



ENERGY RISK MANAGEMENT

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ENERGY MARKET REPORT FOR NOVEMBER 2, 2009

Iran's envoy to the IAEA, Ali Asghar Soltanieh said Iran is ready for new talks as soon as possible on how to procure nuclear fuel for a research reactor and is prepared to purchase the supplies from any world producer. He said Iran also wants to discuss its technical concerns in a meeting, especially issues regarding guarantees for the supply of the fuel as soon as possible under the supervision of the agency.

Libya's top oil official, Shokri Ghanem said OPEC will most likely keep its output unchanged and resist calls to ease higher oil prices. He said OPEC will only take action on quotas once prices have stabilized or when a trend in prices appears.

Nigeria's main militant group, the Movement for the Emancipation of the Niger Delta warned it is

Market Watch

The National Oceanic and Atmospheric Administration said above normal temperatures forecast for much of the Western half of the US during November will extend eastward into the Great Lakes region. It also said it sees equal chances for normal, above normal or below normal temperatures in Texas and Louisiana. It retained its equal chances outlook for the entire East Coast, including the Northeast US.

US economic expansion could accelerate in the fourth quarter after data released by the Institute for Supply Management shows stronger than expected growth in manufacturing in October. The ISM suggests US GDP is growing at an annualized rate of 4.5% in the fourth quarter. The ISM index on US manufacturing increased to 55.7 in October, the highest level since April 2006. It is the third consecutive month the index came in above 50. Meanwhile, the National Association of Realtors showed the real estate group's Pending Home Sales Index increased by 6.1% to 110.1, the highest level since December 2006. It is the eighth consecutive monthly increase in the index, the longest streak since the index started in 2001. Separately, a report by Commerce Department showed spending on construction projects increased 0.8% to \$940.3 billion, after falling 0.1% in August.

HSBC's China Purchasing Managers' Index increased to 55.4, an 18 month high in October, from 55 in September. It is the seventh consecutive increase, indicating sustained strength in China's manufacturing sector.

The Baltic Exchange's main sea freight index increased 2.64% or 82 points to 3,185 points on Monday. It reached its highest level since August 3rd, supported by demand for Capesize ships and rising port congestion in China. The Baltic's Capesize index increased 4.14% on Monday and was at its highest level since July 31st.

Platts plans to launch a price assessment for the new Russian crude that will flow into Asia starting December 16th. The new crude stream, East Siberian Pipeline Oil, will be exported from the port of Kuzmino in Russia's Far East at an initial rate of 300,000 bpd. Shipments of the new stream will likely double over the next few years, with a substantial part of the crude bound initially for China.

Water levels on the Rhine and Danube River have once again fallen and vessels can sail only partially loaded on the German section of both rivers.

**November
Calendar Averages**
CL – \$78.13
HO – \$2.0460
RB – \$1.9903

only a matter of time before attacks resume in the Niger Delta. This follows statements made last week that it would stop bombing oil pipelines for an unspecified period of time to permit high level negotiations with the Nigerian government.

The EIA reported that the US average retail price of diesel increased by 0.7 cents/gallon to \$2.808/gallon in the week ending November 2nd. The current price is 28 cents or 9.1% below last year's level. The price is at its highest level since November 17, 2008. The EIA also reported that the US average retail price of gasoline increased by 2 cents to \$2.694/gallon on the week.

Refinery News

Colonial Pipeline is allocating shipments for cycle 63 on Line 2, the main distillate line, north of Collins, Mississippi as demand exceeds pipeline capacity.

Credit Suisse reported that margins mostly increased last week, with margins in the Midwest seeing the only decline of 9 cents to \$7.45/barrel. Margins in the Gulf Coast increased by 84 cents to \$5.61/barrel while margins in the Northeast increased by 19 cents to \$7.73/barrel. Margins in the Rockies region increased by \$2.44 to \$12.17/barrel while margins in the West Coast increased by 53 cents to \$11.10/barrel.

