



ENERGY RISK MANAGEMENT

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ENERGY MARKET REPORT FOR AUGUST 31, 2011

The National Hurricane Center said Tropical Storm Katia, located in the middle of the Atlantic, is likely to become a hurricane later on Wednesday. The storm is moving north-northwest at about 21 mph but is expected to slow over the next 48 hours. The models show the storm aiming toward the expanse of ocean between the Bahamas and Bermuda, though it is likely a week away from making any landfall. Meanwhile, the National Hurricane Center said a tropical wave in the northwestern Caribbean Sea is moving towards

Market Watch

Atlanta Fed President Dennis Lockhart said the Federal Reserve could ease monetary policy further if economic conditions deteriorate and should not rule out any policy options.

The US Commerce Department said US factory orders, driven by strong car and airplane demand, increased in July more than expected. It reported that orders for manufactured goods increased by 2.4% on the month in July to \$453.17 billion. Orders in June fell 0.4%, revised up from a previously estimated 0.8% decline.

According to ADP, private businesses added a modest number of jobs in August. It reported that private sector jobs in the US increased by 91,000 in August. The July data was revised down to show an increase of 109,000 compared with 114,000 reported earlier. The latest ADP report showed large businesses with 500 employees or more added only 3,000 new employees, medium sized businesses added 30,000 workers while small businesses that employ fewer than 50 workers hired 58,000 new workers.

Macroeconomic Advisers LLC said that US jobs report for August could come in a good deal weaker than the private sector employment report released by ADP.

The Labor Department said unemployment rates in most metropolitan areas in the US fell during July on the year. The jobless rates were lower in 257 of the 372 metropolitan areas measured. Unemployment rates were higher in 94 areas and unchanged in 21 areas. The data also showed 232 metropolitan areas reported year over year increases in non-farm payroll employment while 133 reported decreases and seven had no change.

According to a report from consultants Challenger, Gray & Christmas, Inc, the number of planned layoffs at US firms declined by 23% in August after increasing for three consecutive months, with the government sector leading the job cuts. Employers announced 51,114 planned job cuts, down from 66,414 in July. The planned job cuts in August were up 47% on the year. For 2011 so far, employers have announced 363,334 cuts.

The Chicago Federal Reserve said that financial conditions in the US have reached their tightest level since June 2010, though remain looser than would be expected at this stage in the economic cycle. Its weekly National Financial Conditions Index increased to -0.31 in the seven days to August 26th from a revised -0.38 a week earlier and moved to -0.67 from -0.74 when adjusted for current economic conditions.

The Institute for Supply Management-Chicago said its index of Midwest business activity fell in August to 56.5 from 58.8 in July.

The Thomson Reuters/PayNet Small Business Lending Index, which measures the overall volume of financing to US small businesses, in July increased 13% on the year. This followed a revised 22% gain in June and a 27% gain in May.

The European Union's statistics office Eurostat estimated consumer prices in the 17 countries using the euro increased 2.5% on the year in August, unchanged on the month. Eurostat also said euro zone unemployment was 10% in July, unchanged from an upwardly revised June rate.

Russia increased its gold reserves again in July by 4.42 tons to 841,131 tons, according to the International Monetary Fund. Colombia increased its official holdings of gold for the first time in over 13 years. Colombia increased its gold reserves by 2.3 tons to 9.14 tons.

DOE Stocks

Crude – up 5.281 million barrels
Distillate – up 363,000 barrels
Gasoline – down 2.795 million barrels
Refinery runs – down 1.1%, at 89.2%

the southern Gulf of Mexico during the next day or two and has a 30% chance of becoming a tropical cyclone within the next 48 hours.

BP Plc said it was evacuating more than 500 nonessential workers from its platforms in several areas in the Gulf of Mexico due to two weather systems forming in the area. It was evacuating workers from the Mad Dog, Holstein, Atlantis,

Nakika and Thunderhorse platforms. Meanwhile, Royal Dutch Shell said it was preparing to evacuate personnel.

The EIA reported that US crude oil inventories at the Cushing, Oklahoma terminal have fallen to their lowest level since November 12, 2010 to 33.1 million barrels. US crude oil inventories in Padd 2 showed the largest gain with an increase of 2.5 million barrels. Crude oil inventories in the SPR fell by 4.7 million barrels in the week ending August 26th. Separately, the EIA said ethanol production fell about 2% to 888,000 bpd in the week ending August 26th. It was down 16,000 bpd on the week. Ethanol stocks fell by 350,000 barrels to 17.89 million barrels over the last week.

