

**W** The  
Windham Group



## ***ENERGY RISK MANAGEMENT***

Howard Rennell, Pat Shigueta,  
& Karen Palladino  
**(212) 624-1132 (888) 885-6100**

**www.e-windham.com**

---

### **ENERGY MARKET REPORT FOR JULY 13, 2011**

---

The IEA defended its decision to release 60 million barrels of emergency oil stocks, saying the move is having the intended effect and signaling a possible second release of reserves if the oil supply crunch does not ease. It will assess next week whether it needs to release more oil from its emergency stocks. The IEA said it still expects a sharp increase in the call for OPEC crude for the third quarter. It warned that despite an increase in OPEC production in June of 800,000 bpd, the need for additional oil supplies this quarter has barely diminished, due to increases in demand and lower than expected production elsewhere. The IEA raised its 2011 demand forecast by 200,000 bpd to 1.3 million bpd. It expects oil demand to increase by 1.5 million bpd next year as global economic growth accelerates. Global oil demand is estimated to increase to 91 million bpd next year. In regards to

#### **Market Watch**

The US National Hurricane Center said a low pressure system over the Bay of Campeche has a 50% chance of becoming a tropical depression before it moves inland later on Wednesday. It said the system located about 50 miles east-northeast of Veracruz, Mexico has become better organized but added that there is limited opportunity for significant development.

The US Labor Department said US import prices fell last month for the first time in a year as global energy prices fell from their peak. The price of goods imported to the US in June fell 0.5% on the month. The decline in prices was less than expected, with economists expecting a 0.7% monthly decline in import prices. May import prices increased 0.1%, revised from an initially estimated 0.2% gain. Year on year, import prices increased 13.6%, the largest annual increase since August 2008.

Federal Reserve Chairman Ben Bernanke said the central bank is ready to ease monetary policy further if the economy weakens and inflation falls. He held to the view that recent weakness was due in part to temporary factors like high energy costs and the effects on global industry from Japan's earthquake and tsunami. However he acknowledged the labor market remained weaker than the Fed would like.

According to a European Union quarterly report, euro zone economic growth is improving but is expected to slow. It warned that while fiscal consolidation is underway, countries must take further efforts, including the introduction of new laws, to address their debt challenges and meet next year's public balance targets. Separately, the European Union's statistics office, Eurostat said industrial production in the 17 countries increased 0.1% on the month for a 4% year on year gain.

The International Monetary Fund said a temporary Greek default may be unavoidable if private bondholders participate in a new financing program for the country. It said Greece should continue its fiscal reform and privatization agenda in a timely manner in order to bring its debt back to sustainable levels. It said any deviation from policy conditions Greece has promised to implement would likely mean failure.

China's National Bureau of Statistics reported that second quarter GDP increased 9.5% on the year, exceeding market expectations of a 9.4% growth rate. It is up from 9.7% reported for the first quarter.

Chinese workers are getting a larger share of the country's economic gains. Post tax urban income increased by 14% in the first half despite moderating GDP growth. However higher wages will make inflation worse and as workers begin to demand more increases to keep up with higher prices, a wage price spiral could be the result.

China's power generation in June increased by 16.2% on the year to 396.82 billion kilowatt hours.

### DOE Stocks

**Crude** – down 3.124 million barrels  
**Distillate** – up 2.967 million barrels  
**Gasoline** – down 840,000 barrels  
**Refinery runs** – down 0.4%, at 88%

China, the IEA said China's oil demand will likely increase by 5% in 2012 as long as the country maintains its current rate of economic growth. It expects China's demand for oil to reach 10.2 million bpd in 2012. Meanwhile, Japan's crude and fuel oil demand this summer may increase more than expected due to uncertainty over the restart of nuclear reactors. The IEA said Saudi Arabia's oil exports could be

capped by increasing demand for its own crude for domestic power generation, despite increasing production. It said about half of the extra 700,000 barrels produced in June went to domestic refineries or power plants. In regards to Libya, the IEA said the country could more than double its crude oil production to 200,000 bpd by the end of the year from the current minimal levels if the northern no-fly zone is expanded to include the eastern oilfields controlled by Libyan rebels. It said Saudi Arabia is delivering on its promise to unilaterally increase its production in response to OPEC's failure to agree on a collective output increase in June. It said Saudi Arabia's oil production increased substantially by 700,000 bpd to 9.7 million bpd. The IEA also stated that global refinery crude runs in the third quarter would average 75.9 million bpd, up 2.3 million bpd from the second quarter due to higher oil products demand. It said global refinery capacity is expected to increase by 2.4 million bpd next year as several refinery projects are expected to be completed.

The IEA said the unusual price difference between Brent and WTI crude is a primarily physical phenomenon. The IEA said the large spread between the two benchmarks is due to insufficient transportation capacity between Cushing and the Gulf Coast.

