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## ***ENERGY RISK MANAGEMENT***

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### **ENERGY MARKET REPORT FOR AUGUST 24, 2010**

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The US National Hurricane Center said Hurricane Danielle which strengthened early Tuesday to a Category 2 storm, was downgraded to a Category 1 storm. It is expected to gain further strength but posed no threat to energy interests in the Gulf of Mexico as it headed northwest and to the east of Bermuda. According to several forecasts, the storm is expected to strengthen by early Wednesday to Category 3 with sustained winds of over 111 mph. Computer models showed Hurricane Danielle curving to the northwest on a path that would keep it over open seas, turning more northerly to the east of Bermuda. Elsewhere in the Atlantic, the

NHC said a broad area of low pressure about 100 miles south of the Cape Verde Islands was getting better organized and had a 90% chance of becoming a tropical depression during the next 48 hours.

#### **Market Watch**

The National Association of Realtors said existing home sales in July fell by 27.2% on the month to an annual rate of 3.83 million units, the lowest level since May 1995. June's sales were revised down to 5.26 million units from a previously reported 5.37 million. The inventory of previously owned homes for sale increased 2.5% to 3.98 million units from June, representing a supply of 12.5 months.

Chicago Federal Reserve Bank President Charles Evans said the risks of a double dip US recession have increased in the last six months. He said that while a new contraction in the economy is still not the most likely scenario, high unemployment and a fractured housing sector make the recovery a fragile one. He said a double dip is not the most likely outcome but is concerned about how strong the recovery will be.

Dallas Federal Reserve Bank President Fisher said the US Federal Reserve decided to reinvest proceeds from its mortgage related assets to avoid unintentionally clamping down on monetary policy when the recovery was showing signs of weakening.

Iraq's Major General Hamid Ibrahim's force will be responsible for protecting Iraq's oilfield and refineries when the US military cuts its numbers to 50,000 on August 31<sup>st</sup> and switches from a combat to advisory role. However protecting the country's energy infrastructure will be a challenge. While Iraq has signed deals with oil firms to increase its output capacity to 12 million bpd in seven years, increasing its capacity will depend on whether the country can secure its oilfields, refineries and other infrastructure against insurgents and militia. Iraq's Major General still has a long list of needs to protect its infrastructure, starting with having enough policemen. He said there should be 41,000 policemen but are currently short 10,000 men. To fill the gap, the oil police hire civilian guards. The police is also short of reconnaissance planes to monitor the most important sites and pipeline routes and despite having received 600 vehicles from US forces, it lacks vehicles such as tanks, jeeps and ambulances. US officials say the Iraqi oil security forces are up to the task but further improvement is needed.

LyondellBasell Industries NV has decided to end all business operations in Iran due to sanctions imposed against the country.

### API Stocks

**Crude** – down 1.847 million barrels

**Distillate** – up 1.889 million barrels

**Gasoline** – up 692,000 barrels

**Refinery runs** – down 0.5% at 85%

OPEC Secretary General Salem El-Badri said OPEC members will invest heavily in downstream activities over the coming years despite uncertainty about the global economic climate. He said OPEC members are expected to invest \$40 billion in refining capacity expansion. He said that in 2009, about 30 projects came onstream in OPEC countries, resulting in an increase of 1.5 million bpd in net crude and

liquids capacity. He also stated that over the next five years, 140 projects are expected to be completed and add about 12 million bpd of gross crude and liquids capacity.

Kuwait has expressed concern over Iran's Bushehr nuclear reactor, saying it fears fallout from possible leaks. A number of Kuwaiti lawmakers called on the government to take precautionary measures against any incident from the Iranian plant. Kuwaiti media reported that a senior Iranian official is due to visit Kuwait within days, possibly to discuss the nuclear plant issue.

According to the Association of American Railroads, the number of multimodal containers hauled on US railroads reached a new peak of 199,859 in the week ending August 14<sup>th</sup>, up 22% on the year. Trailer shipments were up just 12% in the latest week at 30,182. The multimodal segment is outperforming rail freight volumes. Total freight volumes increased by 7% on the year.

According to a SpendingPulse report by MasterCard Advisors LLC, US gasoline demand fell by 1.2% or 111,000 bpd to 9.462 million bpd in the week ending August 20<sup>th</sup>. Demand was up 0.9% or 89,000 bpd on the year. In the latest four weeks, demand averaged 9.505 million bpd, up 127,000 bpd or 1.4% on the year. The US average retail price of gasoline fell by 4 cents to \$2.72/gallon.

### Refinery News

Chevron Corp reported sulfur dioxide emissions from its 260,000 bpd refinery in El Segundo, California on Monday. The cause of the emissions was the unexpected shutdown of a compressor.

Murphy Oil Corp's 125,000 bpd refinery in Meraux, Louisiana has resumed normal operations after changing out catalysts.