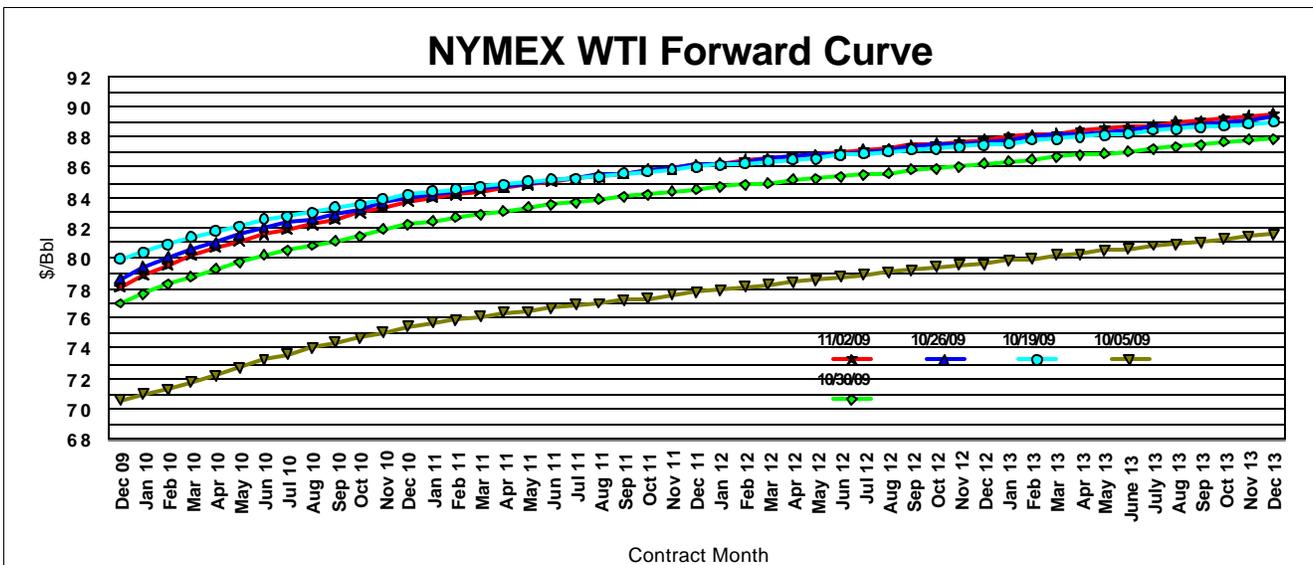
Motive Enterprises LLC's 285,000 bpd Port Arthur, Texas refinery reported a problem at its fluid catalytic cracking unit over the weekend.

Valero Energy Corp reported late Friday that operations of a catalytic reformer at its 287,000 bpd Port Arthur, Texas refinery were shut.

Total SA shut a fluid catalytic cracking unit at its 232,000 bpd Port Arthur, Texas refinery. A main fractionator tower was leaking and has since been shut. It did not say when the unit would be restarted.

Suncor Energy Inc said an upgrader damaged in a fire in October has been restarted and has returned to normal rates. The fire occurred October 12th during routine maintenance work on Suncor's facility in McMurray, Alberta.

Qatar's new 146,000 bpd Ras Laffan refinery is pumping nearly 80,000 bpd of middle distillates,



further pressuring the market. Even more bearish for diesel markets is that the new Qatari gas oil is super-clean, meaning it can be diluted with lower quality oil and still produce larger volumes of relatively clean diesel. Qatar will also soon increase its clean diesel supply even further with its new 140,000 bpd plant to produce gas to liquids, due online by the end of 2010.

Japan's Idemitsu Kosan Co Ltd said it shut its 120,000 bpd crude distillation unit at its Tokuyama refinery on October 31st after discovering a problem with the unit. It expects to restart the unit in about a week.

Iran and Turkey have agreed to establish a crude oil refinery in northern Iran in a \$2 billion joint venture project.

Saudi Arabia is expected to import about 17,038 bpd of gasoline in November, down 34% on the month. Gasoline imports were cut further this month as domestic gasoline production rises with the full start-up of new refining capacity at Saudi Arabia's Rabigh Refining and Petrochemical complex. Saudi Arabia shelved a plan to export some of its gasoline due to lower global demand and low international prices.

A senior Iranian official said Iran needs an additional \$3.8 billion to pay for gasoline imports until March 2010. He did not specify how much Iran had already spent this year. The estimate is sharply lower than a figure of \$6.5 billion cited by another senior energy official last month but it also includes imports of diesel.

Production News

Arcadia sold two very large crude carriers, with a total of 4 million barrels, of North Sea Forties crude floating storage to Royal Dutch Shell Plc. Some traders said Shell is likely to resell the cargoes on the two supertankers to other buyers or move them to smaller ships via ship-to-ship transfers.

Saudi Arabia plans to keep oil shipments to US refiners unchanged in December.

Iraq's Kirkuk pipeline to Turkey's Ceyhan port resumed pumping earlier on Monday ending a one-week halt following a sabotage attack. Iraq's North Oil Co said the pipeline resumed pumping at a reduced rate early Monday to check for leaks and will resume normal rates around midday.

According to Dow Jones, OPEC increased its production substantially in October. OPEC-11 increased its production by 190,000 bpd or 0.72% on the month to 26.595 million bpd. It reported that OPEC's total oil production increased by 105,000 bpd to 28.97 million bpd in October. OPEC-11 produced about 1.75 million bpd above their output target of 24.845 million bpd. The increase was largely driven by Nigeria and Angola, which increased production by 50,000 bpd to 1.95 million bpd and by 30,000 bpd to 1.85 million bpd, respectively. OPEC's top producer, Saudi Arabia, increased its production by 50,000 bpd to 8.19 million bpd. Meanwhile Iraq's oil production fell by 85,000 bpd to 2.375 million bpd.