The IEA suggested Iran's presidency of OPEC was to blame for the outcome of the group's meeting last month, saying the gatherings would be more harmonious with the end of its tenure.

Russia's Energy Minister Sergei Shmatko said Russia will put 2 million metric tons of oil products into a reserve fund to avoid fuel shortages and price increases. It will begin to build up reserves of diesel fuel, gasoline and jet fuel in July and August.

Libyan rebels in the Nafusa Mountains southwest of the capital said that a peace deal was impossible as Libya's leader Muammar Gaddafi refuses to step down.

### Refinery News

ConocoPhillips reported unplanned flaring at its 139,000 bpd refinery in Wilmington, California.

ExxonMobil said it is working to meet requirements of the US Transportation Department's action order to clean the Yellowstone River spill before resuming pipeline operations in Billings, Montana. It has started preliminary work to replace the pipeline that ruptured and spilled 1,000 barrels of oil into the Yellowstone River two weeks ago.

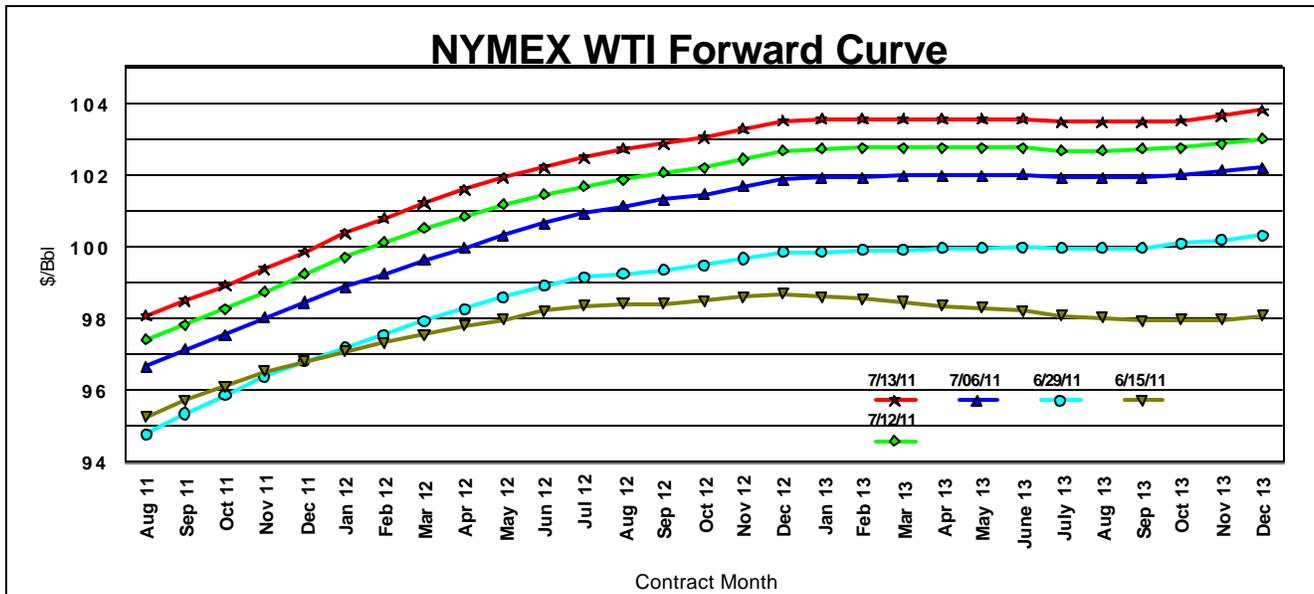
ExxonMobil reported a problem at its 238,600 bpd refinery in Joliet, Illinois early Tuesday that caused a release of nitrogen dioxide and sulfur dioxide to the flare stack. Separately, ExxonMobil has started planned work on a flexicoker unit at its 560,640 bpd refinery in Baytown, Texas.

Sunoco's fluid catalytic cracking unit at its Philadelphia refinery resumed operations after repairs were completed.

An instrument problem triggered flaring of the light oil processing flare at Shell Oil's 156,400 bpd refinery in Martinez, California on Wednesday.

Repsol began starting up a platforming unit at its 220,000 bpd refinery in

<b>July Calendar Averages</b>
<b>CL – \$96.75</b>
<b>HO – \$3.0397</b>
<b>RB – \$3.0596</b>



Bilbao on Tuesday night.

China's implied oil demand in June increased 1.1% on the year, the slowest growth rate in more than two years, as refineries underwent heavy maintenance amid poor refining margins and China's tightening policy that cut oil use. Implied demand averaged 8.97 million bpd in June, down 3.2% on the month.

China's State Oceanic Administration said the country processed 35.55 million metric tons or 8.7 million bpd of crude oil in June, down from 9.1 million bpd in May. China's diesel production reached 13.48 million metric tons in June, up 1.1% on the year while gasoline production fell by 4.2% to 6.21 million tons and fuel oil production increased by 4.8% to 1.5 million tons.

