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ENERGY RISK MANAGEMENT

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ENERGY MARKET REPORT FOR OCTOBER 29, 2009

Iran's President Mahmoud Ahmadinejad said that Iran welcomes the idea of exchanging nuclear fuel and is ready for cooperation on the issue with western powers. The UN's IAEA said its chief Mohamed ElBaradei has received an initial response from Iran. However Iran has proposed changes to the UN drafted nuclear fuel deal. The Iranian pro-government daily Javan said in an unsourced report that Iran wanted shipments of low-enriched uranium for conversion abroad into fuel for a research reactor to take place in stages rather than in a single consignment. It also wants simultaneous imports of higher-enriched fuel from other countries for the same plant. Under the IAEA's plan, Iran would transfer about 75% of its known 1.5 tons of low-enriched uranium in one shipment to Russia by the end of the year for further

Market Watch

The Commerce Department said the US economy expanded in the third quarter for the first time since the second quarter of 2008 due to increase in consumer spending. GDP in the third quarter increased by a higher than expected seasonally adjusted 3.5% annual rate. The GDP gain was driven by consumer spending, which increased by 3.4% in the third quarter compared with a 0.9% decline in the April-June period. Price gauges showed the core inflation rate fell to 1.4% from 2% in the second quarter.

The US Labor Department reported that the number of US workers filing new claims for unemployment benefits fell by 1,000 to 530,000 in the week ending October 24th. The previous week's level was unrevised at 531,000. The four week moving average of new claims fell by 6,000 to 526,250 from the previous week's unrevised figure of 532,250. The number of continuing claims fell by 148,000 to 5,797,000. The unemployment rate for workers with unemployment insurance for the week ending October 17th was 4.4%, down 0.1% on the week.

UBS Investment Bank started a new commodity index exchange traded note (ETN) on the New York Stock Exchange. The new note, called UBS E-TRACS Dow Jones-UBS Commodity Index Total Return, which offers investors exposure to a basket of commodities products started trading on Thursday. The new index measures returns from a basket of 19 commodity futures contracts from sectors including energy, precious metals, industrial metals, grains and livestock.

The Association of American Railroads reported that carloadings of US railroads totaled 276,357 in the week ending October 24th, down 14.8% from 324,259 last year. Consumer product-focused intermodal traffic transported 207,401 loaded truck trailers and shipping containers on flat railcars in the latest week, down 10.1% from 230,774 reported last year.

The US Senate banking committee passed legislation authorizing new sanctions against and the firms that conduct business with the country. Similar to a bill passed in the House Foreign Affairs Committee Wednesday, it give the Obama administration stronger powers to sanction companies that provide Iran with gasoline, diesel and other refined petroleum fuels. Firms from China, Malaysia, Gulf countries, Indonesia and South Africa are likely to make up any lost western supplies. The bill expands the existing Iran Sanctions Act to cover a broader range of financial institutions and extend sanctions to oil and gas pipelines, tankers and the petroleum export supply chain. It establishes additional sanctions prohibiting specified foreign exchange, banking and property transactions.

**October
Calendar Averages**
CL – \$75.77
HO – \$1.9540
RB – \$1.9016

enrichment. The material would then go to France to be converted into fuel plates. The fuel plates would then return to Iran to power the US built reactor, which produces radio-isotopes for cancer treatment. The US role would be to upgrade safety and instrumentation at the plant. The US State Department however said it is still awaiting a formal response from Iran to a UN brokered plan on nuclear cooperation with major powers.

