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## ***ENERGY RISK MANAGEMENT***

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### **ENERGY MARKET REPORT FOR JULY 19, 2010**

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The IEA said China is the world's largest energy consumer. China consumed a total of 2,252 million tons of oil equivalent last year or about 4% more than the US, which burned 2,170 million tons of oil equivalent. The IEA however stated that the US is still the largest energy consumer per capita, with the average American burning five times as much energy annually compared with the average Chinese citizen. The US is still the largest oil consumer, with oil demand at about 19 million bpd. China's oil demand is estimated at 9.2 million bpd.

#### **Market Watch**

The National Association of Home Builders' monthly gauge of confidence in new home sales fell two points to 14, the lowest level since April 2009. The larger than expected decline was the second consecutive decline caused by the end of a government tax credit for home buyers and high unemployment. The report showed current sales conditions fell to 15 from 17 during June. It said sales expectations over the next six months fell to 21 from 22.

Private forecaster, WSI Corp, and energy advisory firm, ESAI, said warmer than normal temperatures are expected from August through October for most of the US. WSI predicts warmer than normal weather in August in all regions except the Southeast and South Central. In September, warmer than normal temperatures are expected except the Southeast region while October is expected to bring warmer than normal temperatures in all region except the Northeast, where temperatures are forecast to be much warmer than normal and the Northwest, where temperatures are forecast to be cooler than normal.

BP Plc's talks to sell half its stake in Alaska's Prudhoe Bay oilfield to Apache Corp stalled twice over the weekend, raising doubts about whether the deal will be completed. The companies last week were on track to sign an agreement for Apache to buy half of BP's Prudhoe stake for between \$10 billion and \$11 billion in all cash transaction.

Plans for joint development in South China Sea territories have been stalled over persistent disagreements between China and the Association of Southeast Asian Nations. China and the ASEAN bloc remain in dispute over China's claim to the entire sea area and China's approach of dealing with individual ASEAN claimants instead of the grouping as a whole. The plans for joint development by China and the ASEAN bloc would include marine research and possibly oil and gas exploration.

The EIA reported that the US average retail price of diesel fell by 0.4 cents to \$2.899/gallon in the week ending July 19<sup>th</sup>. Diesel prices have declined by 6.2 cents or 2.1% in the past four weeks. Diesel prices are however up 40.3 cents/gallon or 16% on the year. The EIA also reported that the US average retail price of gasoline increased by 0.4 cents to \$2.722/gallon on the week.

BP Plc believes an unspecified amount of hydrocarbons seeping from the seafloor near the Macondo well is natural gas and unrelated to the test of its new containment system. The US government authorized BP to keep a tightly sealed cap on the damaged well on the floor of the Gulf of Mexico for

an additional 24 hours, as concerns linger about the possibility that oil or methane could be seeping from nearby locations as a result of the procedure.

<b>July Calendar Averages</b> <b>CL- \$75.08</b> <b>HO – \$1.9919</b> <b>RB – \$2.0365</b>
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An Iranian oil official said global energy majors are still invited to develop oil and gas projects in Iran despite new sanctions imposed against the country. The official said the oil industry cannot be deprived of cooperation.

Iran’s parliament speaker Ali Larijani launched an attack against international bodies, saying that they have been used by major powers like the US to detrimental ends. Pointing to terrorist attacks such as the twin suicide bombings at a Shiite mosque in southeast Iran last week, he blamed world powers for the failure of international organizations to bring about peace and stability.

