will present Iran's formal response to the head of the IAEA, Mohamed ElBaradei, on a draft nuclear fuel deal on Thursday. The semi-official Mehr News Agency reported that Iran will accept the framework of the agreement but also

propose changes. Under the draft agreement, Iran will send low-enriched uranium abroad for further processing. Meanwhile, European Union foreign policy chief Javier Solana and Iran's chief negotiator Saeed Jalili in a telephone conversation agreed to continue talks over Iran's package of proposals on nuclear issues. They agreed to meet in the next few weeks. The package deals mainly with global disarmament and is separate from the UN drafted deal under which Iran would send low-enriched uranium abroad for further enrichment to use in a research reactor. Separately, a top aide to Russia's President Dmitry Medvedev said further UN sanctions on Iran are unlikely in the near future.

October Calendar Averages CL – \$75.56 HO – \$1.9490 RB – \$1.8957

Iran's Oil Minister Masoud Mirkazemi and Turkey's Minister of Energy and Natural Resources Taner Yildiz discussed further cooperation between their two countries on energy. The two ministers discussed exports of natural gas and the development of oil and gas fields.

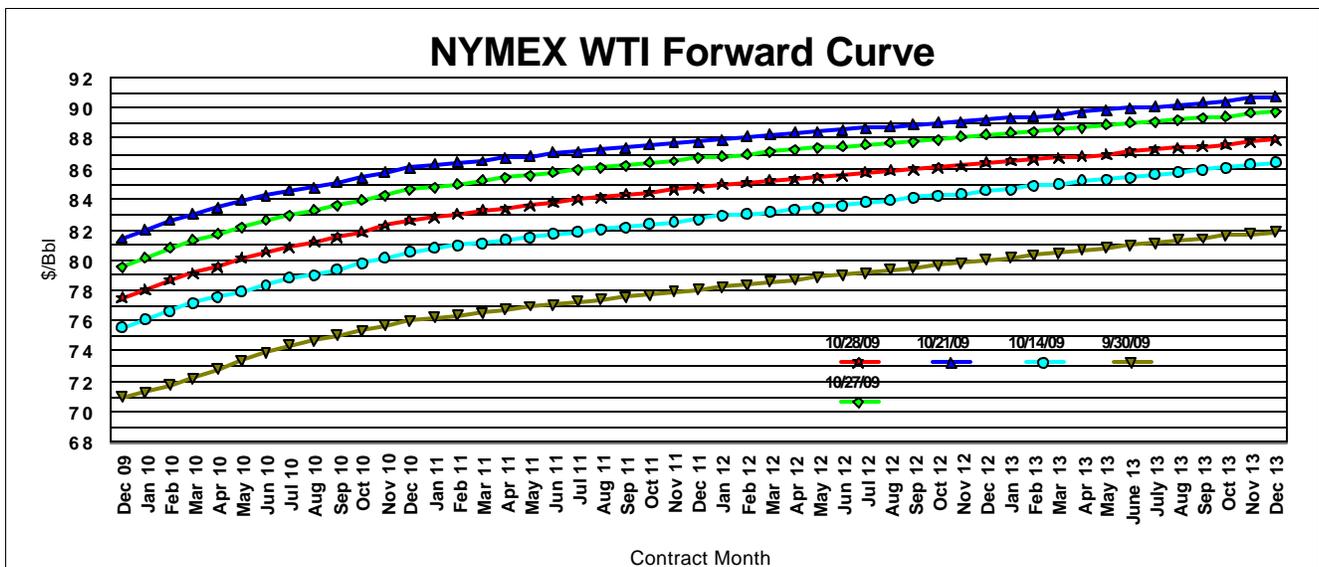
Refinery News

A sulfur recovery unit at BP Plc's 455,790 bpd Texas City, Texas refinery malfunctioned on Monday, according to a notice filed with the Texas Commission on Environmental Quality. It said its sulfur recovery unit operations however resumed on Tuesday morning.

Valero Energy Corp said a hydrocracker unit at the west plant of its 142,000 bpd Corpus Christi, Texas refinery has resumed planned rates after it was shut earlier this month due to a fire. It also said repairs continue on a fluid catalytic cracking unit at its Texas City, Texas refinery. The unit was shut on Sunday for repairs.

