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ENERGY MARKET REPORT FOR JULY 20, 2011

Platts reported Wednesday that Germany's National petroleum stockpiling agency (EBV) said the IEA is unlikely to release more oil stocks into the market. A board director of the agency said there is a 90% chance the IEA will not do a second release. This comment comes a day after the French energy minister said there were no plans for now for a coordinated second release of emergency oil stocks.

Market Watch

The US National Hurricane Center said Tropical Storm Cindy formed in the open Central Atlantic. Maximum sustained winds are near 40 mph and slow strengthening is possible during the next 24 hours. It said the center of Tropical Storm Cindy would remain far from land over the open Atlantic.

The Mortgage Bankers Association's seasonally adjusted index of US home mortgage applications increased 15.5% in the week ending July 15th. It was the largest increase since early March. Its seasonally adjusted index of refinancing applications increased by 23.1% however the index of loan requests for home purchases fell by 0.1%. Meanwhile the National Association of Realtors reported today that existing home sales in June fell 0.8% versus an expectation for an increase of 2.9%.

Bank of America Merrill Lynch maintained its forecast for Brent crude in the third quarter at \$110/barrel but raised its forecast for the fourth quarter by \$8 to \$102/barrel. It said Brent crude prices could increase to \$175/barrel in 2012 if Libyan supply does not return to the market and the global economy avoids a recession. It adjusted its forecast for US WTI crude for the third quarter to \$92/barrel and left its forecast for US WTI crude unchanged for the fourth quarter at \$88/barrel.

According to fund flows tracker EPFR Global, investors switched into commodity funds in the first two weeks of July. It said commodity funds, including physical commodity funds, attracted \$1.465 billion in assets in the first two weeks of July. The majority of the net inflows came in the second week of July as investors sought the safe haven of gold and precious metals as the euro zone crisis intensified. It also coincided with a warning from S&P that the US credit rating may be downgraded if an agreement on its debt ceiling was not reached.

French Foreign Minister Alain Juppe said Libya's leader Muammar Gaddafi could remain in Libya if he relinquished all power. Meanwhile, Libya's Foreign Minister Abdelati al-Obeidi said Libya's leader Muammar Gaddafi's removal from power is not up for discussion.

Iran's MP Ali Aghazadeh Dafsari said Iran's Revolutionary Guards' air defense units shot down an unmanned US spy plane over its Fordu nuclear site. He said the plane was trying to collect data about the site's location.

DOE Stocks

Crude – down 3.0727 million barrels
Distillate – up 3.432 million barrels
Gasoline – up 757,000 barrels
Refinery runs – up 2.3%, at 90.3%

Germany's Chancellor Angela Merkel believes Thursday's summit of euro zone leaders will agree on a new Greek bailout while her talks with France's Nicolas Sarkozy later on Wednesday would help Europe find a solution.

Refinery News

IIR Energy reported that US oil refiners are expected to shut

280,000 bpd of capacity in the week ending July 22nd from 300,000 bpd in the previous week.

July Calendar Averages
CL – \$96.81
HO – \$3.0627
RB – \$3.0847

Colonial Pipeline said it was allocating Cycle 42 shipments on its Line 20 carrying distillates from Atlanta, Georgia to Nashville, Tennessee.

Pembina Pipeline Corp spilled about 1,300 barrels of oil from a pipeline in Alberta. It said the spill occurred Tuesday morning in a remote area of muskeg in northern Alberta from the company's Moosehorn conventional oil gathering pipeline. It has contained the spill and isolated the ruptured section of the pipeline.

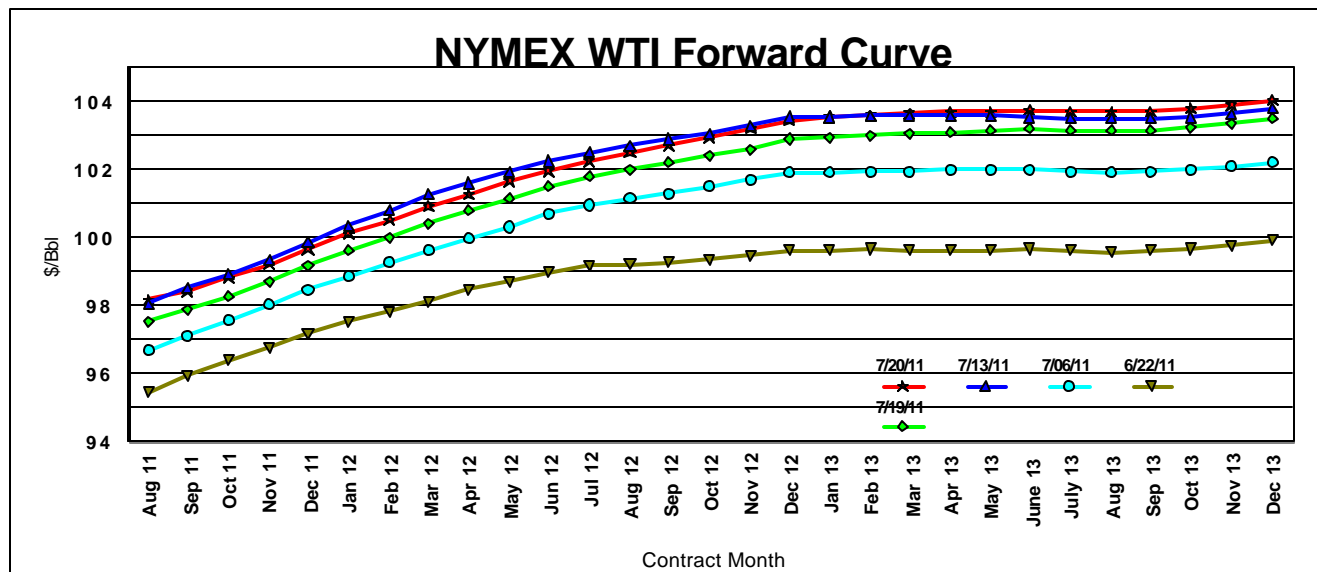
Alon confirmed an employee received first and second degree burns while adjusting a boiler valve at its Big Spring refinery in Texas. It said there was no impact to production at its 67,000 bpd refinery.

