



ENERGY RISK MANAGEMENT

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ENERGY MARKET REPORT FOR JULY 13, 2010

The IEA said it expects oil demand growth to fall next year in China and most other parts of the world, indicating that crude prices are likely to trade at subdued levels well into next year. The price of oil is expected to average \$79.40/barrel. It expects world oil demand in 2011 to grow by 1.3 million bpd or 1.6% compared with expected growth of 2.1% this year. The IEA said China's oil demand growth is set to slow to about 4% in the second half of the year. China's oil

demand in 2010 is expected to average 9.13 million bpd, up 9.1% on the year. It said OPEC would continue to have 5.5-6 million bpd of spare capacity far into 2011 to offset any unexpected supply disruptions. The IEA also stated that world refiners are expected to ramp up their output to a peak next month as refinery maintenance concludes in Asia and Europe. Refinery runs in August are expected to reach 75.1 million bpd. It forecast third quarter refinery runs would reach 74.6 million bpd, increasing 1.1 million barrels on the year. Refiners processed 73.5 million bpd in the second quarter, up 1.3 million bpd on the year and 700,000 bpd higher than the first quarter.

API Stocks

Crude – up 1.736 million barrels
Distillate – up 3.192 million barrels
Gasoline – up 1.733 million barrels
Refinery runs – up 0.4% at 87.1%

Market Watch

The Commerce Department said the US trade deficit unexpectedly widened in May to its highest level in a year and a half, as an increase in imports from China more than offset the impact of falling oil prices. It said the shortfall in international trade of goods and services increased 4.8% to \$42.27 billion, the widest it has been since November 2008. The deficit in April was revised up to \$40.32 billion from an initial estimate of \$40.29 billion. The US trade gap with China increased to \$22.28 billion in May, the widest level since last October and a 15% gain on the previous month's bilateral deficit of \$19.31 billion. The US bill for crude oil imports in May fell to \$21.54 billion from \$22.69 billion in April.

Senate Majority Leader Harry Reid said energy legislation will be unveiled during the week of July 26th and could be taken up by the Senate that week. The bill will target pollution from the utility sector. The bill will also broadly address three other areas. It will address the Gulf of Mexico oil spill cleanup and aim to reduce energy consumption. The bill will also include incentives for renewable energy technologies.

The US Department of Transportation said US airlines' average fuel cost per gallon for scheduled flights in May increased by 34% on the year and by 1.3% on the month. It reported that airlines spent \$2.32/gallon on fuel in May, up from \$1.73/gallon a year earlier and \$2.29/gallon in April. Total fuel consumption on scheduled flights was 1.39 billion gallons in May, up 1.2% on the year and 6.3% on the month.

According to a SpendingPulse report by MasterCard Advisors, US gasoline demand fell by 4.4% to 9.228 million bpd in the week ending July 9^h. Gasoline demand was up 2.3% or 207,000 bpd on the year, the largest year on year

weekly rise since May 28th. In the latest four weeks, demand averaged 9.422 million bpd, down 0.6% or 56,000 bpd on the year. It reported that the US retail average price of gasoline fell by 7 cents to \$2.67/gallon on the week.

**July
Calendar Averages**
CL- \$74.35
HO – \$1.9775
RB – \$2.0254

BP Plc will perform tests Tuesday to see if the recently placed sealing cap has the ability to shut in the leaking well in the Gulf of Mexico. It was running seismic testing and later on Tuesday it plans to begin testing the integrity of the well. If the cap cannot shut in the well, it will still increase the company's ability to capture oil from the well, saving it from flowing into the sea. While the company tests the well, it continues to ramp up the collection efforts of the Helix Producer. As of Tuesday morning, the containment vessel was collecting at a rate of 12,500 bpd.

