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Windham Group



## ***ENERGY RISK MANAGEMENT***

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### **ENERGY MARKET REPORT FOR OCTOBER 29, 2010**

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The National Hurricane Center reported that a tropical wave in the Atlantic strengthened on Friday and has an 80% chance of becoming a depression in the next 48 hours as it moves towards the Caribbean. The wave is unlikely to reach the Gulf of Mexico, at least in the next five days or so. The NHC later stated that Tropical Storm Tomas will likely form in the Atlantic. Elsewhere in the Atlantic, the

NHC continued to watch two other systems, Tropical Storm Shary and a weakening low pressure system in the central Atlantic. Tropical Storm Shary is expected to hit Bermuda later on Friday before moving northeast away from land toward the northern Atlantic. The low pressure system is about 1,300 miles northwest of the Cape Verde Islands with a 10% chance of developing.

European Union foreign policy chief Catherine Ashton said Iran is ready to discuss its nuclear program with the six world powers any time after November 10<sup>th</sup>. She said she received a letter from Iran's chief nuclear negotiator, Saeed Jalili, in which he agreed to meet in a place and on a date convenient to both sides after November 10<sup>th</sup>. Earlier this month, the EU foreign policy chief invited Iran to hold three days of talks in Vienna from November 15-17. Separately, the EU sanction, which became law on Wednesday, puts additional pressure on Iran to return to negotiations over its uranium enrichment program. The rules block oil and gas investment in Iran and curtail Iran's refining and

#### Market Watch

The US economy expanded at a slightly faster pace in the third quarter as consumer spending increased. The Commerce Department said GDP increased at an annual rate of 2% after increasing by 1.7% in the second quarter. Economists were expecting GDP to increase by 2.1% in the third quarter. The price index for personal consumption expenditures, excluding food and energy, increased at an annualized 0.8% in the third quarter, down from the second quarter's 1% increase. The overall price index for personal consumption expenditures increased by 1% in the third quarter.

The US Labor Department said US employment costs increased 0.4% in the third quarter, slightly below market forecasts. Wages and salaries increased just 0.3% and were up 1.5% compared to a year earlier.

Japan's industrial production fell for the fourth consecutive month in September. Manufacturers surveyed by the Ministry of Economy, Trade and Industry expect the decline to deepen this month with output falling 3.6% after a 1.9% decline in September. Japan's weak output, price and spending figures showed on Friday how the economy was struggling to cope with a strong yen and declining foreign demand, raising doubts about the central bank's relatively optimistic outlook.

Ernst & Young said global oil demand would remain weak in the fourth quarter of 2010 as doubts over the health of the world economy continue to dampen business and consumer confidence.

**October  
Calendar Averages**  
**CL – \$81.97**  
**HO – \$2.2606**  
**RB – \$2.1097**

natural gas capability, but they have been crafted in a way that reduces the impact on ordinary Iranian citizens.

Iran's OPEC governor said the country's oil trade with China and Japan has declined but only temporarily.

ICAP Shipping reported that crude oil stored globally in floating storage fell to 36 million barrels as of October 29<sup>th</sup> from 40 million barrels as of October 22<sup>nd</sup>.

**Refinery News**

The restart of ConocoPhillips' crude unit at its Bayway refinery in Linden, NJ is seen delayed until the end of November. Separately, ConocoPhillips has delayed the restart of a fluid catalytic cracking unit at its Belle Chase refinery in Louisiana until next week.

