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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 AUGUST 1, 2011

US oil and gas producers increased their output in the Gulf of Mexico that had been shut in due to Tropical Storm Don. Production is nearly back to normal. Shell Oil Co restarted on Sunday and was ramping up on Monday. Apache Corp, Chevron Corp and Anadarko Petroleum Corp also returned its workers to its platforms and resumed operations, with no storm damage noted on any platforms. As of Monday, 31,964 bpd of oil or 2.3% and 46 mmcf/d or 0.9% of natural gas production remained shut in.

The EIA reported that the US average retail price

Market Watch

The US Commerce Department said spending on construction projects in the US increased modestly in June. Construction spending in June increased by 0.2% to a seasonally adjusted annual rate of \$772.32 billion following a 0.3% increase during May. It however reported that spending on US residential projects fell by 0.3% in June to \$243.93 billion compared to the prior month.

JP Morgan reported that its Global Manufacturing Purchasing Managers' Index fell to 50.6 in July from 52.3 in June. It expanded at its weakest pace since July 2009 as factories reported lower orders for the first time in more than two years.

The pace of growth in the US manufacturing sector slowed more than expected in July. The Institute for Supply Management said its index of national factory activity fell to 50.9 from 55.3 in June. Its index of new orders fell to 49.2 from 51.6 while its index of prices paid fell to 59 from 68 and the employment index fell to 53.5 from 59.9.

The Euro zone manufacturing sector was relatively stagnant in July as factory output in the region grew at its weakest pace since the region emerged from recession. Manufacturers in the euro zone's Franco-German core expanded at a slower pace in July. The Markit Eurozone Manufacturing Purchasing Managers Index fell to 50.4 in July from 52 in June. The survey's factory output index fell to 50.2 in July from 52.5 in June. Euro zone inflation fell unexpectedly in July to 2.5% from 2.7%. British manufacturing activity contracted in July for the first time in 2 years. The Markit/CIPS manufacturing PMI headline activity index fell to 49.1 in July.

China's factories saw their weakest activity in 28 months in July. China's official purchasing managers' index fell to 50.7 in July from June's 50.9. The official PMI showed new orders increased to 51.1 from June's 50.8. In contrast, new export orders fell to 50.4 from 50.5 in June. Meanwhile, HSBC's China PMI fell to 49.3 in July from June's 51.6. New orders for the HSBC PMI grew at their slowest pace since July 2010, with the sub-index standing at 50.2 and new export orders fell for the second consecutive month.

India's factory growth fell for the third consecutive month in July as interest rate increases and declining global demand weighed on new orders and output growth. The HSBC Markit Business Activity Index fell to a 20 month low of 53.6 in July from 55.3 in June. Its new orders index fell to 54.5 in July from a previous reading of 60.1.

China's Water Resources Ministry reported that water inventories in China's major reservoirs at the beginning of August fell by 24.2% on the year but increased 4.3% on the month to 68.756 million cubic meters. The sharp year on year decline was partly inflated by a high base a year earlier when water stocks in these reservoirs increased due to torrential rain across the country.

The Rhine River in central Germany has fully reopened to shipping after being blocked by vessels involved in accidents. A vessel which ran aground near Koblenz has been moved. Two other vessels which disrupted traffic after separate incidents last week have also been removed from shipping lanes.

**July
Calendar Averages**
CL – \$94.89
HO – \$3.0974
RB – \$3.0540

of diesel fell by 1.2 cents to \$3.937/gallon in the week ending August 1st. The EIA also reported that the US average retail price of gasoline increased by 1.2 cents to \$3.711/gallon on the week. The price of gasoline is 97.6 cents or 35.7% above a year ago.

Malaysia’s government has ordered seven floating storage facilities with a capacity to hold about 1.9 million tons of crude oil or fuel oil anchored off the southeastern port of Pasir Gudang to leave by the end of the month.

Venezuela’s Foreign Minister Nicolas Maduro is scheduled to meet with an envoy sent by Libya’s Muammar Gaddafi. State media agency ANV did not say what the two groups would be discussing.

Refinery News

Colonial Pipeline said it was freezing nominations on its main gasoline line north of Collins, Mississippi for Cycle 44.

