



## ENERGY RISK MANAGEMENT

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### NATURAL GAS & POWER MARKET REPORT FOR NOVEMBER 15, 2011

#### NATURAL GAS MARKET NEWS

##### North America

BENTEK is reporting that gas injections will continue through at least the week ending on November 24<sup>th</sup> in the US. The company is also reporting that storage inventories will end the first week of April at 1.7tcf, a 120 bcf increase in last years inventory.

##### International

Brazil's Petrobras has so far imported 11 LNG cargoes in 2011 down from 36 in 2010 due to an increase in power generation from hydropower. Brazil however plans to import more LNG in the coming years as it expects to open the Bahia LNG import terminal in late 2013 early 2014 to facilitate increased demand from Brazil's growing industrial center.

Polskie LNG, the operator of Poland's first planned LNG terminal which is expected to start operations in 2014 has started to receive bids on Tuesday for 35% of the terminal's capacity. State monopoly PGNiG has already booked 65% of the terminal's 5 bcm expected capacity.

Noble Energy said that the exploratory drilling in the Cyprus A gas prospect had yielded an estimated 3 to 9 tcf down from an earlier assessment that estimated the reserves at 8 to 10 tcf. The new prospect has a 60% probability of geological success. The Cypriot government will now plan how to launch a new licensing round for offshore oil and gas exploration

#### Natural Gas Cash Market

ICE Next Day Cash Market

Location	Volume	Avg	Change	Basis	Change	Basis 5-Day
	Traded	Price		(As of 12:30 PM)		Moving Avg
Henry Hub	1,067,900	\$3.119	(\$0.048)	(\$0.304)	\$0.059	(\$0.145)
Chicago City Gate	1,141,100	\$3.364	\$0.038	(\$0.058)	\$0.101	(\$0.045)
NGPL- TX/OK	797,900	\$3.078	(\$0.041)	(\$0.344)	\$0.022	(\$0.302)
SoCal	687,000	\$3.509	\$0.002	\$0.087	\$0.065	\$0.053
PG&E Citygate	740,000	\$3.884	(\$0.028)	\$0.462	\$0.035	\$0.380
Dominion-South	735,600	\$3.208	(\$0.034)	(\$0.214)	\$0.029	(\$0.139)
USTrade Weighted	23,941,400	\$3.262	(\$0.004)	(\$0.160)	\$0.06	(\$0.145)

The heads of state from many of the world's top selling gas countries decided last minute to not show up to the GECF summit. The energy ministers who did attend could only agree that gas prices were too low and did

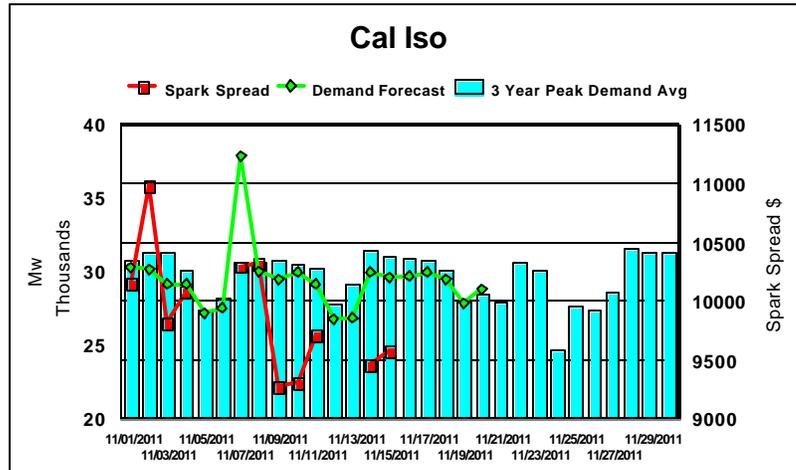
not reflect the commodities growing importance in generating the world's electricity and some countries suggested that the answer to this problem is linking gas prices to oil prices. A common theme that came out of the first meeting of the summit is the GECF members said they do not want to create a gas OPEC.