Iran's crude oil supplies to India increased by 14% in June to 400,000 bpd despite a dispute over \$5 billion of unpaid bills. It is unclear if such level of sales will remain unchanged after Iranian officials warned August deliveries could be interrupted if outstanding bills are not paid. Meanwhile, India's Bharat Petroleum, Hindustan Petroleum and Essar Oil have each asked for an additional one million barrels of crude from Saudi Aramco for August loading as Iran has not yet made allocations for the month.

Abu Dhabi National Oil Co said it would nearly double its crude sales to China National Petroleum Co under a 20 year agreement it signed last week and also aims to supply the Singapore unit of CNPC. Under the deal, effective 2014, ADNOC is expected to raise supplies to CNPC to 200,000 bpd from just under 100,000 bpd currently.

China Customs Statistics Information Center reported that the country imported 340,000 tons of diesel in June and exported 200,000 tons of the fuel. In the first half of the year, diesel imports totaled 1.03 million tons, up 35% on the year. It also reported that it exported 320,000 tons of gasoline June. Its gasoline exports reached 2.39 million tons, down 22% on the year while imports increased by 58% to 101 tons. China's fuel oil and liquefied natural gas imports totaled 2.22 million tons and 1.04 million tons, respectively.

Traders said at least 140,000 tons of Gulf naphtha for first half August lifting have been put on options to sail to Northwest Europe. Vitol and Shell may be among the sellers of the cargos, which traditionally were shipped to Asia. Sources also stated that BP could have placed some 55,000 tons



of naphtha for first half August lifting from the Gulf to be shipped to Japan or the West as an option.

Production News

Nigeria’s main labor unions called off a three day strike due to start on Wednesday after reaching an agreement with the government over the implementation of the new minimum wage.

Crude loadings of Nigeria’s Qua Iboe crude grade are expected to increase to 380,000 bpd in September from 368,000 bpd in August. A total of 12 cargoes of 950,000 barrels each are due to load in September.

Reuters was reporting today that two more Forties oil cargoes originally due to load in July have been shifted to loading dates in early August. The addition of the two 600,000 barrel cargoes, numbered F0714 and F0720, to August’s export plan will boost loadings to 348,000 b/d, up 310,000 b/d initially planned. August originally had been expected to see Forties loadings fall to a two year low.

Kuwait increased its oil production in June to 2.5 million bpd which exceeds its 2.2 million bpd OPEC quota. It increased its production along with Saudi Arabia and the UAE. Kuwait’s decision to increase its output aims to offset the decline in production by OPEC members, Angola, Nigeria and Libya.

Japan Petroleum Exploration Co plans to invest Y65 billion to Y70billion in its Canadian oil sands project. It said the project would produce between 25,000-30,000 bpd once it begins production in 2014.

Market Commentary

Crude oil advanced for the second straight day after the inventory release by the DOE report reflected a 3.73 million barrel draw. This rise in prices was short lived as focus once again turned to the European debt crisis. So far this month, the spot month crude oil has been trading between the range of \$99.24 and \$89.61 as investors mull over the European debt crisis and the inability of the U.S. to come up with a solution for their own debt issue. Currently, we are mildly supportive of this market and believe that prices will make an attempt to trade above \$100, but lacks the momentum to have significant follow through. Based upon this, we would look to buy the October \$100 call and sell the October \$110 call. The \$100 call settled at \$3.97 and the \$110 call settled at \$0.97, making this trade roughly \$3.00 to put on. With our belief that prices will test the \$110 level, this allows for the possibility of realizing a \$7.00 profit. We feel comfortable with putting on this position.

Crude oil: Sept 11 377,405 +14,978 Oct 11 86,533 +1,596 Nov 11 69,432 +1,281 Totals 1,493,882 – 20,929 Heating oil: Aug 11 53,544 –1,777 Sept 11 73,801 +1,994 Oct 11 36,181 +1,010 Totals 310,508 +1,793 Rbob: Aug 11 45,232 –3,113 Sept 11 74,724 +5,842 Oct 11 31,709 +1,568 Totals 247,299 +7,747.

Crude Oil		Heating Oil		Rbob	
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	

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