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ENERGY RISK MANAGEMENT

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ENERGY MARKET REPORT FOR JULY 19, 2011

The IEA's Executive Director Nobuo Tanaka said the IEA has not yet decided whether member countries would conduct a second release of emergency oil reserves. The IEA in June announced a release of 60 million barrels from emergency stocks for a month, a temporary measure to fill a supply gap caused by disruptions in Libya's production. The head of the IEA also stated that the agency was also checking for how long Saudi Arabia would continue to increase its production. Meanwhile, European governments are adopting a neutral stance to the possibility of a second release of

Market Watch

The US National Hurricane Center said a weakening Tropical Storm Bret moved on a northeastward track into the open Atlantic on Tuesday. After initially strengthening late on Monday, Bret's maximum sustained winds fell to 50 miles per hour and were forecast to gradually weaken further over the next 48 hours. The NHC's three day track forecast also showed Bret passing well north of Bermuda.

The US Commerce Department said US home construction increased in June to the highest level in five months. Construction of homes and apartments in June increased 14.6% on the month to a seasonally adjusted annual rate of 629,000. The level for May was revised downward to an annualized pace of 549,000. Compared with the same month a year earlier, new home construction in June was up 16.7%. Newly issued building permits increased 2.5% from a month earlier to an annual rate of 624,000, the highest level since December.

The International Council of Shopping Centers and Goldman Sachs reported that the US chain store sales index in the week ending July 16th increased 0.4% on the week and by 4.5% on the year to 535.4.

Redbook Research reported that its Johnson Redbook Retail Sales Index in the week ending July 16th increased by 3.8% on the year.

President Barack Obama praised a \$3.7 trillion deficit reduction plan that would modify entitlement programs such as Social Security and rework the tax code. He said the proposal represents a significant step forward in deficit talks that have so far failed to produce a deal. He said he wants congressional leaders to begin working on a final solution on Wednesday.

Germany's Chancellor Angela Merkel said a meeting of euro zone leaders on Thursday will not be the final step in the resolution of Greece's debt crisis. Euro zone leaders will try to agree on a second rescue package for Greece however she warned it was not politically responsible to agree on a hasty solution. She said in order to solve Greece's problems, the euro zone needs to consider the options for reducing its indebtedness and increasing its competitiveness.

Goldman Sachs Group Inc's commodities trading risk increased slightly in the second quarter from the first. Its Value at Risk for commodities averaged \$39 million per day in the second quarter, up 5% from \$37 million in the first quarter. It said commodities was the only area it took additional risk in the second quarter as it cuts its VaR in the trading of equities, currencies and interest rates. Goldman reported its sixth consecutive quarterly decline. Its fixed income, currency and commodities trading revenue fell 53% to \$1.6 billion in the second quarter from \$4.3 billion in the first quarter and \$3.4 billion a year.

Barclays Capital said investors pulled out \$3.9 billion of net investments in commodities in the second quarter. It said the majority of outflows in the second quarter were in commodities indices, which saw withdrawals of \$5 billion while structured products saw issuance of \$3.5 billion, the highest for three years.

Separately, Barclays Capital said the forward curve of US WTI crude is likely to steepen in contango in the spring next year due to an expected oversupply of crude in the US. It said its only new position this month is in crude where it sees an opportunity to sell WTI time spreads, particularly March-April, at what are attractive levels given the potential for a increase in contango early next year due to the risk of local crude oil oversupply in the Midwest getting worse due to a high level of refinery maintenance.

API Stocks

Crude – down 5.179 million barrels

Distillate – up 1.07 million barrels

Gasoline – up 1.957 million barrels

Refinery runs – up 1.2%, at 86.1%

oil from emergency stocks by the IEA. Officials from Germany, the UK, the Netherlands, France and Italy say they are waiting for recommendations from the IEA. French Energy Minister Eric Besson said there are no plans for now for a coordinated second release of emergency stocks by the IEA.

According to the Energy Department, more than 25% of the 30.6 million barrels of sweet crude sold in the US government's emergency sale from its strategic reserves will be lifted in July. It said 7.7 million barrels of crude is scheduled to move out of the reserve this month. The remaining 22.9 million barrels of crude is scheduled to be lifted in August.

According to a SpendingPulse report released by MasterCard Advisors, US gasoline demand increased by 3.7% or 333,000 bpd to 9.369 million bpd in the week ending July 15th. In the latest four weeks, gasoline demand averaged 9.323 million bpd, down 1.1% on the year. It was the 17th consecutive decline. It reported that retail gasoline prices increased 8 cents to \$3.66/gallon.

An oil tanker, Captain X Kyriakou, docked in the rebel-held Libyan port of Benghazi on Monday seeking to load crude. Its final destination is currently unknown. However this is unlikely to signal a resumption of Libyan oil exports as rebel leaders have said they would not restart production until after Libya's leader Muammar Gaddafi steps down.