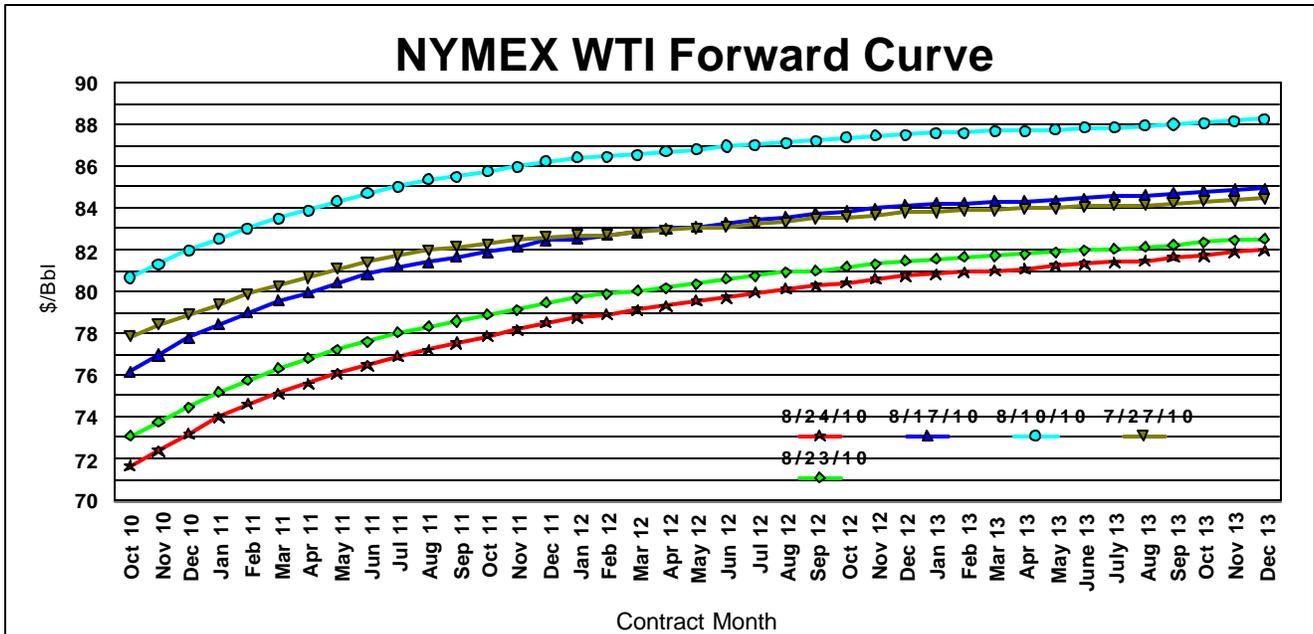
BP Plc completed repairs at a section of its White Oak refined products pipeline that was shut last week due to a leak. However there is no estimate yet of when the line will resume normal operations. A 20 foot section of the pipeline was replaced over the weekend. The White Oak pipeline transports finished fuel from BP's 405,000 bpd Whiting, Indiana refinery to two BP owned product terminals in Illinois.

Enbridge Energy Partners LP said it will spend \$550 million to expand its pipelines serving oil producers in the Bakken and Three Forks formations in North Dakota. The expansion will add about 145,000 bpd to Enbridge's Bakken pipeline capacity by early 2013 and could be expanded further to 325,000 bpd. The pipelines will run from facilities near Tioga, North Dakota to Enbridge's Mainline terminal in Cromer, Manitoba.

PDVSA will partially resume operations at its 320,000 bpd La Isla refinery in Curacao on Wednesday. It will restart a crude distiller unit at the refinery on Wednesday, which will eventually allow the refinery to begin producing oil derivatives again. A return to full capacity is not yet estimated.

JX Nippon Oil & Energy Corp shut a 45,000 bpd gasoil hydro desulfurization unit at its Muroran refinery early Tuesday due to a fire.

|                                     |
|-------------------------------------|
| <b>August<br/>Calendar Averages</b> |
| <b>CL – \$77.59</b>                 |
| <b>HO – \$2.0673</b>                |
| <b>RB – \$2.0196</b>                |



Saudi Aramco is planning a maintenance shutdown at its 225,000 bpd Yanbu refinery early next year. Work will start in February.

China Petroleum and Chemical Corp plans to expand the refining capacity of its subsidiary Sinopec Yangzi Petrochemical Co by 56% to 12.5 million tons a year or 251,000 bpd in Nanjing city. It will also upgrade the ability of the Sinopec Yangzi facilities to process high sulfur crude, increasing its capacity to 9 million tons/year or 180,700 bpd of crude.

