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## ***ENERGY RISK MANAGEMENT***

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### **ENERGY MARKET REPORT FOR JULY 12, 2011**

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Two Gulf OPEC officials said Saudi Arabia is unlikely to increase its oil production to 10 million bpd this summer due to a lukewarm response from refiners. One official said if Saudi Arabia increases its output it would mainly be to meet the increase in domestic demand. Another Gulf official said initial indications pointed to an increase of no more than 300,000 bpd by OPEC members in July, leaving room for only a small Saudi increase.

In its Short Term Energy Outlook, the EIA estimated that total world oil demand will increase by 1.4 million bpd in 2011 and 1.6 million bpd in 2012 to 88.16 million bpd and 89.74 million bpd, respectively. It cut its 2011 oil demand growth forecast by 270,000 bpd from its previous estimate. It expects the market to rely on both a drawdown of inventories and production increases in

#### Market Watch

The US Commerce Department said the US trade deficit increased in May to its highest level in over two and a half years by 15.1% to \$50.23 billion from \$43.63 billion in April. The April trade gap was originally reported as \$43.68 billion. The total amount paid for crude imports was \$29.92 billion in May from \$26.03 billion in April. The amount of oil imported increased to 275.25 million barrels after falling to 252.25 million barrels in April. Meanwhile the trade deficit with China expanded 15.6% to 24.96 billion in May.

According to the Labor Department's Job Openings and Labor Turnover Survey, there was little turnover in the US labor market in May. It said there were about 2.97 million jobs available at the end of May, up from April's 2.95 million. The rate of hires for US nonfarm jobs remained at 3.1% and the separations rate increased slightly from 2.9% in April to 3.1% in May.

According to JP Morgan, Brent crude's premium to Dubai may fall in the months ahead as a sudden resolution to the Libyan conflict could result in a faster than expected recovery in its oil production. A change in view to a more rapid recovery could reduce forward Brent-Dubai crude differentials by 50 cents to \$1/barrel or more as well as impact Brent time spreads and refining margins. It said Libya's oil production would begin to increase slowly at the turn of the year, reaching 1 million bpd by the end of 2012.

Bank of America-Merrill Lynch said the high price of oil will remain a significant stress on Europe's economy. It however said that the economic weakness may start moderating the strength of North Sea Brent later this year. It said Brent crude futures would remain firm due to production problems facing North Sea streams, low crude oil inventories in Europe and prolonged disruption to Libyan oil exports due to unrest.

Bank of Japan Governor Masaaki Shirakawa said that global economic growth was slowing. However he said there was no change to the central bank's view that the world economy would be the main driver of Japan's growth once supply constraints ease.

India's industrial output in May increased by a lower than expected 5.6% from a year earlier. April's industrial output growth rate was revised down to 5.8% from 6.3%.

Moody's Investors Service cut Ireland's credit rating to junk status, saying the country will likely need additional rounds of official financing before it can return to international capital markets. It cut Ireland's ratings by one notch to Ba1 from Baa3 and kept a negative outlook on the rating.

The IntercontinentalExchange said a total of 2,536 lots or 253,600 metric tons of gasoil was physically delivered against the expiring July gasoil futures contract. It is slightly higher than the 2,516 lots delivered against the June contract. Separately, ICE announced that it will launch 18 new energy contracts on August 1<sup>st</sup>.

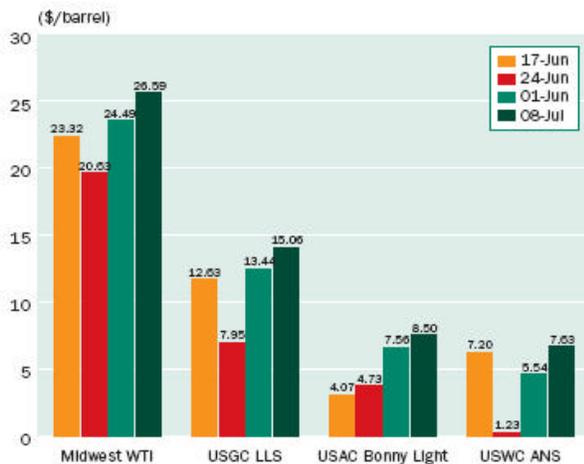
The Department of Transportation reported that US airlines' average fuel cost per gallon for scheduled flights in May increased by 31% on the year and by 1.3% on the month to \$3.03/gallon. It said total fuel consumption on scheduled flights was 1.4 billion gallons in May, up 0.6% on the year and up 2% from the prior month. The average fuel price for international service increased 0.7% on the month while it increased by 1.7% for domestic service.