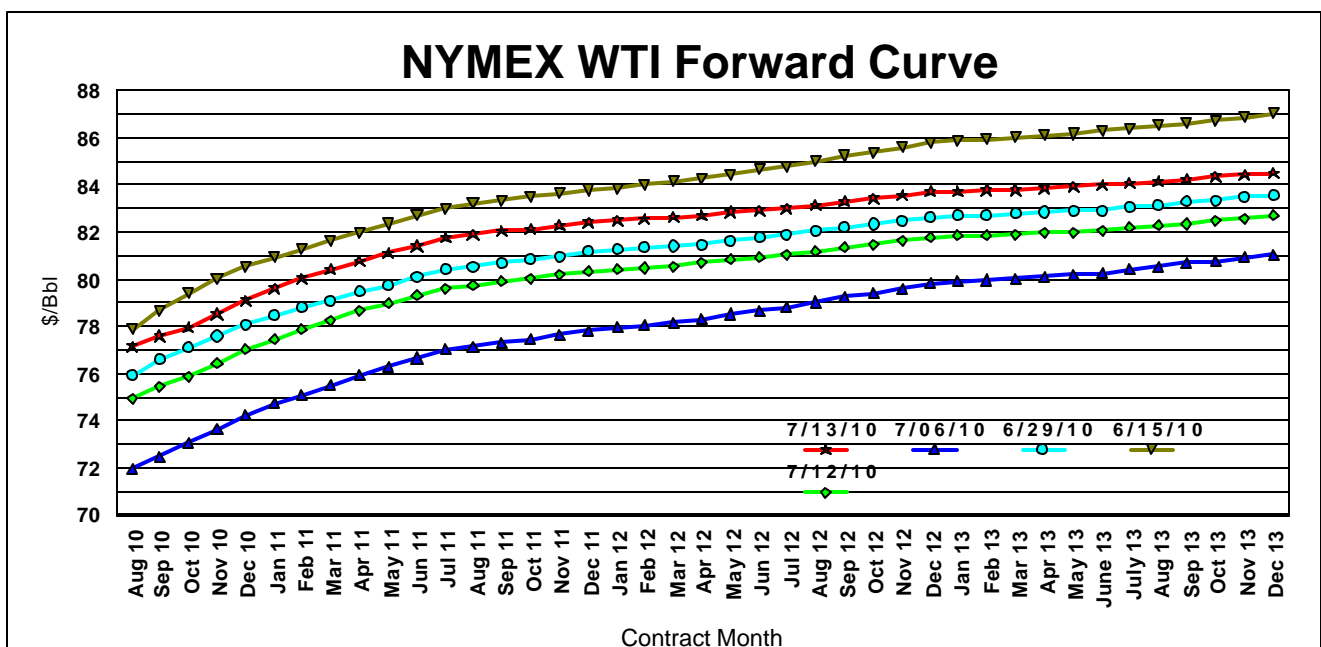
Magellan Midstream Partners agreed to buy pipeline assets that link Texas refineries and 7.8 million barrels of Cushing, Oklahoma oil storage from a BP Plc unit for \$289 million. The pipelines deliver crude to and ship fuel from refineries in the Houston area. The deal is scheduled to close within 60 days, subject to regulatory approval. A Magellan spokesman said talks between the two companies started before BP's well disaster in the Gulf of Mexico. The daily capacity of the gasoline line is 240,000 barrels while the distillate pipeline can handle 96,000 barrels.

Iran's Foreign Minister Manouchehr Mottaki rejected Russian President Dmitry Medvedev's statement that Iran is close to having the potential to build a nuclear weapon. He said the claims are totally false.

Refinery News

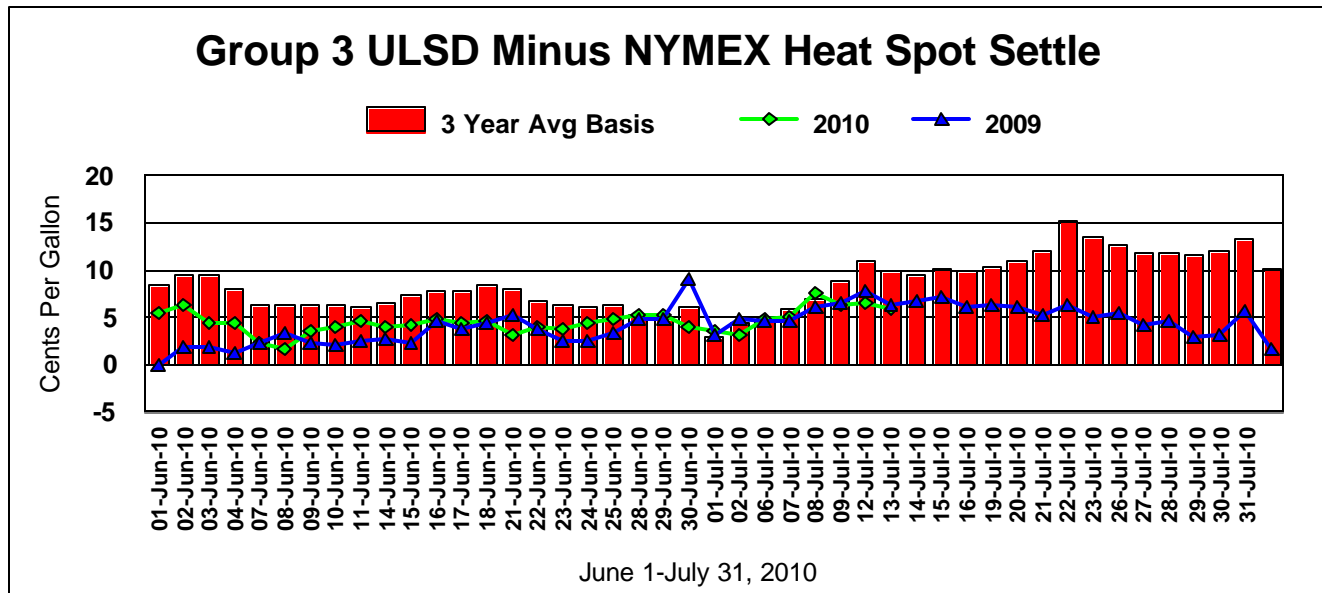
The Yangshan oil product storage project in eastern China started trial operations of its second phase development on Saturday, bringing its total fuel storage capacity to 1.01 million cubic meters. The second phase of the project has 590,000 cubic meters of storage capacity for oil products including gasoline, diesel, fuel oil and jet fuel.

