

**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 AUGUST 4, 2009**

---

Kuwait's Oil Minister Sheikh Ahmad al-Abdullah al-Sabah said Kuwait hopes to see oil prices at \$70-\$80/barrel through the rest of the year and believes it is suitable for the world economy. He said oil prices above \$80/barrel are good for oil producers but a rise above \$100 could fuel world recession. He said oil prices reflect optimism about the world economic recovery rather than oil market fundamentals.

#### **Market Watch**

The US Commerce Department said personal income fell at a seasonally adjusted rate of 1.3% compared to the month before, reflecting rising unemployment. It reported that spending increased 0.4% compared to the prior month. Adjusting for inflation, though spending fell by 0.1%. The data showed personal saving as a percentage of disposable personal income was 4.6% in June, down from 6.2% in May. The price index for personal consumption expenditures excluding food and energy, in June increased by 1.5% on the year after increasing by 1.6% in May. The core PCE increased 0.2% in June compared to May.

The National Association of Realtors' index for pending sales of previously owned homes increased by 3.6% in June to 94.6 from 91.3 in May. Year over year, the index was 6.7% above the level of 88.7 in June 2008. It was the fifth consecutive increase. Meanwhile gold reached an eight week high of \$964.30/oz as the dollar pared gains against the euro following the home sales data.

The EIA said US GDP could fall by up to 0.9% or \$1.9 trillion by 2030 as energy prices increase under a proposed landmark climate bill being considered in Congress. The proposal sets a falling cap on greenhouse gas emissions and creates a market to buy and sell the right to emit, called emission credits. Under a range of possible scenarios, those credits are estimated to cost between \$20/ton to \$93/ton by 2020.

The Colorado State University storm research team reduced its 2009 Atlantic hurricane season forecast on Tuesday, predicting that 10 tropical storms will form and four of those will strengthen into hurricanes. It previously predicted the season would see 11 tropical storms, five of which would strengthen into hurricanes. The first two months of the Atlantic season, June and July, did not produce any tropical storms or hurricanes.

The UK Financial Services Authority and the UK Treasury will meet oil industry representatives on Wednesday in response to US pressure for more regulation of commodities markets. The UK FSA said the meeting will involve oil producers, traders, banks and funds. It will discuss market transparency and efficiency. Both the IntercontinentalExchange and the London Metal Exchange have said they have no plans to change the way they regulate large positions on their UK based markets.

The al-Hayat newspaper reported that Saudi Arabia's Shuaiba Water and Electricity Company has started operating its Shuaiba-3 plant at full capacity. The plant burns crude oil for fuel. Saudi Arabia has increased burning of crude this year to keep new oil wells pumping and to produce cleaner power.

### API Stocks

**Crude** – down 1.518 million barrels  
**Distillate** – down 1.043 million barrels  
**Gasoline** – up 2.091 million barrels  
**Refinery runs** – down 0.8%, at 82.6%

OPEC delegates said the group is unlikely to cut its oil production further at its meeting next month if oil prices remain around current levels. OPEC is scheduled to meet on September 9<sup>th</sup>. A delegate said that while inventories are high, it would be difficult for the group to justify a further cut in output given the weak economy.

The IEA's chief economist Fatih Birol said the world economy cannot sustain any further increase in oil prices. He said that prices above \$70/barrel could dampen a world economic recovery. He also added that while efforts to cut oil speculation was a good step, it would not significantly reduce prices. He said the real problem is declining investment in oil production, which has worsened in recent months and added that if there is a continuation of declining investment in the upstream sector, in a few years' time there will be major difficulties. He said Chinese demand would be an important determinant of oil prices and the worldwide supply and demand balance could become very tight if other countries begin to grow in 2011 or 2012.