Qatar's Energy Minister said that Qatar is not considering reducing its exports to Europe amid the sovereign debt crisis that is threatening demand in the Euro zone. Russian Energy Minister Sergei

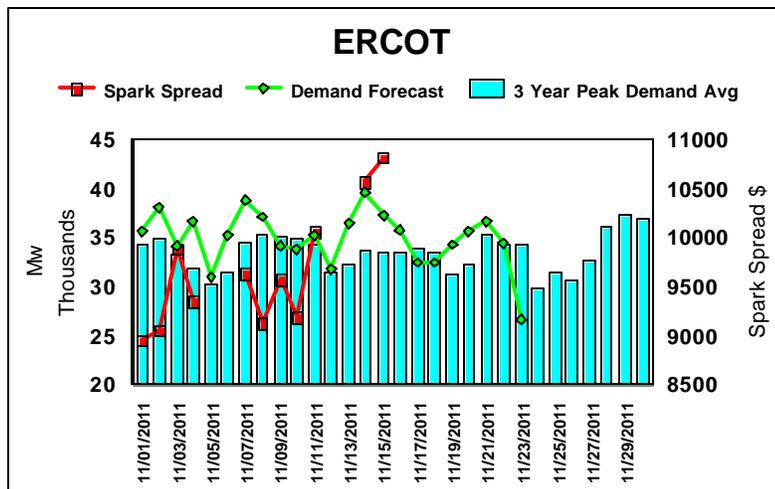
Shmatko later released a statement saying that Qatar had informed him that it plans to reduce or at any rate not increase gas supplies to Europe and instead focus on exports to the Asian markets.

Qatar is considering purchasing a stake in Russia's No. 2 gas producer, Novatek, and a stake in the companies Yamal project but declined to comment on how large of a stake. Qatar has also expressed interest in partnering with Russian company Gazprom on projects outside of its borders. The Yamal project is expected to produce 5 mpta of LNG in 2016 and expand to 15 mpta in 2018.

Novatek plans to produce about 50 bcm of gas this year up from 37.78 bcm in 2010. The company plans to further increase gas output by about 6-7 percent in 2012.



The Iraqi cabinet approved a \$17.2 billion deal for Shell and Mitsubishi to develop three gas fields in southern Iraq. Of the \$17.2 billion, \$12.8 billion will be spent on infrastructure and \$4.4 billion will be spent on the construction of a LNG facility. Under terms of the 25 year deal Baghdad will have a 51% share, Shell 44%, and Mitsubishi 5%.

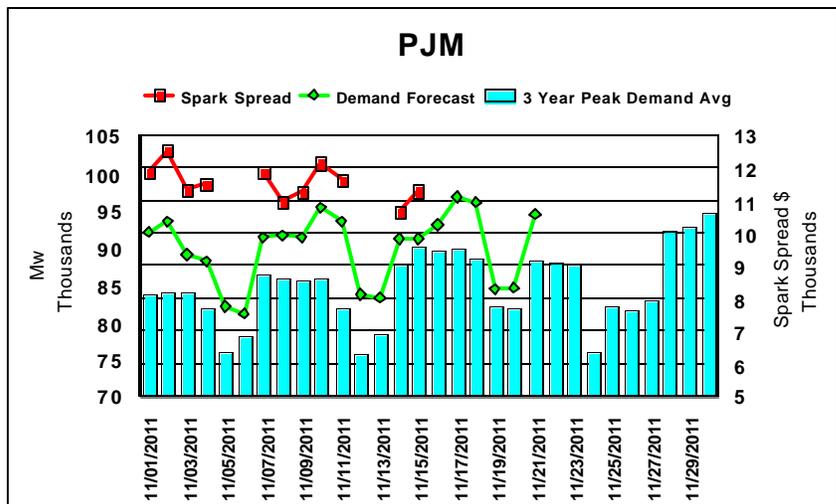


Turkmenistan has agreed with Pakistan on the price of gas it plans to send via a pipeline through Afghanistan but government sources would not give details about the price or volume. One source said that the two countries had yet to agree to a deal with Afghanistan on a transit price for the gas. The proposed 1,700 km pipeline is expected to have the capacity to carry 1 tcm over

a 30 year period or 33 bcm per year.

India's Gail said that it hopes to convince its suppliers of LNG to reduce the impact oil price swings have on the gas market by initiating a s-curve price model to limit exposure to the oil market. S-curves place caps on spikes and floors reducing volatility and giving buyer a higher degree of certainty over long run costs.

South Korea's imports of LNG increased by 9% year-on-year in October to 2.98 million tonnes as the country tried to build its inventory ahead of winter demand. At the end of October the countries storage



capacity was over 95% full.