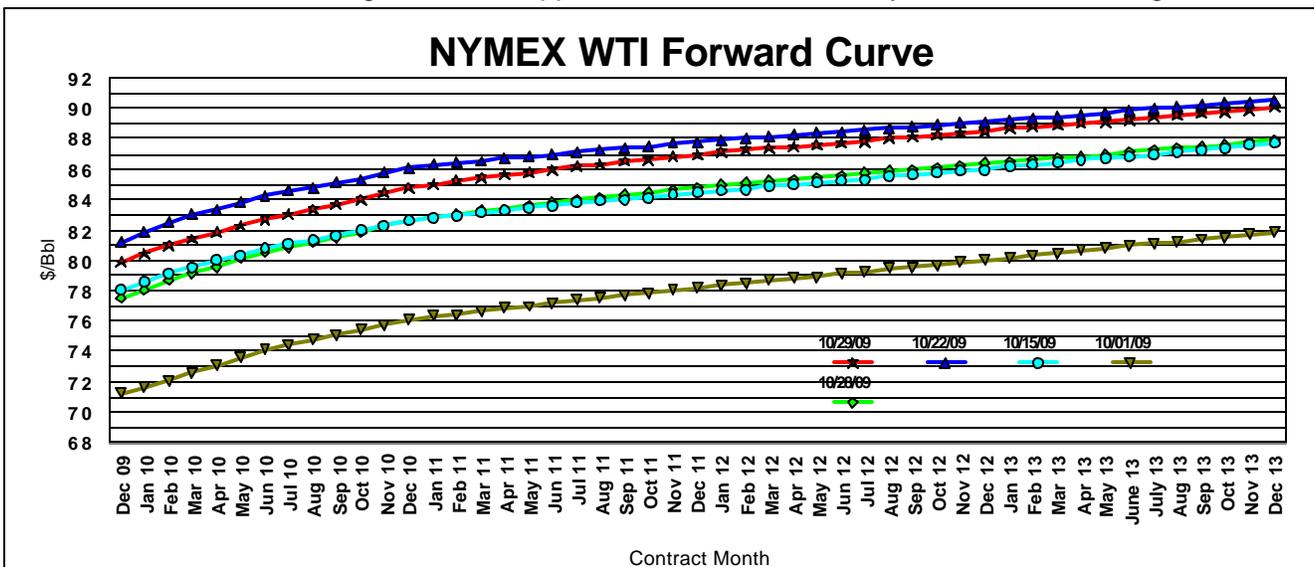
Shell's CFO Simon Henry said the recent rise in oil prices is not supported by fundamentals because demand has yet to increase.

According to Oil Movements, OPEC's oil exports, excluding Angola and Ecuador, are expected to increase by 40,000 bpd to 22.68 million bpd in the four weeks ending November 14th.

ICAP Shipping reported that world oil products stored at sea increased by nearly 15 million barrels to 76 million barrels by the end of October. It said total volume is set to increase by a further 6.5 million barrels based on vessels already chartered to join the existing fleet of 98 vessels. The majority of vessels are carrying distillates such as gas oil, diesel and jet fuel.

The EIA said US oil reserves fell by 10.3% last year to 19.1 billion barrels, largely due to government reporting requirements. It also said US natural gas reserves increased by 2.9% to 244.7 trillion cubic feet in 2008. Under current reporting rules, oil companies must assess their yearly proved reserves based on what they could reasonably produce at market price on the last day of the year. New rules set to take effect in 2010 will require operators to use an average of first day of the month prices throughout the year.

The EIA reported that US oil demand in August was revised down by 3.14% to 18.732 million bpd from its earlier estimate of 19.34 million bpd. It is down 2.8% on the year. Gasoline demand averaged 9.25 million bpd, up 116,000 bpd or 1.3% on the year but down 50,000 bpd on the month. It is up 0.5% above the EIA's previous estimate. Distillate demand fell by 7.5% or 276,000 bpd on the year to 3.383 million bpd. It is 0.8% below the preliminary estimate. US crude oil inputs to refineries averaged 14.568 million bpd in August. In August, US crude oil prices averaged \$71.14/barrel, down 39% on the year. The retail price of gasoline averaged \$2.616/gallon, down 30.8% while the price of diesel averaged \$2.634/gallon, down 38.8% on the year. The EIA also reported that US crude oil imports in August fell by 14% on the year to 8.883 million bpd, the lowest level since September 2008. Canada was the top source of US crude oil imports, with 2.007 million bpd, a rise of 7.2% on the year. Mexico was the second largest crude supplier to the US followed by Venezuela and Nigeria. Crude



oil imports from Saudi Arabia fell by 511.4% on the year to 745,000 bpd, the lowest level since December 1987.