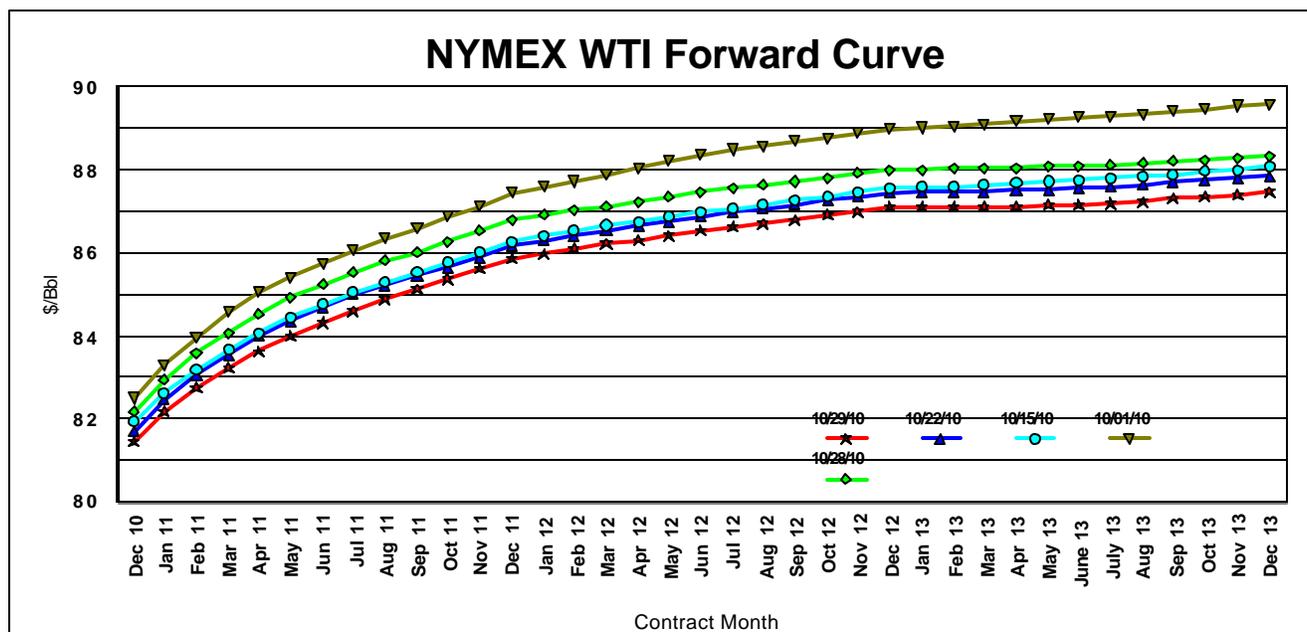
ExxonMobil said an instrument failure led to flaring at its 504,000 bpd Baton Rouge refinery in Louisiana. It said it was investigating the incident.

Coffeyville Resources said an equipment malfunction caused excess emissions Thursday morning at its 115,700 bpd refinery in Coffeyville, Kansas. The company said it was trying to resume normal operations.

Chevron Corp said a new continuous catalytic reformer unit at its 330,000 bpd Pascagoula, Mississippi refinery was mechanically complete and was awaiting commissioning before it could begin operations. The project replaced two 30 year old reformers with a 55,000 bpd CCR platformer. The project would enable the refinery to run a wider crude slate.

LyondellBasell said its 270,600 bpd Houston refinery ran near capacity during the third quarter. It ran at 261,000 bpd during the quarter.

The anti-government industrial action and protest ended as President Nicolas Sarkozy's pension reform was voted into law. Workers at France's Fos Lavera oil port on Friday ended their strike that had lasted 33 days. The process of loading or unloading the 78 ships and four barges moored off the port will start Friday evening and may take about four weeks. The workers at the oil terminal of Le



Havre also voted to end the strike and return to work. ExxonMobil resumed pumping crude from the Le Havre port to its Port-Jerome refinery after a strike at the terminal ended. It is in the process of restarting production units at Port-Jerome and expects output of fuel products to resume in a few days. Meanwhile worker at all 12 French oil refineries voted to end the strike. Workers at Total's Donges, Dunkirk, Feyzin, Gonfreville and Grandpuits refineries voted to end their strike over the pension reforms. LyondellBasell Industries NV said its French refinery will resume output at least two days after the supply of crude resumes. French Energy Minister Jean-Borloo said the country's fuel situation should be completely normal by the middle of next week.

Mexico's Pemex expects to restart a damaged 40,000 bpd coker gas oil hydrotreater at its Cadereyta refinery in early 2011. The unit was shut following a fatal explosion at the 275,000 bpd refinery in September.

A 104,000 bpd fluid catalytic cracking unit at PDVSA's 645,000 bpd Amuay refinery has resumed operations and is working normally after it was shut on October 5<sup>th</sup> for repairs.

