



## ***ENERGY RISK MANAGEMENT***

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### **ENERGY MARKET REPORT FOR NOVEMBER 12, 2010**

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The IEA warned that higher oil prices may threaten the economic recovery next year. However it balanced the warning with an increase of its world oil demand growth forecast by 190,000 bpd, mostly on higher than

#### **Market Watch**

Thomson Reuters/University of Michigan Surveys of Consumers' preliminary November consumer sentiment increased to 69.3 from 67.7 in October. The reading is just above the 68.2 average of the last four months but below the post-recession high of 76 from June. The survey's one-year inflation expectations measure also gained 3% from 2.7% in October. The index of current economic conditions increased to 79.7 from October's reading of 76.6. A gauge of consumer expectations increased to 62.7 from 61.9 in October.

Ireland's Finance Ministry said market talk that a rescue package for Ireland is being worked out with its European partners is untrue. Euro zone sources said Ireland is in talks about tapping emergency funds from the European Financial Stability Facility.

expected third quarter demand in industrialized countries. Oil demand will increase to 88.51 million bpd next year from 87.82 million bpd this year. In regards to China, the IEA said a recent surge in diesel or gasoil demand in China is likely to continue until at least February next year, which could force the government to change its policies that have caused shortages of the fuel. Diesel demand between October and February 2011 is likely to average about 70,000 bpd more than the agency had previously forecast. It forecast that China's gasoil demand will increase by an average 10.5% to 2.98 million bpd in 2010 compared with revised overall China oil demand growth of 9.8% to 9.2 million bpd. Longer-range IEA forecast put 2011 diesel demand at 3.12 million bpd and overall China oil demand at 9.6 million bpd. The IEA also forecast that the world's oil refiners will process more crude in October through December than previously estimated. The fourth quarter 2010 throughput estimate was increased by 155,000 bpd to 73.9 million bpd. In the third quarter, global refineries processed an average of 75.7 million bpd.

Meanwhile, the IEA's Deputy Executive Director Richard Jones said the IEA does not see any significant improvement in oil's supply-demand fundamentals, indicating that oil prices may not move too much higher after rallying on the back of the US Federal Reserve's latest monetary stimulus program. He said the IEA does not expect crude oil prices stray very far from its earlier \$75-\$85/barrel range. He also stated that preliminary data show that crude inventories in the OECD increased 19.4 million barrels last month, led by sharp increases in Europe and the US.

European Union foreign affairs chief Catherine Ashton wrote to Iran's chief nuclear negotiator, Saeed Jalili, accepting an offer to meet in Europe on December 5<sup>th</sup>.

**October  
Calendar Averages**  
**CL – \$85.92**  
**HO – \$2.3693**  
**RB – \$2.1743**

Nigeria's Foreign Minister, Odein Ajumogobia said Nigeria on Friday threatened to report Iran to the UN Security Council if an illegal arms shipment sent from an Iranian port and discovered in Lagos violated sanctions over its nuclear program.

The US National Hurricane Center said a low pressure system in the southern Caribbean Sea off the coast of Columbia has a 20% chance of strengthening into a depression over the next 48 hours. The system poses no threat to the Gulf of Mexico. It is too soon for weather models to show where it will make landfall, if at all, as it drifts slowly west towards Central America.

ICAP Shipping reported that there is 44 million barrels of crude stored globally in floating storage as of November 12<sup>th</sup>, up from 40 million barrels in the week ending November 5<sup>th</sup>.

**Refinery News**

Exxon Mobil Corp reported flaring at its 238,600 bpd refinery in Joliet, Illinois on Thursday due to slight overpressure of a vessel.

Valero Energy Corp reported a release of sodium hydroxide from a water treatment system into the soil at its 171,000 bpd refinery in Sunray, Texas on Friday.