### API Stocks

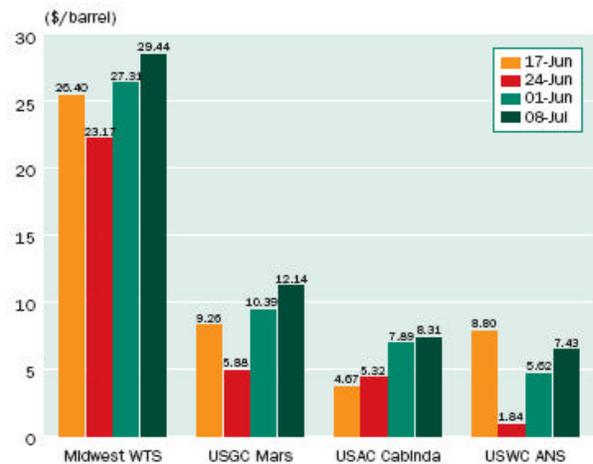
**Crude** – up 2.341 million barrels  
**Distillate** – up 4.754 million barrels  
**Gasoline** – down 1.577 million barrels  
**Refinery runs** – down 1.4%, at 84.9%

both non-OPEC and OPEC countries to meet projected demand growth. Projected supply from non-OPEC countries is expected to increase by 540,000 bpd in 2011 to 52.29 million bpd and by 740,000 bpd to 53.03 million bpd in 2012. OPEC production in 2011 is estimated to fall by 300,000 bpd to 29.47 million bpd but increase by 560,000 bpd to 30.03 million bpd. It expects the release of the IEA strategic reserves to reduce the expected draw on commercial stocks during the rest of 2011. The OECD commercial stock draw for the second half of the year has been lowered to 71 million barrels. Days of supply is expected to fall from 58.1 days during the fourth quarter of 2010 to 55.7 days in 2011 and 54.6 days in 2012. The EIA estimated that US oil demand in 2011 would increase by 30,000 bpd to 19.18 million bpd and by 14,000 bpd to 19.32 million bpd in 2012. Gasoline demand in 2011 is expected to fall by 60,000 bpd to 8.97 million bpd and increase by 60,000 bpd to 9.03 million bpd in 2012. Distillate demand is expected to increase by 70,000 bpd to 3.86 million bpd in 2011 and increase by 60,000 bpd to 3.92 million bpd in 2012. Domestic crude production, which increased by 150,000 bpd in 2010 to 5.5 million bpd, is expected to increase by 50,000 bpd in both 2011 and 2012. In regards to prices, the EIA expects that WTI spot prices will average \$98/barrel in 2011 and \$103/barrel in 2012. The average retail price of gasoline is forecast to increase from \$2.78/gallon in 2010 to \$3.56/gallon in 2011 and to \$3.65/gallon in 2012. The average retail price of diesel is forecast to increase from \$2.99/gallon in 2010 to \$3.86/gallon in 2011 and to \$3.95/gallon in 2012.

US Weekly Average Cracking Margins



US Weekly Average Coking Margins



In its latest monthly report, OPEC said its oil production increased to 29.6 million bpd in June, up 500,000 bpd on the month. OPEC cut its forecast for demand growth this year to 1.36 million bpd from a previous estimate of 1.4 million bpd. It also warned demand growth could fall by a further 200,000 bpd this year if developed economies continue to weaken. However it warned that if oil prices increase further, they could trigger a similar drop in demand. OPEC said it expects oil demand growth in 2012 to slow to 1.32 million bpd but the demand for its crude would increase to 30.3 million bpd as supply from other producers fail to keep up with demand.