Russia's President Dmitry Medvedev said that compromise was possible between Libya's rebels and government. He said Russia was doing its share to seek a peaceful solution. Russia has called for Libya's leader Muammar Gaddafi to resign but has criticized Western military and diplomatic support for the rebels. Meanwhile, Libya's leader said he will not bow under the pressure of NATO air strikes and the rebellion against him, saying his loyalists would recapture lost territory.

In its Annual Statistical Bulletin, OPEC reported that its proven crude oil reserves increased by 12.1% in 2010 to 1.193 trillion barrels. The increase was led by increase of 40.4% in Venezuela's reserves to 296.5 billion barrels. Saudi Arabia's reserves were steady at 264.5 billion barrels. OPEC also reported that OPEC exports increased in value by 18% in 2010. OPEC's crude exports increased by 18% in value to just over \$1 trillion.

Iran's Foreign Ministry said Iran is installing new uranium enrichment equipment aimed at speeding up the progress in its nuclear program. It appeared to confirm reports that Iran was installing two new and more advanced models of the centrifuges used to refine uranium for large scale testing at a research site. Meanwhile, France condemned Iran's announcement that it was installing new uranium enrichment equipment, calling it a clear provocation.

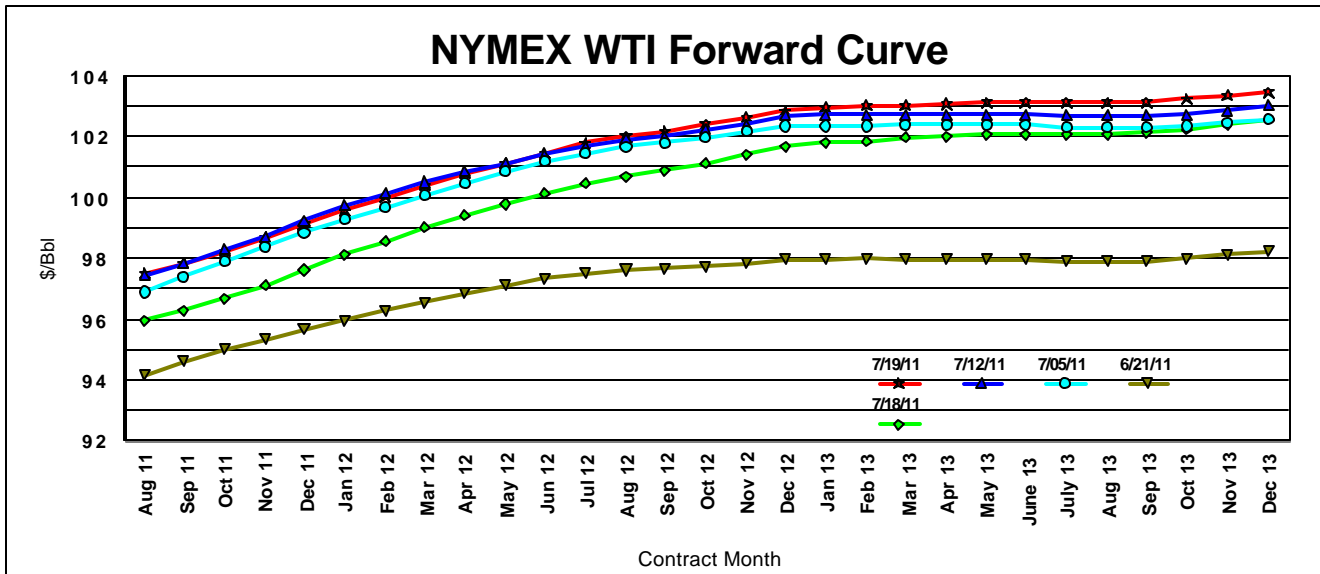
Refinery News

Colonial Pipeline is freezing nominations for Line 27 from Mitchell to Norfolk for Cycle 39 as demand for space is greater than capacity. Colonial issued a freeze notice for the line and cycle effective Tuesday.

BP Plc said it will begin the process of returning an ultracracker unit at its Texas City, Texas refinery to normal operations. Emissions associated with the event are expected to last until Friday. It has struggled to bring the facility back to normal operations after a citywide power outage in April forced a three day shutdown.

<p style="text-align: center;">July Calendar Averages</p> <p>CL – \$96.70</p> <p>HO – \$3.0580</p> <p>RB – \$3.0795</p>

Valero Energy Corp said a crude unit at its 214,000 bpd Texas City, Texas



refinery is scheduled to restart next week. A leak prompted the shutdown of the crude unit at the refinery.

