



ENERGY RISK MANAGEMENT

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ENERGY MARKET REPORT FOR JULY 5, 2010

The IEA said a sizeable portion of the 60 million barrels of emergency oil stocks it has released would find buyers and added that its decision was already having the intended effect on oil markets. The IEA's Director of Energy Markets and Security, Didier Houssin said there has already been a clear improvement in the supply of light sweet crude, which has reduced the premium at which it sells over heavier varieties.

Iran's OPEC Governor Muhammad Ali Khatibi said repeated stock releases by oil consumers would impact investment

Market Watch

Citigroup said Brent crude prices would fall to \$90/barrel by September due to the IEA stock release and an increase in Saudi Arabia's production. In the medium to long term, Citigroup forecasts Brent will average \$105/barrel in the third quarter, \$100/barrel in the fourth quarter and \$104.80/barrel for 2011. It expects the North Sea benchmark to average \$100/barrel next year and \$90/barrel in 2013.

Deutsche Bank cut its oil price forecast for the second half of 2011 due to weaker economic growth and the IEA SPR release. The bank lowered its 2011 Brent price forecast to \$114/barrel from \$117.50/barrel and cut its 2012 Brent price forecast to \$117/barrel from \$117.50/barrel. It however said it expects crude oil prices to recover over the medium term as it believes physical oil fundamentals still remain strong. The bank said it expects crude oil prices to average around \$100/barrel in 2011 and increase to \$125/barrel in 2015.

Barclays Capital raised its 2012 forecast for Brent crude by \$10 to \$115/barrel and increased its 2012 forecast for light sweet crude by \$4 to \$110/barrel. It however left its Brent price forecast for 2011 unchanged at \$112/barrel but cut its 2011 forecast for WTI crude by \$6 to \$100/barrel.

The US Commerce Department said US orders for manufactured goods increased by 0.8% on the month to \$445.29 billion in May. The increase was slightly less than expected amid a sluggish economy.

European services growth slowed in June in the face of sluggish new orders and increasing interest rates. The euro zone service sector grew at its weakest pace since October with an unexpectedly deep contraction in Italy and smaller euro zone countries. Markit revised down sharply its June PMI to 53.7 from 54.2, which is down from 56 in May. In Britain, the Markit services purchasing managers index showed growth was still not strong enough to generate any meaningful increase in employment. The Markit/CIPS headline services PMI index increased to 53.9 in June from a three month low of 53.8 in May.

The European Union's statistics office Eurostat said month on month volumes of retail sales fell by 1.1% in the euro zone in May.

Moody's said China's local government debt may be 3.5 trillion yuan or \$540 billion more than auditors estimated. There are concerns that slower growth in China's economy could set off a wave of loan defaults and impact its banking system.

Moody's Investors Service cut Portugal's credit rating by 4 levels to Ba2, two levels into junk territory. It said there is great risk the country will need a second round of official financing before it can return to capital markets.

China's Xinhua news agency launched an oil and gas information service based in Daqing. The new service would offer over-the-counter oil and gas price quotations, oil-and gas-related indices, global oil and gas data as well as rating services.

CME Group Inc's daily trading volume increased by 22% in June on the year while IntercontinentalExchange Inc reported a 24% increase amid high market volatility driven by concerns about Greece's credit concerns and fluctuating energy prices. Its daily volume averaged 14.9 million contracts in June. A record 85% of last month's 327 million contracts were traded electronically. ICE said its average daily volume averaged 1.7 million contracts, up 24% on the year and 17% on the month. Brent crude futures and options saw volume increase 58% on the year.

**July
Calendar Averages**
CL – \$95.92
HO – \$2.9406
RB – \$2.9750

by producers. He said repeated stock releases would create several problems citing oversupply and fluctuations in prices.

Germany’s state stockpiling agency EBV said Germany has sold 63% or 2.646 million barrels of the total 4.2 million barrels of crude oil and oil products put up for sale last week in the IEA’s stock release program.

The EIA reported that the US average retail price of diesel fell by 3.8 cents to \$3.85/gallon in the week ending July 5th. The price of diesel is still up 92.6 cents or 32% above a year ago.

Venezuela’s Oil Minister Rafael Ramirez said the country’s energy policy is not affected by health problems suffered by President Hugo Chavez. Venezuela is expected to mark the 200th anniversary of its independence on Tuesday with President Hugo Chavez back in his palace following his return from Cuba, where cancer surgery created fears about his health. Citing doctors’ orders, he may skip Tuesday’s celebrations.

