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Windham Group



ENERGY RISK MANAGEMENT

Howard Rennell, Pat Shigueta,
& Karen Palladino
(212) 624-1132 (888) 885-6100

www.e-windham.com

ENERGY MARKET REPORT FOR NOVEMBER 1, 2010

Saudi Arabia's Oil Minister Ali al-Naimi said Saudi Arabia has 264 billion barrels of proven oil reserves and could continue to supply the world market for another 80 years. The country's current production capacity is at 12 million bpd. He said crude oil price found its comfort zone at \$70-\$90/barrel. He said the oil price is "very decent" for producer nations, companies and oil companies and added that oil companies and consumers are looking for a market between \$70 and \$90/barrel. He said fossil-based oil will still dominate global energy use until at least 2050 as green energy isn't yet becoming economically viable. Saudi Arabia's Oil Minister said world energy demand will

Market Watch

The US Commerce Department said US consumer spending increased by less than expected in September as income fell for the first time in 14 months. It said spending increased 0.2% after rising by an upwardly revised 0.5 in August. Meanwhile US incomes fell by 0.1% in September after a revised 0.4% rise in August. With incomes declining, the national savings rate fell to 5.3% from 5.6% in August. Separately, the Commerce Department said US construction spending increased unexpectedly in September as investment in public projects reached the highest level in more than a year. It reported that construction spending increased by 0.5% to an annual rate of \$801.7 billion.

The Institute for Supply Management reported its monthly indexes of manufacturing activity for October increased to 56.9 in October from 54.4 in September.

China's manufacturing activity expanded at a faster pace in October compared with September. China's Purchasing Managers Index increased to 54.7 in October from 53.8 in September, the China Federation of Logistics and Purchasing. The input prices subindex increased to 69.9 from 65.3 in September, showing that inflationary pressures are rising. Meanwhile the HSBC Markit PMI for India increased to 57.2 in October from 55.1 in September.

China's energy plan for the five years from 2011 to 2015 will be published in March at the earliest. The plan would be unveiled only after the disclosure of an overall plan for national economy. An official said China's annual primary energy consumption must be kept to below 4.2 billion tons of standard coal equivalent by 2015 to achieve 2020 emission and clean energy goals.

British manufacturing growth increased last month for the first time since March Markit/CIPS's headline manufacturing Purchasing Managers' Index increased to 54.9 from September's 10 month low of 53.5, its highest level since July and in contrast to economist's expectations for a fall to 53.1.

Baker Hughes Inc chief executive Chad C. Deaton said that while the oil field services company continues to use new technology into its strong North American operations, his priority in the coming months will be to improve international results.

The head of the UK's armed forces, General Sir David Richards said Yemen must not become a new Afghanistan, playing down the prospect of military action in the wake of foiled parcel bomb plot. He insisted that the Yemeni government is extremely onside and that the UK will remain supportive of their efforts to combat violent extremism.

**October
Calendar Averages**
CL – \$82.95
HO – \$2.2777
RB – \$2.0929

grow by 40% within the next two decades, with Asia accounting for 60% of the increase between now and 2030.

Iran’s OPEC governor, Mohammad Ali Khatabi said OPEC needs the cooperation of Russia to help improve oil market stability and increase low crude prices. He also reiterated Iran’s stance that Iraq should return to the OPEC quota system when its output increases.

The IEA’s Executive Director Nobuo Tanaka said the world oil market will remain well supplied into next year if producing countries keep output at the current level. Oil demand will grow by only 1.2 million bpd if the world economy grows by 4.2% in 2011 as expected and by 400,000 bpd if the economy grows by 3%. He said the world economic recovery has been more fragile than expected and oil inventories remain very high. The IEA’s Executive Director also stated that the age of cheap energy is over due to increasing demand in developing countries and efforts to fight climate change in developed countries. Crude is expected to reach \$111/barrel in 2010, \$122/barrel in 2020, \$122/barrel in 2030 and \$143/barrel in 2050. He said from now until 2050, consumption from developing countries will drive demand.