Total Petrochemicals reported a brief power loss late Monday that caused a compressor and other critical equipment to shut down at its 232,000 bpd Port Arthur, Texas refinery. A report filed with the Texas Commission on Environmental Quality said the compressor and other critical equipment had been restarted.

NuStar Logistics said it reactivated a 60 mile pipeline to carry Eagle Ford shale oil from Pettus, Texas to the Gulf Coast at Corpus Christi as part of an agreement with Koch Pipeline Co. The NuStar line ties into the Koch System and increases capacity by 30,000 bpd.

India's Mangalore Refinery and Petrochemicals Ltd is in talks to increase its oil supplies from Saudi Arabia and the UAE in addition to its imports from other countries to hedge against a potential supply disruption from Iran. MRPL, which buys about 150,000 bpd from Iran, has already started diversifying its crude basket. It signed a deal with Kuwait to buy 20,000 bpd of oil in this fiscal year and bought extra barrels from Saudi Arabia for July. Iran has stated that it may halt oil exports to India starting August 1st if the payment of arrears is not resolved.

Taiwan's CPC Corp will take several refining units at its Dalian refinery offline from the beginning of October for routine maintenance. Its No. 9 100,000 bpd crude distillation unit and its No. 3 300,000 bpd residual desulfurizer will be offline for 30 to 40 days. It will start two months of maintenance at its No. 6 40,000 bpd reformer unit in early October, a month later than originally planned.

Vietnam's Dung Quat refinery will reach full capacity by mid-September after a two month maintenance shutdown, reabsorbing the country's output of Back Ho crude and halting exports of the crude grade. The refinery was shut on July 15th and is scheduled to restart on September 7th.

China's National Development and Reform Commission said the country's refined oil product stocks at the end of June increased nearly 1 million tons from a year earlier. It stated that fuel consumption averaged 665,000 tons/day in the second quarter. Apparent consumption of refined oil products increased 7.2% on the year to 118.39 million tons in the first six months. Diesel consumption increased 6% to 74.47 million tons while gasoline consumption increased by 8.7% to 35.25 million tons. The country's natural gas imports in the first half of the year increased 100% to 14.1 billion

cubic meters. Apparent gas consumption in the first half of the year increased by 21% on the year to 63.1 bcm.

The Petroleum Association of Japan reported that the country's crude oil stocks fell by 939,610 kiloliters in the week ending July 9th to 16.47 million kiloliters or 103.58 million barrels. It also reported that Japan's gasoline stocks increased by 30,306 kl on the week to 2.13 million kl.

Iranian fuel oil inflows to East Asia for August are expected to fall to a nine month low of 150,000-200,000 tons, as the country keeps its fuel oil due to disruptions to domestic natural gas supplies. July arrivals at 600,000-650,000 tons are lower compared to June's high of over a 1 million tons.

Vietnam's Customs Department said the country exported 3.9 million tons of crude oil in the first six months of the year, down 11.2% on the year.

Production News

A cargo of Forties crude would be delayed into August from July because of lower than expected North Sea output, reducing supply this month. Reduced output at Nexen's Buzzard oilfield has led to several delays to cargo loading dates since May.

Saudi Arabia's crude oil exports increased to at least 7.7 million bpd in June as its production increased to more than 9.8 million bpd. Exports to North America amounted to about 800,000 bpd in June while sales to European buyers totaled 700,000 bpd.

Nigeria's Bonny Light crude oil loadings are expected to increase more than 40,000 bpd to 298,000 bpd in August following the lifting of a force majeure last week. Its loadings in September are expected to fall to 190,000 bpd.

Iraq's South Oil Co picked Leighton Offshore Private Ltd to build a loading terminal at the southern port of Basra. The deal is pending Baghdad central government's approval. The Single Point Mooring buoys would be able to handle about 900,000 bpd of oil exports. The contract also includes laying a 50km pipeline from the crude oil gathering depots in the Faw Peninsula in Basra to the new terminal in the Persian Gulf. The new buoy would be the fourth the company is building in the Gulf. The entire project aims to ease bottlenecks at Iraqi export terminals and would increase export capacity to 4.5 million bpd by the end of 2012 from 1.8 million bpd. The first SPM is expected to be completed in November or December, adding about 900,000 bpd to Iraq's southern export capacity.