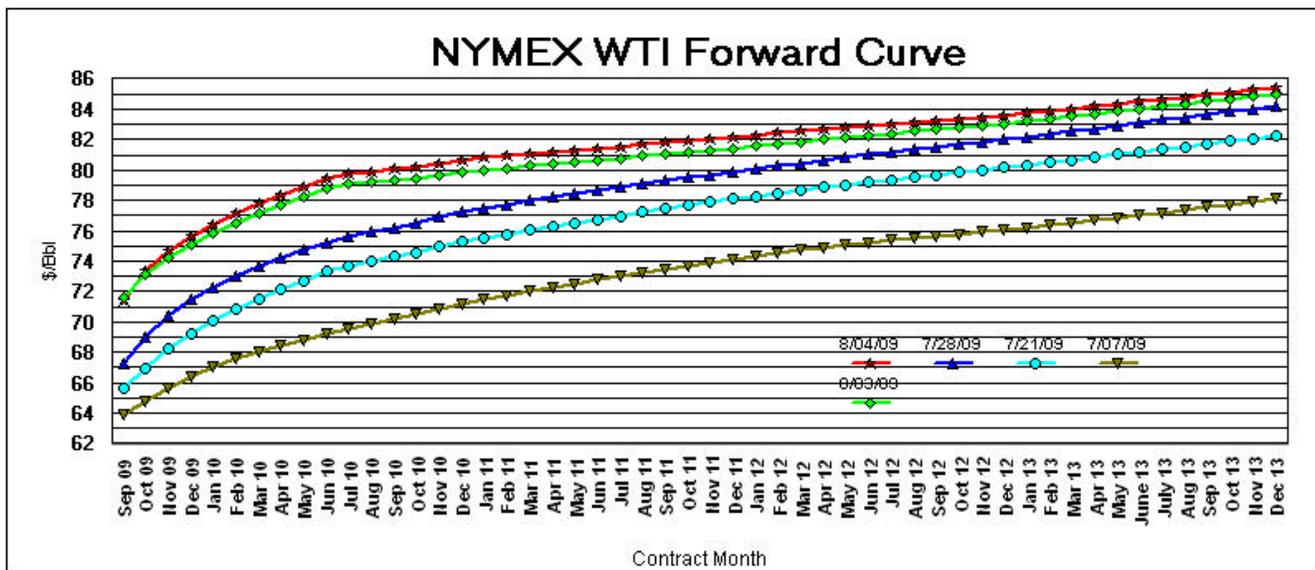
### Refinery News

According to a news release by the US Coast Guard and Shell Pipeline Co, workers finished cleaning up 1,500 barrels of crude oil that leaked from Eugene Island pipeline. Shell said it would repair and restart the line but did not state when. About 80,000 of the 100,000 bpd of crude the line was carrying when the leak occurred has been rerouted.

### August Calendar Averages

**CL** – \$71.50  
**HO** – \$1.8864  
**RB** – \$2.0630

US oil refiners will likely cut production as well as planned maintenance work this fall as margins continue to fall due to weak fuel demand. US refineries will be running around 80% of capacity on average from August through December, despite the lack of much fall and winter maintenance. A drop to 80% refinery utilization would be far lower than the historical average for the August to December months, which have averaged about 90% capacity since 1991.



Sunoco Inc was forced to cut rates over the weekend at its Philadelphia refinery after a small fire in piping occurred while preparations for work on the crude distillation unit were underway. It is not clear how much rates have been reduced or how long the reduction will last. The work is expected to last about 3 weeks. Also, preparations for work on its fluid catalytic cracking unit are already underway.

BP Plc warned of planned flaring at its 265,000 bpd Carson, California refinery between Wednesday and Sunday. A report filed with California pollution regulators did not state which unit would be involved in the flaring.

An industry analyst said the ethanol industry will have to deal with the reopening of some plants and new production capacity coming on line during the next year or two. However he said the trend for ethanol and gasoline demand is higher. It is unclear how much total ethanol demand could increase. The USDA is projecting ethanol demand of 4.1 billion bushels of corn in 2009-10, up from an estimated 3.65 billion bushels in 2008-09. Some in the industry said the 2009-10 ethanol demand could increase by another 50 million to 100 million bushels.

India's Reliance Industries 1.24 million bpd refinery complex shipped one-third less petrol and diesel to Asia in April-June this year compared to a year ago. It increased sales by 25% to the Middle East while sales to Europe increased six fold, rising to become its second largest market as it produced premium fuels to meet higher European environmental standards. It also sold fuel directly into the US market for the first time, shipping nearly 184,000 tons or 1.55 million barrels of gasoline.

Petrobras and PDVSA have agreed in principle on the final details of a refinery joint venture, with the final deal expected to be signed in September. The refinery is expected to process 230,000 bpd of oil. Each company is expected to provide half of the crude oil needed for daily processing. In addition, PDVSA wants to sell oil production from the refinery in Brazil.

Japan's Cosmo Oil Co Ltd restarted its 140,000 bpd crude distillation unit at its Sakaide refinery as planned following the completion of scheduled maintenance.