According to a SpendingPulse report released by MasterCard Advisors, US weekly gasoline demand fell by 5.5% or 522,000 bpd to 9.036 million bpd in the week ending July 8<sup>th</sup>. In the latest four weeks, gasoline demand averaged 9.318 million bpd, down 1.1% on the year. The US average retail price of gasoline increased by 3 cents to \$3.58/gallon on the week.

The head of asset allocation at Schrodgers Private Banking said the IEA's decision to release 60 million barrels of oil from its strategic reserves could lead to more buying of oil to store it. He said the

US crude forward futures curve is in a steep contango, which could encourage people to buy oil and store it.

Iran on Tuesday signaled it wanted closer cooperation with the UN's IAEA but said the agency must agree to "explicit" guidelines on how to proceed to solve a nuclear dispute. Iran's Foreign Minister Ali Akbar Salehi said experts from both sides have to meet and work out a mechanism. However he said the IAEA should said that the first stage has been over and that the six outstanding issues have been answered.

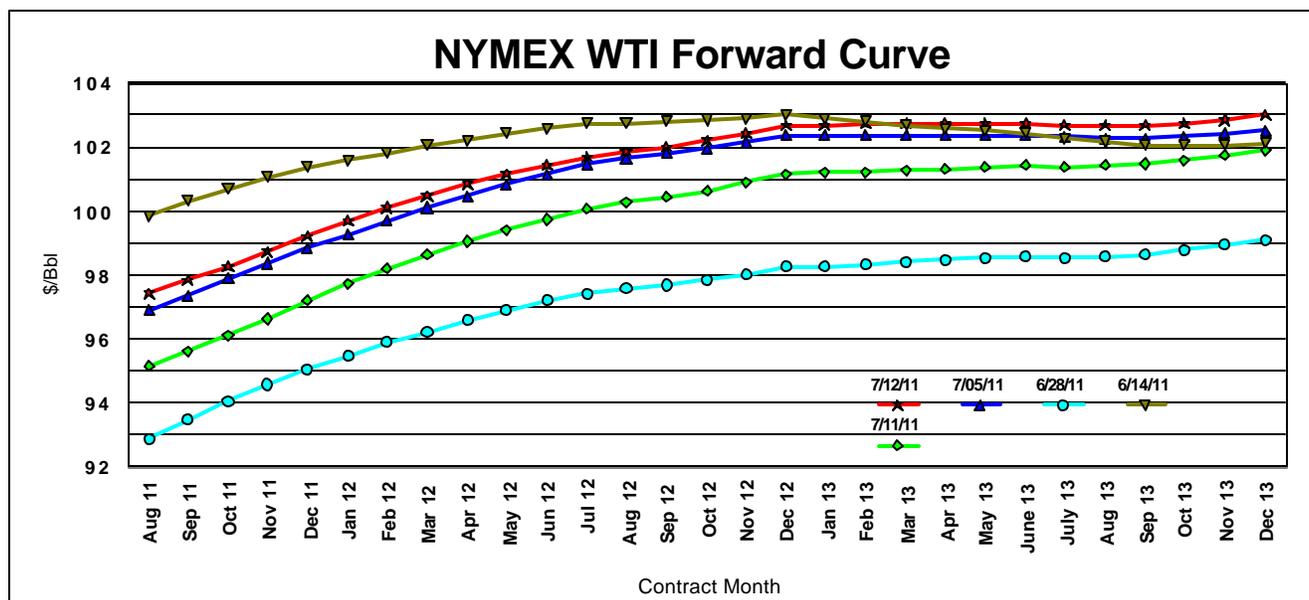
<b>July</b>
<b>Calendar Averages</b>
<b>CL – \$96.56</b>
<b>HO – \$3.0311</b>
<b>RB – \$3.0442</b>

Emissaries from Libya's Muammar Gaddafi's government have been in contact with NATO members to say he is ready to leave power. Earlier, French Foreign Minister Alain Juppe said there were no negotiations yet. Libya's Prime Minister Baghdadi al-Mahmoudi said Tripoli was ready to negotiate without conditions however the bombing must stop first.

**Refinery News**

Colonial Pipeline is allocating Cycle 41 shipments on its Line 20, not Cycle 40 shipments, as previously announced. Line 20 carries distillates from Atlanta, Georgia to Nashville, Tennessee.