The Petroleum Association of Japan reported that the country's crude oil inventories fell by 939,610 kiloliters to 16.47 million kl or 104 million barrels in the week ending July 9<sup>th</sup>. It also reported that Japan's gasoline stocks increased by 30,306 kl to 2.129 million kl while its gas oil stocks increased by 11,005 kl to 1.938 million kl and its kerosene stocks increased by 106,044 kl to 2.364 million kl. Its naphtha stocks fell by 236,541 kl to 1.418 million kl and its jet fuel stocks fell by 47,437 kl to 745,689 kl on the week. Japan's crude runs averaged 3.31 million bpd, up from 3.28 million bpd in the previous week.

Crude oil exports through the Caspian Pipeline Consortium are scheduled at 2.52 million metric tons in August, down 113,000 tons on the month.

### **Production News**

Production at BP's Valhall oil platform in the North Sea off Norway was closed down and evacuated on Wednesday following a fire. The fire started in a compressor on the production platform in the oil field that produces 31,000 bpd.

Venezuela produced 2.53 million bpd of crude oil in June, up from 2.49 million bpd in May, according to the IEA.

Iraq's parliament is expected by the end of the year to pass a law reestablishing the Iraqi National Oil Co, which former leader Saddam Hussein's regime invalidated in the 1980s. An energy advisor to Prime Minister Nouri al-Maliki, Thamer al-Ghadhban said the company would be involved in supervising Iraq's producing oil and gas fields, under development fields and exploration blocks.

The Oil Minister for the Iraqi Kurdistan Regional Government, Ashti Hawrami said Iraq's crude oil exports from the northern Kurdistan region in June reached a peak of 175,000 bpd, up from 75,000 bpd in February. Revenues from oil sales from the Kurdistan region over the five months since exports resumed in February have reached \$2 billion. Total crude production from Kurdistan is currently at 250,000 bpd, with 60,000 bpd of which is processed in the region's refineries.

China's State Oceanic Administration said it ordered ConocoPhillips to halt operations at two platforms in China's Bohai Bay due to slow progress in containing an oil spill. On Wednesday, oil was still leaking at platforms B and C of the Penglai 19-3 oil field and there were signs of another oil spill could occur at Platform B.

Cnooc Ltd is gradually resuming production at its offshore Suizhong 36-1 oil field following Tuesday's suspension. It shut down operations at the field after an equipment malfunction caused a small spill.

China's National Bureau of Statistics said the country produced 17.15 million metric tons or 4.19 million bpd of crude oil in June, up 1.6% on the year and 1.7% on the month. It reported that China's oil production in January-June increased by 4.6% on the year to 102.89 million tons or 4.17 million bpd. It also reported that China's natural gas production reached 8.16 billion cubic meters in June, up 9.7% on the year.

**Market Commentary**

Crude oil shaved early losses after the DOE report indicated supplies declined more than expected. Crude oil inventories, which were expected to decrease by 1.5 million barrels, dipped 3.12 million to 355.5 million barrels. Enhancing this move higher were two factors, a report that showed China's economic growth expanded at a faster rate than anticipated during the second quarter and rising demand forecasted by the IEA. The August crude oil continued its technical climb, halting just below \$99.24, the 38% retracement between the range of \$114.83 - \$89.61. Today marks the first time the spot month contract has been able to settle above the 50-day moving average (\$97.95) since breaking below it. Based upon this, we would look for prices to run a little more to the upside and for this market to test \$102.22, the 50% retracement of the aforementioned range. We would look to be sellers upon a failure to settle above \$102.22 and for the intermediate trend to the downside to continue.

Crude oil: Aug 11 185,084 -34,368 Sept 11 276,749 Oct 11 79,694 +1,545 Totals 1,538,256 +3,158  
 Heating oil: Aug 11 68,666 -3,736 Sept 11 56,249 +3,250 Oct 11 32,777 +1,072 Totals 298,187  
 +1,099 Rbob: Aug 11 65,469 -968 Sept 11 54,298 -169 Oct 11 28,218 +1,850 Totals 236,172 -1,580.

Crude Oil		Heating Oil		Rbob	
Support	Resistance	Support	Resistance	Support	Resistance
9428	9924		31342		
8950	10071	27150	32777		33369
8700	10222	26680	33370	26965	35915
8625	10339	27375	33510	26300	36310
8500	10845	23685		25683	
8385	11120	22960		25145	
	11483			24240	
	11563			23631	
50-day MA	97.95			23414	
200-day MA	94.01				



1

The information contained in this letter is taken from sources, which we believe to be reliable, but is not guaranteed by us as to accuracy or completeness and is sent to you for information purposes only. The Windham Group bases its market recommendations solely on the judgment of its personnel. Reproduction in whole or part or other use without written permission is prohibited.