



ENERGY RISK MANAGEMENT

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ENERGY MARKET REPORT FOR JULY 21, 2010

US Admiral Thad Allen, in charge of handling the government's response to the BP oil spill, said about 750 boats drafted to skim oil off the surface of the Gulf of Mexico are having trouble finding any crude after BP capped the well with a new device last week.

ExxonMobil Corp and Royal Dutch Shell said they will spend \$1 billion to develop a new oil spill containment system. The project will be engineered for water depths up to 10,000 feet and have initial capacity to contain 100,000 barrels or 4.2 million gallons/day.

Refinery News

All units at Motiva Enterprises LLC's 285,000 bpd refinery in Port Arthur, Texas are operating after a power failure on Tuesday evening

Market Watch

An energy analyst said crude oil prices could fall by 40% by the end of the year as the US government pulls back on its stimulus efforts. He said the government's stimulus has artificially inflated crude oil prices by \$20 to \$30/barrel. He said that assuming the Federal Reserve raises interest rates, crude oil prices may initially increase, as investors see it as a sign the economy is improving. However that reaction will then give way to bearishness in the crude market, as traders recognize that the pull back of stimulus will strengthen the dollar.

According to Morgan Stanley's earnings release, the company marginally reduced the amount of risk taking in its trading book last quarter. It however increased risk in commodities to its highest level since the financial crisis started in the summer of 2008. Morgan Stanley cut firm wide value at risk, (VaR), to an average of \$139 million/day, down 2.8% from the first quarter's 143 million and up slightly from \$132 million in the same period a year earlier. It however increased the VaR allocated to commodity risk slightly from \$27 million to \$29 million. In contrast, Goldman Sachs cut firm wide VaR more than 15% in the third quarter and cut its commodity exposure from \$49 million to \$32 million.

Commodity fund flows continued to increase in the first half of 2010, despite a difficult six months. However analysts are warning of a slowdown as weak returns impact investor confidence. Returns and interest in traditional index investments in baskets of commodities have fallen. The Reuters Jefferies basket of commodities fell by 11% since early January while the S&P GSCI long only commodity index has fallen 7%. The contango structure of many markets has impacted interest in traditional index investment.

The Senate Energy and Natural Resources Committee approved legislation that may be part of a broader energy and climate bill that Democrats are struggling to bring to the Senate floor. The bill approved by the committee would invest nearly \$3.9 billion over 10 years into selected communities to build infrastructure to charge electric cars, conduct research and provide incentives for consumers to buy plug in vehicles. The goal is to put the US on a path to electrify half the country's cars by 2030, which would cut US demand for oil by one third.

Vitol SA is in negotiations to buy equity in Shell Oil Products, part of Royal Dutch Shell Plc, businesses in 19 African countries. The deal would involve 1300 retail sites and 1.2 million cubic meters of terminal storage in total.

DOE Stocks

Crude – up 360,000 barrels
Distillate – up 3.935 million barrels
Gasoline – up 1.118 million barrels
Refinery runs – up 1%, at 91.5%

caused a delayed coking unit and a catalytic reformer to shutdown. A transformer for the West substation of catalytic reforming unit 4 tripped, resulting in a power failure and shutdown of the units.

Murphy Oil reported that a fire broke out late Tuesday at its 108,000 bpd Milford Haven refinery in Wales and was later

extinguished. A disruption to the external power supply caused a total power failure at the refinery resulting in a fire within the refinery prices units.

Hovensa LLC said a tropical disturbance in the western Atlantic Ocean was not affecting operations at its 500,000 bpd refinery in St. Croix. A company spokesman however said that some ship movements were affected by the disturbance.

BP Plc will start supplying crude oil to Vietnam’s Dung Quat refinery starting next month. It is expected to supply 1 million metric tons of crude to the 130,000 bpd plant this year.

