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Windham Group



## ***ENERGY RISK MANAGEMENT***

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### **ENERGY MARKET REPORT FOR NOVEMBER 5, 2010**

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Iran's Foreign  
Minister  
Manouchehr Mottaki  
dismissed a media  
report that the US  
was considering a  
new offer to transfer  
Iran's low-enriched  
uranium to Russia  
for higher  
processing. He said  
the report was a  
"media game" and  
added that no new  
proposal was  
forwarded to Iran.  
The Le Monde  
newspaper reported  
that the US was  
planning to offer to  
transfer 2,000  
kilograms of low-  
enriched uranium for  
further enrichment in  
Russia.

ICAP Shipping  
estimated that there  
was a total of 40  
million barrels of  
crude oil stored  
globally in floating  
storage as of  
November 5<sup>th</sup>, up  
from 36 million

#### Market Watch

Federal Reserve Chairman Ben Bernanke said the sharp price rally in commodities were an exception to generally muted prices for other products. He said that will contribute to inflation in the US. However he suggested that there was enough slack in the economy to prevent producers from passing higher prices on fully. He added that once inflation pressures become visible, the Fed will have to modify its current stance of accommodative monetary policy.

The US Labor Department reported that the US economy added jobs in October for the first time since May. It stated that nonfarm payrolls increased by a greater than expected 151,000 in October as private sector jobs increased by 159,000. The September number was revised to show payrolls fell by 41,000, less than an original estimate of a 95,000 decline. The unemployment rate remained at 9.6% in October.

The National Association of Realtors said pending sales in September unexpectedly fell by 1.8% to 80.9 from an upwardly revised 82.4 in August. Economists were expecting a 3% rise.

Germany's Economy Ministry stated that Germany industry orders fell in September at their steepest rate since the start of 2009. Seasonally and price adjusted orders fell 4% on the month, below the forecast for a 1.9% decline.

According to Statistics Canada, Canada's job growth slowed in October as few jobs were created than forecast. It said payrolls increased by about 3,000 following a decline of 6,600 in September. It was well below the forecast of an increase in payrolls of 15,000. The unemployment rate fell to 7.9% from 8% in September mainly because fewer people were in the labor force actively looking for work.

Royal Bank of Scotland cut its commodities trading risk in the third quarter as it scaled back its exposure ahead of a financial regulatory crackdown. It had a daily average Value at Risk of 8.9 million pounds or \$14.4 million in the third quarter, down by 7.8 million pounds year on year.

The Baltic Exchange's main sea freight index remained at its lowest level in a month on Friday. Brokers said increasing thermal coal demand in China due to expectations for a cold winter, was set to support panama rates in the coming weeks. The index fell by 0.6% or 15 points to 2,495 points in a seventh consecutive decline. It was at the lowest level seen since October 4<sup>th</sup>. The Baltic panamax index increased by 0.74% while the supramax index fell 1.63%.

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|---|
| <p><b>October<br/>Calendar Averages</b><br/><b>CL – \$84.98</b><br/><b>HO – \$2.3314</b><br/><b>RB – \$2.1395</b></p> |
|---|

barrels as of October 29<sup>th</sup>.

Shipping sources said the amount of crude oil held on tankers has declined over 90% in the past year to around 6 million barrels. Commercial storage of oil at sea is not economically attractive at the moment as the forward price for oil is close to the current spot price.

US Securities and Exchange Chairman Mary Shapiro said she wants to make sure regulators are doing all they can to prevent another May 6 flash crash. Meanwhile, US Commodity Futures Trading Commission Gary Gensler said the flash crash advisory committee has not formed its final recommendations.

### **Refinery News**

Colonial Pipeline is allocating its main gasoline line north of Collins, Mississippi for cycle 65 as nominations on its line exceed the company's ability to meet the 5 day lifting cycle.

