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ENERGY RISK MANAGEMENT

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ENERGY MARKET REPORT FOR JULY 15, 2011

The British Foreign Secretary William Hague said Friday that military action against Gaddafi's government will be intensified as NATO members including Britain were providing more aircraft to the bombing of Gaddafi's forces. The French foreign minister said NATO operations would continue through Ramadan, which starts in August. Hague said the U.N. secretary-general's special envoy to Libya would be authorized to present terms for Gaddafi to leave power and bring an end to the fighting that began back in February. A meeting of more than 30 foreign ministers and international organizations, such as NATO and the Arab League meet for one day in Istanbul today and agreed to recognize the Benghazi-based opposition as the "legitimate government authority in the territory of Libya."

Market Watch

The Economic Cycle Research Institute said its Weekly Leading Index rose to 128.4 in the week ending July 8th, the highest since May 27th. The index's annualized growth rate remained constant at 1.7%.

Thomson Reuters/University of Michigan Surveys of Consumers Sentiment for July fell to 63.8 from June's reading of 71.5.

Morgan Stanley in a research report is estimating that if Japan moves away from nuclear energy, it could result in the country needing to import an additional 350,000 b/d of crude oil and fuels to make up for the short fall. This would equate to 8% of total oil demand in Japan. In addition the country would probably need an extra 20 million tons of LNG or the equivalent of a third of annual demand.

The Federal Reserve reported this morning that it estimated U.S. industrial output in June rose 0.2%, while May's slight gain was revised downward to a 0.1% decline. The gains were helped by strength in mining and utilities, but manufacturing production stagnated in part due to supply disruptions in the auto sector. As a whole 2Q2011 factory activity was the slowest for any quarter since the recession ended in the summer of 2009.

The New York Federal Reserve Bank reported this morning that its gauge of manufacturing in New York State showed an unexpected decline for the second month in a row as new orders worsened. The pace of the decline did moderate somewhat in July from the month before, standing at -3.76 from a minus 7.79 in June. Market expectations had been for a +4.50 reading.

The U.S. Labor Department this morning reported that the CPI index for June fell 0.2% after increasing 0.2% in May. Market expectations had been for a -0.1% decline. Today's reported drop in the CPI was the largest droop in a year and was driven by weaker gasoline prices. Stripping out food and energy costs, the core CPI rose 0.3% after a similar gain in May.

Iran reportedly is stepping up centrifuge development work aimed at making its nuclear enrichment more efficient. Two newer and more advanced models are being installed for large scale testing at a research site near Natanz.

S&P warned today that it may lower its AAA ratings of the three major U.S. clearing houses and the Depository Trust Company due to the U.S. federal government's credit potentially being downgraded. The credit agency said the financial turmoil that would result from a lowered U.S. federal government credit rating could impair the ability of the markets to function.

Tens of thousands of Bahrainis rallied for political reform in that country again today. The main opposition party said it would decide on Sunday whether to withdraw from national reform talks.

The European Banking Authority this afternoon said that out of the 90 European banks it reviewed, eight of them failed its stress test, far fewer than what the market expected. None of the major banks failed to pass the test. An EU official said the "results of the test show the region's banking sector is increasingly strong and better able to resist shocks."

A German government official said on Friday that oil reserves previously released by the IEA have not been fully utilized and the IEA had yet to deliberate on the issue whether more oil should be released into the market.

Refinery News

Shell Oil said it was investigating the sources and composition of the July 13th emissions at its 327,000 b/d Deer Park refinery.

Japan's Showa Shell said on Friday that its Toa Oil Keihin refinery will stop operations of its 120,000 b/d #5 crude distillation unit on September 20th permanently. The company said the unit would be mothballed due to declining Japanese oil demand.

China's 18 largest refineries have so far in July have cut average operating rates to 83.9% from June's 86.1% according to Dow Jones. As a result total Chinese refinery runs by the end of this month could average below June's nine-month low as extensive maintenance continues.

