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## ***ENERGY RISK MANAGEMENT***

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### **ENERGY MARKET REPORT FOR JULY 18, 2011**

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Analysts stated that there was no sign yet of the kind of shortage to mandate another decline into the West's emergency oil reserves when a 30 day deadline for assessing the impact of a first release expires at the end of the week.

Iran's semi-official Fars news agency reported that Iran warned India on Monday that it would stop exporting oil to India starting August 1<sup>st</sup> if a financial dispute over payment was not resolved. Iran says India owes \$5 billion for oil imports in recent months.

#### **Market Watch**

The US National Hurricane Center said Tropical Storm Bret moved northeastward out into the Atlantic on Monday. The second named storm of the 2011 Atlantic hurricane season was not forecast to strengthen into a hurricane or to threaten the US east coast or energy facilities in the Gulf of Mexico.

The National Association of Home Builders said US home builder sentiment increased more than expected in July but remained near historic lows. The NAHB/Wells Fargo Housing Market index increased to 15 in July after falling to a nine month low of 13 in June.

Goldman Sachs has cut its forecast for US second quarter growth to 1.5% from 2% due to weak consumer spending. Goldman Sachs also cut its third quarter growth forecast to 2.5% from 3.25%. Meanwhile Bank of America Merrill Lynch and BNP Paribas also cut their estimates for second quarter GDP. Bank of America Merrill Lynch expects second quarter GDP to increase at a 1.5% annual rate rather than 2% while BNP Paribas cut its GDP estimate for the April-June quarter to a 1% rate from 1.5%.

Platts is proposing to move its physical dated Brent crude price assessment period to a longer 10-25 days and is considering making the change starting January 6<sup>th</sup> next year. Currently, the Brent, Forties, Oseberg and Ekofisk are used to set the physical North Sea crude price assessment or dated Brent for 10-21 days ahead.

Nigeria's senior oil workers' union PENGASSAN said it would join a three day strike this week, including shutting down oil and gas installations. It said the government and private sector employers failed to implement a minimum wage law. Nigeria's President Goodluck Jonathan signed a bill passed by parliament more than doubling the monthly minimum wage to 18,000 naira or \$120 from 7,500 naira. However the unions said the government and private employers have failed to raise pay.

Greek port police said armed men hijacked a Greek oil tanker off the coast of Nigeria over the weekend and took the 20 crew members hostage. The tanker was sailing from Ghana to Benin.

Fighting between government forces and opposition supporters erupted in Yemen's capital Sanaa on Monday, killing six people. The fighting was the first since President Ali Abdullah Saleh flew to Saudi Arabia for treatment after sustaining severe burns when an attempt to assassinate him was made in June.

**July  
Calendar Averages**  
**CL – \$96.62**  
**HO – \$3.0544**  
**RB – \$3.0763**

The EIA reported that the US average retail price of diesel increased by 2.4 cents to \$3.923/gallon in the week ending July 18<sup>th</sup>. It also reported that the US average retail price of gasoline increased by 4.1 cents to \$3.682/gallon on the week.

**Refinery News**

Credit Suisse said US refinery margins increased 6% in the week ending July 15<sup>th</sup>. It stated that refinery margins in the Northeast increased by \$1.92 to \$11.02/barrel while margins in the Midwest increased by \$1.36 to \$32/barrel and margins in the Gulf Coast increased by \$2.24 to \$31.99/barrel on the week. Refinery margins in the Rockies increased by \$1.96 to \$35.08/barrel while margins in the West Coast fell by \$1.49 to \$15.06/barrel on the week.

ExxonMobil reported a leak or spill at its 238,600 bpd refinery in Joliet, Illinois on Saturday. Separately, ExxonMobil reported flaring emissions due to an upset of its fluid catalytic cracking units 2 and 3 at its 560,640 bpd Baytown, Texas refinery.

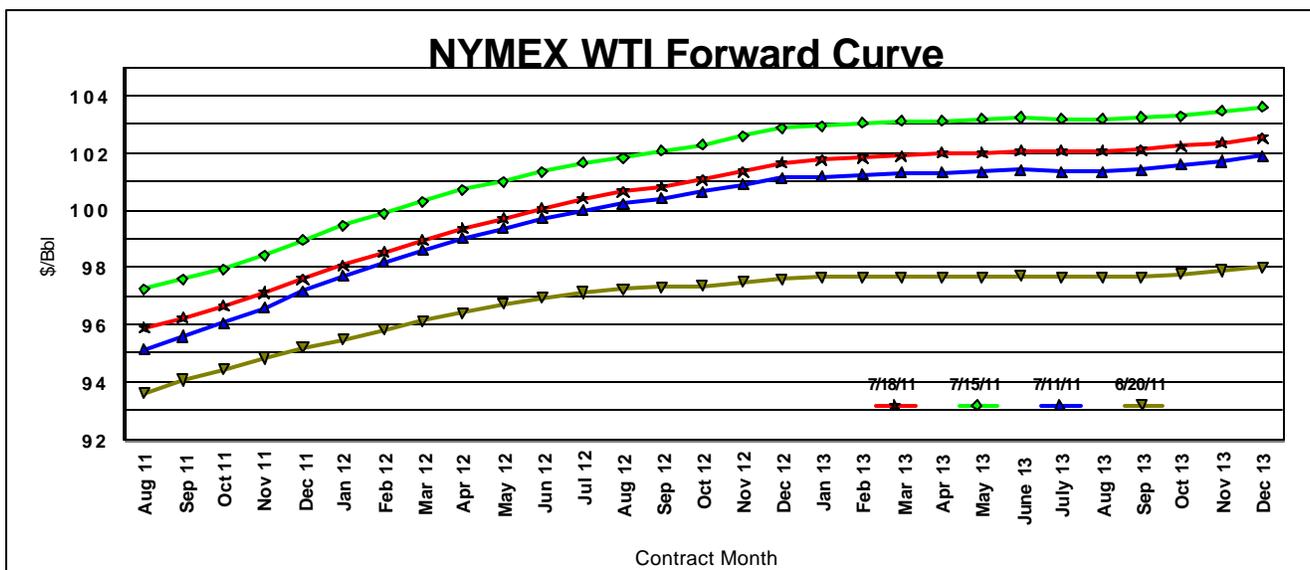
ConocoPhillips' 362,000 bpd Wood River, Illinois refinery resumed operating at normal rates following a power disruption on June 25<sup>th</sup>. ConocoPhillips said a planned flaring event will take place between July 18<sup>th</sup> and July 27<sup>th</sup> at its 140,000 bpd Wilmington, California refinery.

