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## ***ENERGY RISK MANAGEMENT***

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### **ENERGY MARKET REPORT FOR JULY 12, 2010**

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Russia's President Dmitry Medvedev said Iran is close to having the potential to build a nuclear weapon. On Sunday, Iran's nuclear chief Ali Akbar Salehi announced that Iran produced about 20 kilograms of 20% enriched uranium.

#### Market Watch

ExxonMobil Corp declined to comment on reports the company received government approval to explore a bid for BP Plc. The Times reported that Exxon has been told by the US government it can look at a potential bid for BP. BP is seeking funds to pay for the oil spill in the Gulf of Mexico. It is in talks to sell some assets including its Alaska oilfields to Apache Corp.

The ICE stated that a total of 2,339 lots or 233,900 metric tons of gasoil was physically delivered against the expiry of ICE July gasoil futures. It is up from 855 lots or 85,500 tons delivered in June.

Diplomats said world powers have not formally agreed that Brazil and Turkey can sit in on talks over a nuclear fuel supply deal with Iran however they have not explicitly ruled out such an arrangement. Iran's Foreign Minister Manouchehr Mottaki said the so-called Vienna group has accepted the presence of Brazil and Turkey in talks over a fuel swap.

BP Plc plans to install a new sealing cap on Monday that could contain all of the oil leaking from its well in the Gulf of Mexico. BP said the new sealing cap-system in addition to its other measures, will allow the recovery of 60,000 bpd to 80,000 bpd in two to three weeks.

The Obama administration will issue a new deepwater drilling moratorium that is intended to be in place until the end of November. The new suspension will last until November 30<sup>th</sup> or earlier if the Interior Secretary determines that deepwater drilling operations can proceed safely.

The EIA reported that the US average retail price of diesel fell by 2.1 cents to \$2.903/gallon in the week ending July 12<sup>th</sup>. Diesel prices have fallen by 5.8 cents or 2% in the past three weeks. It however reported that the price of diesel is up 36.1 cents/gallon or 14.2% on the year. The EIA also reported that the US average retail price of gasoline fell by 0.8 cents to \$2.718/gallon on the week. The price of gasoline is up 7.5% or 19 cents/gallon on the year.

#### Refinery News

Valero Energy Corp restarted a 55,000 bpd fluid catalytic cracking unit at its 170,000 bpd McKee, Texas refinery. The unit's operation is increasing to planned rates after it was shut in mid-June due to a mechanical problem.

**July**  
**Calendar Averages**  
**CL- \$73.95**  
**HO – \$1.9675**  
**RB – \$2.0173**

Total SA is contesting a court decision ordering it to restart its 137,000 bpd refinery in Dunkirk, northern France. Total halted operations at the refinery in September last year and presented workers with a plan to permanently shutdown refining operations in response to what it called a structural decline in the demand for petroleum products.

Indian Oil Corp Ltd floated its second spot tender seeking more sweet crude oil for September loading. Last week, the company bought two Very Large Crude Carriers of West African crude for September loading from Vitol.