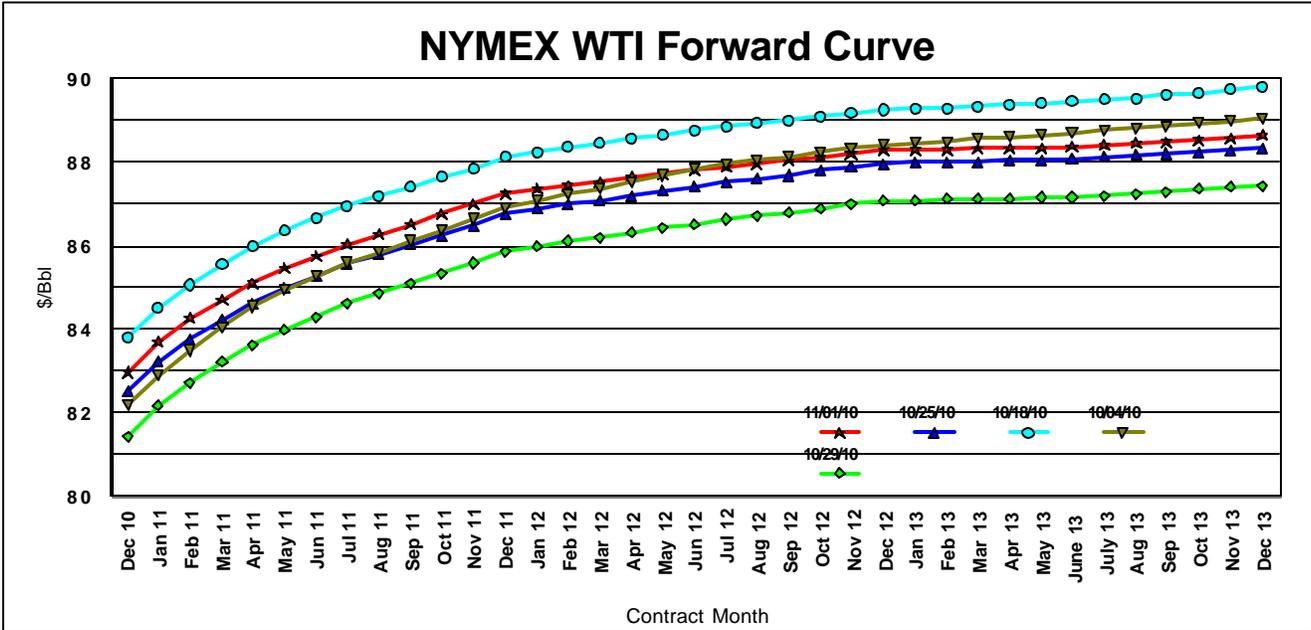
Iranian opposition leader Mir Hossein Mousavi has charged that President Mahmoud Ahmadinejad’s government lacks the means to implement its plan to scrap subsidies on energy products. He also reiterated that the government’s “adventurous” foreign policies were endangering Iran’s regime.

The EIA reported that the US average retail price of diesel was unchanged at \$3.607/gallon in the week ending November 1st. The price of diesel is up 25.9 cents or 9.2% on the year. The EIA also reported that the US retail price of gasoline fell by 1.1 cents to \$2.806/gallon on the week. The price of gasoline is up 11.2 cents or 4.2% above a year ago.

Refinery News

Colonial Pipeline is freezing nominations of distillate shipments on its main line north of Collins, Mississippi for Cycle 63 as demand for space exceeded capacity.

Plains All American Pipeline LP announced expansion of its Cushing, Oklahoma terminal facility by 30%. It is expected to expand its Cushing capacity to 18 million barrels, up 3.8 million barrels. Two storage tanks, each able to stock 270,000 barrels, will be installed in the first quarter of 2011.



Credit Suisse said US refined products margins were mostly lower last week with Midwest and West Coast margins showing slight increases. Margins in the Midwest increased by 19 cents to \$8.37/barrel while margins in the West Coast increased by 25 cents to \$11.60/barrel. Margins in the Northeast fell by 1 cent to \$7.08/barrel while margins in the Gulf Coast fell by 92 cents to \$6.20/barrel and margins in the Rockies fell by 56 cents to \$17.41/barrel.

Valero Energy Corp said that unplanned flaring at its 135,000 bpd refinery in Wilmington, California had no impact on production. Separately, Valero said emissions were reported at its Three Rivers, Texas refinery. The event had no impact on production. The incident occurred when a pressure control valve got stuck on equipment at the plant's hydrodesulfurization unit and caused an upset.

Suncor Energy Inc resumed normal operations at its 130,000 bpd Montreal refinery after completing scheduled maintenance.

Royal Dutch Shell Plc is restarting its 75,000 bpd Sarnia refinery following a minor fire last week. The fire was due to a failed gasket.

Husky Energy Inc said it completed a maintenance outage at its 82,000 bpd heavy oil upgrader. It will take 1-2 weeks to return to full output at the Lloydminster upgrader.

Venezuela's 130,000 bpd Petroanzoategui heavy crude upgrader has begun restarting and is running at 80% of capacity.