The Energy Department reported that about 96.7% of the 30.64 million barrels of oil sold from the SPR has been delivered as of August 30th. It said 500,000 barrels of crude was delivered to Vitol since its previous report released on Monday, bringing total shipments as of Tuesday to 29.64 million barrels.

The European Union has agreed to lift sanctions on three leading Libyan oil companies, six port authorities and 18 other entities. The decision is the first big step by the EU to lift sanctions, which include an assets freeze and a travel ban. The decision is expected to take effect Friday. The six ports are Tripoli, Zuwara, Zawiya, Al Qhoms, Ras Lanuf and Brega. The diplomat would not say which Libyan oil companies will see the sanctions lifted.

Libya's rebels said Muammar Gaddafi is almost certainly in Libya and that they have a right to kill him while giving his remaining troops until Saturday to surrender. Capturing the Libyan leader is a primary goal for the rebels who claim to have overrun most areas of Libya although negotiations are still underway for the surrender of regime loyalists in Sirte. The rebels' National Transitional Council has given loyalists until Saturday to surrender or face the final battle.

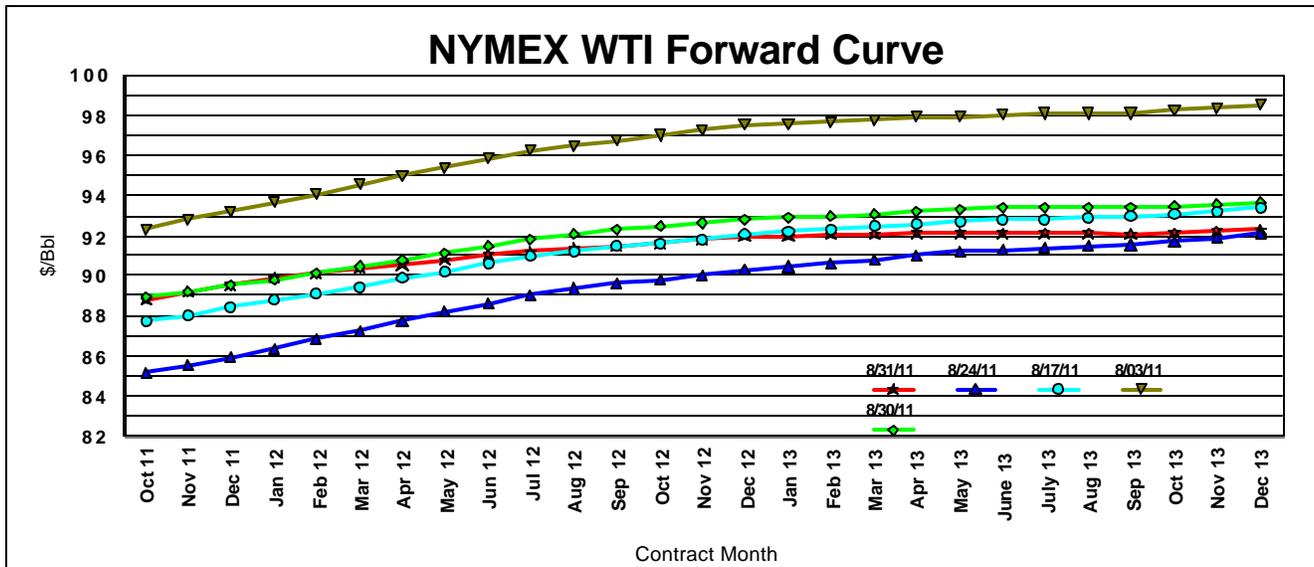
Maersk Line said it would resume service to Libya on September 8th. The first vessel to load would be destined for the port of Benghazi, carrying a cargo that has been withheld in other Mediterranean ports due to the civil war in Libya.

Gunvor Group Ltd has sent a cargo of diesel to Libya for use in power generation. The oil would be supplied to Libya's Arabian Gulf Oil Co. Meanwhile, the National Transitional Council said gasoline stations in eastern Libya have normal stocks and new supplies are due within days following reports of gasoline shortages being at their worst since the uprising against Muammar Gaddafi started.

