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ENERGY RISK MANAGEMENT

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ENERGY MARKET REPORT FOR JULY 7, 2010

Iran's OPEC
Governor
Muhammad Ali
Khatibi warned an
increase in Saudi
production
combined with
price cuts may
lead to a politically
driven price war if
it is not spurred by
matching demand.
However he said
that he was
confident such a
scenario could be
avoided.
Separately, he
said that Iran is
exporting oil to
India, despite
receiving no
payments for
months, to protect
its market share
from price cutting
competitors such
as Saudi Arabia.

Goldman Sachs
said oil supply
would be critically

tight in 2012, mainly because Saudi Arabia will not be able to pump as much extra oil as many believe. It said prices are likely to surpass their recent highs as spare production capacity and inventories are effectively exhausted. It expects the expanding global economy to drive oil demand growth that outstrips production growth, meaning the oil market continues to draw on inventories and

Market Watch

The US National Hurricane Center said a low-pressure system extending from the Yucatan Peninsula across the southeastern Gulf of Mexico, southern Florida and the northwestern Bahamas stayed at having a 20% chance of developing into a tropical depression over the next couple of days. The system is expected to drift northward or northwestward.

The US Labor Department said the number of new claims for unemployment benefits fell more than expected by 14,000 to a seasonally adjusted 418,000 in the week ending July 2nd. It reported that the four-week moving average of new claims fell by 3,000 to 424,750. The number of continuing unemployment benefit claims fell by 43,000 to 3,681,000 in the week ending June 25th. The unemployment rate for workers with unemployment insurance fell to 2.9% in the week ending June 25th compared with the previous week's revised rate of 3%.

According to ADP, private businesses added more jobs in June than expected. The number of private sector jobs in the US increased by 157,000. Economists had expected ADP to report a gain of 95,000 jobs last month. The May data was revised lower to show an increase of 36,000 compared with the previously reported 38,000.

European Central Bank President Jean-Claude Trichet said there are downside risks to growth. This followed the ECB's decision to increase interest rates by 25 basis points to 1.5%. It was the second time the ECB raised interest rates this year.

Chinese state media denied rumors on Thursday that former president Jiang Zemin had died. China's official Xinhua news agency said recent reports about the former president's death from illness were pure rumor. Current president Hu Jintao retires from office late next year in a leadership overhaul and rumors at Jiang's health underscore the uncertainties around this. Jiang Zemin's passing however would likely have limited impact on the direction of China's politics and economic development.

Three US senators have reached a deal to repeal the \$6 billion per year ethanol tax credit by the end of July. The deal would reduce the federal deficit by \$1.33 billion and invest \$668 million in technologies that could help get biofuels to market.

Russia's Finance Minister Alexei Kudrin said the 2011 budget would be balanced only if Urals crude averages \$118/barrel. In 2012, the budget would be balanced if oil averages \$124.60/barrel. He said the budget could be balanced in 2015 if oil prices were to average \$100/barrel.

DOE Stocks

Crude – down 889,000 barrels
Distillate – down 191,000 barrels
Gasoline – down 634,000 barrels
Refinery runs – up 0.3%, at 88.4%

OPEC spare capacity in order to balance. Goldman reiterated a recommendation that its clients buy some forward oil contracts now before prices move higher later. Goldman Sachs said it continues to expect further increases in commodity returns later this year and into 2012 as demand growth is still likely to be sufficient to tighten key markets. It also stated that refining margins would remain under pressure due to large increases in refining capacity in Asia. It

sees the spread between WTI and Brent narrowing from current levels and expects product cracks to weaken.

Morgan Stanley said it remained bullish on oil, particularly in the second half of this year and that it expected inventory draws to prompt OPEC to increase its production. It expects Brent crude oil to average \$120/barrel in 2011 and \$130/barrel in 2012.

Standard Bank maintained its 2012 forecast for WTI at \$110/barrel but increased its Brent price forecast by \$5/barrel to \$120/barrel. It said the underlying supply and demand balance still warrants a bullish stance towards the oil market.

A fund manager, the chief executive of Guild Investment Management said physical US crude oil would average \$150/barrel this year due to the unrest in North Africa and the Middle East. He said the IEA's move to release emergency oil stocks did not change fundamentals in the oil market.

Britain has no intention of following a French initiative to extend the period for the release of emergency stocks of oil held by the IEA. A British government official said Britain would make 3 million barrels available over 30 days. A French energy ministry source said earlier this week that France would extend the period in which it releases oil from inventories to December.

According to Oil Movements, OPEC's oil exports are expected to fall by 20,000 bpd to 22.66 million bpd in the four weeks ending July 23rd. Middle Eastern seaborne exports are also expected to fall by 20,000 bpd.