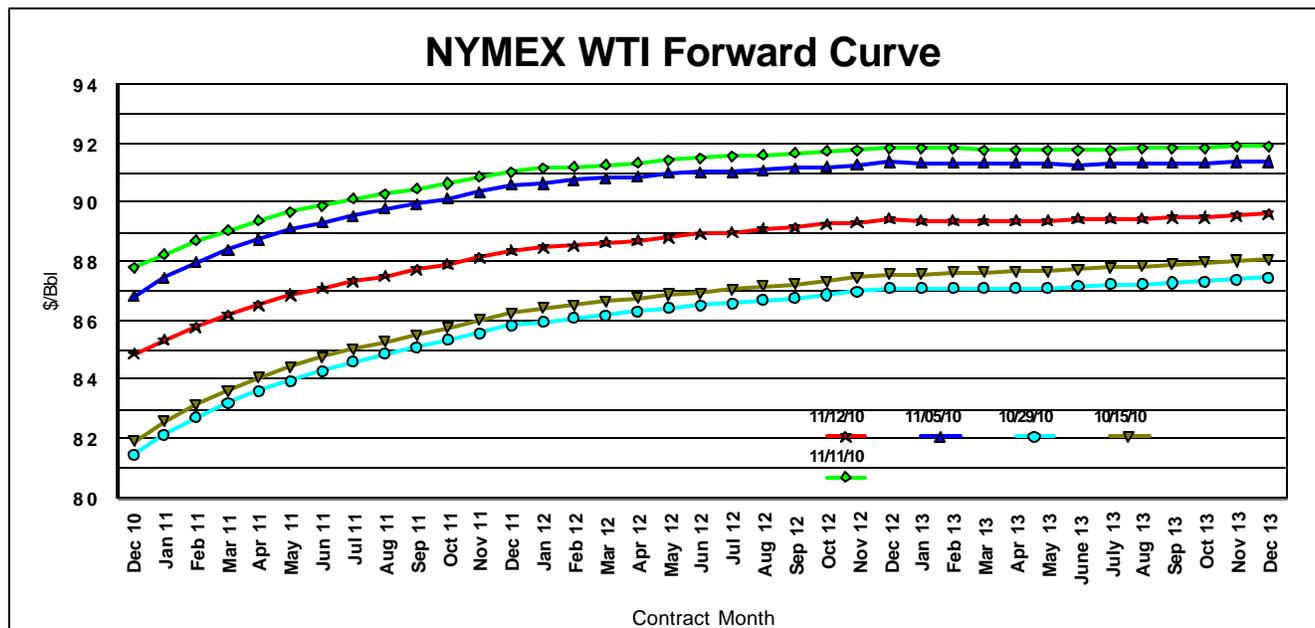
Japan's Showa Shell Sekiyu KK is scheduled to restart its 75,000 bpd No. 2 crude distillation unit at its Yokkaichi refinery on November 13<sup>th</sup> or November 14<sup>th</sup>. The unit, which has been shut since October 8<sup>th</sup> for planned maintenance, was scheduled to restart in early November.

**Production News**

The December loading program for North Sea Troll crude is scheduled at 8.2 million barrels, up 1.1 million barrels on the month. The volume is equivalent to 264,516 bpd in December compared with 236,667 bpd in November.

Crude oil exports through the Caspian Pipeline Consortium are scheduled at 2.824 million metric tons in December, steady on the month. The December loading program of CPC Blend comprises 25 cargoes with the total volume equivalent to 667,739 bpd.

Russia's Interfax news agency reported that Russia's government may increase export duties on oil



products starting January 1<sup>st</sup> as it plans to shift the tax burden from upstream to downstream.

China Coal Energy Co said its output in October totaled 10.46 million metric tons, up 23% on the year. Total sales fell by 0.9% on the year to 9.32 million tons. It said that coal output in the first ten months of the year increased by 20.5% to 102.5 million tons while sales increased by 26% to 97.25 million tons.