Tesoro Corp is restarting its 120,000 bpd Anacortes, Washington refinery and will resume normal operating rates by the end of next week. An explosion at the refinery killed seven workers and shut down operations for more than six months. Separately, Tesoro Corp said maintenance was underway on conversion units at its 166,000 bpd Martinez, California refinery. It also reported flaring due to a problem with its hydrocracking unit at its 100,000 bpd Wilmington, California refinery. It said the unscheduled shutdown led to the flaring. Tesoro Corp said its seven western US refineries would run at between 76% and 82% of their combined 665,000 bpd capacity in the fourth quarter of 2010.

PetroChina plans to maintain daily record crude throughput of 400,000 tons or 2.92 million bpd in November to increase fuel supplies amid domestic shortages. It processed 12.15 million tons of crude in October, up 8.9% on the month and up 7.4% on the year.

Major oil traders in the Amsterdam-Rotterdam-Antwerp area are emptying some of the tanks of gasoline to make way for more profitable bets on gas oil storage. The gasoil futures curve switched into contango in mid-October due to the effects of the month long strike in France.

Brazil's carry-over stocks of ethanol are expected to be double the size they were a year ago, when Brazil was forced to import gasoline, which will likely avert the need to do so again. Brazil's Secretary of Oil, Natural Gas and Renewable Fuels said that ethanol stocks in April 2011 would total 1.2 billion liters, up from 600 million a year earlier.

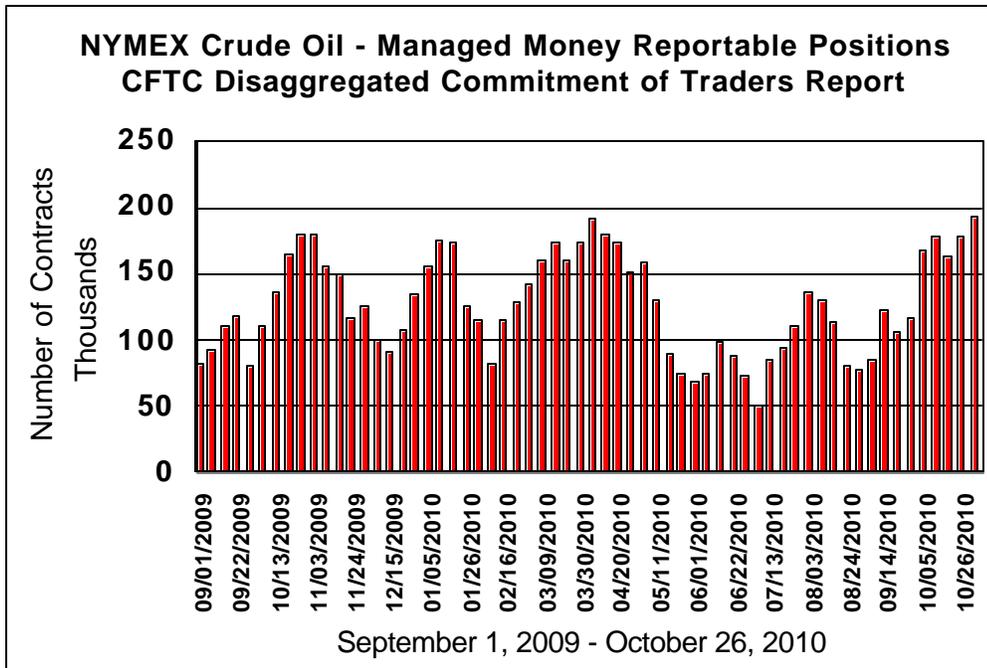
### **Production News**

Oil exports from Iraq's southern Basra offshore oil terminals were restored to 1.56 million bpd on Friday from 720,000 bpd on Thursday. The oil exports were halted on Wednesday due to bad weather conditions.

The North Sea oil and gas Unity Riser platform shut for testing is expected to resume operations on Friday afternoon. The Unity Riser links the Bruce, Scott, Nelson, Britannia and Graben area oil and gas fields to the main Forties oil line.

Mexico's Communications and Transport Ministry reported that the country's three main oil ports of Coatzacoalcos, Dos Bocas and Cayo Arcas were closed on Friday due to strong wind and waves.

The December loading program for Danish North Sea DUC crude oil is scheduled at 4.8 million barrels, up 600,000 barrels on the month. The volume is equivalent to 154,839 bpd compared with 140,000 bpd in November.



