



## ***ENERGY RISK MANAGEMENT***

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### **NATURAL GAS & POWER MARKET REPORT FOR OCTOBER 28, 2010**

#### **NATURAL GAS MARKET NEWS**

Forecasters at the National Hurricane Center overnight designated the tropical disturbance some 1000 miles east-southeast of the Windward Islands as Invest 91-L overnight. Forecast models continue to point to this system developing into a tropical cyclone when it reaches the Caribbean over the next few days. Computer models for the future track of this storm remain divergent. Several have the storm crashing into South America, some moving into the central and western Caribbean before moving northward and northeastward and back out into the Atlantic, another curving northward and being absorbed into a major coastal storm along the East Coast next week, while yet others have it meandering around the Caribbean next week with no real direction. This storm by some models could possibly reach a Category 2 level by next week. While two other tropical systems were being watched and had greater probabilities of become a tropical depression sooner, neither one poses a risk to the U.S. mainland.

The NRC reported today that some 79,994 Mw of generating capacity was online today, down 0.1% from yesterday, but some 9.6% higher than the same day a year ago.

The EIA in its Natural Gas Weekly Update noted that according to BENTEK Energy U.S. gas consumption estimates were less than 1% higher than the previous week. In the electric power sector, consumption increased by 5.2% compared with the previous week, offsetting a 2% decline in residential and commercial consumption. U.S. production on the week appeared to be unchanged on the week averaging 62 bcf/d.

#### **EIA Weekly Report**

	10/22/2010	10/15/2010	Change	10/22/2009
<b>Producing Region</b>	1192	1161	31	1188
<b>Consuming East</b>	2048	2014	34	2056
<b>Consuming West</b>	514	508	6	512
<b>Total US</b>	3683	3683	0	3755

\*storage figures in Bcf

French workers at the LNG terminal at Montoir on the west coast of France have voted to end their strike over the pension issue. Output at the terminal has now resumed the union confirmed. Striking unions at France's other two LNG terminals

voted late today to return to work as well.

The first tanker to arrive at the new Golden Pass LNG terminal in Texas has still not offloaded despite docking more than a week ago. The terminal operator continues to await FERC approval to receive shipments. The 210,000 cubic meter LNG cargo from Qatar arrived on October 21<sup>st</sup>. This would be the first test cargo for the facility.

#### **Canadian Gas Association**

##### **Weekly Storage Report**

	22-Oct-10	15-Oct-10	23-Oct-09
<b>East</b>	229.8	225.5	233
<b>West</b>	398.4	395.5	367.5
<b>Total</b>	628.1	621	600.5

storage figures are in Bcf

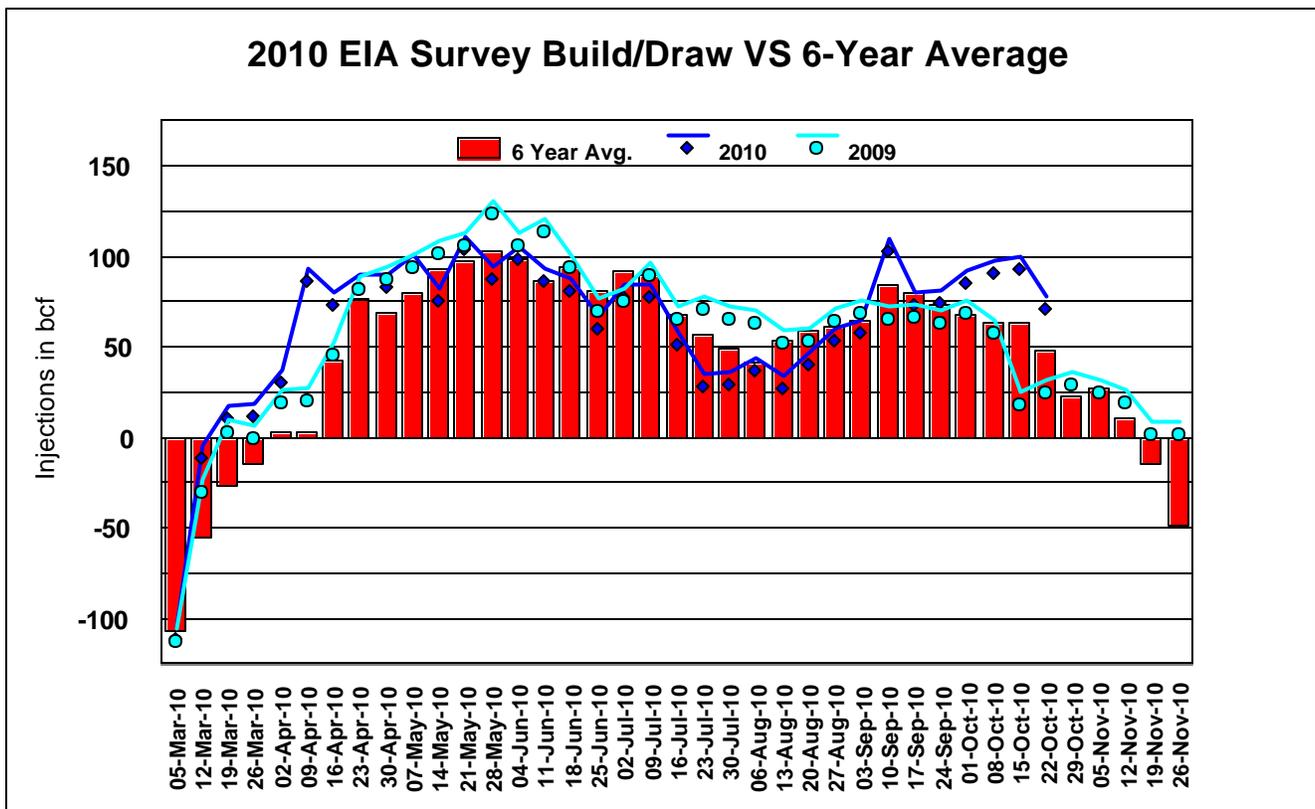
Exxon Mobil today released their third quarter results. It reported that its global natural gas production during the period was 12,192 mcf/d, up 4,037 mcf/d from 2009, driven by additional U.S. unconventional gas volumes and project ramp ups in Qatar. In the United States the company estimated 3Q2010 production