Refinery News

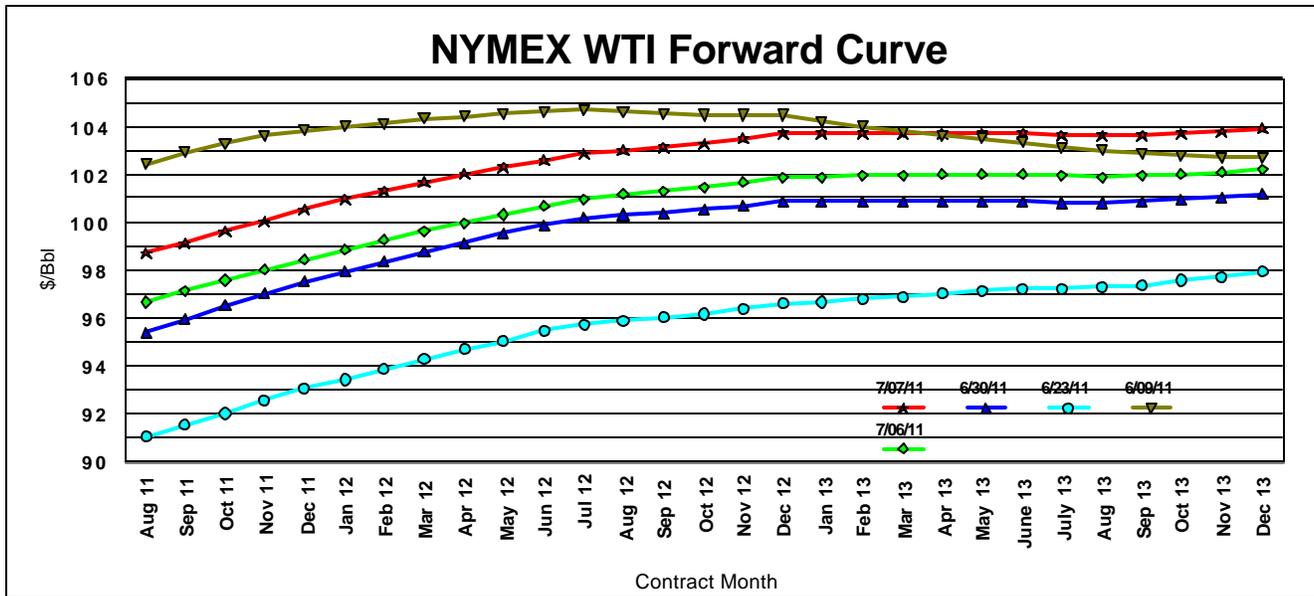
The US Energy Department said it would help finance the first commercial scale cellulosic ethanol plant. US Energy Secretary Steven Chu said it is offering a \$105 million loan guarantee to support the construction of the plant by POET LLC. The plant in Emmetsburg, Iowa is expected to produce 25 million gallons of fuel a year. The plant is expected to use waste from corn farms, such as husks, leaves and corncobs to produce ethanol. Separately, the EIA reported that US ethanol production increased by 11,000 bpd to 904,000 bpd in the week ending July 1st. Ethanol stocks fell by 931,000 barrels to 18.55 million barrels on the week.

Chicago gasoline prices fell after Husky Energy restarted its crude distillation unit at its 155,000 bpd Lima, Ohio refinery after completing repairs on a furnace. It is operating at 80% of capacity.

PBF Energy reported the release of 181 lbs of sulfur dioxide due to a compressor startup at its 182,000 bpd Delaware City, Delaware refinery. It did not specify when the plant's startup would be completed.

Tesoro Corp said flaring at its 93,500 bpd Kapolei, Hawaii refinery had no impact on production. Meanwhile Tesoro said a cooling unit at its 96,860 bpd Wilmington, California refinery resumed normal operations. It said there was no impact to production.

**July
Calendar Averages
CL – \$96.79
HO – \$298.66
RB – \$3.0187**



ExxonMobil extinguished a fire related to the release of xylene from a process heater at its 344,500 bpd Beaumont, Texas refinery. The material was released due to a ruptured tube on Tuesday evening.

Saudi Arabia might burn as much as 1.4 million-1.6 million bpd of crude oil equivalent at its electricity plants this summer. A shortage of available natural gas means the country has increasingly turned to crude oil as a fuel to generate electricity to meet increasing peak power demand. Saudi officials have stated that Saudi Arabia burned around 1.1 million bpd of energy liquids in its power stations in winter.