Coffeyville Resources reported a release of hydrogen sulfide and sulfur dioxide from a flare due to unplanned emergency maintenance at its 115,700 bpd refinery in Coffeyville, Kansas on Monday afternoon.



ExxonMobil Corp is restarting a reformer unit at its 344,500 bpd refinery in Beaumont, Texas after it was shut for unplanned work last week.

Taiwan's Formosa Petrochemical Corp will reduce crude runs at its 540,000 bpd Mailiao refinery to about 400,000 bpd following maintenance at its 84,000 bpd No. 2 residual fluid catalytic cracker unit. The unit will be taken offline from early August for about 40 days.

Taiwan's Bureau of Energy said the country's oil imports in May fell by 20% on the year and by 6.3% on the month to 24.59 million barrels. Taiwan's two refiners, CPC Corp and Formosa Petrochemical Corp refined a combined 4.27 million kiloliters, down 13.6% on the year but up 25.6% on the month. Refinery utilization increased to 68.71% in May from 56.45% in April.

Saudi Aramco bought at least four cargoes of gasoline for August as maintenance at the Saudi Rabigh refinery continues to force the company to seek imports from the Mediterranean. Some units at the plant have restarted since maintenance started in April however the gasoline making unit remains offline.

### **Production News**

Royal Dutch Shell lifted a force majeure on its Nigerian Bonny Light crude loadings, which was declared on June 13<sup>th</sup> due to leaks and fires on its Trans-Niger Pipeline. It said the leaks were repaired and production resumed on June 12<sup>th</sup>.

A Saudi official said Saudi Arabia produced an average of 9.8 million bpd of oil in June.

PetroChina Co's crude oil and natural gas production at its Changqing oil field reached a record high in the first half of 2011 of 20.5 million metric tons of oil equivalent, up 20% on the year. It expects Changqing's combined oil and gas output to increase from 40 million tons of oil equivalent this year and 50 million tons of oil equivalent a year by 2015.

China's Cnooc Ltd. suspended operations at its offshore Suizhong 36-1 oil field early Tuesday due to equipment malfunction that caused a small spill. The company expects to clean up the oil spill by the end of the day and will investigate all its oil fields for any spill risks upon the requests by the State Oceanic Administration.

Japan's Ministry of Economy, Trade and Industry reported that the country's ethylene output in June increased by 3.1% to 524,400 metric tons.

Iran's semi-official Mehr news agency reported that Iran would issue \$12 billion in bonds by March next year to finance the development of oil projects. The state oil firm has estimated annual investment needs in Iran's oil and gas sector at \$25 billion to \$30 billion.