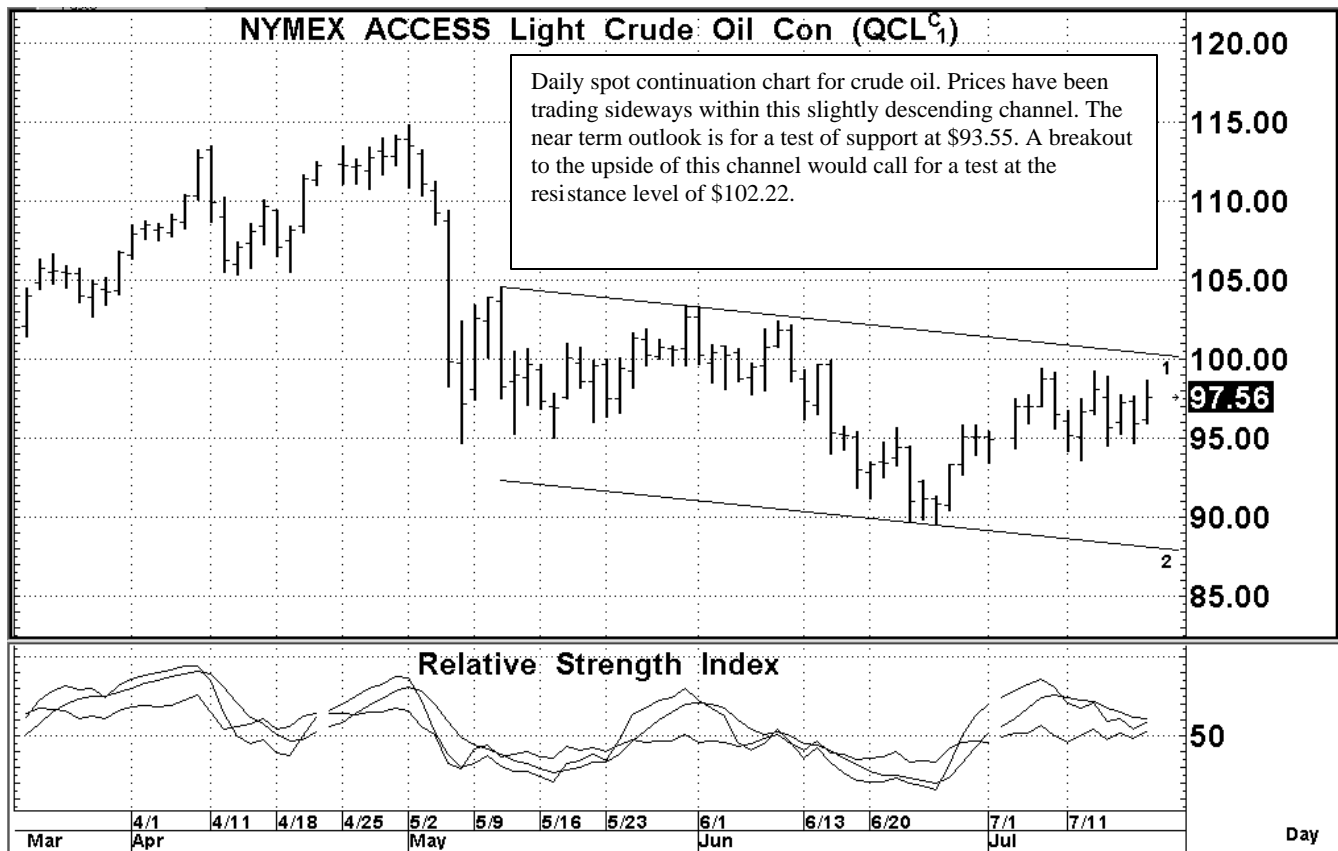
Market Commentary

Crude oil recovered from its sell-off yesterday as the dollar weakened against the euro. Providing support was U.S. housing starts, which increased by 14.6%, and better than expected earnings reports. With August going off the board tomorrow, we will focus on the September contract. For the medium term, crude oil remains in a sideways pattern between the range of \$99.42 and \$93.55. A break above the top of this pattern targets \$102.22, its fifty percent retracement level derived from the range of \$89.61 and \$114.83. If prices settle below \$93.55, an attempt to test \$89.61 is possible and a break below this level will shift the mood of this market to the downside. With expectations that demand will increase going forward, traders are looking for contango market conditions to widen.

Crude oil: Sept 11 362,427 +18,455 Oct 11 84,937 +3,069 Nov 11 68,151 -386 Totals 1,514,811 – 2,498 Heating oil: Aug 11 55,321 –4,010 Sept 11 71,807 +2,384 Oct 11 35,171 -58 308,715 –1,278 Rbob: Aug 11 48,345 –9,016 Sept 11 68,882 +4,609 Oct 11 30,141 -49 Totals 239,552 –3,745.

Crude Oil	Heating Oil	Rbob
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Support	Resistance	Support	Resistance	Support	Resistance
9428	9924		31342		
9355	10071	27150	32777		33369
9122	10222	26680	33370	26965	35915
8950	10339	27375	33510	26300	36310
8700	10845	23685		25683	
8625	11120	22960		25145	
8500	11483			24240	
8385	11563			23631	
50-day MA	97.51			23414	
200-day MA	94.34				



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