Reuters reported that OPEC's oil production fell by 50,000 bpd to 26.385 million bpd in October, the first decline since April. Supply was 1.54 million bpd higher in October than the implied target for OPEC 11. Its compliance rate is 63% in October, unchanged from September.

Mexico's three main crude oil exporting terminals in the Gulf of Mexico remained shut on Monday due to bad weather conditions. The port of Dos Bocas, Cayo Arcas and Coatzacoalcos were closed on Saturday due to cloudy conditions and chances of strong rain due to a cold front.

Oman's Oil Minister, Mohammad Al-Rumhy said oil production is expected to increase up to 900,000 bpd in 2010. Oman is investing heavily in oil production to replace aging fields and in September, it reached its target of producing an average of 800,000 bpd from 757,000 bpd in 2008.

Russia's Ministry of Industry and Energy Statistics reported that the country produced an average of 10.042 million bpd of crude oil and gas condensate in October, up 0.4% from September. Russia produced 42.47 million tons of oil in October. In the first ten months of the year, Russia's production totaled 410.3 million tons of crude oil and condensate, up 0.8% on the year. Russia's gas output in October was 1.45 billion cubic meters/day, up 20.8% on the month but down 1.4% on the year.

A consortium led by Italy's Eni SpA signed an initial 20-year agreement with Iraq to develop the Zubair oilfield in southern Iraq. The agreement will be sent to the Iraqi Council of Ministers for approval before a final agreement is signed. Under the terms of the agreement, Eni and its partners Occidental Petroleum and Korea Gas Corp of South Korea will be paid \$2 for each extra barrel of oil it extracts on top of current production at the field but will be liable for a 35% tax on its profits. Eni has stated that the development of the field would require investments of about \$10 billion in the first six years to increase production from the field to 1.125 million bpd from its current production level of 195,000 bpd.

Iran's Petroleum Engineering and Development Co signed a preliminary deal with OAO Gazprom to develop the Azar oilfield in western Iran.

Russia's OAO Lukoil may lose its licenses to two oil projects on the Caspian Sea shelf under new Russian legislation limiting private companies' activities in such areas.

Saudi Aramco increased the official selling price for its Arab Extra Light crude bound for the US in December by \$1.25 to WTI minus \$2.10. It also increased the price of its Arab Light crude by 85 cents to WTI minus \$3.75 while it increased the price of its Arab Medium crude by 50 cents to WTI minus \$5.20 and increased the price of its Arab Heavy crude by 5 cents to WTI minus \$6.15. The price of its Arab Extra Light crude bound for Northwest Europe was increased by 5 cents to BWAVE minus \$1.05; the price of its Arab Light crude was cut by 20 cents to BWAVE minus \$1.80; the price of its Arab Medium crude was cut by 35 cents to BWAVE minus \$3 and the price of its Arab Heavy crude was cut by 65 cents to BWAVE minus \$3.45. Meanwhile the price of its Arab Super Light bound for Asia was increased by 90 cents to the Oman/Dubai average plus \$1.30; the price of its Arab Extra Light was increased by 85 cents to the Oman/Dubai average plus \$1.25; the price of its Arab Light crude was increased by 35 cents to the Oman/Dubai average plus 50 cents; the price of its Arab Medium crude was cut by 10 cents to the Oman/Dubai average minus 55 cents and the price of its Arab Heavy was cut by 40 cents to the Oman/Dubai average minus \$1.45.

Separately, Saudi Aramco has set its November contract price for propane at \$660/ton, up \$85/ton on the month. It also increased its November butane price by \$65/ton on the month to \$660/ton.

Abu Dhabi National Oil Co set its Murban crude price at \$74.30/barrel retroactively for October, up \$5.20/barrel on the month.