ConocoPhillips said it has no plans to shut any refineries but may make production adjustments this quarter due to weak profit margins. Fourth quarter refinery utilization rates are seen in the upper 70% range, down from about 90% in the third quarter. The company is performing planned maintenance at its 306,000 bpd joint venture refinery in Wood River, Illinois. Conoco said it commissioned a new hydrocracker unit at its 120,200 bpd refinery in Rodeo, California in late September. Separately, ConocoPhillips' third quarter earnings fell by 71% due to sharply lower commodity prices. It reported a profit of \$1.5 billion, down from \$5.19 billion last year. ConocoPhillips' chief executive, Jim Mulva said the company expects to sell its 9% stake in the Syncrude oil sands project in Canada early next year. He also said it is looking to sell 10% of its natural gas assets in Canada and the Lower 48, some natural gas assets in the North Sea and pipelines, refineries and terminal in the US.

Royal Dutch Shell Plc said it is restarting a unit at its Scotford refinery in Alberta, Canada following scheduled maintenance.



Russia's Lukoil will restart crude processing at its Odessa refinery in Ukraine in early November after a month long suspension. The refinery will receive 205,000 tons or 1.5 million barrels of Urals crude via the Brody-Odessa pipeline next month.

Japan's Idemitsu Kosan Co plans to refine 2.1 million kiloliters or 440,000 bpd of crude oil in November, down 5% on the year amid low demand for refined products. It cut its October-December refining plans to 6.9 million kl of crude, down 6% on the year.

According to the Petroleum Association of Japan, the country's crude oil inventories in the week ending October 24th fell by 3.17 million barrels on the week and by 16.23 million barrels on the year to 92.43 million barrels. Japan's gasoline stocks increased by 60,000 barrels on the week but fell by 60,000 barrels on the year to 13.2 million barrels while kerosene stocks fell by 190,000 barrels on the week and by 5.25 million barrels on the year to 20.12 million barrels and naphtha stocks increased by 600,000 barrels to 12.2 million barrels on the week. Japan's crude runs increased by 30,000 bpd on the week but fell by 210,000 bpd on the year to 3.35 million bpd. The PAJ reported that the refinery utilization rate increased by 0.7% on the week to 68.8%. It also reported that Japan's total oil product sales increased by 7.7% on the week and by 6.2% on the year to 2.85 million bpd. Japan's gasoline sales increased by 6.5% on the week and by 5.5% on the year to 930,000 bpd while its kerosene sales increased by 21.1% on the week and by 146.6% on the year to 420,000 bpd and its gasoil sales increased by 42.4% on the week and by 2.7% on the year to 600,000 bpd.

Production News

Iraq halted the flow of its Kirkuk crude through its northern pipeline to Turkey's port of Ceyhan on Monday due to sabotage. A source however said it will restart pumping Wednesday afternoon following the completion of repairs to the pipeline. An Iraqi Oil Ministry spokesman said that before the attack, the pipeline was pumping between 450,000 and 480,000 bpd. Officials said crude exports were not affected because there was still oil in storage.

Angola's Oil Minister Jose Botelho de Vasconcelos said Angola will open a new round of bids for oil licenses in the near future. Chevron, Total and ExxonMobil Corp have all said they are keen on bidding for new oil blocks in Angola as oil prices trade around the \$80/barrel level.

A senior Mines and Energy Ministry official said Indonesia will increase the amount of crude oil released from its stocks to help compensate for a shortfall in the full year production target. He said Indonesia expects to release up to about 3 million barrels of crude through the end of the year. Indonesia's 2009 budget has a target for oil lifting of 960,000 bpd however production has been well below that level in recent months. It produced 834,500 bpd of crude in September, up from 817,600 bpd in August.

OPEC's news agency reported that OPEC's basket of crudes fell to \$76.43/barrel on Tuesday from \$76.70/barrel on Monday.