averaged 3.726 bcf/d, up 163% from the second quarter and up 188% from the same quarter a year ago. A senior company official said later today that the company has not shut in any North American gas wells.

Reuters found that in its most recent quarterly survey of market analysts, the group has scaled back their price estimates for this year and next, with most expecting the market to remain oversupplied for some time. The consensus price forecast for this year is for gas prices to average \$4.51 per Mmbtu, down 7% from last quarter's estimate. The group sees 2011 spot gas prices averaging \$4.73 and \$5.33 in 2012. These estimates were lowered by 14% and 11% from last quarter's estimates.

Natural Gas Cash Market						
ICE Next Day Cash Market						
Location	Volume Traded	Avg Price	Change	Basis (As of 12:30 PM)	Change	Basis 5-Day Moving Avg
Henry Hub	598,700	\$3.356	(\$0.010)	(\$0.408)	(\$0.490)	(\$0.131)
Chicago City Gate	444,500	\$3.495	(\$0.113)	(\$0.269)	(\$0.535)	\$0.034
NGPL- TX/OK	824,200	\$3.266	(\$0.049)	(\$0.498)	(\$0.471)	(\$0.226)
SoCal	408,400	\$3.239	(\$0.130)	(\$0.525)	(\$0.552)	(\$0.253)
PG&E Citygate	753,000	\$3.935	(\$0.068)	\$0.171	(\$0.490)	\$0.491
Dominion-South	478,200	\$3.531	(\$0.000)	(\$0.233)	(\$0.422)	(\$0.029)
UStTrade Weighted	19,366,500	\$3.366	(\$0.068)	(\$0.398)	(\$0.49)	(\$0.131)