China’s General Administration of Customs confirmed that China’s crude imports in June reached 22.27 million tons or 5.44 million bpd, up 34% on the year. Customs data also showed its liquefied natural gas imports totaled 741,732 tons, up 58% on the year. China imported 224,185 tons of natural gas in June. China’s General Administration of Customs also reported that China cut its diesel exports in June to help cover domestic demand amid summer harvesting and economic expansion. Diesel exports fell by 28.5% on the year and by 52% on the month to 269,982 metric tons in June while China’s gasoline exports fell by 27.9% on the year and by 25% on the month to 402,457 tons.

Separately, China reported that its commercial crude oil stocks in June increased by 4.7% on the month to 28.8 million metric tons or 211 million barrels, the highest level this year. China’s gasoline stocks increased by 1.6% on the month to 6.55 million tons while its diesel stocks fell by 5.6% to 8.9 million tons and its kerosene stocks increased by 5.8% to 1.82 million tons.

South Korea’s Korea National Oil Corp reported that the country imported 67.61 million barrels or 2.25 million bpd of crude in June, up 9% on the year. It also reported that South Korea’s commercial stocks fell to 9.5 million barrels in June, down 4.7 million barrels on the year. Its product exports in June increased by 1.6 million barrels on the year to 30.1 million barrels while its imports fell by 500,000 barrels on the year to 800,000 barrels. South Korea’s gasoline demand in June fell by 7.6% on the month but increased by 4.6% on the year to 5.5 million bpd while its diesel demand fell by 5.2% on the month and by 3.3% on the year to 10.8 million bpd.

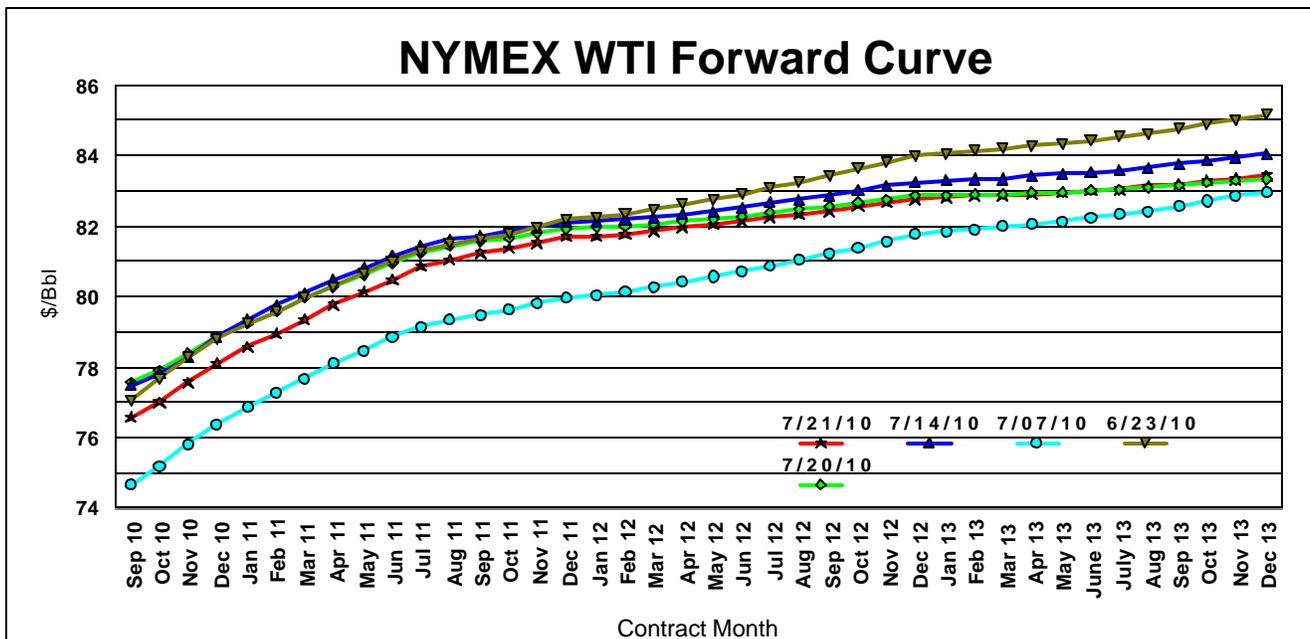
China’s Dalian port has lifted restrictions on ship movements and resumed operations at its container terminals as cleanup operations continue following last Friday’s oil spill.

