



ENERGY RISK MANAGEMENT

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ENERGY MARKET REPORT FOR JULY 7, 2010

The EIA stated in its latest Short Term Energy Outlook that it projects world oil consumption to grow by about 1.5 million bpd in both 2010 and 2011, mostly unchanged from its previous forecast. It estimates world oil demand to total 85.82 million bpd in 2010, up 1.56 million bpd on the year. The estimate is up 0.36% from its previous estimate. Demand in 2011 is estimated at 87.29 million bpd, up 0.2% from its previous forecast. The EIA also revised its forecast of non-

Market Watch

The National Hurricane Center stated that a broad low pressure system centered near the northwestern coast of the Yucatan Peninsula moving west-northwest has a 40% chance of becoming a tropical depression during the next 48 hours.

The Baltic Exchange's main sea freight index fell to its lowest level in over 14 months on Wednesday amid weak cargo activity. The index fell 5.12% or 109 points to 2,018 points in its 30th consecutive decline to remain at its lowest since May 5 last year when it fell below the 2,000 point level. The Baltic's capesize index fell 7.17% on Wednesday while the panama index fell 5.02%.

According to Germany's Economy Ministry, the country's manufacturing orders fell for the first time this year in May. Orders fell 0.5% on the month. Euro zone orders fell by 3.3%.

Saudi Arabia's Ministry of Commerce and Industry approved the establishment of the Arabian Total Aramco for Services Co with a capital of 2 million Saudi riyals. The firm will execute construction, development, operation and project management contracts for Saudi Aramco Total Refining and Petrochemical Co or Satorp.

Total SA agreed to buy UTS Energy Corp for \$1.42 billion, more than doubling an original offer. UTS will also spin off its stake in the Frontier and Equinox oil sands properties into a new company, SilverBirch Energy Corp to be owned by existing shareholders. The deal will help Total build its presence in Canada's oil sands.

OPEC supply upwards from its previous forecast, with non-OPEC supply now expected to increase by 620,000 bpd to 50.98 million bpd in 2010 and fall by 80,000 bpd to 50.9 million bpd in 2011. OPEC's oil production is estimated at 29.51 million bpd in 2010, up 410,000 bpd on the year and 30.07 million bpd in 2011, up 560,000 bpd. Commercial inventories held in the OECD stood at about 2.7 billion barrels at the end of the first quarter of 2010, equivalent to about 57 days of forward demand and about 67 million barrels above the 5 year average. The EIA

API Stocks

Crude – down 7.26 million barrels
Distillate – down 1.021 million barrels
Gasoline – down 191,000 barrels
Refinery runs – down 0.2% at 86.7%

also estimated that US oil demand will increase by 200,000 bpd to 18.89 million bpd in 2010, down 0.16% from its previous forecast while demand in 2011 is expected to increase by 170,000 bpd to 19.06 million bpd, down 0.26% from its previous forecast. Gasoline demand is expected to increase by 20,000 bpd to 9.01 million bpd in 2010 and by

70,000 bpd to 9.08 million bpd in 2011. Distillate demand is expected to increase by 60,000 bpd to 3.69 million bpd in 2010, up 0.27% from its previous forecast while demand in 2011 is expected to increase by 40,000 bpd to 3.73 million bpd, unchanged from its previous forecast. In regards to prices, the EIA expects the price of WTI to average \$79/barrel over the second half of 2010 and \$83/barrel in 2011. The EIA expects that gasoline retail prices will average \$2.80/gallon during the summer's driving season, up from \$2.44/gallon last summer. On highway diesel retail prices are expected to average \$2.98/gallon in 2010 and \$3.13/gallon in 2011.

July Calendar Averages CL- \$72.79 HO - \$1.9375 RB - \$1.9930

The EIA also stated that the US offshore oil drilling ban will reduce crude oil production by an average of 82,000 bpd next year, more than previously estimated. The EIA had previously estimated that the moratorium would reduce next year's crude production by an average of 70,000 bpd. It stated that in the fourth quarter, an average of 31,000 bpd of oil output will be lost.