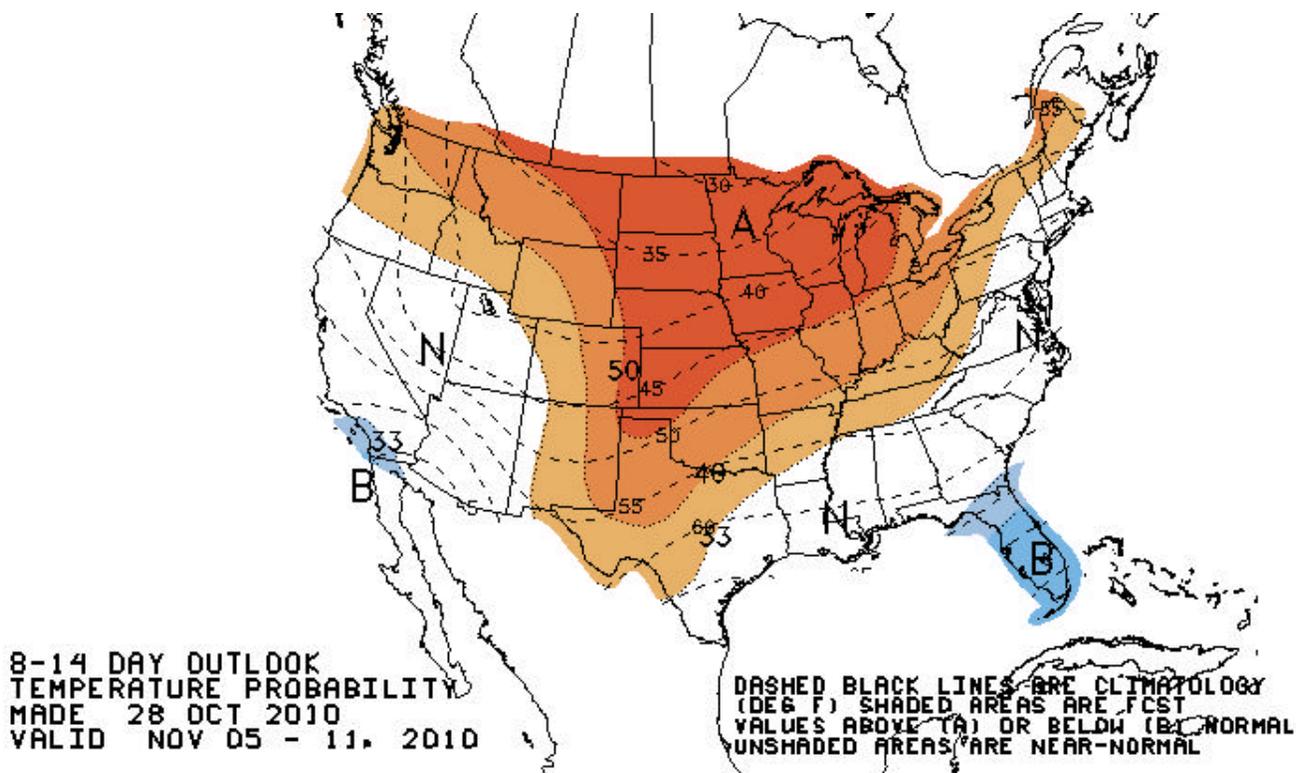
A senior Azeri energy official said today that Azerbaijan so far has seen no impact from European sanctions against Iran on its Shah Deniz gas project, in which the Iranian state energy firm NIOC has a partnership stake.



The Ukrainian prime minister this morning claimed that Russia may cut the price of natural gas it sells to the Ukraine to \$230-\$235 per 1000 cubic meters in the first quarter of next year from current price levels of \$252. The prime minister said that the small discount was agreed to during his meeting with Russian Prime Minister Putin in Kiev on Wednesday. Gazprom though did not confirm the claim.