Indian Oil Corp will decide in two weeks on the frequency of revising gasoline prices. India's government lifted state control on gasoline prices on June 25th. The deregulation led to an increase in the price of gasoline of INR3.50/liter. Separately, India's Oil Secretary S. Sundareshan said India has not seen any decline in gasoline and other petroleum product demand despite a recent increase in their prices.



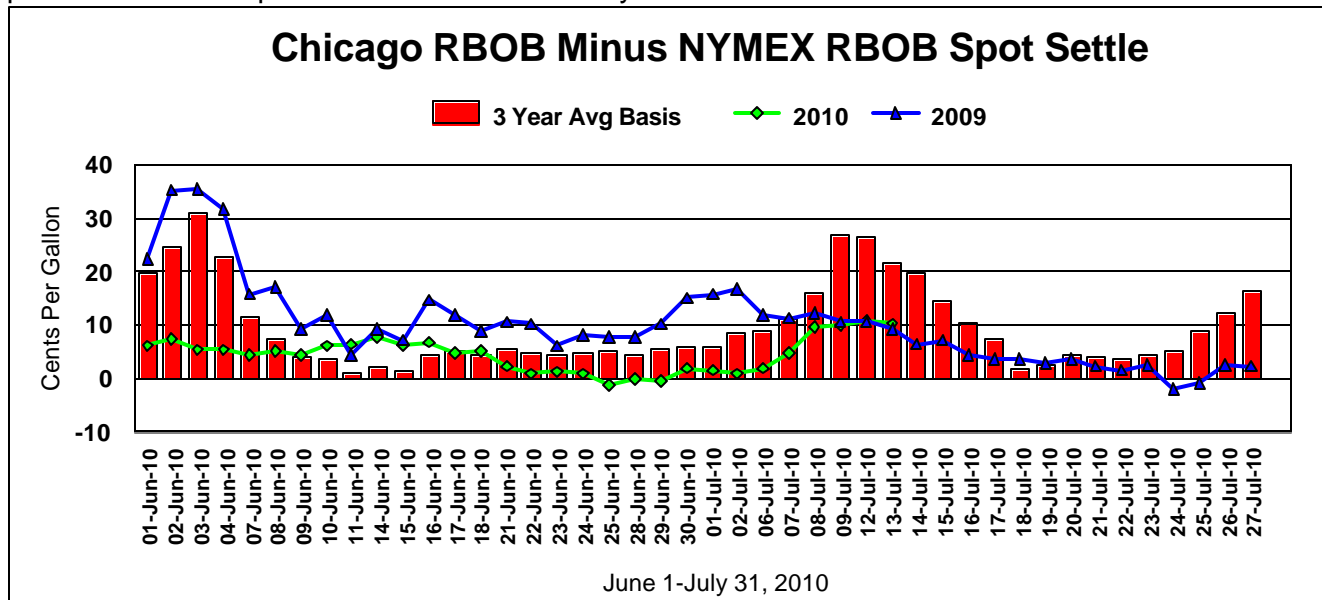
Production News

Saudi Aramco left its August term crude oil allocations for European buyers unchanged. Saudi Aramco continues to withhold medium and heavy crude grades from Northwest Europe and the



Mediterranean oil markets, a decision taken at the start of 2010 and thought to be because of lower production of those grades and strong demand from Saudi domestic refineries. Better margins for medium and heavy crudes in Asia and higher operating costs for transporting oil through the Suez-Mediterranean Sumed pipeline to the Sidi Kerir oil terminal have also prompted Saudi Aramco's decision to halt shipments of heavier crude to Europe.

Ecuador's Nonrenewable Natural Resources Minister Wilson Pastor said Ecuador's government plans to hand over to private sector companies the legal framework for new service contracts in the third or fourth week of this month. President Rafael Correa's administration is in the process of replacing production sharing deals with service contracts for private operators, turning them into service providers for the exploration and extraction of hydrocarbons.