**Refinery News**

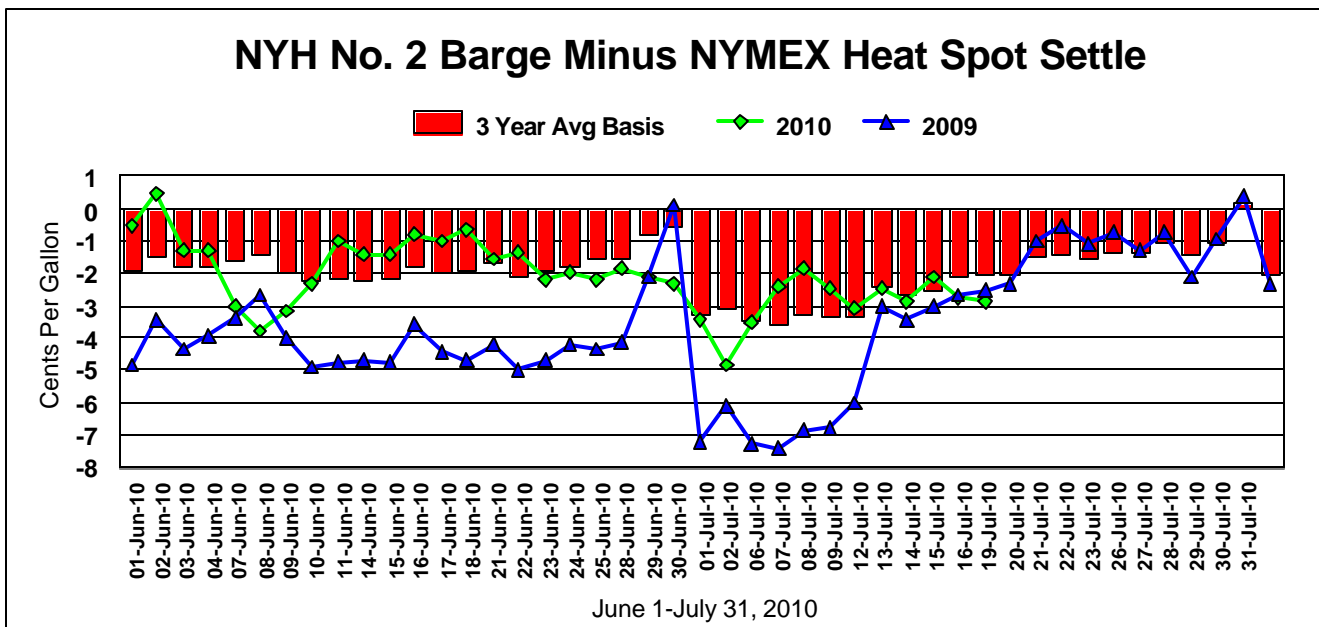
PetroChina Co. said the oil berth at northeast China’s Dalian port has been closed down temporarily for cleanup operations after an oil-pipeline explosion late Friday caused an oil spill into nearby Chinese waters. It said crude supplies for the two large refineries in Dalian will not be affected.

**Production News**

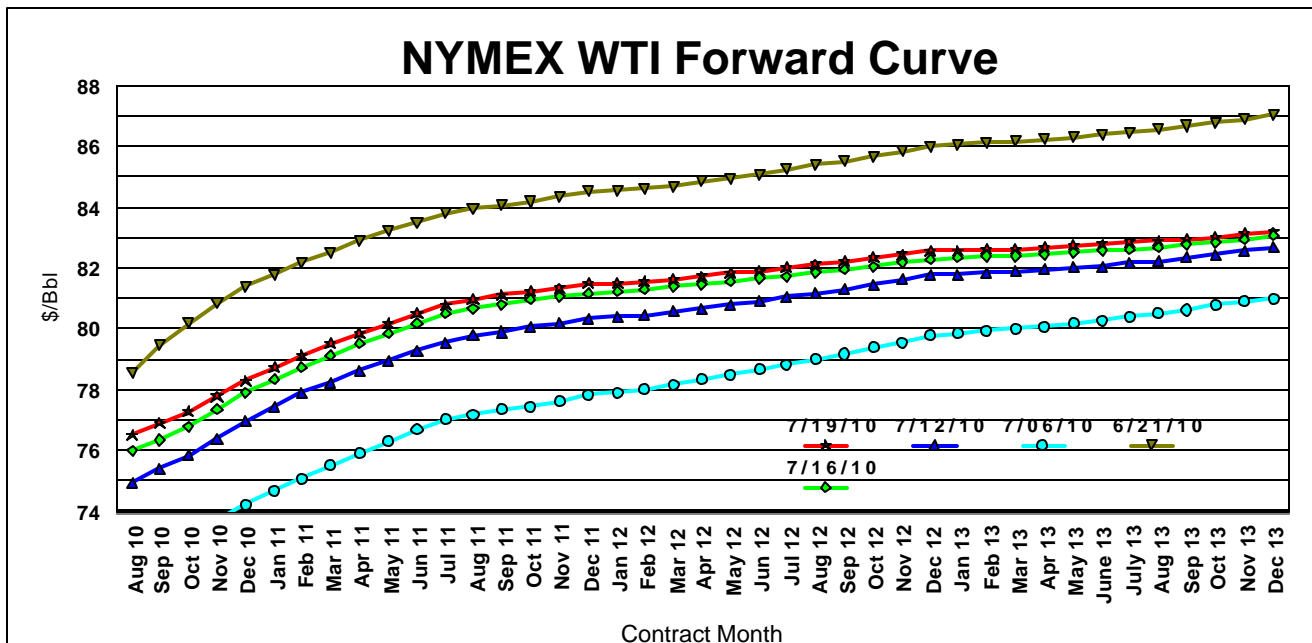
Marathon Oil Corp said its Droszky project in the deepwater of the Gulf of Mexico has started production. Droszky is expected to initially produce 35 million barrels of oil equivalent of an estimated 60 million barrels of oil equivalent.