Kuwait National Petroleum Co is planning to build super-sized storage tanks at the 460,000 bpd Mina al-Ahmadi refinery. It said it will build 10 storage tanks, with a total storage capacity of 750,000 cubic meters. The construction of the storage tanks is expected to start before the end of the year.

German residential heating oil stocks increased to 56% of capacity as of August 1<sup>st</sup> from 53% of capacity on July 1<sup>st</sup>.

Essar Oil Ltd confirmed it was still in talks to purchase Royal Dutch Shell Plc's refineries in Europe contrary to reports. Shell started talks with Essar over the sale of its Stanlow refinery in the UK and the Heide and Harburg refineries in Germany late last year.

### Production News

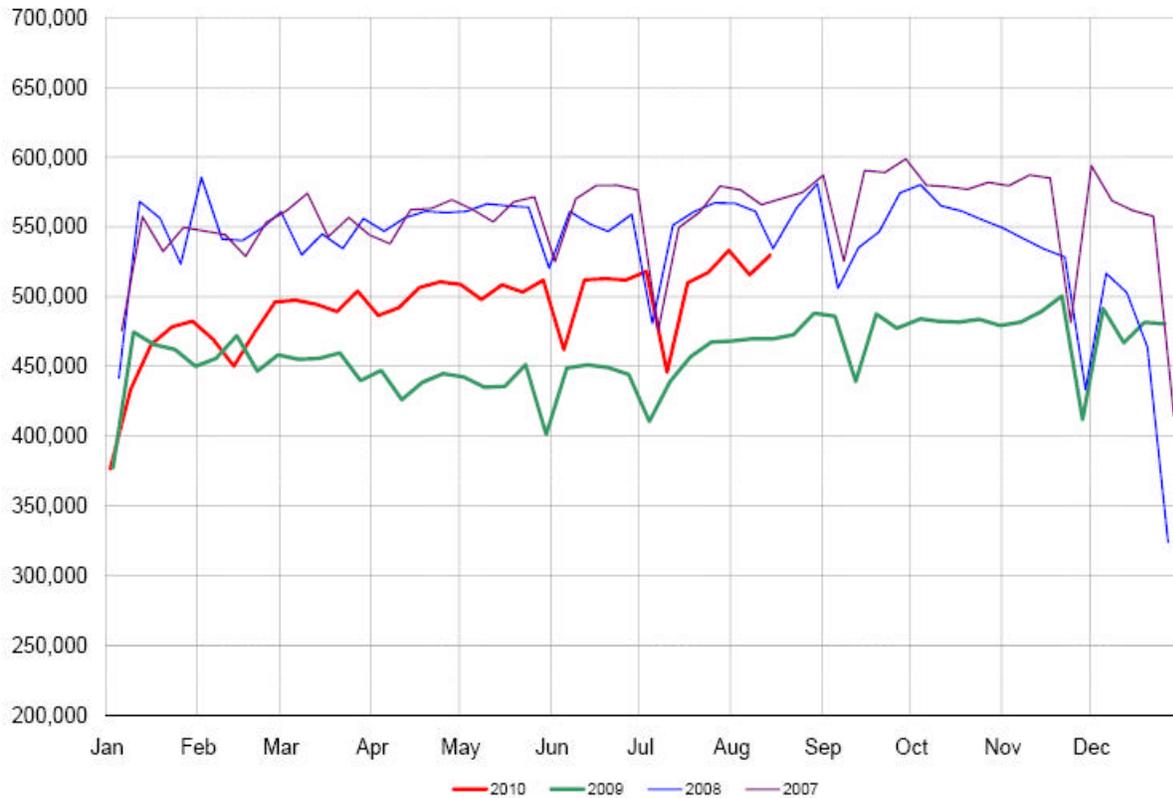
Danish Underground Consortium's oil production in July fell by about 4% on the month to 207,700 bpd from 216,600 bpd in June. DUC natural gas exports fell to 600 million cubic meters in July from 610 million cubic meters in June.

An Iraqi Oil Ministry official said Iraq's oil exports fell slightly to 1.816 million bpd in July from 1.823 million bpd in June. Iraq exported an average of 1.432 million bpd from the southern terminal of Basra and 383,000 bpd from the northern oilfields of Kirkuk, including 10,000 bpd by trucks to Jordan. Revenue from Iraqi crude oil exports in July increased by 3% to \$4.009 billion compared with \$3.889 billion in the previous month.

Iraq resumed its oil flow from Iraq's Kirkuk oil fields to Turkey's Mediterranean export terminal of Ceyhan after a rupture halted the flow of crude for about five days. A source at Iraq's North Oil Co

REUTERS

**UNITED STATES: WEEKLY RAIL MOVEMENTS**  
**TOTAL FREIGHT CARS AND INTERMODAL UNITS**



Source: Association of American Railroads

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said it start pumping at normal rates if there is no problem in the pipeline within the next day. Pumping via the pipeline was halted since Thursday after a leak was discovered near Mosul.