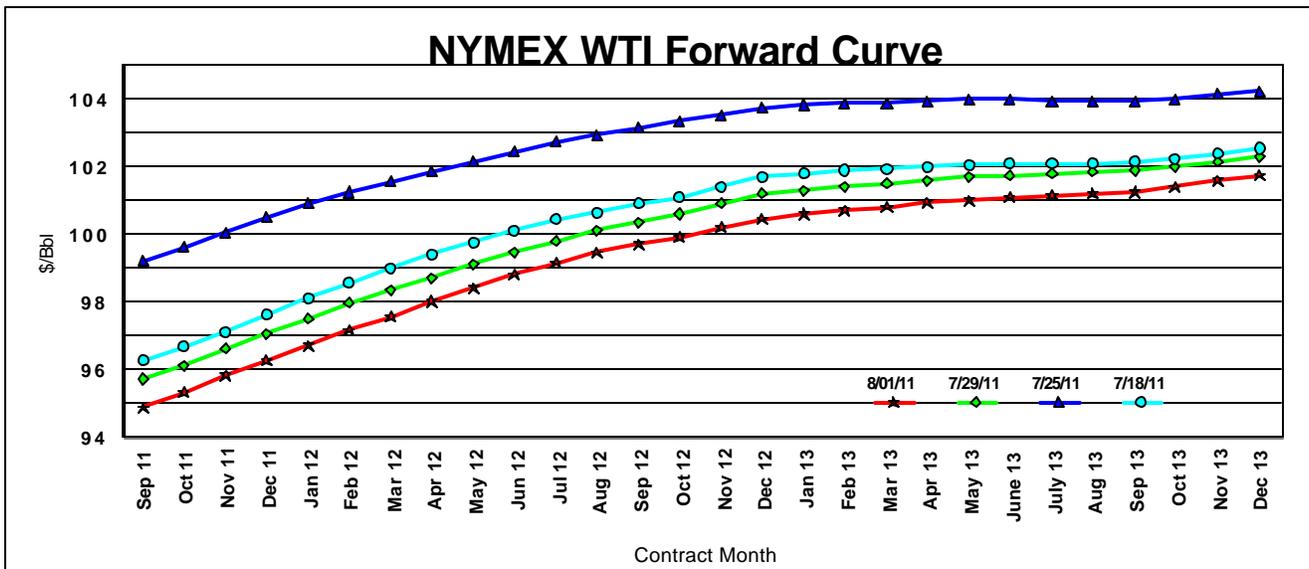
Enterprise Products Partners LP and Energy Transfer Partners extended the open commitment season for the planned Double E Crude oil pipeline for the second time. They extended the end of the open interest season for the 450,000 bpd pipeline, stretching from Cushing, Oklahoma to Houston, Texas to August 12th, two weeks later than the previously revised end date.

IIR Energy reported that US oil refiners are expected to shut in 120,000 bpd of capacity in the week ending August 5th, down from the previous week’s level of 273,000 bpd.

Credit Suisse reported that the refining margins were mixed in the week ending July 29th. Margins in the Northeast increased by 39 cents to \$11.15/barrel while margins in the Midwest increased by 97 cents to \$30.80 and margins in the Gulf Coast fell by 43 cents to \$31.54/barrel on the week. Refinery margins in the Rockies region increased by \$1.55 to \$35.85/barrel while margins in the West Coast fell by \$1.08 to \$11.20/barrel.

ConocoPhillips reported equipment failure at its 247,000 bpd Alliance refinery on the Mississippi River in Belle Chase, Louisiana late Saturday.

BP reported that a fluid catalytic cracking unit at its Texas City, Texas refinery returned to normal operations following a weekend compressor problem.



ExxonMobil Corp started turnarounds on a hydroformer, hydrotreater and several aromatics units at its 560,640 bpd refinery in Baytown, Texas. The refinery started a turnaround on a flexicoker unit in mid-July.

Valero Energy Corp's crude distillation unit at its 225,000 bpd refinery in Texas City, Texas should return to planned rates within a couple of days. The unit was shut on July 18th to repair a leak while its two other crude distillation units remained in operation. Separately, Valero Energy Corp completed its transaction to purchase Chevron's Pembroke refinery in Wales.

Hovensa LLC's 350,000 bpd St. Croix refinery was operating normally on Monday but preparing for a possible tropical storm in the coming days. A tropical wave causing thunderstorms in the Lesser Antilles Islands has an 80% chance of becoming a tropical storm in the next 48 hours.

Canadian Natural Resource's 110,000 bpd Horizon oil sands upgrader remains shut following a January fire. It has stated that it was planning for an August restart. Syncrude Canada said it scheduled a coker turnaround for the second half of the year at its 350,000 bpd upgrader.

Formosa Petrochemical Corp declared force majeure on exports of all refined oil products after the government ordered a shutdown of its 540,000 bpd Mailiao refining complex. The government ordered the private refiner to immediately halt operations at its facilities to conduct an intensive safety review.

India's Mangalore Refinery & Petrochemicals Ltd paid \$100 million to the National Iranian Oil Co in the first installment of its pending dues for crude oil purchases from Iran. The Press Trust of India reported that the refiner deposited the amount in a rupee account in Union Bank of India's New Delhi branch, which then routed equivalent euros to Halbank in Istanbul, Turkey. Essar Oil Ltd, Indian Oil Corp and Hindustan Petroleum Corp will each send \$50 million to Iran using the same mechanism. Iran reportedly denied Indian statements that Turkey had a role in the resolution of an oil payment dispute.

Petrobras' chief executive said the company is right to invest in domestic refining because it would greatly lose market share if it does not expand its capacity. Petrobras can earn an extra \$8/barrel margin if it refines oil domestically rather than just importing crude. The company has been criticized by some investors for pumping too much money into expanding refining when it has opportunities to invest in new offshore discoveries.