India's oil product sales fell by 1.9% in September to 10.66 million tons on lower demand for diesel. India's government data showed that India's crude oil imports fell by 21.9% to 10.94 million tons in September from a year earlier. India's refinery runs in September fell by 10.2% on the year to 2.971 million bpd due to shutdowns at several refineries.

Japan's Ministry of Economy, Trade and Industry reported that Japan's total oil product sales in September increased by 7.3% on the year. It was the third consecutive month of gains. The country's oil product output increased by 2.7% on the year to 16.053 million kiloliters. It also reported that Japan's oil imports fell by 7.2% on the month to 3.45 million bpd. It reported that Japan imported 1.75 million kiloliters or 367,000 bpd of crude oil from Iran, up 23.2% on the month.

Tokyo Electric Power Co increased its consumption forecasts for oil, liquefied natural gas and thermal coal for the current business year to take into account firmer projected power demand. It expects to consume 6.2 million kiloliters of crude and fuel oil in the year ending March 2011, up from 5.8 million kl forecast in July.

China Aviation Oil bought 960,000 tons or 1.2 million barrels of jet fuel for mid-November to end-December delivery via tender.

Russia's Energy Ministry reported that Russian refinery runs in September averaged 5.13 million bpd, up 8.9% on the year. It also reported that Russia exported 96,700 tons/day of gas oil in the first 22 days of September, up 0.6% from 96,200 tons/day in the first 25 days of August. Gas oil exports fell by 3.4% on the year. Gas oil supplied to the domestic market totaled 89,400 tons/day compared with 78,300 tons/day last year. Fuel oil exports in September fell by 3.7% to 149,000 tons/day compared with 154,000 tons/day in August while domestic shipments reached 32,900 tons/day, up 31.4% on the month. In September, Russia exported 6,300 tons/day of gasoline, down 26.9% on the month. Local shipments of gasoline averaged 92,900 tons/day, down 0.6% on the month.

Russia's Baltic Sea port of Primorsk will load 5.6 million tons of Urals crude oil in November, down from 6.3 million tons in October.

Seaborne Urals crude supplies from Russia in November are expected to fall by 1 million tons to 9.5 million tons. Urals crude supplies from the Black Sea port of Novorossiisk are expected to fall to 3.52 million tons from 3.65 million tons in October while supplies from Poland's Baltic port of Gdansk are expected to fall by 31% to 400,000 tons.

## **Production News**

According to a Reuters survey, OPEC-11, excluding Iraq, produced an average of 26.79 million bpd of oil in October, up from 26.63 million bpd in September. The 11 OPEC members were 54% compliant with their agreed cuts, down 3% from September. Total OPEC oil production increased by 70,000 bpd to 29.14 million bpd in October. It reported that Saudi Arabia's oil production in October fell by 30,000 bpd to 8.27 million bpd. It however reported that Angola's oil production increased by 130,000 bpd to 1.72 million bpd in October. Iraq's oil production in October fell by 90,000 bpd to 2.35 million bpd.

Saboteurs attacked an Agip oil pipeline in Nigeria's Niger Delta overnight, shutting in 4,000 bpd of production. The act of sabotage occurred in a minor pipeline of the Osiama field in Bayelsa State. Security sources said earlier two pipelines from the Osiama field to Brass had been damaged in the attack and that as much as 60,000 bpd had been affected. Italy's Eni, which has an 800 bpd share in the Osiama field, said no force majeure was declared.

Mexico's Transport Ministry reported that Mexico shut its Dos Bocas oil port on Friday morning.

Regulators increased the Hibernia oil reserves by 12% or 151 million barrels to 1.395 billion barrels.