China’s Ministry of Transport reported that the country plans to build three large emergency oil spill collecting depots on the east coast in the wake of the spill at Dalian port. Each of the depots will be capable of collecting 1,000 metric tons of oil. China also plans to build six mid-sized collecting depots able to handle 500 tons of oil spill each and 7 small facilities able to handle 200 tons each.

Production News

The US Environmental Protection Agency reported that the environmental impact of crude oil production from Canada’s oil sands should be studied more closely before the US approves the Keystone XL expansion project. The State Department is reviewing TransCanada Corp’s plans to expand a pipeline that would double the amount of oil sands crude shipped from

**July
Calendar Averages
CL- \$75.36
HO – \$1.9940
RB – \$2.0417**



Canada to the US to 1.1 million bpd by 2013. A decision on whether to approve the project could come within weeks.

Royal Dutch Shell started evacuating non-essential personnel from its Gulf of Mexico drilling and producing operations ahead of a tropical disturbance in the Atlantic Basin that could enter the Gulf of Mexico over the weekend. The National Hurricane Center said a tropical disturbance is moving over Hispaniola in the Caribbean and that it has a 50% chance of becoming a tropical cyclone formation. It said the system has become disorganized. Earlier on Wednesday, the NHC said the system had a 60% chance of developing into a tropical depression. The weather models project the system would cross Florida. After that however the models diverge. Some weather models expect the system to move west across the Gulf of Mexico before impacting the coast near the Texas-Louisiana border. Other models show the system moving northwest across Florida and moving inland near the Florida Panhandle.

Noble Corp said Anadarko believes the deepwater moratorium is a force majeure event permitting the termination of a contract. It said it is currently in litigation with Anadarko over this dispute.

Nigeria is scheduled to ship 332,000 bpd of Qua Iboe crude in September.

China's Sinopec processed 101.45 million tons of crude oil during the first half of the year, up 17% on the year. The company produced about 149.19 million barrels of crude oil during the first half of the year, up 0.05%. It produced about 17.77 million tons of gasoline between January and June, up 4.6% on the year while it produced about 36.72 million tons of diesel, up 13% on the year. Domestic sales of refined oil products totaled 68.15 million tons during the period, up 18%.

OPEC's news agency reported that OPEC's basket of crudes increased by 22 cents to \$73.16/barrel on Tuesday from \$72.94/barrel on Monday.

Market Commentary

An unexpected rise in crude oil inventories, coupled with an almost three year high in refinery operations, put pressure on crude oil, heating oil and gasoline. Stock levels at Cushing, OK, the NYMEX delivery point, also increased, marking the largest increase since April. Prices experienced a late session sell-off after Federal Reserve Chairman, Ben Bernanke, said that the economic outlook

remains “unusually uncertain”. Citing a “somewhat weaker outlook” Bernanke said that the financial markets are becoming less supportive economically. With this in mind, market participants immediately thought of eroding demand, as supplies remain ample. Despite this bearish report, crude oil remains within the range of \$70.00-\$80.00. This range appears to be satisfactory for OPEC members, who have so far left output levels unchanged. Lighter volumes and open interest continue to hint that the large majority of investors remain on the sidelines, awaiting definitive economic news. The front month spread continues to trade around the long-standing gravitational area of -.43. Prices should remain within the aforementioned range and we would look for prices to test the \$80.00 top.

Crude oil Sept 10 363,942 +6,992 Oct 10 83,136 +977 Nov 10 56,573 +2,931 Totals 1,214,183 – 8,459 Heating oil Aug 10 44,830 –5,016 Sept 10 64,875 +1,006 Oct 10 32,562 +942 Totals 303,463 – 2,508 Gasoline Aug 10 43,566 –2,063 Sept 10 87,754 +611 Oct 10 34,538 +926 Totals 245,190 +209

Crude Oil		Heating Oil		Rbob	
Support	Resistance	Support	Resistance	Support	Resistance
	7840	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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