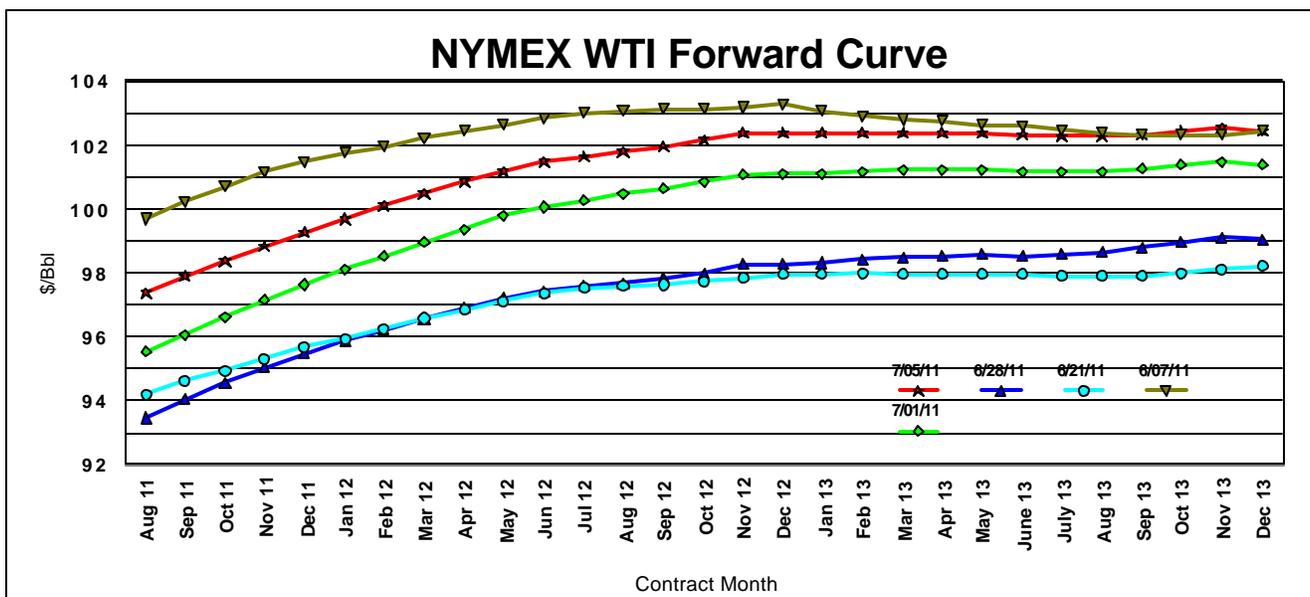
NATO said it would like to see the UN assume the leading role in Libya’s transition to democracy once Muammar Gaddafi leaves power. This came after a senior Russian official said that the Libyan leader was willing to cede power in exchange for specific security guarantees.

A Libyan government spokesman said the country’s government is not negotiating Muammar Gaddafi giving up power.

Refinery News

The Transportation Department’s Pipeline and Hazardous Materials Safety Administration is investigating the leak at ExxonMobil’s Silvertip Pipeline in Montana that spilled about 1,000 barrels of oil and that it had warned the company before about problems with the pipeline. PHMSA would have to approve a restart of the pipeline. Meanwhile, Montana Governor Brian Schwitzer said authorities will review safety of all oil and gas pipelines which cross waterways in the state and close those that did not meet standards following the spill from the ExxonMobil pipeline.

ConocoPhillips said operations at its 58,000 bpd Billings, Montana refinery were unaffected by a breach in an ExxonMobil crude oil pipeline over the weekend. The rupture of the Silvertip pipeline released 1,000 barrels of crude into the Yellowstone River.



ExxonMobil Corp's 60,000 bpd Billings, Montana refinery continues to operate at reduced rates following a weekend rupture of a crude oil pipeline. ExxonMobil said it was searching for alternative crude supplies for the refinery.

Motiva Enterprises reported the shutdown of the DU5 waste gas compressor that caused flaring of several chemicals at its 234,700 bpd Norco refinery in Louisiana on Monday.

All units resumed operations at Pasadena Refining System Inc's refinery on Friday following a power outage at the Pasadena, Texas facility. The power outage, which occurred on Wednesday, affected the 100,000 bpd refinery but did not impact other refineries along the Houston Ship Channel.

Shell Deer Park Chemical Plant will perform maintenance on a tank located in its Olefins Plant 3 unit between July 5th and July 8th.

Husky Energy Inc reduced throughput at its 12,000 bpd Prince George, British Columbia refinery to 8,700 bpd due to a pipeline outage. The refinery has sufficient stocks to operate until July 8th.