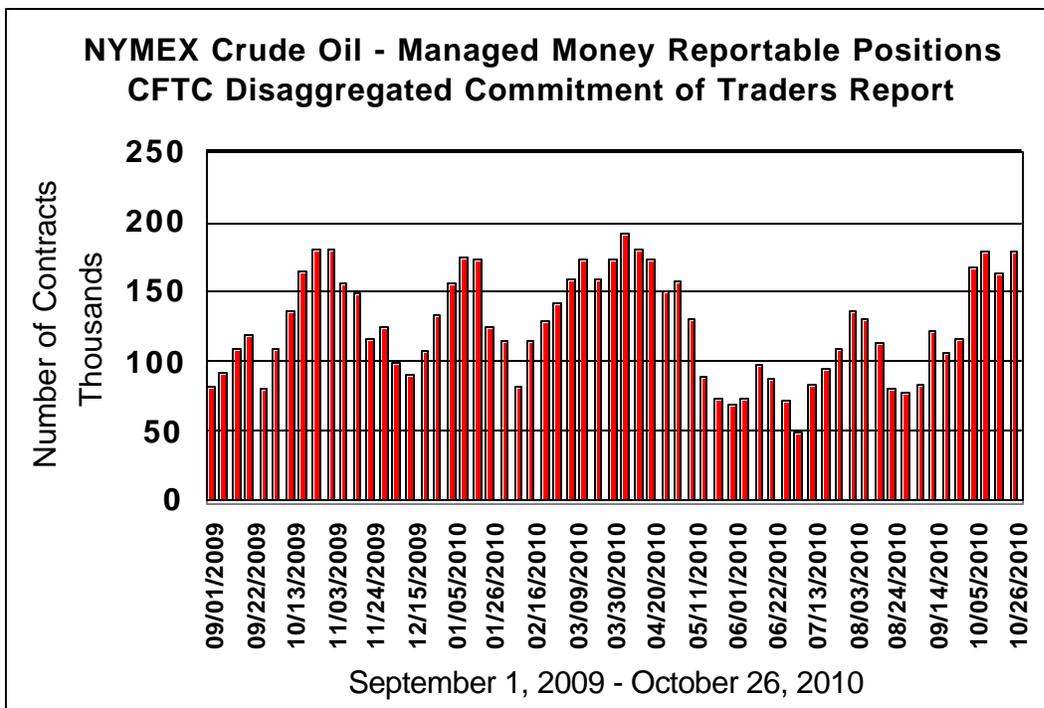
Brazil's oil regulator ANP said a discovery in the Libra oil field could contain recoverable reserves of up to 15 billion barrels of oil. The field's reserves are between 3.7 billion and 15 billion barrels, with the most probable estimate at 7.9 billion barrels.

Mexico's Pemex said it expects next year's investment budget to increase to \$22.9 billion from this year's estimated \$21 billion and crude production to increase slightly in 2011 due to increasing output at its Chicontepec onshore fields. Overall crude output in the third quarter was 2.567 million bpd on average. Mexico's Chicontepec is currently producing about 45,000 to 46,000 bpd on average and is expected to reach 70,000 bpd next year.

OPEC's news agency reported that OPEC's basket of crudes increased to \$79.92/barrel on Thursday from \$79.19/barrel on Wednesday.

## **Market Commentary**

Crude oil experienced an inside trading week, staying within last week's trading range, settling lower on the week. This week's high marks the third week in a row that prices were unable to post new highs. With today being the end of the month as well as expiration for products, positions



squaring played a part in today's market activity. Crude oil should continue to respond to movement in the dollar as market participants await next week's Fed announce in regards to quantitative easing. Coming into next week, we should see prices initially work lower, moving towards the \$79.11 support area.

Crude oil: Dec 10 365,275 -4,059 Jan 11 176,919 +5,568 Feb 11 76,499 +1,951 Totals 1,408,493 +10,731 Heating oil: Dec 10 101,663 +1,337 Jan 11 69,453 +377 Feb 11 25,326 +761 Totals 318,360 -4,105 Rbob: Nov 10 100,188 +951 Dec 10 100,188 +951 Jan 11 56,236 +5,427 Totals 271,699 +1,019

The Commitment of Traders' disaggregated futures and options report showed that managed money funds reversed the previous week's move and increased their net long position by 15,183 contracts to 178,824 contracts in the week ending October 24<sup>th</sup>.

Crude Oil		Heating Oil		Rbob	
Support	Resistance	Support	Resistance	Support	Resistance
7943	8330	21860		20300	21156
7911	8270	21650	23775	20130	22345
7760	8461	20700		18750	24880
7598	8610			18240	27085
7298	8715			<b>16010</b>	

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