Kazakhstan's government plans to tax exports of crude oil from a venture led by Chevron Corp for the first time. Kazakhstan's cabinet approved a crude oil export tax of \$20/metric ton. The tax will take effect 30 days after it is published in official media.

National Iranian Oil Co increased its crude oil official selling prices for August term supply to Northwest Europe and the Mediterranean. Its Iranian Light crude bound for Northwest Europe was priced at BWAVE minus \$2.25, up 80 cents on the month; its Iranian Heavy crude was priced at BWAVE minus \$2.80, up \$1 and its Forozan Blend was priced at BWAVE minus \$2.75, up \$1 on the month. Its Iranian Light crude bound for the Mediterranean was priced at BWAVE minus \$3.65, up 30 cents on the month; its Iranian Heavy crude was priced at BWAVE minus \$4.90, up 40 cents on the month and its Forozan Blend was priced at BWAVE minus \$4.85, up 40 cents on the month. Its Iranian Light crude bound for Asia was priced at the Oman/Dubai average plus 10 cents, up 5 cents on the month; its Iranian Heavy crude was priced at the Oman/Dubai average minus \$1.65, unchanged on the month and its Forozan Blend was priced at the Oman/Dubai average minus \$1.60, unchanged on the month.

Iraq's Oil Minister Hussein al-Shahristani said revenues from oil sales account for 95% of Iraq's income. He said Iraq raised \$171 billion from sales between 2006 and 2009. He said \$30 billion was raised from oil in 2006, \$40 billion in 2007, \$60 billion in 2008 and \$41 billion in 2009.

OPEC's news agency reported that OPEC's basket of crudes fell by 79 cents to \$72/barrel on Monday from \$72.79/barrel on Friday.

Market Commentary

Supported by bullish technicals, a weak dollar and a strong euro, crude oil edged higher today, attempting to test \$77.47, the 200-day moving average. Adding to the bullish flavor was a report by the IEA calling for an increase of 1.6 percent in global oil demand for 2011. This brings the average to 87.8 million barrels a day. The ETF's such as the United States Oil Fund experienced an early session rise of 2.5% as investors roll their length due to the pending expiration of the August contract. Since the beginning of May, the spot month contract for crude oil has basically been trading within the \$70.00-\$80.00 range, albeit the current European economic situation and environmental regulations by the U.S. looming over the market. This is a tight range despite the aforementioned. Investors, it appears, are leery of market direction as it responds to these outside influences. Any rise in the equity markets brings about hopes of increasing demand. In the near term, we would continue to look for prices to work higher, stretching towards the \$80.00-\$83.00 range.

The API reported that build in crude stocks of 1.736 million barrels on the week, with a build of 1.163 million barrels in Padd 5 alone. Crude stocks in Padd 3 also built by 801,000 barrels on the week. It however reported the build in crude stocks despite the increase in crude runs of 104,000 bpd to 14.926 million bpd and the fall in imports of 749,000 bpd to 8.71 million bpd. Distillate stocks built by 3.192 million barrels, with builds of 1.46 million barrels and 1.183 million barrels in Padds 2 and 3, respectively. Distillate stocks built as apparent demand fell by 20.1% on the week and by 9.2% on the year to 3.814 million bpd while apparent demand basis its three week moving average fell by 3.8% on the week to 4.174 million bpd. However the API reported that distillate production fell by 276,000 bpd or 6.3% on the week to 4.095 million bpd while imports fell by 84,000 bpd or 32.4% on the week to 175,000 bpd. Gasoline stocks also built by 1.733 million barrels on the week. It reported a build of 2.157 million barrels in Padd 3 alone. It reported the build as apparent demand fell by 2.1% on the week and by 0.1% on the year to 9.324 million bpd while apparent demand basis its three week moving average was unchanged at 9.518 million bpd. It reported that gasoline production increased by 150,000 bpd to 9.504 million bpd.

Crude oil Aug 10 201,249 -31,826 Sept 10 259,883 +31,602 Oct 10 76,095 +3,860 Totals 1,283,594 +2,894 Heating oil Aug 10 71,595 -2,422 Sept 10 55,074 +2,212 Oct 10 31,743 +1,385 Totals 314,008 +2,848 Gasoline Aug 10 65,842 -6,953 Sept 10 67,791 +6,220 Oct 10 28,028 +1,083 Totals 229,492 +753

Crude Oil		Heating Oil		Rbob	
Support	Resistance	Support	Resistance	Support	Resistance
7569	7745	18965	20685	18890	21280
7427	7938	18480	21390	18750	21925
7162	8325	18365	21625	18420	24880
7060	8710	18055	21875	18260	27085

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