Tokyo Gas Co said that it hopes to increase capacity at its gas-fired power plants in Japan to 3,000-5,000MW in 2020 from 2,000MW in 2011. In another statement the company said Japanese imports of LNG could reach 18 million tonnes a year by 2020.

### **Economic News**

The US Commerce Department said US retail sales increased in October by 0.5% on the month to an adjusted \$397.67 billion. This followed a 1.1% gain in September's retail sales. Separately, the Commerce Department said US business inventories were flat in September as sales increased. It reported that inventories were virtually unchanged at a seasonally adjusted \$1.532 trillion. Inventories in August increased 0.4%. The Commerce Department stated that sales in September increased by 0.6% to a seasonally adjusted \$1.21 trillion. August sales increased by 0.4%. The inventory to sales ratio was unchanged at 1.27.

The US Labor Department reported that US wholesale prices in October fell at the fastest monthly pace since February 2010. The Producer Price Index fell a seasonally adjusted 0.3% for finished goods in October from a month earlier. This followed a 0.8% increase in September. Compared to a year ago, wholesale prices were 5.9% higher in October. The core PPI was unchanged in October.



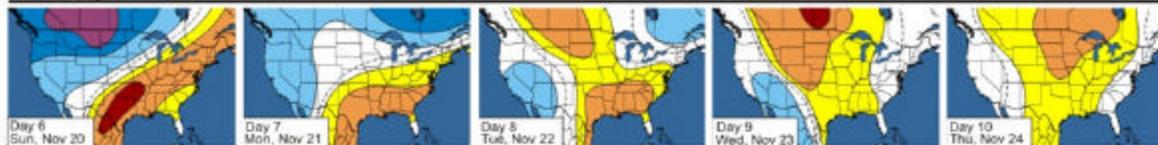
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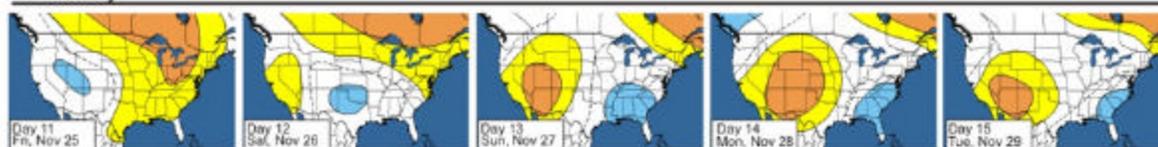
#### 1-5 Day



#### 6-10 Day



#### 11-15 Day



#### Legend



Updated: Tue, Nov 15

A gauge of manufacturing in New York State increased in November, ending five consecutive months of contraction. The New York Fed's Empire State" general business conditions index increased to 0.61, up from minus 8.48 in October. New orders fell to minus 2.07 from plus 0.16 while inventories fell to minus 12.2 from minus 8.99.

European statistics agency Eurostat stated that GDP growth in the Euro zone in the third quarter was steady at 0.2%. Meanwhile GDP growth in the European Union in the third quarter was also steady at 0.2%.

Chicago Federal Reserve President Charles Evans said he expects policy rate to remain low for a longer period of time beyond mid-2013. He sees GDP growth of 2.5% in 2012 and 3% in 2013 which is not enough to substantially lower unemployment. He reiterated the need for more accommodative monetary policy to drive unemployment below 7%.

### **Market Commentary**

The natural gas market continued to trend lower in overnight trading following Monday's sell off. The market traded just below \$3.42 before it retraced some of its losses ahead of the open outcry session. The market posted a high of \$3.483 but quickly gave up those gains as well. It settled in a sideways trading range for much of day before further selling in afternoon trading pushed the market to a low of \$3.39. The market settled in negative territory for the fifth consecutive session, down 5.4 cents at \$3.404. It was the lowest settlement since late October 2010.

The market remained pressured by private weather forecasts still calling for above normal temperatures in areas south and east of Chicago over the next two weeks while even warmer temperatures are seen southeast of the Ohio Valley. WSI's 11-15 day forecast also changed to project warmer temperatures in the East coast. The market is seen continuing its downward trend, with any gains limited by the bearish fundamentals. Resistance is seen at \$3.43, \$3.461, its high of \$3.483, \$3.519 and \$3.554. More distant resistance is seen at \$3.659, \$3.708 and \$3.769. Support is seen at its low of \$3.39, \$3.368, \$3.33 and \$3.275.

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