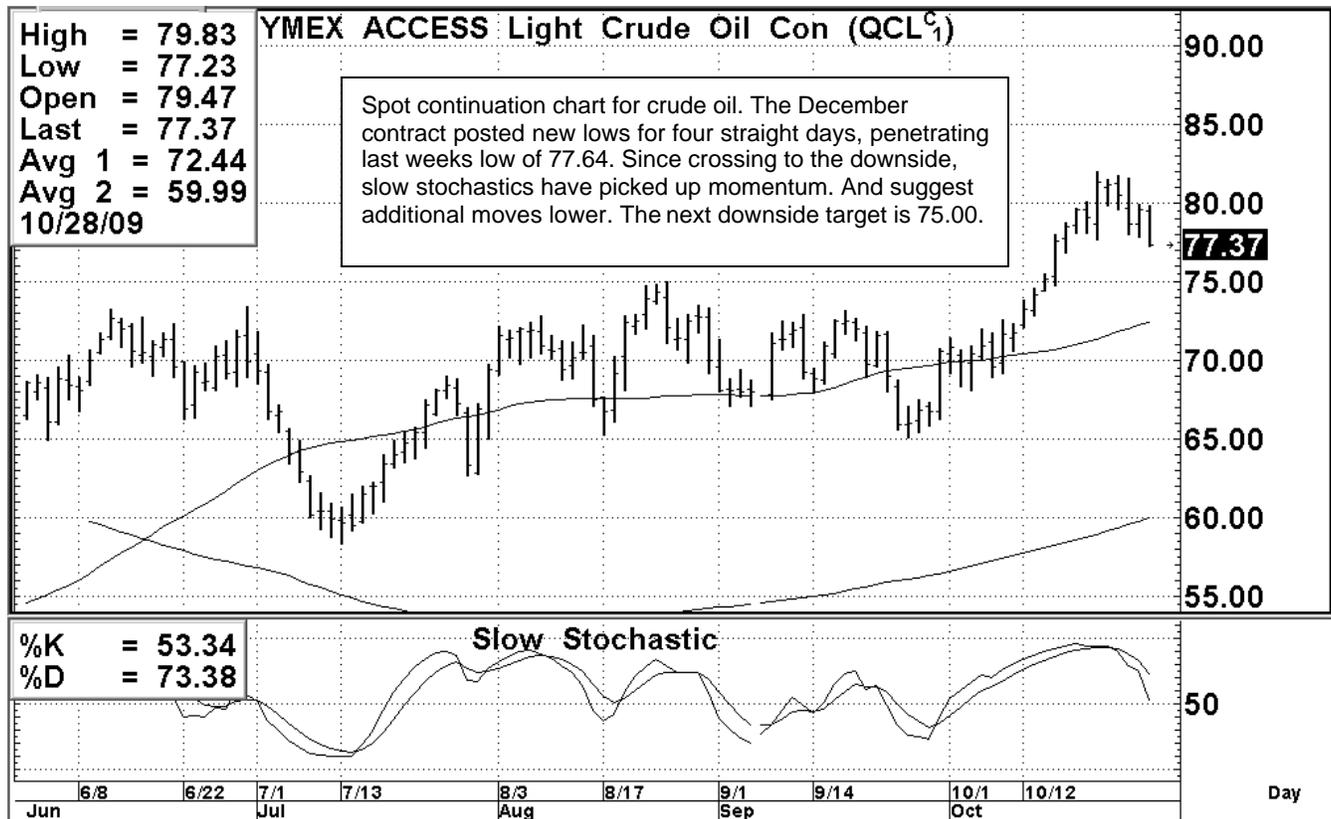
Market Commentary

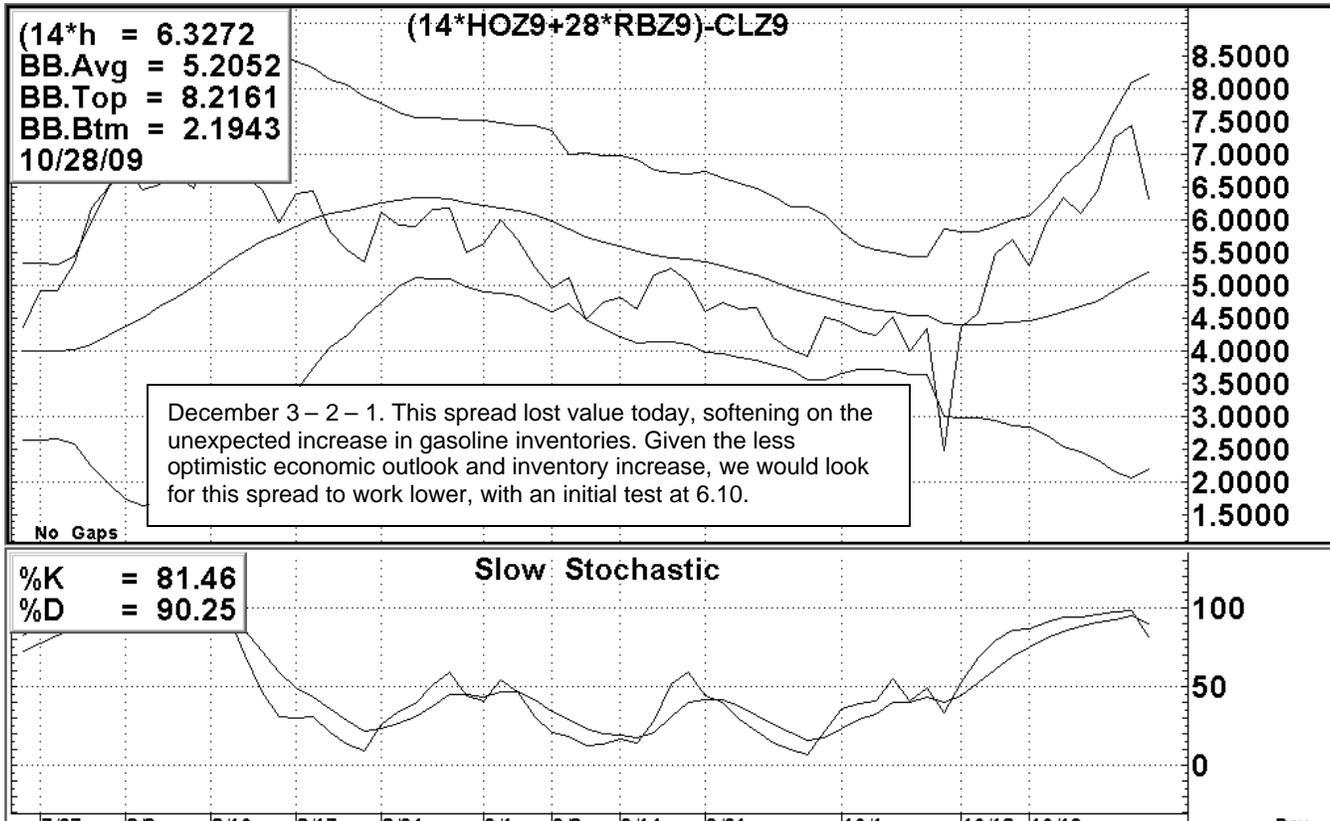
Crude oil was pressured again today by a stronger dollar and a weak equities market. Helping today's sell-off in prices was an unexpected gain in gasoline inventories. Industry analysts were expecting a build in gasoline inventories of 800,000 barrels, below the 1.7 million barrel increase recorded. This has heightened concerns about the economy and its impact on demand. There continues to be a connection in the movement of the dollar and the price of a barrel of crude oil. As the dollar becomes stronger, the cost of crude oil falls, as those being paid in U.S. dollars will be able to buy more for their buck. Yesterday's open interest reflects a decrease, perhaps an indication that those long the market are beginning to rethink their positions. The bulk of the decrease came in the

December contract, indicating concerns about near term demand. We would look for this market to work lower, with our initial downside objective being \$75.00. The cost of cracking three barrels of crude oil into two of gasoline and one of heating oil fell today, reacting to the aforementioned gasoline inventory build. With demand not showing signs of recovery, we would look for this spread to weaken further, with an initial downside objective of \$6.10

Nat Gas Storage Forecast +15 to +50 BCF

Crude DEC.09 353,279 -7,323 JAN.10 157,706 +1,422 FEB.10 65,270 +1,841 MAR.10 49,591 +2,342 APR.10 21,292 +125 Totals: 1,220,540 -4,614. Heating NOV.09 18,589 -5,221 DEC.09 90,450 +2,371, Jan.10 55,181 +2,321 FEB.10 25,750 +1,107 MAR.10 18,462 +127 Totals: 320,479 +1,025 Gasoline NOV.09 17,703 -8,232 DEC.09 102,256 +5,374 JAN.10 48,913 +2,497 FEB.10 20,150 +1,150 MAR.10 18,883 +1,131 Totals: 247,752 +906.





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

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