Japan's Idemitsu Kosan Co said it preparing to restart a 160,000 bpd crude distillation unit at its Aichi refinery. The unit was shut for unplanned maintenance on June 29th after it detected a gas leak.

China's Sinopec is scheduled to shut down a 50,000 bpd crude distillation unit at its Maoming refinery from July 20th for 20 days of maintenance. As a result, Maoming plans to process 270,800 bpd of crude oil in July, down 11.5% on the month.

Indonesia's Pertamina is set to increase imports of low-octane gasoline to meet higher demand during Muslim religious festivities. It will likely import 7.5 million barrels of 88 RON gasoline ahead of the Islamic fasting and festive month, up from its normal imports of 6 million barrels a month. Its diesel imports will remain at 4 million barrels a month.

Saudi Arabia's crude oil exports may fall as the country is increasingly burning crude oil in power stations because of increasing demand and a dearth of natural gas. HSBC estimated direct crude oil burning in the country's power generation sector at 624,000 bpd in 2010, up 17.8% on the year. Meanwhile, Societe Generale said that Saudi Arabia's crude exports would increase by only 300,000 bpd due to increasing inputs at its 400,000 bpd Rabigh refinery and a possible 300,000 bpd increase in crude burn by Saudi power plants from May to July.

Production News

Oil output at the UK's Buzzard field in the North Sea resumed over the weekend after a brief outage last week. Oil production is expected to reach 110,000 bpd, just over half of normal output of 200,000 bpd.

Planned maintenance work on BP's North Sea Bruce oil and gas field is expected to last a few more days. The field was shutdown for work on June 28th.

According to a Reuters survey, OPEC's total oil production increased by 350,000 bpd to 29.45 million bpd in June. OPEC-11's oil production totaled 26.85 million bpd in June, up 450,000 bpd on the month. Saudi Arabia's oil production in June totaled 9.4 million bpd, up 450,000 bpd on the month.

Norway's Statoil said it would resume preparatory work on North Sea oil fields after Britain announced additional support measures for firms that operate in small oil fields. Statoil has suspended \$10 billion worth of projects off Britain after UK Finance Minister George Osborne announced a surprise increase in tax on North Sea oil producers earlier this year.

Russia's Energy Ministry reported that the country produced an average of 10.19 million bpd in June, down from a post-Soviet record of 10.26 million bpd reached in May. In the first six months of the year, Russia's production of crude oil and gas condensate totaled 252.44 million tons, up 1.1% on the year. Russia's oil exports via Transneft fell by 5.9% to 3.97 million bpd from 4.22 million bpd in May. Separately, Russia's Energy Ministry said a unified export duty on Russian oil products would not be implemented until at least August 1st due to disagreements with some refiners. The proposal would cut the duty on crude oil to a marginal rate of 60% from 65% previously and adjusting duties on refined products to 66% of the level of crude oil.

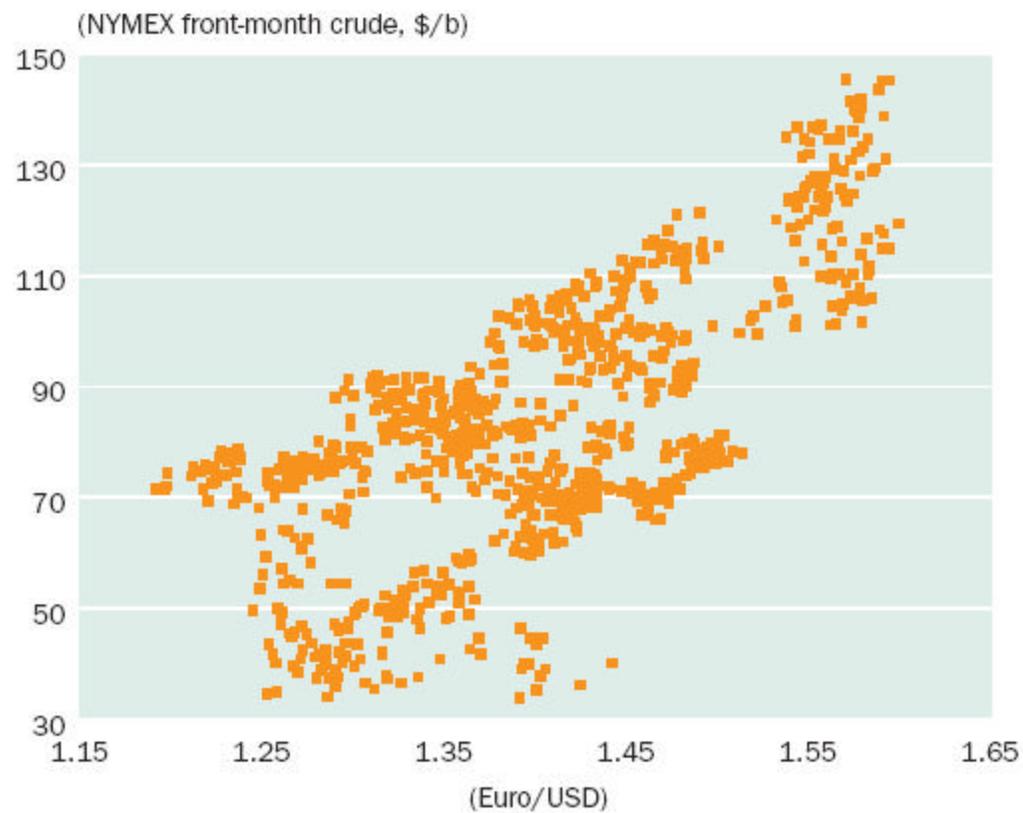
The National Iranian Oil Co said Indian oil buyers have continued paying for their purchases of crude bought from Iran into an account shared by both parties. Meanwhile, India's Oil Minister Jaipal Reddy said India's government is optimistic of resolving the issue of clearing pending payments to Iran for crude oil purchases.