China's Ministry of Transport reported that the country's main ports received 16.27 million tons or 3.85 million bpd of imported crude in July, up 26% on the year. It also reported that its iron ore imports totaled 56.5 million tons last month, up 35% on the year.

PetroChina Co, Qatar Petroleum International and Royal Dutch Shell Plc have decided to locate their \$80 billion refinery and petrochemical complex in Taizhou city in China's eastern Zhejiang province. The first phase of the project includes a refinery with annual processing capacity of 20 million metric tons of crude oil, annual production capacity of 1.2 million tons of ethylene and a 300,000 ton crude oil terminal in Dachen Island.

Japan's Idemitsu Kosan Co raised its oil export outlook by 20% from its initial plan for the year ending next March to offset declining domestic demand. It expects to export 1.9 million kiloliters or 32,700 bpd of oil products, mostly gas oil in the year to March 31<sup>st</sup>. It is up from 1.5 million kl last year and up from its initial outlook of 1.58 million kl for this year. The company's oil exports in the three months ending June 30<sup>th</sup> increased to 338,000 kl from 197,000 kl in the same period a year ago.

China Aviation Oil is not expected to issue a spot tender to buy jet fuel for September arrival as a global economic slowdown dampened demand. It bought 80,000 tons of jet fuel for July-August delivery via tender, significantly lower than volumes in 2008 when the company tendered for a total of 876,000 tons of jet fuel. Traders said that while CAO had not issued any tender to buy jet fuel for September, it bought cargoes off the spot market for next month's arrival.

Indonesia's Pertamina is expected to import 5-6 million barrels of gasoline and 3-4 million barrels of diesel in September to meet demand for the Muslim holiday season. Pertamina may import 6 million barrels of gasoline in August, up 20% from July while its diesel imports may remain steady at about 4 million barrels in August. Diesel stocks are currently at 23 days and gasoline stocks at 18 days.

NEW YORK MERCANTILE EXCHANGE(r)									
NYMEX OPTIONS CONTRACT LISTING FOR 08/04/2009									
				TODAY'S	PREVIOUS	ESTIMATED	DAILY	DAILY	
-----CONTRACT-----				SETTLE	SETTLE	VOLUME	HIGH	LOW	
AO	10	9	P	60	1.35	1.42	2000	0	0
AO	11	9	P	60	1.92	2	2000	0	0
AO	12	9	P	60	2.37	2.44	2000	0	0
AO	11	9	C	90	2.21	2.09	1000	0	0
AO	10	9	C	90	1.25	1.19	1000	0	0
AO	12	9	C	90	3.16	3.08	1000	0	0
LC	6	10	P	55	2.89	2.97	2000	0	0
LC	12	10	P	55	3.46	3.55	2000	0	0
LC	6	10	C	85	8.28	7.96	2000	0	0
LC	6	10	C	100	4	3.84	1000	0	0
LC	12	10	P	56.5	3.78		1000	0	0
LC	12	10	P	50	2.5	2.57	1000	0	0
LC	12	10	P	80	11.68	12	1000	0	0
LC	6	10	P	50	1.96	2.02	1000	0	0
LO	12	9	P	60	2.13	2.22	11230	2.25	2.25
LO	9	9	P	60	0.19	0.22	5578	0.25	0.16
LO	9	9	P	65	0.64	0.68	5412	0.83	0.57
LO	12	9	P	55	1.34	1.38	5196	1.5	1.32
LO	10	9	P	65	1.84	1.88	4724	2	1.7
LO	12	10	P	50	2.51	2.58	4700	0	0
LO	12	10	C	150	1.19	1.13	4312	1	1
LO	10	9	P	60	0.96	0.99	4152	1.08	0.89
LO	12	10	C	100	5.39	5.14	4105	5.5	5.5
LO	9	9	C	75	1.09	1.21	4090	1.43	0.85
LO	10	9	P	55	0.48	0.49	3774	0.52	0.44
LO	1	10	P	65	3.8	3.92	3500	0	0
LO	12	9	P	75	7	7.25	3310	7.35	7.35
LO	12	9	C	75	7.62	7.31	3157	6.95	6.95
LO	10	9	C	80	2.07	2.07	2642	2.1	1.85
LO	12	9	P	67.5	4.02	4.18	2502	4.65	4.25
LO	2	10	C	90	4.05	3.89	2380	0	0
LO	6	10	P	65	5.34	5.47	2250	0	0
LO	12	9	P	65	3.29	3.43	2136	3.58	3.58
LO	6	10	P	57.5	3.45	3.55	2000	0	0
LO	3	10	C	77	9.98	9.56	1975	0	0
LO	2	10	P	60	3	2.97	1975	0	0
LO	3	10	P	77	9.16	9.4	1975	0	0
LO	9	9	P	63	0.4	0.43	1790	0.5	0.4
LO	10	9	C	90	0.47	0.48	1778	0.5	0.4
LO	11	9	C	90	1.33	1.28	1755	1.35	1.2
OB	9	9	P	1.8	0.0178	0.017	1427	0.024	0.024
OB	9	9	P	1.86	0.0284	0.027	1000	0	0
OB	4	10	P	2.12	0.284	0.2805	625	0	0
OB	4	10	P	2	0.2258	0.2226	525	0	0
OB	9	9	P	1.7	0.0073	0.007	506	0.0067	0.0065
OB	9	9	P	1.9	0.0378	0.0359	503	0.038	0.037
OH	12	9	P	1.75	0.1012	0.1072	700	0	0
OH	12	9	C	2.7	0.0382	0.035	700	0	0