European benchmark gasoline remained firm as analysts expect the possibility that disruption from recent French energy sector strikes could last until next year.

The General Administration of Customs of China reported that the Russia-China crude pipeline started trial operations Monday. China plans to import 250,000 tons of crude from Russia in November and 300,000 tons in December. China will start to import 15 million tons of crude a year from Russia starting January next year. The 300,000 bpd crude oil pipeline, which stretches from Skovordino in eastern Siberia to Daqing in northeastern China, is a section of a pipeline that Russia is building to its Pacific Coast.

Demand for oil products in Thailand increased up by 0.3% in September from a year earlier to 540,977 bpd, according to the country's Energy Ministry.

Total said on Monday that it evacuated its Antwerp refinery in Belgium after gas leaked from one of the two naphtha crackers, which has been shut down for maintenance work.

Production News

The adviser to Nigeria's President on petroleum issues, Emmanuel Egbogah said Nigeria is currently producing 2.6 million to 2.7 million bpd.

Angola will export 48.61 million barrels or 1.57 million bpd of crude in December. The final loading program comprises 51 cargoes compared with 48 cargoes in November. Separately, Angola's Oil Minister Jose Maria Botelho de Vasconcelos said Angola expects to produce 1.9 million bpd next year. He said the country is expected to produce 2.2 million bpd by 2012, up from its current production level of 1.8 million bpd.

Iraq's crude oil exports fell by 6% in October to 1.9 million bpd compared with 2.02 million bpd the previous month due to maintenance work in southern oil fields and an increase in crude supplies to

local refineries. Iraq exported a total of 1.492 million bpd from southern export terminals compared with 1.508 million bpd in September. In the north, Kirkuk exports in October fell to 418,000 bpd from 502,000 bpd the previous month.

Saudi Arabia is expected to raise the price of its lighter crude grades exported to Asia for December due to higher naphtha and gas oil cracks and improving refining margins.

Estonia's main oil loading port, the port of Tallinn shipped 2.027 million tons of oil products in October, up 30% from a year ago but down from 2.096 million tons loaded in September.

Russia plans to export 5.6 million metric tons or about 1.37 million bpd of Urals crude in November from its Baltic Sea port of Primorsk, lower than October's 6.3 million tons. A total of 56 cargoes with a volume of 100,000 tons each will be loaded from Primorsk. Russia also plans to export 34 cargoes of Urals crude totaling 3.521 million tons from the Black Sea port of Novorossiisk and four 100,000 ton cargoes of Urals from Poland's Baltic Sea port of Gdansk and six cargoes of Siberian Light totaling 412,000 tons from Tuapse.

Consultants Hannon Westwood said up to four-fifths of the oil and gas under the UK North Sea could stay in the ground and be lost to future generations unless the government gives tax breaks to support extraction. The British North Sea has already yielded about 35 billion barrels of oil equivalent since production started in the 1960s and its offshore fields still have an estimated 25 billion barrels of oil and gas below the seabed. It called for tax incentives to encourage North Sea production and more lending by banks to the offshore industry.

Imperial Oil Ltd said it will increase spending on the first phase of the Kearl oil sands project. It said reconfiguring plans for Kearl to include debottlenecking.

Market Commentary

Weakness in the dollar, words from Saudi Arabia concerning \$90.00 crude oil and promising manufacturing news out of China helped to boost crude oil to its highest level in two weeks. Hovering in the background is this week's upcoming meeting by the U.S. Federal Reserve, in which investors are expecting an announcement that measures will be taken to stimulate the U.S. economy. With today's higher move and changes in the technical outlook, we would look for December to continue higher tomorrow, making a run at the \$84.07 trendline. Any failed attempt to penetrate this level should be considered a selling opportunity, with successful attempts buying opportunities. We would play this move to the upside with caution in lieu of the upcoming Federal Reserve meeting.

Crude oil: Dec 10 364,548 -727 Jan 11 183,690 +6,771 Feb 11 76,011 -488 Totals 1,416,888 +8,395
 Heating oil: Dec 10 100,148 -1,515 Jan 11 72,229 +2,776 Feb 11 25,764 +438 Totals 317,464 -896
 Rbob: Nov 10 99,400 -788 Dec 10 99,400 -788 Jan 11 59,142 +2,906 Totals 270,680 -1,019

Crude Oil		Heating Oil		Rbob	
Support	Resistance	Support	Resistance	Support	Resistance
7943	8404	21860		20300	
7911	8508	21650	23775	20130	22345
7760	8610	20700		18750	24880
7598	8715			18240	27085
7298				16010	



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