Lithuanian oil terminal Klaipedos Nafta reloaded 750,000 tons of oil products on to tankers in June, up 12% on the year. During the first six months of 2011, it reloaded 4 million tons of oil products, down 2% on the year.

Oil workers at Brazil's Petrobras will stage on-site protests from Wednesday to demand a larger share of profits. The FUP is protesting over Petrobras' offer of a 12% increase in profit share for oil workers despite its profits having increased 17% in 2010 to 35.2 billion reais or \$22.7 billion.

Saudi Aramco cut the prices of its crude oil bound for Northwest Europe in August. The price of its

NYMEX Crude and Euro/US Dollar Correlation



This graph shows the correlation between NYMEX front-month crude prices and the Euro/US Dollar exchange rate, from January 2008 to the present.

Source: CME-NYMEX. GTIS

Extra Light crude bound for Northwest Europe was cut by 95 cents to BWAVE minus \$1.05/barrel; the price of its Light crude was cut by 65 cents to BWAVE minus \$3.10/barrel; the price of its Medium crude was cut by 35 cents to BWAVE minus \$5/barrel and the price of its Heavy crude was cut by 45 cents to BWAVE minus \$7.25/barrel. The price of its Extra Light crude bound to the Mediterranean was increased by

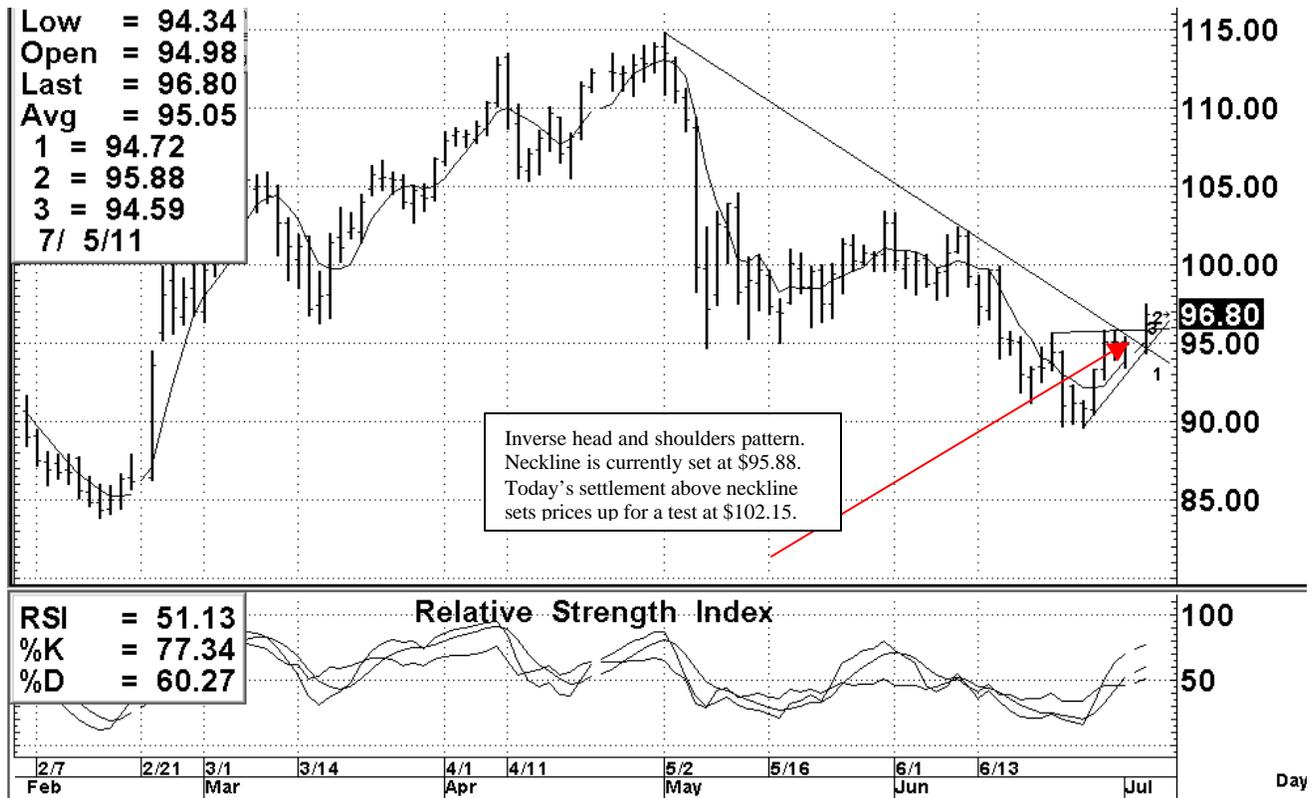
10 cents to BWAVE minus 95 cents/barrel; the price of its Light crude was increased by 10 cents to BWAVE minus \$3.10/barrel; the price of its Medium crude was increased by \$1 to BWAVE minus \$5.25/barrel and the price of its Heavy crude was increased by \$1.05 to BWAVE minus \$7.40/barrel. The price of its Extra Light crude bound for the US was cut by 65 cents to the Argus Sour Crude Index plus \$2.25/barrel; the price of its Light crude was cut by 15 cents to ASCI plus 10 cents/barrel, the price of its Medium crude was increased by 15 cents to ASCI minus \$2/barrel and its Heavy crude was increased by 20 cents to ASCI minus \$3.70/barrel. Saudi Aramco set the price of its Super Light crude bound for Asia at the Oman-Dubai average plus \$3.85/barrel, down \$1 from