Refinery News

ExxonMobil Corp said it is only making minor cuts to utilization rates at its refineries despite the depressed margins for fuel products. Several of Exxon's competitors have made major cuts to run rates at refineries because of the decline in demand for fuel as well as poor margins for the products. ExxonMobil also said its total 2009 production and capital expenditures are expected to be at the same level as in 2008. The company, which produced an average of 4.18 million bpd of oil equivalent in 2008, said production could grow 1% this year.

Total SA's 232,000 bpd Port Arthur, Texas refinery has restarted three units after they were briefly shut down on Thursday. An environmental filing said that unit 836 was shutdown, causing units 827 and 819 to shutdown.

Chevron Corp reported flaring at its 279,000 bpd El Segundo, California refinery as the refinery undergoes work on unspecified units.

ConocoPhillips is starting up several units at its 247,000 bpd Sweeny, Texas refinery on Thursday following maintenance work last month.

Valero Energy Corp reported a problem that caused its catalytic cracking unit to trip at its 171,000 bpd McKee refinery. The problem was caused by a brief power outage on Wednesday.

Flint Hills Resources LP cut rates by 20% at its 330,000 bpd refinery in Pine Bend, Minnesota due to weak margins.

Marathon Oil Corp will bring a 180,000 bpd expansion of its Garyville, Louisiana refinery online by the end of 2009. The expansion will increase the refinery's total capacity to 436,000 bpd.

Russia's OAO Lukoil Holdings will resume operations at its Odessa refinery in Ukraine on November 1st following a month long shutdown. The refinery will receive 195,000 tons of oil in November through the Druzhba pipeline via Brody. Lukoil previously stated that it was forced to suspend operations at the Odessa refinery after Ukraine's Ukrtransnafta halted deliveries through the Lisichansk-Kremenchug-Odessa refinery pipeline.

Showa Shell Sekiyu KK expects its crude runs for the fourth quarter to be nearly flat on the year as an expected increase in oil exports offsets weak refining for the domestic market. Showa Shell said it plans to refine 8.7 million kiloliters or 595,000 bpd of crude from October to December. Refining for its domestic market will fall 3% on the year to 7.42 million kl amid continued low demand. However refining for exports is estimated to increase 35% to 1.28 million kl.

Japan's AOC Holdings said it will cut its crude oil sales contract with Kuwait Petroleum Corp to 40,000 bpd from 100,000 bpd starting in January 2010 due in part to falling demand.

South Korean refiners are expected to process 2.26 million bpd in November, down 0.4% on the month due to weak refining margins.

Italy's Eni SpA lowered its forecast for 2009 refining throughputs as the sector remains impacted by weaker demand due to the economic downturn. It estimates this year's throughputs at 35.85 million tons, unchanged on the year. Eni's refining throughputs fell by 3.1% to 25.94 million tons in the first nine months of the year.

Gas oil inventories in independent storage at the Amsterdam-Rotterdam-Antwerp terminal in the week ending October 29th fell by 1.27% on the week and by 62.36% on the year to 2.64 million tons. Gasoline inventories increased by 7.4% on the week and by 26.9% on the year to 769,000 tons while fuel oil stocks fell by 7.02% on the week but increased by 58.31% on the year to 676,000 tons. Naphtha stocks were unchanged on the week but fell by 30.65% on the year to 43,000 tons while jet fuel stocks fell by 8.51% on the week but increased by 34.46% on the year to 753,000 tons.

Singapore's International Enterprise reported that the country's residual fuel stocks fell by 756,000 barrels to 19.886 million barrels in the week ending October 28th. It also reported that the country's light distillate stocks built by 651,000 barrels to 10.772 million barrels while its middle distillate stocks fell by 822,000 barrels to 13.785 million barrels on the week.

