



ENERGY RISK MANAGEMENT

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ENERGY MARKET REPORT FOR AUGUST 26, 2010

Barclays Capital has reduced its oil price outlook for the remainder of this year and 2011. The bank cut its 2010 price outlook for WTI by \$4 to \$78 and reduced its 2011 price forecast by \$7 per barrel to \$85.00. The bank noted that while there is "enough fundamental strength to support prices above \$70 which is increasingly looking like a minimum for the basic health of the industry, but there is also enough macroeconomic disquiet to make a breakout of prices to the upside difficult to sustain.

Refinery News

Valero said Thursday that it had shut down its 36,000 b/d hydrocracker at its 144,000 b/d Benicia, California refinery on Wednesday to repair a valve leak. The outage is expected to be short in duration and was not expected to have a material impact on production.

Singapore's weekly onshore light distillates and fuel oil inventories fell in the week ended August 25th, with fuel oil stocks falling to their lowest level in 10 weeks at 20,566,000 barrels. Light distillate stocks (gasoline and naphtha) fell to a four week low of 10,140,000 barrels, while distillate stocks rose by 382,000 barrels to 13,914,000 barrels.

Husky Oil Corp said today that it would begin 40 days of work on the FCC unit and coker at its 150,000 b/d Lima, Ohio refinery starting in early October. Operators expect the impact on production will be marginal since the majority of the refinery's other units will still be operating throughout the turnaround.

Market Watch

Scott O'Malia, a CFTC commissioner said today that this week's reports of a computer glitch at Infinium earlier this year highlight the need for better enforcement of high frequency and algorithmic trading. He noted that "we need to develop rules and regulations that are more appropriate to policing the high speed nature of today's computer aided trading style, where computers can have a significant impact on the market in a matter of seconds, rather than trying to conform pit trading enforcement methods to today's markets."

Italy's demand for refined products fell 2.7% year on year in July to 6.8 million tones. Gasoline demand was off 5.5% while diesel demand was off 0.5%. In the first seven months of this year oil product demand is off 4.1%, with gasoline demand off 6.5% and diesel demand down 0.3%.

The KC Federal Reserve Bank reported this morning that its manufacturing index in August stood at zero, down from 10 reported for July. An index number above zero indicates expansion while a number below zero indicates contraction.

The Labor Department reported today that the number of workers making new claims for jobless benefits fell last week by more than expected, dropping by 31,000 to 473,000. New claims for the previous week were revised upward to 504,000.

PetroChina said today that it looks for the Chinese economy to grow by 8-10% peer year over the long term.

Exxon Mobil said today that it would close down some redundant process units at its 196,000 b/d refinery in Chalmette, Louisiana due to poor market conditions. The refinery will remain at current capacity but the workforce will be reduced by about 70 positions as well as a reduction in contractor positions.

Valero reported a process upset at its 170,000 b/d McKee, Texas refinery. The upset as reported to regulators said it occurred in the sulfur recovery unit and that the company was making adjustments "to line out the unit". The problem began Wednesday evening and is expected to end Thursday evening.

	ARA Stocks		
	8/26/10	8/19/10	8/27/09
Gasoline	954	906	738
Naphtha	47	60	65
Gas Oil	2585	2734	3017
Fuel Oil	747	756	513
Jet Fuel	734	845	796

Production News

Abu Dhabi National Oil Company said Thursday that they will supply Murban crude at 15% below contracted volumes in October, down from September. The company also noted it would supply Lower Zakum at 10% below contracted volumes and Umm Shaif at 15% below contract.

OPEC reported that its crude oil basket reference price was at \$70.00 a barrel Wednesday up 31 cents from the prior day.

Oil consultants, Oil Movements reported that they estimate seaborne oil exports by OPEC, excluding Angola and Ecuador, will fall by 70,000 b/d, to 23.38 mbd in the four weeks ending September 11th.

Royal Dutch Shell said on Thursday its Nigerian Bonny Light crude oil production had resumed on August 21st after repairs to flow stations had been completed. Oil flow from the Cawthorne Channel fields had resumed that date after being down for more than five days. A force majeure had been in place since August 16th. The company had discovered damage to the pipeline in three places in an apparent attempted oil theft by militants. Market estimates had been the damage had resulted in the loss of 100,000 b/d of production.

Chinese media reported today that China is planning to build three oil product pipelines in its southwest border province of Yunnan as it prepares bring on line a 200,000 b/d refinery in the city of Anning which is scheduled to process crude oil from the Myanmar. The pipelines are expected to be completed in three years.

Enbridge Energy Partners said it has launched a binding open season to solicit additional shipper interest in the Bakken Expansion Program, a series of projects to expand crude oil pipeline capacity in North Dakota and Saskatchewan. These proposed projects would provide incremental capacity to meet the crude oil transportation needs of producers in the Williston Basin. When completed the project aims to have another 145,000 b/d of incremental pipeline capacity from new receipt locations in North Dakota.

Genscape reported that it estimates oil inventories at Cushing, Oklahoma fell 229,646 barrels to 38.7 million barrels in the week ending August 24th. It estimated that Cushing tanks were holding 74% of shell capacity.

Enbridge and Suncor announced that they would construct a \$370 million pipeline that would run for 95 kilometers between Enbridge's Athabasca terminal, which is adjacent to Suncor's oil sands plant, to the origin point of Enbridge's Waupisoo pipeline. The Waupisoo Pipeline delivers crude oil from

several oil sands projects to the Edmonton mainline hub. The new line is expected to be in service by mid-2013.

BP reported that the crude oil produced at the 200,000 b/d North Sea Buzzard field contributed to 39% of the total Forties production in the week ending August 22nd, down sharply from 49% a week earlier. The contribution from the Buzzard, the biggest field in the Forties system, has fallen for two straight weeks after peaking at 53% in the week ended August 8th, partly due to completion of maintenance work at other fields and on pipelines.

Ecuador's average oil output fell 1% to 14.6 million barrels in June from 14.75 million barrels a year earlier. Ecuador's average oil output was 486,727 b/d in June.

Market Commentary

Yesterday's bounce in crude oil continued today, as the market responded to a drop in the U.S. unemployment figure. U.S. jobless claims decreased by 31,000 last week to 473,000, expectations were calling for a drop to 490,000. The dollar also weakened, heightening the appeal of commodities as an investment hedge. The overall underlying fundamentals of this market have not changed. Inventories of crude oil and products remained at record highs for a second week, while demand continued to look weak. This economically sensitive market should continue and we would look for the established psychological range of \$70.00-\$80.00 to remain in place. The October crude oil contract held a downward trend line, which was set at \$74.06. This trend line is set at \$73.44 for tomorrow's session. A settlement above this trend line sets prices up for a test at \$78.13.

Crude oil: Oct 10 315,845 –7,161 Nov 10 144,019 +4,517 Dec 10 195,739 +6,394 Heating oil: 20,413 –5,052 Oct 10 83,673 +6,491 Nov 10 42,803 +626 Totals 313,046 +3,611 Rbob: Sept 10 27,905 –6,010 Oct 10 91,177 +835 Nov 10 47,211 –2,077 Totals 247,348 –3,928.

Crude Oil		Heating Oil		Rbob	
Support	Resistance	Support	Resistance	Support	Resistance
	7305	18965	22530	18240	19260
7109	7450	19236	22700	16010	22345
7000	7569	18920	22945		24880
6715	7781		23775		27085

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