Crude oil output at the Phoenix oil field in the Gulf of Mexico is expected to reach a peak of 29,000 bpd around autumn of 2011. Commercial production at the field started last month, two years later than originally planned due to the global financial crisis.

Turkey reopened the Bosphorus Strait to southbound traffic on Friday after heavy fog forced a 12 hour closure of the

waterway. Northbound traffic may be allowed to resume early on Saturday if weather conditions remain clear.

Norway's Statoil said it described an incident at its North Sea Gullfaks C platform as serious and involving considerable risk potential. It said the incident that led to an evacuation of the platform after changes in well pressure led to a fault on one of two valves designed to prevent a blowout. Production resumed in mid-July after Statoil installed three cement plugs and one mechanical plug in the faulty well.

Royal Dutch Shell Plc announced it agreed to sell its interest in six Gulf of Mexico oil and gas fields to W&T Energy VI for \$450 million. The fields produce about 18,000 bpd of oil equivalent and have proved reserves of about 27 million barrels of oil equivalent.

Japan Petroleum Exploration may invest about 60 billion yen or \$743 million on the Hangingstone oil sand expansion project in Canada for which it is seeking government approval. The company asked for Canadian government approval to expand bitumen output from the project by up to 35,000 bpd from the current production level of 7,000 bpd.

OPEC's news agency reported that OPEC's basket of crudes increased by \$1.77/barrel to \$84.33/barrel on Thursday from \$82.56/barrel on Wednesday.

**Market Commentary**

The oil market settled higher for the fifth consecutive day, rallying \$5.42 or 6.66% this week, the largest percentage gain seen since the week ending February 19<sup>th</sup>. In overnight trading, the market posted a high of \$87.22, a high not seen since October 9, 2008. The market remained supported by this week's Fed announcement of new monetary stimulus. The market erased its overnight gains and traded mostly sideways before the market sold off to a low of \$85.96 by mid-day. The market however bounced off that low and rallied back towards the \$87 level ahead of the weekend. The December crude contract settled up 36 cents at \$86.85. The product market also ended the session in positive territory with the heating oil market settling up 1.17 cents at \$2.3848 and the RBOB market settling up 29 points at \$2.18. The oil complex will likely retrace some of its recent gains before it

continues on its upward trend amid the lack of supportive fundamentals. The crude market is seen finding support at \$86.85, \$85.96, \$84.92 and \$83.57. Resistance is seen at its high of \$87.22 followed by \$88.90 and \$91.00.

The latest Commitment of Traders report showed that non-commercials in the crude market increased their net long position by 4,837 contracts to 130,108 contracts in the week ending November 2<sup>nd</sup>. The combined futures and options report showed that non-commercial increased their net long position by 3,672 contracts to 208,226 contracts. Meanwhile, the disaggregated futures and options report continued to show that managed money funds continued to add to their net long position for the second consecutive week by 15,304 contracts to 194,128 contracts in the latest week.

Crude oil: Dec 10 357,068 -7,491 Jan 11 209,685 +11,450 Feb 11 90,843 +6,355 Totals 1,494,535 +27,251 Heating oil: Dec 10 97,014 +1,031 Jan 11 75,996 +858 Feb 11 28,977 +939 Totals 324,458 +3,940 Rbob: Dec 10 96,810 +1,631 Jan 11 71,768 +5,030 Feb 11 21,192 -297 Totals 288,184 +8,249

| Crude Oil |            | Heating Oil |            | Rbob         |            |
|-----------|------------|-------------|------------|--------------|------------|
| Support   | Resistance | Support     | Resistance | Support      | Resistance |
| 8610      | 8722       | 23390       | 23900      | 20300        | 21917      |
| 8440      | 8890       | 23490       | 24200      | 20130        | 22345      |
| 8330      | 9100       | 23574       | 24680      | 18750        | 24880      |
| 7943      |            |             | 24950      | 18240        | 27085      |
| 7911      |            |             |            | <b>16010</b> |            |
| 7760      |            |             |            |              |            |

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