July. The price of its Extra Light crude was cut by 50 cents to the Oman-Dubai average plus \$2.95/barrel; the price of its Light crude was cut by 10 cents to the Oman-Dubai average plus \$1.35; the price of its Medium crude was increased by 30 cents to the Oman-Dubai average minus 35 cents/barrel and the price of its Heavy crude was increased by 75 cents to the Oman-Dubai average minus \$1.90/barrel.

Market Commentary

Today's move higher was influenced by several factors. Barclays Capital raised their 2012 price forecast for Brent from \$110 to \$115 and for WTI from \$106 to \$110 per barrel. Economic optimism came by way of a 0.8 percent increase in U.S. factory orders and an expansion of 54.1 in June for China's service industry. Fresh third quarter buying was implemented by hedge funds and a technical breakout to the upside came into play. July 1st marked the beginning of a new quarter, bringing hedge traders into the market. Technical buyers took the opportunity to buy WTI upon August's break above \$95.88, the neckline on an inverse head-and-shoulders pattern based upon a spot continuation chart. This makes the projected upside target, \$102.15 and brings prices back into a previous area of congestion. Brent also traded higher off of the Barclays news, penetrating the \$113.45 neckline on a spot continuation chart. The penetration of this level sets prices up for a test at the \$121.50 level.

Crude oil: Aug 11 299,737 -4,033 Sept 11 199,216 +2,957 Oct 11 73,585 -722 Totals 1,522,247 -771
 Heating oil: Aug 11 90,061 -5,280 Sept 11 45,869 -1,804 Oct 11 24,005 +1,239 Totals 298,571 -3,136
 Rbob: Aug 11 78,467 +1,687 Sept 11 45,669 +518 Oct 11 23,810 +93 Totals 234,083 +3,797

Crude Oil		Heating Oil		Rbob	
Support	Resistance	Support	Resistance	Support	Resistance
			31325		
		27150	32777		33369
9585	9821	26680	33370	26965	35915
9428	10215	27375	33510	26300	36310
8950	10339	23685		25683	
8700	10845	22960		25145	
8625	11120			24240	
8500	11483			23631	
8385	11563			23414	
	11703				



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