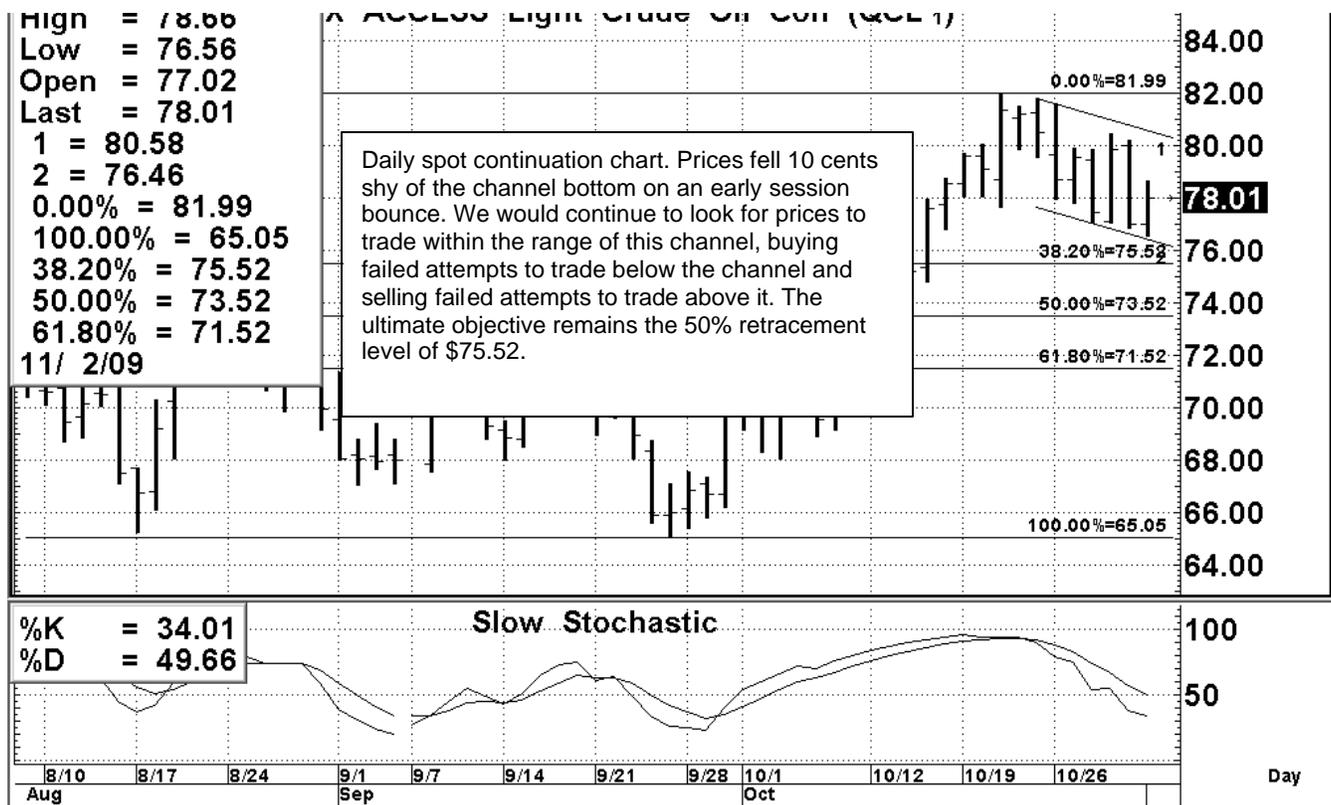
OPEC's news agency reported that OPEC's basket of crudes fell by 38 cents to \$75.56/barrel on Friday. It also reported that OPEC's basket of crudes fell by 61 cents to \$76.03/barrel in the week ending October 30th.

Market Commentary

Crude oil rose from a two week low after manufacturing reports in both the U.S. and China showed signs of growth. Traders took this as a signal that demand for energy is increasing in both these

regions. Adding to today's run-up in prices was a report that indicated that U.S. home sales grew in September, for the eighth straight month, as Americans tried to beat a deadline for a home-buyer credit. The dollar weakened and stocks were mixed. Longs remain the dominant players in the crude oil market as they trade with economic sentiment. A weak dollar will continue to lend support, as investors turn to commodities as a financial hedge. We expect this pattern to continue and for crude oil to remain range bound between the range of \$75.00 to \$82.00. Our bias is to the downside as our belief is that the true underlying fundamentals of this market do not support prices at their current level. The descending channel is still intact, as prices bounded off of today's low for this channel. Tomorrow's channel is set between \$80.83 and \$76.26.

Crude DEC.09 334,456 -22,935 JAN.10 161,420 +1,634 FEB.10 71,968 +2,495 MAR.10 52,403 -79 APR.10 21,555 -2,670 Totals: 1,206,723 -28,664. Heating DEC.09 89,245 -2,169 Jan.10 55,226 +68 FEB.10 29,054 +957 MAR.10 19,677 +1,020 Totals: 307,894 -6,317 Gasoline DEC.09 100,952 -4,757 JAN.10 52,379 +2,446 FEB.10 22,825 +543 MAR.10 20,518 +1,108 Totals: 241,264 -5,530.



Crude Support	Crude Resistance
76.24, 75.52, 73.52, 71.52, 64.70, 63.38, 62.70, 61.61, 60.95	84.83, 85.40, 86.60, 88.80
Heat Support	Heat resistance
1.9700, 1.8570, 1.7670	2.2110, 2.2575, 2.4200
Gasoline support	Gasoline resistance
1.9210, 1.9065, 1.8840, 1.8480, 1.7900	2.1100, 2.1600, 2.3350

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