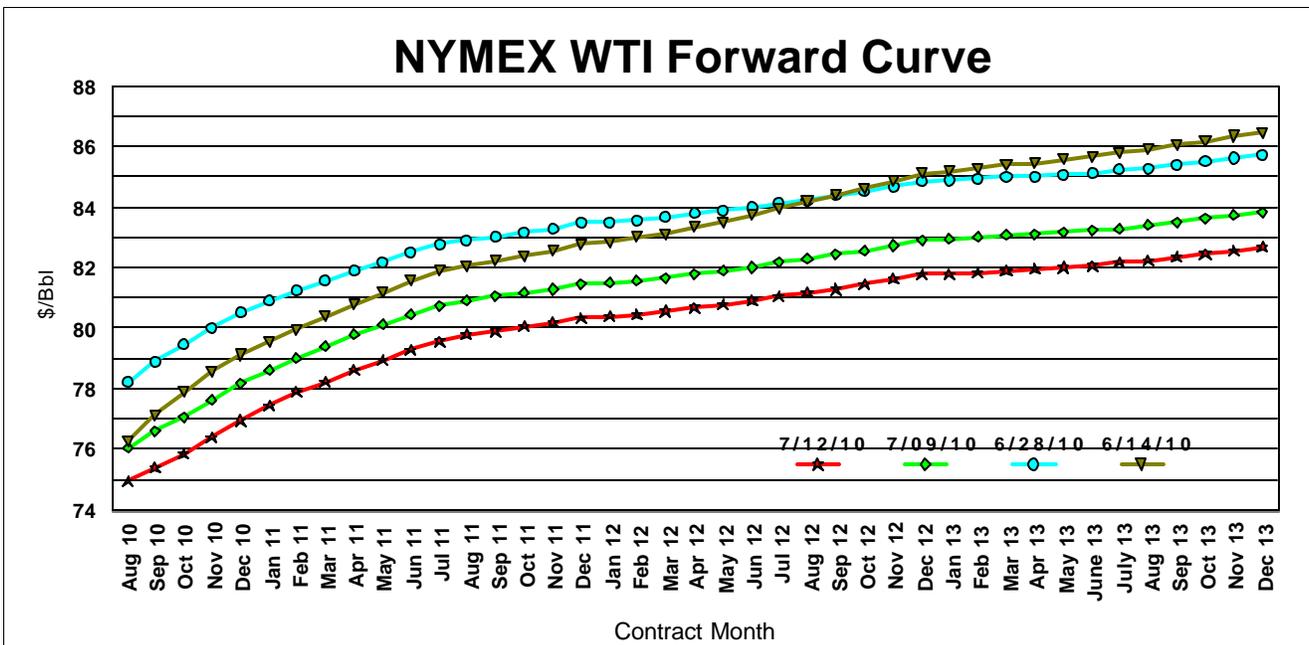
The Baku-Tbilisi-Ceyhan oil pipeline is expected to pump 23.8 million barrels of crude oil in August, down 2.17 million barrels on the month. August loadings will amount to 769,355 bpd of oil, compared with 839,355 bpd in July.

**Production News**

Brazil’s National Oil Regulatory Agency, known as ANP, said it concluded its first formation test at the Franco well, which may have the potential to produce 50,000 bpd. Initial studies by independent auditors indicate oil reserves in the Franco well could surpass initial estimates of 4.5 billion barrels.

Iraq’s State Oil Marketing Organization increased the August official selling price for its Basra Light crude and Kirkuk crude bound for Europe and the US. The August selling price of its Basra Light crude destined for Europe was set at \$1.95/barrel below BWAVE while the selling price of its Basra Light crude destined for the US was set at \$1.40/barrel below the Argus Sour Crude Index. The selling price of its Basra Light crude bound for Asia was left unchanged at \$1.10/barrel below the Oman/Dubai quotes. The price of its Kirkuk crude bound for Europe was set at 95 cents/barrel below BWAVE and the price of its Kirkuk crude bound for the US was set at 25 cents/barrel above ASCI.

OPEC’s news agency reported that OPEC’s basket of crudes increased by 93 cents to \$72.79/barrel on Friday. It also reported that OPEC’s basket of crudes fell by \$1.38/barrel to \$70.63/barrel in the week ending July 9<sup>th</sup>.



**Market Commentary**

A lack of supportive news, a weak stock market and a strong dollar kept a lid on crude oil prices, sending the August contract below \$75.00 a barrel. This market continues to be driven by outside influences, ignoring the underlying fundamentals. Crude oil continues to be range bound as it takes direction from equities. Bulls continue to out run the bears, with speculative longs holding 50,503 contracts of open interest. Based upon examination of the spot month contract and its comparison to the front month spread, the spot month contract could test near the \$80.00 to \$83.00 level. Previously when the front month spread was trading around the -.43 level, the spot futures contract gained approximately \$12.00. Technically, it appears that prices should move higher, with possibly testing the top of the recent high, which is set at \$79.94.

Crude oil Aug 10 233,075 -24,048 Sept 10 228,281 +23,636 Oct 10 72,235 +3,212 Totals 1,280,700 - 5,277 Heating oil Aug 10 74,017 -4,231 Sept 10 52,862 +1,878 Oct 10 30,358 +577 Totals 311,160 - 437 Gasoline Aug 10 72,795 -5,570 Sept 10 61,571 +870 Oct 10 26,945 -110 Totals 228,739 -4,751

Crude Oil		Heating Oil		Rbob	
Support	Resistance	Support	Resistance	Support	Resistance
75.95	76.56	2.0080	2.0635	2.0435	2.0743
75.00	76.83	2.0011	2.1186	2.0278	2.0947
74.38	78.32	1.9845	2.1396	1.98	2.1280
71.09	79.38	1.9115	2.1874	1.9590	2.1625