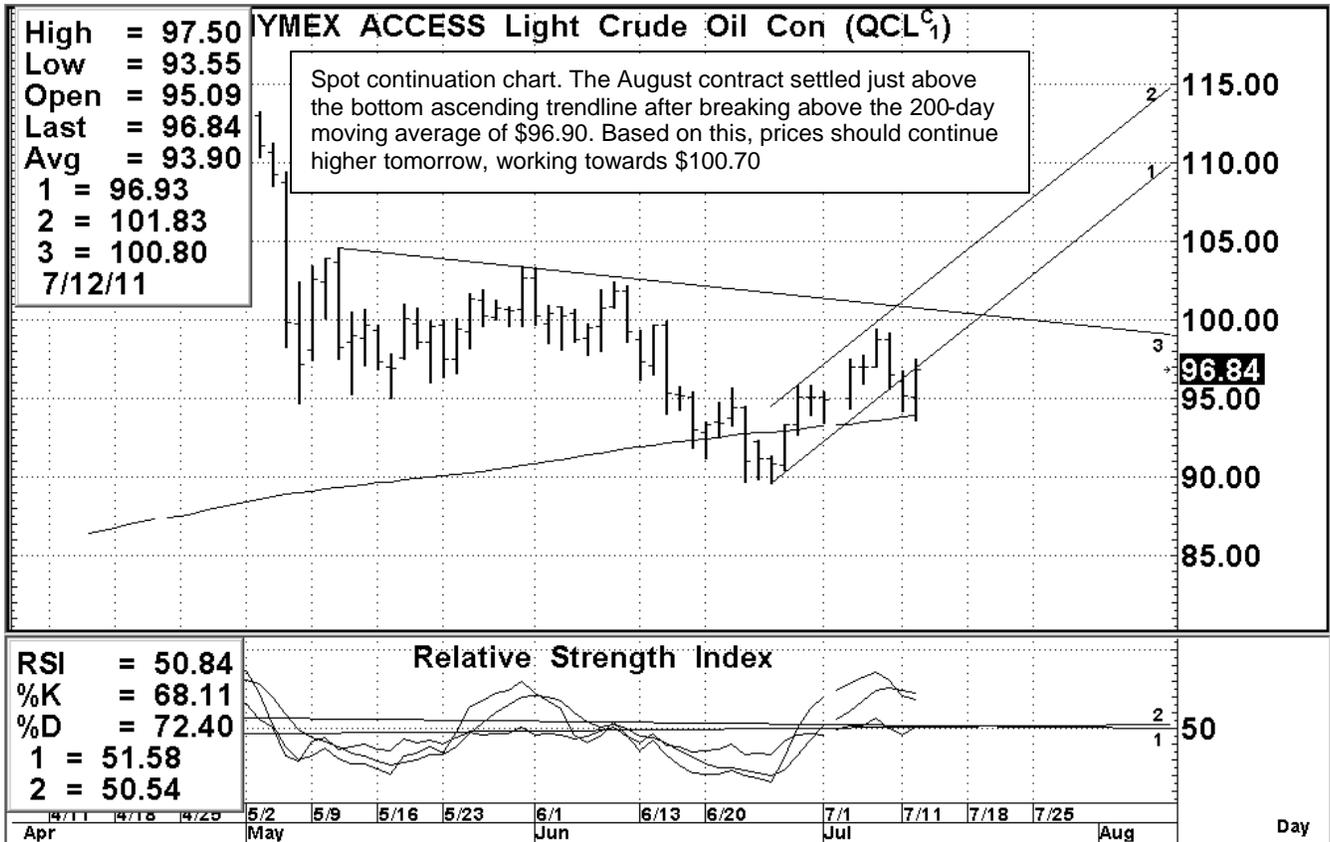
Russia's oil export duty is likely to fall about 2% in August from July. The oil export duty is expected to fall to between \$435.30-\$437.90/ton from the current level of \$445.10/ton. The duty on light refined fuels could fall to \$291.60-\$293.40/ton from \$298.20/ton in July while the duty on heavy fuels could fall to \$203.30-\$204.50/ton from \$207.80/ton this month.

### **Market Commentary**

Crude oil's two-day downward slide came to an abrupt end as the dollar slipped against the euro. The August contract settled up 2.3 percent on the day. Prices made an early session attempt at \$93.36, the 62% retracement between \$99.41 and \$89.41, before turning to the upside. With today's push back above \$93.80, the 200-day moving average combined with a higher close on an outside trading session, prices will most likely work higher tomorrow. The next upside objective is \$100.71. We would like to see a cross of the slow stochastics for confirmation that the downside move has run out of steam. The arbitrage between Brent and WTI narrowed today after the news of Shell's cancellation of its Force Majeure on Bonnie Light. This spread narrowed to \$21.69 a barrel.

Crude oil: Aug 11 219,452 -22,193 Sept 11 251,084 21,846 Oct 78,149 -1,698 Totals 1,535,098  
+6,074 Heating oil: Aug 11 72,402 -5,569 Sept 11 52,999 +1,953 Oct 11 31,705 +1,228 Totals  
297,088 -2,391 Rbob: Aug 11 66,437 -2,273 Sept 11 54,467 +1,885 Oct 11 26,368 Totals 237,752  
+825

Crude Oil		Heating Oil		Rbob	
Support	Resistance	Support	Resistance	Support	Resistance
9428	9855		31342		
8950	10071	27150	32777		33369
8700	10215	26680	33370	26965	35915
8625	10339	27375	33510	26300	36310
8500	10845	23685		25683	
8385	11120	22960		25145	
	11483			24240	
	11563			23631	
				23414	
200-day MA	93.90				



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