Valero Energy Corp said a crude unit was shut at its 214,000 bpd Texas City, Texas refinery. Its two other crude units were increasing production towards planned rates.

Delek US Holdings reported emissions from its sulfur recovery unit 2 at its 60,000 bpd Tyler, Texas refinery on Monday. The emissions were a result of the shell claus gas treating unit being taken offline for unplanned maintenance.

Refineries around New Orleans, Louisiana were not affected by flooding on Monday. The US National Weather Service issued a flood warning for the lower Mississippi River and the area around New Orleans through mid-morning.

The US Environmental Protection Agency said the danger of more oil leaking from ExxonMobil Corp's ruptured pipeline in Montana has ended. The Silvertip pipeline burst on July 1<sup>st</sup>, spilling an estimated 42,000 gallons of oil or 1,000 barrels into Yellowstone River.



BP PLC said a pipeline at one of its operations in Alaska leaked during a testing procedure over the weekend. The pipeline spilled a mixture of methanol and oily produced water. The pipeline failed during a pressure test that was conducted while the BP operated 30,000 to 32,000 bpd Lisburne field was shut in for summer maintenance.

Japan's demand for crude oil and oil products to fuel power plants could triple if the country shuts all its nuclear reactors due to growing public safety concerns following the March earthquake and tsunami. Japan may need to import an additional 350,000 bpd of crude and fuels to make up for the loss. It may also need an extra 20 million tons of LNG.

### **Production News**

Royal Dutch Shell began a planned three day production shutdown at Iraq's Majnoon oilfield for upgrades and maintenance. The field, which is currently producing about 65,000 bpd, is expected to restart output on Tuesday or Wednesday.

The UAE expects to produce 2.5 million bpd in July, down from 2.6 million bpd in June.

Saudi Arabia's oil production increased by 0.9% to 8.89 million bpd in May compared with 8.82 million bpd in April. It exported 6.84 million bpd of crude and condensate in May, up from 6.76 million bpd a month earlier.

Austria's OMV AG said it resumed oil in Yemen after repairs were made to its main export pipeline which was attacked and damaged by rebels in March.

China's Sinopec shutdown a third or 10,000 bpd of its oil production in Gabon following a pipeline leak last week.

Maersk Oil is expected to lose production of up to 5.3 million barrels of oil equivalent due to extensive repair work on a floating production unit damaged in a storm last winter in the North Sea. Maersk Oil's Gryphon floating production, storage and offloading unit, currently under repair in Rotterdam, services a number of the company's offshore UK oilfields.

The Norwegian Petroleum Directorate said Swedish oil and gas company Lundin Petroleum discovered oil in the North Sea.

Angola is scheduled to export 1.67 million bpd of crude oil in September, up from 1.58 million bpd scheduled to load in August.

Anadarko Petroleum Corp and ExxonMobil Corp said that two companies and their partners finalized an agreement to develop the Lucius field in the Gulf of Mexico. The floating production facility would have a capacity of more than 80,000 bpd and 450 mmcf/day of natural gas. First production is expected in 2014.

OPEC stated in its annual statistical bulletin that Venezuela's crude oil proven reserves surpassed those of Saudi Arabia in 2010. Venezuela's proven crude oil reserves reached 296.5 billion barrels in 2010, up 40.4% on the year and higher than Saudi Arabia's 264.5 billion barrels.

### **Market Commentary**

After last week's choppy trading session, prices headed lower as the dollar strengthened against the euro. The European sovereign debt crisis was the focus of attention as fear mounted that the situation could worsen by spreading across Europe. This put pressure on commodity markets across

the board. Crude oil continues to retreat when close to the \$100 psychological level as weak longs take profits. There are several reports out this week that will garner the attention of traders. Among these reports are housing starts. Should numbers reflect expansion; this will be bullish for prices. If figures indicate a contraction, this too could be bullish for prices on expectations that the Federal Reserve will move to provide additional economic stimuli. The European sovereign debt crisis will remain at the forefront of trader's minds, as this will influence the dollar/euro relationship. Weakness in the dollar will support crude oil prices and vice versa. We would continue to look for trading to remain volatile and for prices to make further attempts to trade above the \$100 level.

**OPEN INTEREST:**

Crude oil: Aug 11 86,892 -29,818 Sept 11 343,972 +7,130 Oct 11 81,868 -3,087 Total: 1,517,309 -24,440  
Heating oil: Aug 11 59,331 -2,663 Sept 11 69,423 +2,366 Oct 11 35,229 +732 Total: 309,993 +2,303  
Gasoline: Aug 11 57,361 -4,114 Sept 11 64,273 +4,803 Oct 11 30,190 +354