Iran's supreme leader Ayatollah Ali Khamenei warned against the US taking control of the uprisings that have swept the Arab world. He said if the Muslim nations stand against those who interfere in their internal affairs, the countries will experience progress.

Platts said it plans to reveal its final proposals on changes to the way it calculates dated Brent in mid-September after extensive consultations with the oil industry conclude on September 9th. Platts wants to increase liquidity in the market so the global oil benchmark is less vulnerable to manipulation

**August
Calendar Averages**
CL – \$86.34
HO – \$2.9506
RB – \$2.8698



by large players or prices spikes due to production and maintenance issues at North Sea oil fields. Platts currently evaluates oil prices in a 12 day window 10 to 21 days ahead of the current date. From January 2012, Platts wants to expand the period to a 16 day window based on trades made 10 to 25 days ahead. Shell has requested to delay the revisions to the first quarter of 2013 and link them with changes to the expiry date of Brent on the futures market.

Refinery News

Colonial Pipeline said it was freezing nominations for its main distillate line north of Collins, Mississippi for Cycles 49, 50 and 51, effective Wednesday.

Nebraska's governor, David Heineman urged President Barack Obama's administration to deny a key permit for TransCanada's Keystone XL crude oil pipeline from Alberta, Canada to the Gulf Coast of Texas. He said the State Department should deny the permit on the grounds that the line could put the Ogallala Aquifer at risk. The aquifer is a key source of water for farmlands in the Midwest.

ConocoPhillips restarted its 238,000 bpd Bayway refinery in Linden, New Jersey following Hurricane Irene. It warned of possible flaring owing to the restart of the refinery.

Sunoco shut a catalytic cracking unit at the Girard Point section of its 335,000 bpd refinery in Philadelphia on Tuesday evening. A source said the shutdown was related to the hurricane but did not specify how.

Marathon Petroleum Corp reported a power outage at its 212,000 bpd refinery in Catlettsburg, Kentucky that led to emissions. It said emergency shutdown procedures were being deployed.

Coffeyville Resources reported the startup of the UAN plant at its 115,700 bpd refinery in Coffeyville, Kansas which led to a release of ammonia to the flare stack.

BP Plc has delayed the start for a replacement crude distillation unit at its 405,000 bpd Whiting, Indiana refinery to October 2012 from August 2012.

Imperial Oil issued an alert for toxic vapor released at its 121,000 bpd refinery in Sarnia, Ontario.

Taiwan's Ministry of Economic Affairs said all three 180,000 bpd crude distillation units at the Mailiao petrochemical complex are still under suspension as the government's safety inspections have not been completed yet.

Libya's Zawiya refinery resumed operations after it was shut down before the final assault on Tripoli and is processing 30,000 bpd of oil. The Zawiya refinery plans to increase its throughput to 180,000 bpd within six weeks. The National Transitional Council said it hopes Libya would soon resume some oil exports from the port of Tobruk, at a level of 500,000 to 600,000 bpd within a few weeks and increasing to the full pre-war level of 1.5 million bpd within 12 to 15 months.

Formosa Petrochemical Corp will restart the second of three 180,000 bpd crude distillation units at its Mailiao refinery on Wednesday. Its No. 3 crude distillation unit is scheduled to resume operations on September 3rd.

Japan's JX Nippon Oil & Energy Corp plans to refine 5.11 million kiloliters of crude oil in September for domestic consumption, down 9% on the year. It also expects its 252,500 bpd Kashima refinery to resume full production around November from the current rate of 70% after it was impacted by the massive March earthquake.

Japan's Ministry of Economy, Trade and Industry reported that the country's total oil product sales in July fell 0.6% on the year to 15.52 million kiloliters or 3.15 million bpd. It reported that gasoline sales in July fell by 4.3% to 5.07 million kl or 1.029 million bpd. Oil product imports increased by 4.5% to 621,926 bpd while exports fell by 0.6% to 566,723 bpd. It also reported that crude stocks in July fell by 1.6% on the year to 104.48 million barrels while product stocks increased by 1.9% to 73.224 million barrels. Japan's crude imports fell by 1.9% on the year to 3.51 million bpd. Its crude throughput fell by 3.4% on the year to 3.339 million bpd.