Separately, Pertamina wants to have a larger stake in a planned joint venture with Mitsui & Co to build a refinery in Central Java. It previously said a preliminary agreement had been reached to build a residue fluid catalytic cracking unit with a capacity of about 60,000 bpd of gasoline at its existing Cilacap refinery in Central Java.

Germany's AGEBA said the country's energy use fell by 6% year on year to 222.7 million tons of coal equivalent in the first half of the year due to the slowdown in economic activity. Its consumption of oil increased by 1.3% on the year to 79.7 million tons of coal equivalent while its natural gas consumption fell by 11% to 52 million tons of coal equivalents.

### **Production News**

StatoilHydro ASA said its second quarter equity oil and gas production fell by 3% on the year, as the decline at mature fields in Norway was only partially offset by strong international output. Its equity production in the three month period to May 31<sup>st</sup> fell to 1.845 million bpd of oil equivalent from 1.898 million bpd in the same quarter last year.

Development of Anadarko Petroleum Corp's El Merk oilfield project in Algeria is still on track, with first oil seen in late 2011. It said

other major projects, such as the Caesar/Tonga development in the US Gulf of Mexico and the Jubilee project in Ghana, also remain on schedule. The Caesar/Tonga project is expected to deliver first oil in early 2011 while the Jubilee project is expected to see first oil in late 2010.

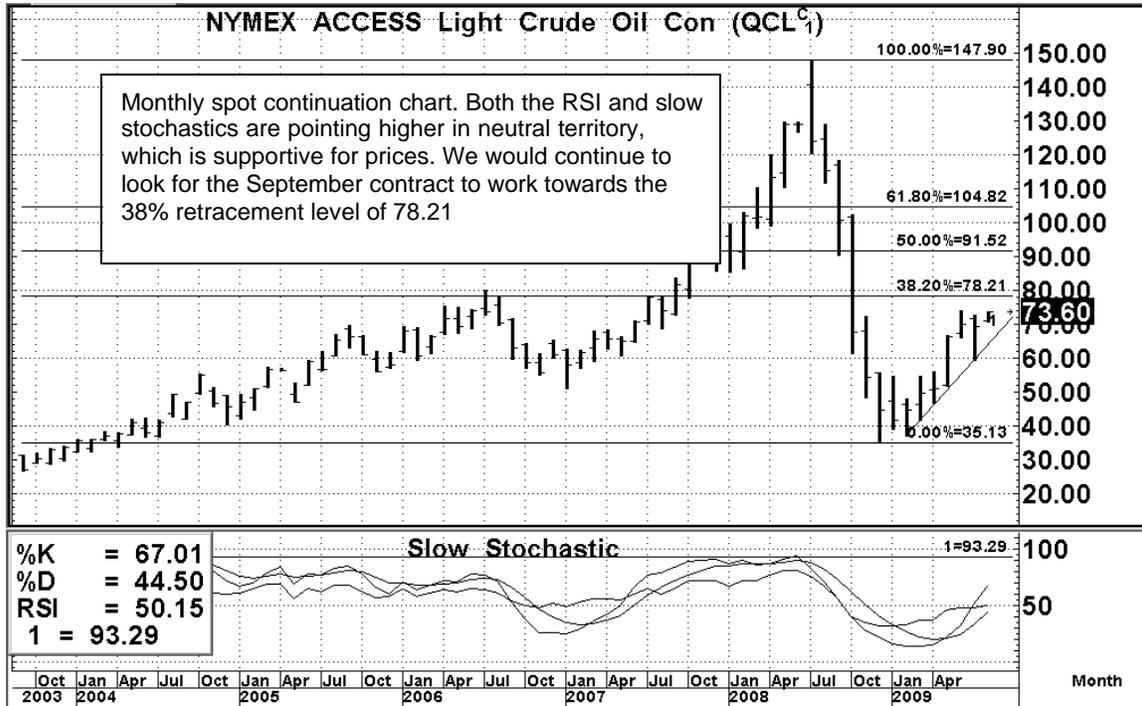
OPEC's news agency reported that OPEC's basket of crudes increased further to \$71.34/barrel on Monday, up from Friday's \$68.59/barrel level.