BP Plc will shut its Unity Riser platform in the North Sea on August 1<sup>st</sup> for three or four days of maintenance. The Unity Riser platform is a key part of the Forties Pipeline System. It connects fields, including Britannia, Scott, Nelson, Elgin/Franklin and ETAP.

ExxonMobil Corp is planning to increase production from Iraq’s 8.7 billion barrel West Qurna oil field to 250,000-260,000 bpd during the first quarter of next year from the current production level of 200,000 bpd. ExxonMobil and its partner Royal Dutch Shell Plc will also announce later this year a number of tenders for drilling new well and a 3D seismic survey.

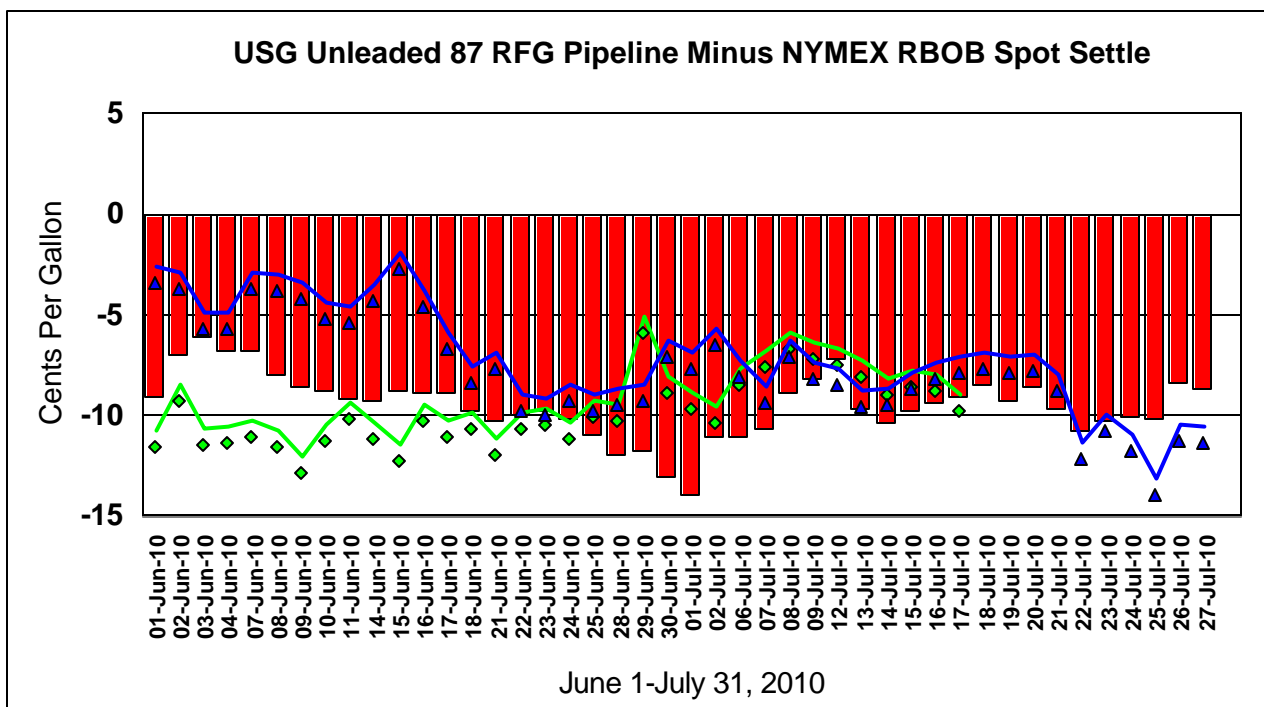


BP Plc and partners China National Petroleum Corp and Iraq's South Oil Co expect to issue tenders to drill between 80 and 100 wells in the Rumaila oil field this year and next year. Earlier this year, BP awarded three deals valued at about \$500 million to drill 49 wells as part of the program to develop the oil field.



Sinopec's largest oil field, Shengli, produced 13.54 million metric tons or 551,378 bpd of crude in the first half of the year. The daily output is slightly lower than last year's average of 560,500 bpd.

Brazil's Petrobras said its crude oil and natural gas output fell in June due to planned maintenance at an offshore platform. Its overall daily oil and natural gas production reached an average of 2.563 million barrels of oil equivalent in June. It is down from the 2.599 million bpd of oil equivalent



produced in May. In Brazil, Petrobras domestic oil production fell by 2.1% to an average of 1.978 million bpd in June. It is down from May's average output of 2.02 million barrels. Petrobras' international oil production averaged 154,600 bpd in June, up from 151,700 bpd in May.