The Petroleum Association of Japan reported that crude inventories in the week ending August 27th increased by 2.47 million barrels on the week and by 2.29 million barrels on the year to 99.64 million barrels. Japan's gasoline stocks fell by 170,000 barrels on the week but increased by 1.04 million barrels on the year to 13.9 million barrels while kerosene stocks increased by 260,000 barrels on the week and by 5.58 million barrels on the year to 19.29 million barrels and naphtha stocks increased by 710,000 barrels on the week but fell by 1.49 million barrels on the year to 10.72 million barrels. Crude runs fell by 90,000 bpd on the week to 3.57 million bpd. Japan's total oil sales increased by 7.5% on the week and by 15.1% on the year to 3.03 million bpd.

Russia's Energy Ministry reported that its gasoline exports in July fell by 25% on the month to 246,800 tons while its gasoil exports increased by 9.3% on the month to 3.066 million tons and its fuel oil exports increased by 0.6% to 5.203 million tons.

Production News

NAL Energy Corp said it extinguished a fire that damaged an oil battery at one of its facilities in Saskatchewan and expects its oil production to decline by 1% due to the incident. It is investigating the cause of the fire, although it suspects the fire was the result of a lightning strike from a storm in the area on Monday evening.

Nexen said its Buzzard oil field in the North Sea, which has been undergoing unscheduled maintenance since May, is increasing its production as planned in August. The maintenance at the largest oil field that contributes to Forties crude has led to cancellations and deferrals of Forties cargoes.

BP said production at the Valhall oil platform in the North Sea, damaged by a fire on July 13th, is expected to resume by mid-September, two weeks later than expected earlier this month. BP said it suffered another incident at the platform on August 19th. Traders said deferrals or cancellations to

Ekofisk crude are possible as a result of the delayed restart. Production at the Valhall platform stood at 42,000 bpd ahead of the fire.

A fifth cargo of North Sea Forties crude for September loading has been delayed. Cargo F0909, which was due to load on September 11-13, has been deferred to September 14-16. Also, Shell's cargo F0907, which was already delayed, has been deferred further and is scheduled to load on September 12-14.

Russia's Lukoil Holdings reported a 67% increase in second quarter net profit to \$3.25 billion. Its April-June crude oil production fell by 5.6% to 22.74 million tons. It expects total oil production to stabilize by 2012 and then increase from 2013. Lukoil sees decades of moderate production growth from 2013.

ConocoPhillips China said it submitted a report to China's State Oceanic Administration detailing its response to two oil leaks at the Penglai 19-3 oil field in Bohai Bay. Although the leak has been sealed, residual oil and gas continues to leak from the seabed near the field's Platform B and is being captured at the rate of about 1 liter/day. Conoco has stated that about 700 barrels of crude and 2,500 barrels of oil based drilling mud have leaked since the leaks started in early June.

Market Commentary

Gasoline rose over two cents a gallon in response to the 2.8 million barrel draw in inventories. This comes after yesterday's decrease of 3.1 million in the API numbers and reflections of a 1.3 percent increase in demand, according to MasterCard's SpendingPulse. Anticipation of additional quantitative easing by the U.S. Federal Reserve added to today's bullish flavor. Crude oil bounced around the unchanged area, with little reaction to the 5.3 million barrel increase in stockpiles. Short-term technicals for crude oil are still pointing to the upside and a test between the range of \$91.00-\$95.00 is possible. A failure for this market to gain momentum above this area would most likely bring in a fresh new round of selling. Economic indicators are overall weak, which is negative for demand. With refineries having to play catch up due to Hurricane Irene, demand will once again begin to wane, having a destructive effect on prices.

Crude oil: Oct 11 288,298 -5,972 Nov 11 172,144 +9,205 Dec 11 203,192 +151 Totals 1,494,803 +10,890 Heating oil: Oct 11 95,834 +8,034 Nov 11 40,985 +1,010 Dec 11 53,170 +1,209 Totals 311,034 +4,640 Rbob: Oct 11 80,108 +3,426 Nov 11 37,546 +1,256 Dec 11 45,367 +86 Totals 251,546 +869.

Crude Oil		Heating Oil		Rbob	
Support	Resistance	Support	Resistance	Support	Resistance
7552	8988	27020	32777	25145	33369
7487	9122	26680	33370	24240	35915
7365	9726	27375	33510	23631	36310
6423	9872	23685		23414	
6394	10071	22960			
6119	10222				
50-day MA	91.61				
200-day MA	95.26				

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