Gasoline stocks held in independent storage in the Amsterdam-Rotterdam-Antwerp area in the week ending July 7th fell by 0.57% on the week and by 24.51% on the year to 699,000 tons. Gasoil stocks fell by 6.01% on the week but increased by 9.63% on the year to 2.642 million tons while fuel oil stocks fell by 2.14% on the week and by 12.34% on the year to 732,000 tons. Naptha stocks fell by 13.21% on the week but increased by 338.1% on the year to 92,000 tons while jet fuel stocks increased by 8.1% on the week but fell by 44.34% on the year to 467,000 tons.

Singapore's International Enterprise said the country's residual fuel stocks fell by 1.45 million barrels to 19.184 million barrels in the week ending July 6th. Singapore's light distillate stocks fell by 321,000 barrels to 9.523 million barrels while its middle distillate stocks increased by 2.301 million barrels to 16.072 million barrels on the week.

Japan's gasoline sales this year could post the largest decline in at least 30 years after a deadly earthquake and tsunami in March caused a fall in leisure travel. The fall may prompt refiners to cut output, forcing Japan to increase imports of other products such as diesel needed for trucks and cranes for reconstruction and fuel oil to generate power. An oil economist in Japan said a fall of 7% would translate into an estimated consumption of about 935,000 bpd in 2011 or about 110,000 tons, down from about 1 million bpd in 2010.

Production News

A cargo of Forties crude has been dropped from the July loading program. Traders said the cargo, which was due to load on July 25-27 was canceled and two more have been delayed. Production of Forties crude has been impacted by frequent delays and cancellations in recent months due problems on Nexen's Buzzard field.

The Netherlands offered 600,000 barrels of condensate and Forties crude for sale as part of the IEA emergency stock release, in addition to the 600,000 barrels of Brent crude and diesel sold last week.

KazMunaiGas Exploration Production blamed emergency power cuts and a strike as it reported a 3% year on year fall in crude production in the first half of the year. It produced 6.31 million tons of crude in January-June, down 216,000 tons on the year.

Ecuador's Minister of Nonrenewable Natural Resources Wilson Pastor said the country expects to produce an average of 502,000 bpd of crude this year, up 3% on the year. Its average oil output in the first quarter of the year was 503,000 bpd. Petroecuador produced 358,522 bpd during the first quarter while private companies produced 144,478 bpd.

Libya's government had started negotiations with Russian and Chinese energy companies on taking over Eni's projects in Libya after the Italian firm withdrew its staff.

BP Plc received a second payment for its investment in Iraq when a tanker loaded 2 million barrels of light crude oil this week as the southern terminal of Basra. It received its first payment for the millions of dollars it has invested in Iraq's Rumaila oilfield in mid-May when the tanker Oceanis loaded 2 million barrels of Basra Light crude.

Thailand's Prime Minister Yingluck Shinawatra said she would temporarily remove a levy on certain fuel for vehicles, allowing pump prices to fall. She said she had no plans to close down the Oil Fund into which the levy goes.

Market Commentary

Crude oil reached a three-week high, gaining on indications that the U.S. economy is improving and on a draw down in inventory levels. U.S. jobless claims fell 14,000 and crude oil inventories decreased by 889,000 barrels, lifting hopes that demand is slowly increasing. There are worries that the improving economy and an increase in demand could lead to supply tightness. The continuation of refinery glitches gave strength to both heating oil and gasoline, widening out crack spreads. The 3-2-1-crack spread is once again at record highs, trading out to \$32.30. We see this spread holding on to strength taking into consideration the aforementioned refinery problems, Libyan supply disruptions and expectations of increasing demand.

The August crude oil traded above \$99.24, the 38.2 percent retracement derived from using the range of \$89.61 and \$114.83. With the \$100 level in sight, traders will most likely push prices higher, working towards \$102.15.

Crude oil: Aug 11 277,669 -13,340 Sept 11 204,588 +4,368 Oct 11 73,710 +958 Totals 1,522,535 +144
Heating oil: Aug 11 84,767 -2,172 Sept 11 45,269 -24 Oct 11 26,256 +1,165 Totals 295,172 -1,142
Rbob: Aug 11 74,181 -1,103 Sept 11 48,794 +421 Oct 11 24,424 +436 Totals 234,346 -844

Crude Oil		Heating Oil		Rbob	
Support	Resistance	Support	Resistance	Support	Resistance
			31325		
		27150	32777		33369
9592	9855	26680	33370	26965	35915
9428	10215	27375	33510	26300	36310
8950	10339	23685		25683	
8700	10845	22960		25145	
8625	11120			24240	
8500	11483			23631	
8385	11563			23414	
	11703				

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