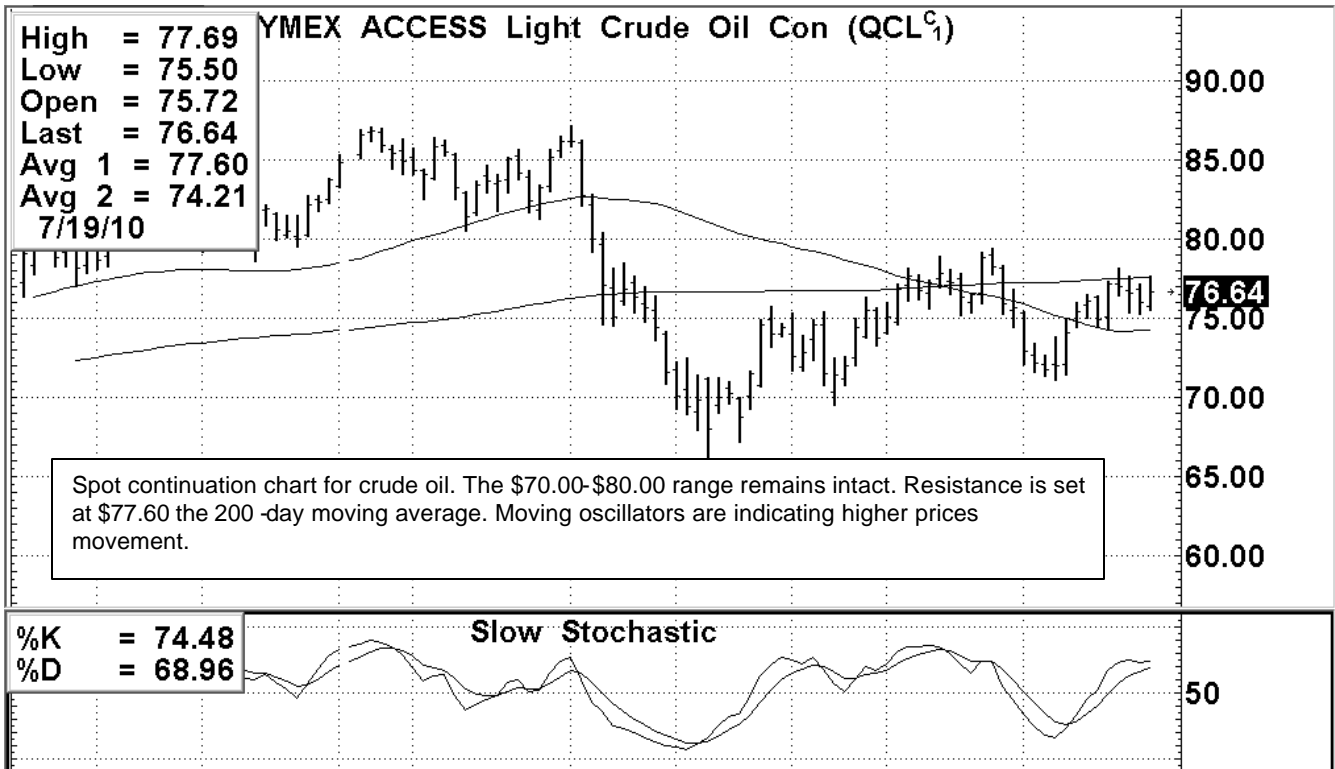
OPEC's news agency reported that OPEC's basket of crudes fell by 37 cents to \$72.89/barrel on Friday from \$73.26/barrel on Thursday. It also reported that OPEC's basket of crudes increased by \$2.30/barrel to \$72.93/barrel in the week ending July 16<sup>th</sup>.

**Market Commentary**

A higher opening in the stock market spilled over into crude oil, washing away three straight days of lower prices. The equities market remains the driving force behind this market, which has defied the current supply/demand situation. With equities moving higher, it appears that there was some light fund buying on thoughts of improvements in demand. Longs although moderate, continue to dominate this market looking for crude oil to break out of the \$70.00-\$80.00 range. The August contract has found resistance up around the 200-day moving average, which was set at \$77.60 basis a spot continuation chart. We would look for prices to remain within the aforementioned range as market participants await this week's release of the inventory numbers.

Crude oil Aug 10 59,046 -26,757 Sept 10 350,585 +11,740 Oct 10 80,112 +2,754 Totals 1,246,978 -10,593 Heating oil Aug 10 56,870 -2,204 Sept 10 63,522 +970 Oct 10 32,066 +54 Totals 312,857 +55 Gasoline Aug 10 48,974 -5,838 Sept 10 84,065 +3,951 Oct 10 32,705 +1,740 Totals 242,144 +2,292.

Crude Oil		Heating Oil		Rbob	
Support	Resistance	Support	Resistance	Support	Resistance
	7760	18965	20685	18890	21280
7560	7938	18480	21390	18750	21925
7427	8325	18365	21625	18420	24880
7293	8710	18055	21875	18260	27085



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