Russian seaborne oil exports in November will fall by 2.8% on the month to 10.998 million tons due to lower shipments from the Baltic Sea port of Primorsk. Urals exports via Primorsk will fall to 5.9 million tons or 1.44 million bpd in November, down 143,000 bpd on the month. Exports from the Black Sea of Novorossiisk will increase to 3.84 million tons or 940,000 bpd, up 18% on the month. Gdansk will ship 54,000 bpd of Urals in November while Ukraine's Black Sea port of Yuzhny will see shipments fall by 28.6% to 176,000 bpd.

Production News

An Iraqi Oil Ministry official said Iraq's northern pipeline will resume operations on Friday after it was shut due to a sabotage attack earlier this week. The explosion that hit the Kirkuk oil pipeline on Monday was probably caused by insurgents and hit part of the line near the city of Mosul. The official said North Oil Co will increase the quantities of crude pumped to reach 700,000 bpd to compensate for shut in amounts.

Iraq's Oil Ministry said it will sign a final deal on November 3rd with BP and China's CNPC to develop its Rumaila oilfield. It will also sign an initial deal on November 1st with Italy's Eni SpA to develop the Zubair oilfield. Iraq's Rumaila oilfield has estimated reserves of 17 billion barrels while the Zubair oilfield has estimated reserves of 4 billion barrels.

Abu Dhabi National Oil Co will keep its December crude supply volume for Murban and Umm Shaif at 15% below contracted volumes, unchanged on the month. It plans to supply Lower Zakum and Upper Zakum at 10% below contracted volumes.

Royal Dutch Shell Plc's oil and gas production in Nigeria in the third quarter fell by 100,000 bpd of oil equivalent on the year.

Ecuador's central bank reported that the country exported 81.2 million barrels in the first eight months of the year, down 6% on the year. Private companies operating in Ecuador exported 25.67 million barrels or 32% of the total sold by the country in the January-August period while Petroecuador exported the remaining 55.53 million barrels.

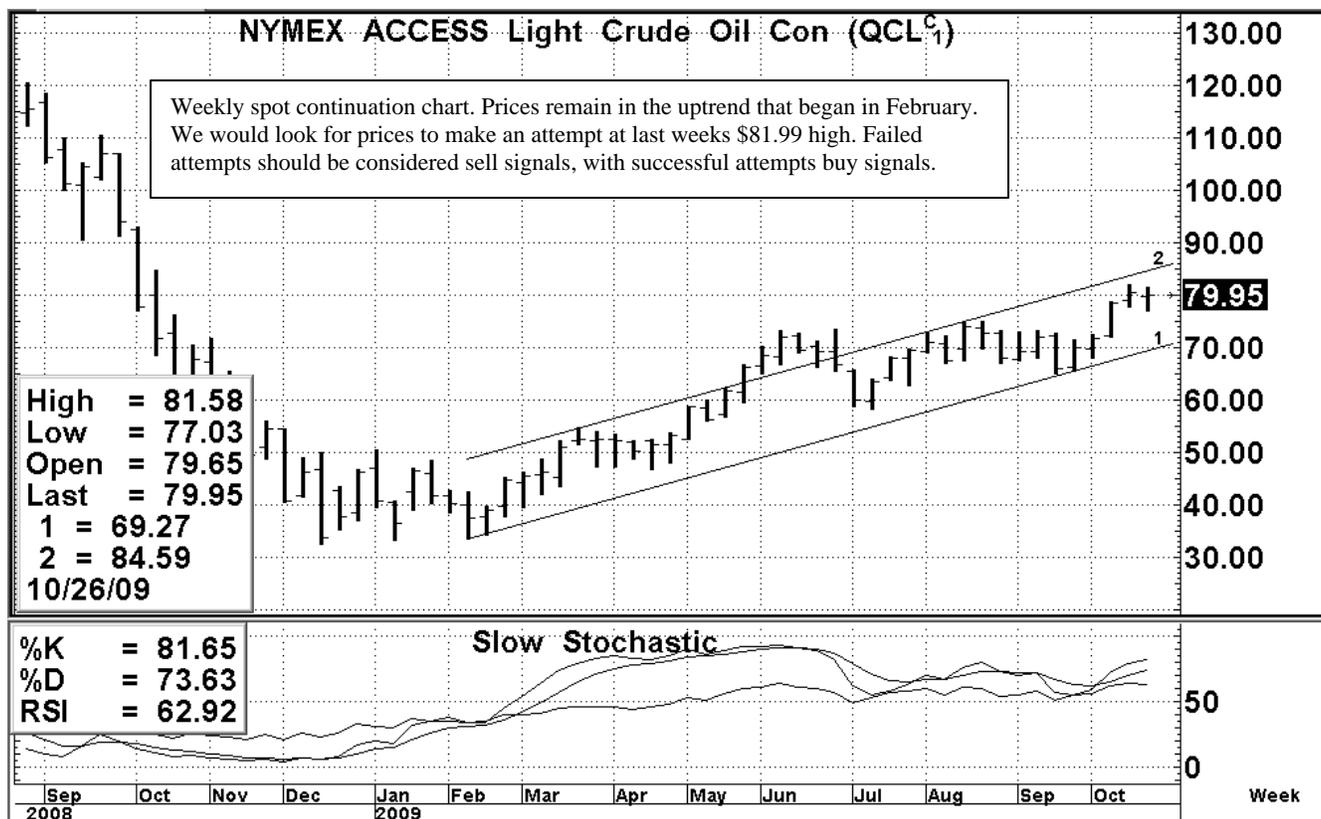
China may soon increase its retail fuel prices by 5-6% after benchmark crude prices increased more than 6% since China's last price move. China put in place a new oil pricing mechanism at the start of the year, which allows the government to adjust gasoline and diesel prices when the moving average of world crude shifts more than 4%.