## ECONOMIC NEWS

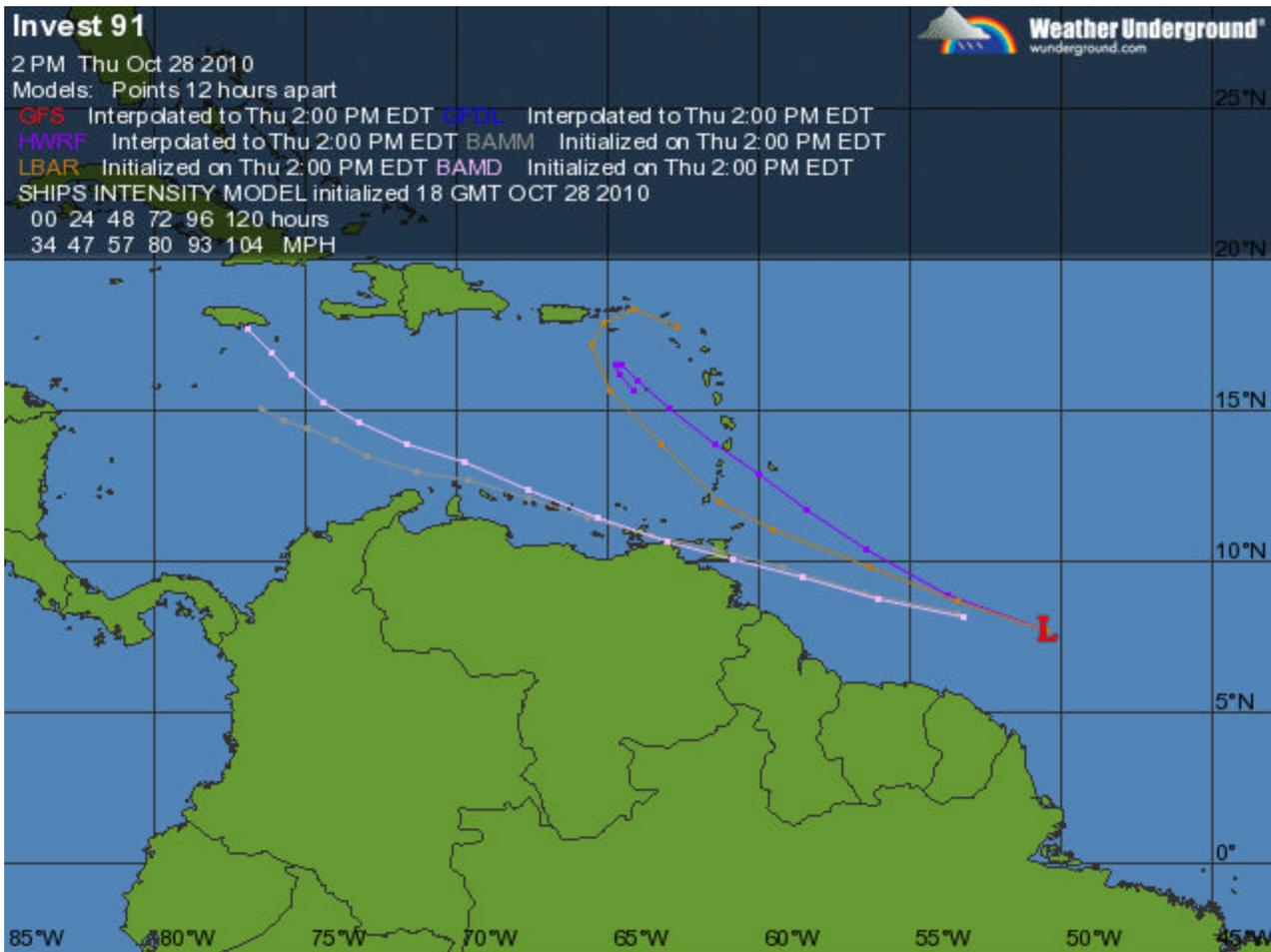
The US Labor Department reported that the initial claims for unemployment benefits fell by 21,000 to a seasonally adjusted 434,000 in the week ending October 23<sup>rd</sup>. Economists had expected claims to increase to 453,000 from the previously reported 452,000. It reported that the four week average of initial unemployment claims fell by 5,500 to 453,250. The number of continuing claims fell by 122,000 to 4,356,000 in the week ending October 16<sup>th</sup> from the preceding week's revised level of 4,478,000. The unemployment rate for workers with unemployment insurance in the week ending October 16<sup>th</sup> was 3.5%, down 0.1% from the prior week's revised rate of 3.6%.



## MARKET COMMENTARY

The December contract kicked off its first trading session as the new spot contract today posting an outside trading session. Trading in the December contract initially saw some early price pressure only to reverse this trend and jump higher following the release of the EIA storage report which came in slightly lower than most market analysts expectations. Prices rebounded toward Wednesday's highs but failed to breach it initially and it appeared the realization that stocks now are only 1 bcf less than the record setting pace of last year's storage levels was enough to keep the bears committed to staying in this market and possibly adding to their shorts. While prices drifted back down towards the day's low recorded earlier, there was not sufficient follow through to keep this market heading lower. By mid afternoon though the market saw a wave of buying come in possibly supported by a slight modification in the track forecast to Invest 91 L which left open the possibility the Gulf of Mexico could not be ruled out as a potential destination for a storm that could become a Category 2 hurricane within 5 days as it headed across the Caribbean. Once prices breached yesterday's highs at \$3.841 a significant wave of buying swept into the market carrying prices to levels not seen since October 20<sup>th</sup>.

While we have been on the sidelines of this market recently viewing that there is was not sufficient profit potential to the downside to justify the upside risk, we do not believe today's price action is the start of a new bull trend. We feel that the continued build in stocks to possibly set a new all time record high to start this winter heating season coupled with Canadian stocks which are already ahead of last



years' levels and the announcement that Exxon has no intention of shutting in North American natural gas production, will put the brakes on a new upward move. As a result we would look for this market to run into serious resistance starting at \$4.00. We thus would look to be a very short term scale up seller of the market starting there, with additional resistance points at \$4.118 and \$4.20. More distant resistance we see at \$4.443. We see downside support starting at \$3.708 followed by \$3.656 and \$3.50. More distant support we see at \$3.41 and \$3.263.

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