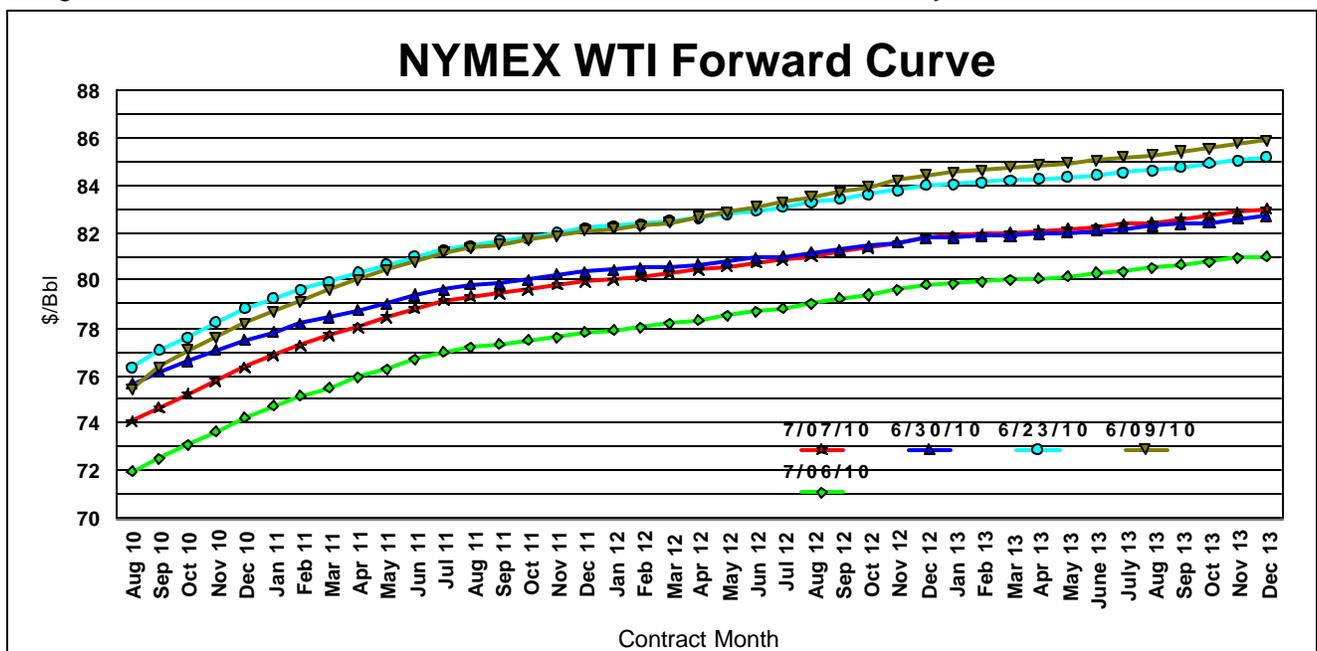
The head of Iran's Atomic Energy Organization, Ali Akbar Salehi said the new sanctions impose against Iran may slow down Iran's nuclear program but not stop it. Separately, he stated that the country's first nuclear power plant is set to be launched by late September after the completion of a final test at the Bushehr reactor.

BP Plc's attempt to permanently plug a leaking well in the US Gulf of Mexico is progressing well ahead of schedule and could reach its target within two weeks. A BP contractor said the first relief well is very close within 10 feet of reaching its target.

A SpendingPulse report by MasterCard Advisors LLC said US gasoline demand increased by 151,000 bpd or 1.6% to 9.649 million bpd in the week leading into the July 4th holiday weekend. Demand in the latest week was 0.2% or 22,000 bpd above a year ago. In the latest four weeks, demand averaged 9.433 million bpd, down 161,000 bpd or 1.7% on the year. It stated that the US average retail price of gasoline was unchanged on the week at \$2.74/gallon but up 4.6% on the year.

Refinery News

Citgo reported flaring at its 429,500 bpd refinery in Lemont, Illinois on Tuesday following a power outage. It said an electrical storm shut down several units at the refinery. Some units were restarted



however the fluid catalytic unit remained shut on Wednesday morning.

ExxonMobil said a hole developed in a sour gas line at the naphtha hydrofiner at its 562,500 bpd Baytown, Texas refinery. It said the leak has been plugged and there was no impact to production. ExxonMobil also stated that operations at its 150,000 bpd refinery in Torrance, California returned to normal following the restart of a hydrogen unit. The unit was shut due to a problem on Monday.

Frontier Oil said it estimates its refineries in Kansas and Wyoming will run below capacity in July. It estimates its 135,000 bpd capacity refinery in El Dorado, Kansas will operate at 128,000 bpd in July while its 52,000 bpd capacity Cheyenne, Wyoming refinery will operate at 43,000 bpd.

Chevron said it was completing construction of a continuous catalytic reformer unit at its 330,000 bpd refinery in Pascagoula, Mississippi. The reformer unit will be online by the end of the year.

Total said a crude distillation unit at its Lindsey refinery in the UK will remain offline until after an investigation on a June 29th fire is completed. The refiner has halted construction of a diesel making hydrodesulphurization unit following the fire.

A reduction in shipping activity and a rare purchase of vacuum gasoil and gasoline is suggesting operational problems at Hovensa's 500,000 bpd St. Croix refinery.

Royal Dutch Shell said it started production at its Gbaran-Ubie integrated oil and gas facility in Nigeria's Niger Delta and added that the facility would be fully operational next year.

The Petroleum Association of Japan reported that the country's crude oil inventories in the week ending July 3rd increased by 6.22% on the week but fell by 2.9% on the year to 16.67 million kiloliters. Japan's gasoline stocks fell by 4.48% on the week and by 1.71% on the year to 2.17 million kl while its gas oil stocks fell by 0.32% on the week but increased by 2.83% on the year to 1.77 million kl and its kerosene stocks increased by 4.2% on the week but fell by 21.72% on the year to 1.74 million kl. Japan's naphtha stocks increased by 9.63% on the week to 2.03 million kl and its jet fuel stocks increased by 0.92% on the week and by 13.93% on the year to 910,000 kl. Japan's crude runs increased by 30,000 bpd to 3.83 million bpd on the week.