Norway's Prime Minister Jens Stoltenberg said it would be years before drilling could take place in the new Barents Sea zone, which Norway agreed to delineate with Russia earlier this year. He said it was possible for the final demarcation treaty to be signed in 2010.

At least six international oil companies have demonstrated interest in buying a stake in offshore oil fields owned by Brazil's OGX Petroleo e Gas Participacoes SA. Sinopec, PetroChina Co, ExxonMobil Corp, Chevron Corp, Statoil ASA and an Indian oil company were among the companies expressing interest in the offshore exploration blocks.

Ghana's Vice President John Dramani Mahama said the country is on schedule to pump its first barrel of crude in December. Ghana is poised to become one of the world's fastest growing economies next year after its offshore Jubilee field comes on line. The Jubilee field reserve is estimated at 1.6 billion barrels.

Abu Dhabi National Oil Co denied plans to raise gasoline prices in September. An ADNOC official previously stated that a third incremental annual increase in gasoline prices would take place after the end of the Muslim fasting month of Ramadan, the first half of September.

OPEC's news agency reported that OPEC's basket of crudes fell by 85 cents to \$70.93/barrel on Monday.

**Market Commentary**

Economic woes pressured all three markets, pushing crude oil to its lowest level in seven weeks. Expectations for sales of previously owned homes in the U.S. fell more than expected in July, raising fears that economic growth is slowing. This market continues to find it difficult to hold onto any strength, given the extreme weakness of its underlying fundamentals and the lack of economic support. With expectations calling for an increase in inventories for crude oil, we would expect prices to continue lower. Distillate inventories, currently at a 27-year high, are expected to increase by 1 million barrels. Concern is growing that heating oil may not experience its seasonal uptrend due to current stock levels and the lack of demand. Despite the bearish scenario, the September/October heating oil spread has increased 47 percent since the beginning of August. This spread, which climbed from -\$0.0335 to -\$0.0180, hasn't been this strong since March 2010. One may attribute this increase to refinery cuts due to poor margins, distillate fuel exports that have surged to a record of 756,000 barrels per day in May and refinery turnarounds that should begin over the next few weeks. Still, inventories are high and at some point we would expect that inventories would begin to hit the open market as demand increases during winter. With the September contract approaching expiration, we would focus on the October contract, looking for it to come under pressure. Therefore, we would like to sell the October and buy the December contract. There is resistance on this spread up around the -\$0.0437. We would wait to see what this spread does at this level, selling failed attempts to penetrate, looking for a retracement back to -\$0.0585.

The API report showed a larger than expected draw in crude stocks of over 1.8 million barrels on the week. It reported a draw of 3.069 million barrels in Padd 2 alone. It reported the draw in stocks as crude runs increased slightly by 29,000 bpd to 14.486 million bpd on the week. The API however reported that imports increased by 755,000 bpd to 10.358 million bpd. The API reported a larger than expected build in distillate stocks of 1.889 million barrels, with builds of 1.045 million barrels and 1.441 million barrels in Padds 2 and 3, respectively. It reported the build in stocks as production increased by 74,000 bpd or 1.8% on the week to 4.197 million bpd while imports increased by 36,000 bpd or 11.8% to 342,000 bpd. It however reported that apparent demand increased by 3.2% on the week to 4.269 million bpd while apparent demand basis its three week moving average fell by 1% to 4.203 million bpd. Gasoline stocks unexpectedly built by 692,000 barrels on the week as gasoline stocks in Padd 1 built by 1.239 million barrels and stocks in Padd 2 fell by 1.034 million barrels. The API showed that gasoline production increased by 195,000 bpd on the week. Apparent gasoline demand increased by 4% to 9.544 million bpd while apparent demand basis its three week moving average increased by 1.3% to 9.478 million bpd.

Crude oil: Oct 10 326,912 +6,516 Nov 10 137,479 +2,691 Dec 10 189,168 -1,119 Totals 1,244,415 +4,837 Heating oil: Sept 10 29,090 -5,058 Oct 10 72,076 +5,381 Nov 10 42,848 -319 Totals 304,296 +3,106 Rbob: Sept 10 39,783 -4,432 Oct 10 89,464 +5,052 Nov 10 49,152 +173 Totals 254,642 +1,223.

| Crude Oil |            | Heating Oil |            | Rbob         |            |
|-----------|------------|-------------|------------|--------------|------------|
| Support   | Resistance | Support     | Resistance | Support      | Resistance |
| 7215      | 7367       | 18965       | 22530      | 18240        | 19260      |
| 7109      | 7506       | 19236       | 22700      | <b>16010</b> | 22345      |
| 7000      | 7477       | 18920       | 22945      |              | 24880      |
| 6715      | 7781       |             | 23775      |              | 27085      |

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