Sunoco reported today that on Tuesday it had shut its Point Breeze crude oil compressor at its Philadelphia refinery.

Exxon Mobil reported a hole was discovered in a pipe at its 560,640 b/d Baytown refinery that led to an emissions event. The leak was reportedly isolated and no impact on production was noted.

India's Reliance Industries said it plans to shut two secondary units at its 580,000 b/d refinery in September. The company is expected to shut one of its vacuum gas oil hydrotreaters and a light cycle oil hydrotreater for about 20-25 days starting in mid-September.

Production News

Royal Dutch Shell said it was restarting an unspecified unit at its oil sands upgrading plant near Edmonton, Alberta. The company said the move though would have no impact on production. The company recently stated up a 100,000 b/d expansion of the upgrader, but has declined to reveal actual volumes flowing through the facility.

TransCanada Corp said on Friday that it would cut nominated crude volumes on its 591,000 b/d Keystone pipeline to the United States by 20% next month as it conducts its maintenance program. The cuts will result in volumes of only 400,000 to 450,000 b/d on the system in August. TransCanada though expects the maintenance work should be done this summer.

Russia's crude oil export duty will fall to \$438.20 per tonne from August 1st, down from \$445.10 in July. Russian officials said the government is likely to continue applying the higher rate on gasoline beyond July as it seeks to battle fuel shortages amid higher demand in the summer driving season. Russia hiked gasoline export duty by 44% for May to \$408.30 per tonne. If the higher tax stays in August, it would stand at \$394.40.

BP announced today that it will implement a new set of deepwater oil and gas drilling standards for its operations in the U.S. Gulf of Mexico and those will go beyond existing regulatory obligations. The company will be making these standards public and will begin to implement them into its current operations in the Gulf of Mexico.

The loading program of North Sea Ekofisk crude oil was revised up to 323,000 b/d in August because the shipment of some July barrels has been delayed into next month. Originally the August loading program had been set at 298,000 b/d. The revision was made as a result of a fire at a BP operated Valhall oil field that produces into the Ekofisk stream which had been producing at 60,000 b/d.

A spokesman for the rebel-held oil firm Arabian Gulf Oil Company told Reuters today that Libya is not ready to start pumping oil from fields held by rebels in the east of the country. There is no production and everything is under repair and it would not provide a restart date. The official was responding to a report in the Petroleum Economist that repairs at the Sarir and Misla oil fields had been completed and oil production was imminent. He also declined to comment on the extent of damage to the oil fields

Market Commentary

A mixture of news provided for a choppy weekly trading session, with crude oil finishing the week up .7 percent. Despite mostly supportive news this week, prices were unable to surpass last week’s high and \$99.24, the 38% retracement between the range of \$114.83 and \$89.61. Volume was thin as weak shorts covered ahead of the weekend. With a blend of market stimulants, traders will most likely remain cautious up around the \$100 level. Technicals are trending in neutral territory but are pointing to the upside. We would look for another test at \$99.24, with an initial upside objective of \$102.22.

July Calendar Averages
CL – \$96.69
HO – \$3.0521
RB – \$3.0742

Crude oil: Aug 11 116,710 –42,321 Sept 11 336,842 +28,799 Oct 11 84,955 -694 Totals 1,541,749 – 11,197 Heating oil: Aug 11 61,994 –4,421 Sept 11 67,057 +3,684 Oct 11 34,497 +700 Totals 307,,690 +1,715 Rbob: Aug 11 61,475 –2,862 Sept 11 59,470 +2,643 Oct 11 29,836 +365 Totals 240,568 +1,244.

Crude Oil		Heating Oil		Rbob	
Support	Resistance	Support	Resistance	Support	Resistance
9428	9924		31342		
9122	10071	27150	32777		33369
8950	10222	26680	33370	26965	35915
8700	10339	27375	33510	26300	36310
8625	10845	23685		25683	
8500	11120	22960		25145	
8385	11483			24240	
	11563			23631	
50-day MA	97.65			23414	
200-day MA	94.19				

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