Production News

ExxonMobil said it started evacuation of non-essential personnel from offshore Gulf of Mexico facilities ahead of a tropical disturbance.

Iraq's State Oil Marketing Organization said the country's crude exports in June averaged 1.9 million bpd, unchanged on the month. The average exports from the southern port of Basra reached 1.45 million bpd while exports from Kirkuk averaged 450,000 bpd.

ExxonMobil Corp's Sakhalin-1 consortium plans to start production at the Odoptu field off Russia's Pacific coast in the third quarter of 2010. The Sakhalin-1 project involves the development of the Chayvo, Odoptu and Arkutun-Dagi oil and gas fields. The combined resources at those fields total 307 million metric tons of oil and 485 billion cubic meters of natural gas.

Iran's Fars news agency reported that Iran extinguished a fire at an oil well in the western province of Kermanshah after it burned for 38 days. At least three people were killed and a dozen injured when the well caught fire in the city of Naftshahr on May 29th.

Qatar Petroleum has reduced its official selling prices retroactively for June term supply. It set its Qatar Land crude price at \$74/barrel, down \$3.05 while its Qatar Marine price was set at \$72.75/barrel, down \$2.88 on the month.

OPEC's news agency reported that OPEC's basket of crudes increased by 68 cents to \$69.73/barrel on Tuesday from \$69.05/barrel on Monday.

Market Commentary

The oil complex settled sharply higher as it retraced its previous losses amid the strength in the equities market and the fall in the dollar. The crude market, which posted a low of \$71.44 in overnight trading on Globex, bounced off that level and never looked back. It rallied to \$73.95 early in the session before it settled in a sideways trading range. The market however continued to trend higher and traded to \$74.32 ahead of the close. It settled up \$2.09 at \$74.07. The crude market rallied higher in late afternoon trading to a high of \$74.50. It retraced little more than 38% of its move from a high of \$79.94 to a low of \$71.09. The market on Thursday will be driven by the release of the weekly petroleum stock reports which are expected to show draws in crude stocks of close to 2 million barrels. Technically, the oil market is seen finding resistance at \$74.50, \$75.40, \$75.52 and \$76.56 while support is seen at \$73.20, \$72.10, \$71.44 and \$71.09. More distant support is seen at the \$70 level. The heating oil market also bounced off a low of \$1.8968 and rallied to \$1.9785. The market later continued to trend higher and posted a high of \$1.9842 ahead of the close and settled up 6.15 cents at \$1.9787. It later posted a high of \$1.9892 in late afternoon trading. The gasoline market also settled sharply higher, up 5.4 cents at \$2.0253 after retracing almost 38% of its move from a high of \$2.1853 to a low of \$1.9480. The product markets are seen holding their support levels, with the heating oil market finding support at \$1.9605, \$1.942, \$1.9115 and \$1.8968 while the RBOB market is seen finding support at \$2.0135, \$2, \$1.98 and \$1.9590.

The API reported a large draw in crude stocks of 7.26 million barrels on the week. It reported a draw of 5.926 million barrels in Padd 3 alone. The API reported the draw in crude stocks as imports fell by 84,000 bpd to 9.459 million bpd. However crude runs fell by 64,000 bpd to 14.822 million bpd. Distillate stocks fell by 1.021 million barrels, with a draw of 2.138 million barrels in Padd 3. It reported the draw as apparent demand increased by 21.4% on the week to 4.776 million bpd while apparent demand basis its three week moving average increased by 3.9% to 4.339 million bpd. Meanwhile gasoline stocks fell by 191,000 barrels on the week. It reported the draw in gasoline stocks as gasoline production fell by 30,000 bpd or 0.3% on the week to 9.354 million bpd and imports fell by 50,000 bpd or 26% to 142,000 bpd. Apparent gasoline demand fell by 1.9% on the week to 9.523 million bpd while apparent demand basis its three week moving average increased by 0.9% to 9.515 million bpd.

Crude oil Aug 10 292,124 -8,177 Sept 10 182,368 +7,862 Oct 10 65,428 +772 Totals 1,271,853 +5,365 Heating oil Aug 10 80,462 -2,107 Sept 10 46,807 -17 Oct 10 28,406 -415 Totals 305,897 -2,737 Gasoline Aug 10 81,804 +1,129 Sept 10 55,796 +387 Oct 10 25,664 +457 Totals 230,219 +2,247

Crude Oil		Heating Oil		Rbob	
Support	Resistance	Support	Resistance	Support	Resistance
73.20	74.50	1.9605	1.9892	2.0135	2.0357
72.10	75.40	1.9420	2.0078	2.00	2.0386
71.44	75.52	1.9115	2.0421	1.98	2.0667
71.09	76.56	1.8968	2.0764	1.9590	2.0947

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