OPEC's news agency reported that OPEC's basket of crudes fell further to \$75.53/barrel on Wednesday from \$76.43/barrel on Tuesday.

Market Commentary

Once again the energy markets became disengaged from their true fundamentals as they rallied higher against a weakening dollar and an economically optimistic GDP. The GDP rose 3.5 percent, which was greater than the projected 3.2 percent that analysts were expecting. Unemployment in the U.S. appears to be slowing down, as jobless claims fell by 148,000. U.S. unemployment is now at 5.8 million, the lowest level since March 21. This lead to the belief that the recession is winding down and that demand for fuel will increase. As mentioned in previous wires, we would look for crude oil to continue to react to economic stimuli and for fundamentals to contain higher price movement. As long as investors continue to turn to commodities as a financial hedge, prices will stay artificially inflated. The December crude oil contract traded above \$80.00 but was unable to sustain enough strength to settle above this level. Based upon a weekly spot continuation chart, the uptrend that began in early February is still intact. This week's channel is set between \$69.27 and \$84.59. Slow stochastics are set above overbought territory but have not crossed to the downside, indicating that the uptrend should continue. Short-term technicals are calling for lower prices. Based upon this, we would look for prices to try and test the \$85.00 level, selling failed attempts to break above it.

Crude DEC.09 349,049 -4,230 JAN.10 155,569 -2,137 FEB.10 65,997 +727 MAR.10 49,561 -30 PR.10 21,595 +303 Totals: 1,208,924 -11,616. Heating NOV.09 11,300 -7,289 DEC.09 91,329 +879, Jan.10 54,499 -682 FEB.10 27,195 +1,445 MAR.10 18,703 +241 Totals: 315,463 -5,016 Gasoline NOV.09 10,549 -7,154 DEC.09 103,727 +1,471 JAN.10 48,433 -480 FEB.10 21,114 +964 MAR.10 19,148 +265 Totals: 243,721 -4,031.



Crude Support	Crude Resistance
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
1.9650, 1.8840, 1.8730	2.1100, 2.1600, 2.3350

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