### **Market Commentary**

Crude oil prices fluctuated above and below unchanged today as the market reacted to economic news. A report released today indicated that U.S. personal income dropped in June and contracts to buy previously owned homes increased. Expectation of inventory builds aided in the sell-off along with expectations of increases in unemployment. Heating oil futures rallied on expectations that an improvement in the economy would boost demand for diesel fuel. Tomorrow's inventory report will provide a better picture as to whether or not inventory levels have changed enough to warrant the recent move higher in prices. There are still very high inventory levels of crude oil and weak consumer demand. Technically, this market still appears to have further upside potential, with minor corrections to the downside. Based upon a monthly spot continuation chart, we would still look for crude oil to work towards the 38% retracement level of \$78.21. Gasoline crack spreads suffered a late session sell-off in response to expectations of inventory builds in the DOE numbers and a build of 2.091 in API numbers. Gasoline will continue to be economically sensitive, responding accordingly.

Crude Oil (SEP.09 320,204 +949 OCT.09 127,292 +8,638 NOV.09 63,132 +4,529 DEC.09 157,921 - 1,624 JAN.10 35,055 +583 FEB.10 23,510 -386 Totals: 1,202,410 +11,696. Heating Oil (HO) SEP.09 67,725 -3,151 OCT.09 38,065 +550 NOV.09 26,096 +531 DEC.09 39,328 +834 JAN.10 21,318 -119 FEB.10 14,396 +147 Totals: 299,034 - 491. Harbor RBOB SEP.09 95,497 -516 OCT.09 35,285 +732 NOV.09 18,229 +1,434 DEC.09 22,982 +1,320 JAN.10 11,145 +144 FEB.10 3,350 -140 Totals: 208,441 +2,438

The crude market traded higher in light of API reporting an unexpected draw in crude stocks of 1.518 million barrels on the week, with a large draw of 2.897 million barrels in Padd 3. It reported that crude stocks are up 16.9% on the year. It reported the draw in crude stocks as imports fell by 424,000 bpd to 8.699 million bpd on the week. It however showed that Cushing, Oklahoma crude stocks built by 908,000 barrels on the week. The API also reported an unexpected draw in distillate stocks of 1.043 million barrels on the week, with a draw of 1.21 million barrels in Padd 3. Distillate stocks are up 22.3% on the year. It reported the draw in distillate stocks as production and imports fell by 99,000 bpd to 3.966 million bpd and by 103,000 bpd to 215,000 bpd, respectively. Apparent distillate demand however fell by 0.85 to 4.33 million bpd while apparent demand basis its three week moving average increased by 1% to 4.357 million bpd. The API reported an unexpected build in gasoline stocks of over 2 million barrels on the week. It reported the build in stocks as apparent gasoline demand fell by 4.4% on the week and by 2% on the year to 9.202 million bpd and apparent demand basis its three week moving average fell by 0.5% on the week and by 2.4% on the year to 9.346 million bpd.



<b>Crude Support</b>	<b>Crude Resistance</b>
70.15, 66.20, 63.74, 62.70, 61.61, 60.95,	72.20, 73.38, 74.50, 76.13
<b>Heat Support</b>	<b>Heat resistance</b>
1.8990, 1.8775, 1.8655, 1.8000, 1.7340, 1.4220, 1.4130, 1.3720	1.9345, 1.9500,
<b>Gasoline support</b>	<b>Gasoline resistance</b>
2.0250, 1.9070, 1.7989, 1.7895, 1.5887, 1.5370, 1.5260, 1.3560, 1.3400,	2.1100, 2.1600, 2.3350

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.