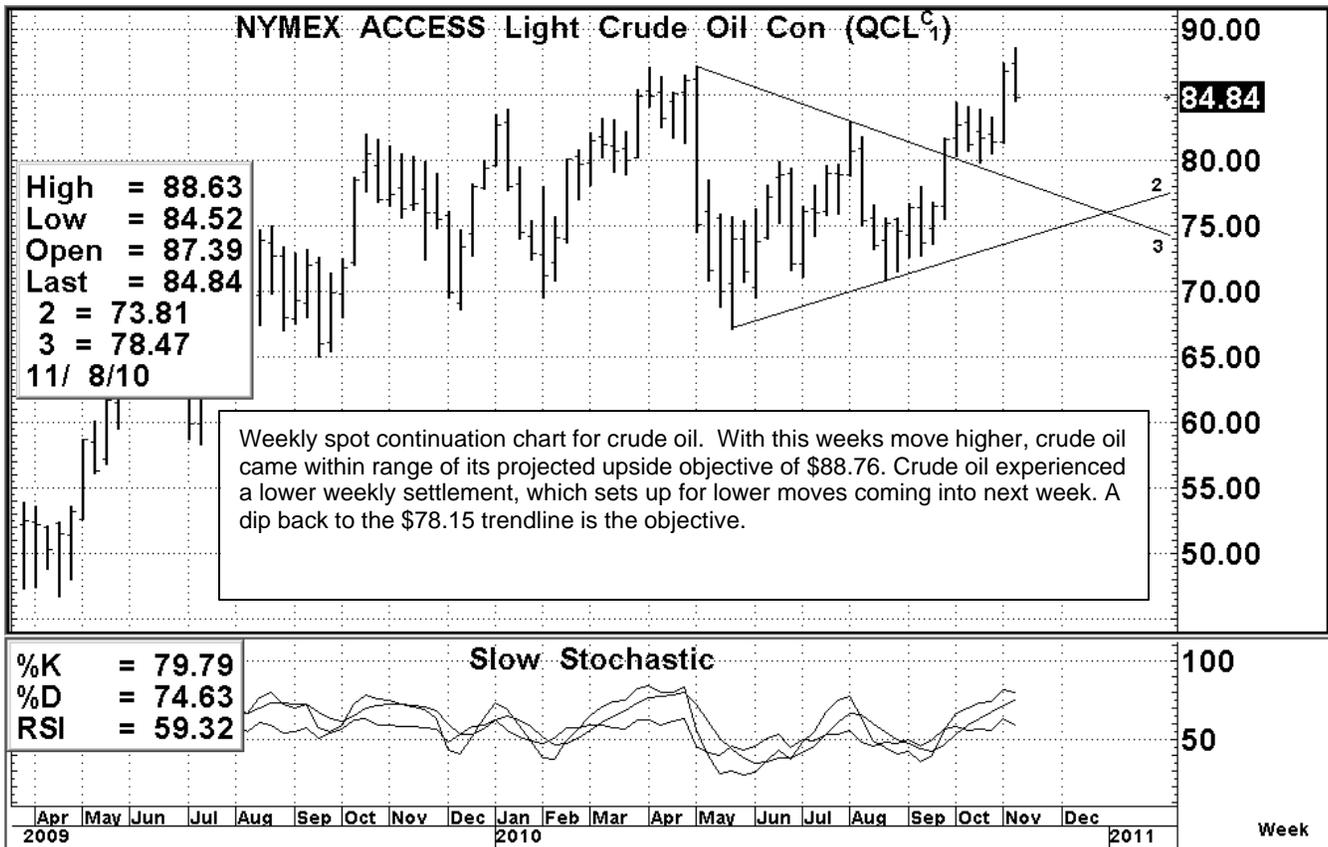
OPEC's news agency reported that OPEC's basket of crudes increased by 54 cents to \$85.81/barrel on Thursday from \$85.27/barrel on Wednesday.

**Market Commentary**

News out of China regarding possible interest rate hikes sent crude oil into a nosedive. Prices futures fell the most in three-weeks, with the December contract trading as low as 4 percent on the day. With the dollar trading lower, along with crude oil, it appears that the correlation between the two may be crumbling. Crude oil may be turning to its underlying fundamentals for direction and begin to trade accordingly. We made mention of the December/January spread in yesterday's wire and its comparison to flat price. Despite the recent surge higher in flat price, the front month spread did not move in kind. We perceived this as underlying weakness and would look for continued moves lower coming into next week. Basis a weekly spot continuation, prices met their upside objective but settled lower on the week. We would look for continued moves lower at the onset of next week, with \$78.15 the downside objective.

Crude oil: Dec 10 216,785 -27,316 Jan 11 306,554 +16,299 Feb 11 92,948 +3,514 Totals 1,477,173 -300  
 Heating oil: Dec 10 79,695 -3,904 Jan 11 82,606 +4,560 Feb 11 33,365 +1,044 Totals 329,280 +4,981  
 Rbob: Dec 10 61,782 -9,951 Jan 11 86,544 +6,663 Feb 11 26,271 +2,986 Totals 282,539 -1,898

| Crude Oil |            | Heating Oil |            | Rbob         |            |
|-----------|------------|-------------|------------|--------------|------------|
| Support   | Resistance | Support     | Resistance | Support      | Resistance |
|           | 8890       | 24200       | 24680      | 22345        | 22770      |
|           | 9050       | 23795       | 24950      | 20300        | 23050      |
| 8420      | 9100       | 23390       | 26740      | 20130        | 24880      |
| 8330      | 9385       | 23490       |            | 18750        | 27085      |
| 7943      |            | 23574       |            | 18240        |            |
| 7815      |            |             |            | <b>16010</b> |            |



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