Thailand's Ministry of Energy reported that the country's crude oil imports in June fell 12.9% on the year and by 15.2% on the month to 761,000 bpd. Crude imports in the first half of 2011 averaged 801,000 bpd, down 2.2% on the year. Refined oil imports increased 28.2% on the year to 67,200 bpd in May while exports fell 32.7% to 159,800 bpd. Domestic demand for diesel in June increased by 6.3% on the year but fell by 1.6% on the month to 53.6 million liters/day while gasoline demand increased by 0.9% on the year but fell 4.2% on the month to 20.8 million liters/day.

South Korea's Economy Ministry reported that the country's oil imports in July increased by 12.6% on the year to 77.7 million barrels.

Germany's industry statistics group AGEBA said German primary energy use the first half of 2011 fell by 3.2% on the year to 234.4 million tons of hard coal equivalent units, down from 242.1 million tons a year earlier.

Production News

A Saudi official said the country is delivering on its promise to increase production to meet rising demand. It increased its production in July to 9.85 million bpd, the highest level since early 1980s, when its production averaged about 9.9 million bpd.

North Sea field and pipeline maintenance has delayed seven cargoes of August loading Forties crude. The delayed cargoes hold 4.2 million barrels of crude, almost half of the total volume of Forties crude scheduled to load in August. Maintenance at the Buzzard field is expected to be completed by the end of August. Meanwhile, BP also shut down the Forties pipeline on August 1st through August 5th to remove unexploded mine from World War II.

Qatar Petroleum has informed at least two Asian refiners that it would provide the full contracted volume of its crude exports for September.

According to Dow Jones, OPEC's total oil production in July increased to its highest level since late 2008. Total production from the 12 OPEC members increased by 607,000 bpd in July to 30.367 million bpd while production from the 11 members bound by quotas increased by 582,000 bpd to 27.587 million bpd in July. It reported that Saudi Arabia's oil production increased by 350,000 bpd to 9.817 million bpd in July.

Italy's Eni said it would take at least one year to restore its Libyan oil fields to full production after the political unrest in the country is resolved and it can access its shut in fields. Even though Eni halted its Libyan oil output of 115,000 bpd since the anti-Gaddafi upheaval in February, it has remained the only foreign oil company still active in Libya, producing about 10 million cubic meters/day of gas in the country. On Friday, Eni reported that its oil and gas output fell 15% in the second quarter to 1.489 million bpd of oil equivalent due to the loss of its Libyan output. Its actual production level of 50,000 bpd of oil equivalent in Libya compares with 280,000 bpd of oil equivalent prior to the civil unrest.

The Canada Newfoundland and Labrador Offshore Petroleum Board said Newfoundland and Labrador's crude production fell to 224,755 bpd in June, down 14.7% on the year and down 22.1% on the month. Production at the Hibernia field in June fell by 12.5% to 120,520 bpd on the year and 32.4% on the month. Terra Nova field production was also significantly lower compared to the year earlier as a result of natural declines.

The head of Iraq's State Oil Marketing Organization said Iraq's oil exports in July averaged 2.164 million bpd, down 4.8% on the month due to increased local consumption. Basra Light crude flowed at a rate of 1.708 million bpd in July, down from 1.727 million bpd in June while Kirkuk crude sales in July flowed at 456,000 bpd, down from 547,000 bpd in June.

Brazil's National Petroleum Agency said its crude oil production in June increased as several offshore platforms shut for maintenance resumed operations. Brazil's oil fields produced 2.137 million bpd in June, up 4.2% on the year. Crude oil production increased by 3.2% from 2.072 million bpd in May. Natural gas production increased by 6.9% on the year to 67.3 million cubic meters/day.

Market Commentary

Earlier in the session, crude oil rose on news that an agreement to raise the debt ceiling had been reached in Washington. This rally was short lived however, with prices slipping on weak global economic news. This bearish news sent fund managers on the defense as they scrambled to limit market risk. Today's outside trading session combined with a close below the 200-day moving average of \$94.90 is further testament that this market lacks the ability to sustain. The focus has now shifted to the downside, making \$87.27, the channel bottom our objective.

Crude oil: Sept 11 362,094 +724 Oct 11 105,472 +4,303 Nov 11 88,338 +694 Totals 1,521,594 +10,936 Heating oil: Sept 11 106,803 +937 Oct 11 38,007 -2,503 Nov 11 30,985 +426 Totals 302,151 -8,285 Rbob: Sept 11 95,505 -2,648 Oct 11 38,345 +198 Nov 11 22,051 +805 Totals 245,616 -4,204

Crude Oil		Heating Oil		Rbob	
Support	Resistance	Support	Resistance	Support	Resistance
9122	9726				9122
8950	9924	27150	32777		33369
8727	10071	26680	33370	26965	35915
8625	10222	27375	33510	26300	36310
	10339	23685		25683	
	10845	22960		25145	
	11120			24240	
	11483			23631	
50-day MA	97.26			23414	
200-day MA	95.03				

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