



ENERGY RISK MANAGEMENT

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ENERGY MARKET REPORT FOR JULY 21, 2011

The IEA said it sees no current need for a second release of oil from emergency stocks but stands ready for further action should market conditions require it in the future. It said much of the 60 million barrels of crude and refined products released from stocks in late June is still finding its way onto the market. It said the oil release is having the intended effect of averting a fuel supply crunch later this summer. It said the oil market will be adequately supplied for the remainder of the year, provided OPEC maintains its current level of production. Earlier, the IEA's Executive Director Nobuo Tanaka said none of the 28 members have asked for a second release of emergency oil stocks.

Market Watch

The US National Hurricane Center said a tropical wave located about 750 miles east of the Windward Islands has a 10% chance of becoming a Tropical Cyclone in the next 48 hours. The system is said to be moving west-northwest at a speed of 15-20 mph.

The US Labor Department reported that initial claims for unemployment benefits increased more than expected by 10,000 to a seasonally adjusted 418,000 in the week ending July 16th. The prior week's claims level was revised to 408,000, up from an originally reported 405,000. The four week moving average of new claims fell by 2,750 to 421,250. The Labor Department said the number of continuing unemployment benefit claims fell by 50,000 to 3,698,000 in the week ending July 9th. The unemployment rate for workers with unemployment insurance fell to 2.9% in the week ending July 9th, down from 3% the previous week.

The Conference Board's index of leading indicators increased by 0.3% in June to 115.3 while the index of coincident indicators increased 0.1% to 102.9 and the lagging indicators increased by 0.3% to 109.5.

The Philadelphia Federal Reserve Bank said manufacturing in the US Mid-Atlantic region increased in July after unexpectedly falling in June. Its business activity index increased to positive 3.2 from minus 7.7 in June. The new orders index increased to 0.1 in July from minus 7.6 while the employment index increased to 8.9 from 4.1.

The euro zone's private sector grew at its weakest pace in almost two years in July as demand from abroad fell. The Flash Markit Eurozone Services Purchasing Managers' Index fell to 51.4 in July from 53.7 in June, its lowest level since September 2009. The Flash Manufacturing PMI fell to 50.4 from 52 in June.

China's factory sector contracted for the first time in a year in July and at its fastest pace since March 2009. The HSBC flash purchasing managers' index fell to 48.9 in July. China's industrial output increased 15.1% in June from a year earlier following a 13.3% increase in May. Economic expansion slowed to 9.5% in the second quarter from 9.7% in the first quarter.

The International Monetary Fund said China should continue its tightening policy, including allowing the yuan to increase in value. In its annual report on China, the IMF said the economy was doing well.

According to a Dow Jones Newswire survey, analysts still expect crude oil prices to decline in the next 12 months. The 2011 median price forecast for WTI crude is \$99/barrel, down \$2 from a previous estimate while the 2012 median price forecast is \$100.50/barrel, down from a previous estimate of \$102/barrel. The 2011 median price forecast for Brent crude remained unchanged at \$110/barrel while the median price forecast for Brent crude in 2012 fell to \$107.90/barrel from a previous estimate of \$108/barrel.

The National Oceanic and Atmospheric Administration said most of the US West Coast will see below normal temperatures in August through October while above normal temperatures are expected across the south and into the Great Lakes and Northeast. It said equal chances for normal, above normal or below normal conditions exist in the mid-Atlantic region and across the upper Midwest and western regions.

US Securities Exchange Commission's Shapiro said a declining budget would impact the agency's capacity to keep up with regulatory obligations.

July
Calendar Averages
CL – \$96.97
HO – \$3.0653
RB – \$3.0857

Analysts stated that oil prices may be in for a second round of downward pressure in the coming months as the barrels from the IEA's emergency stocks release start to reach the physical market in greater quantities.

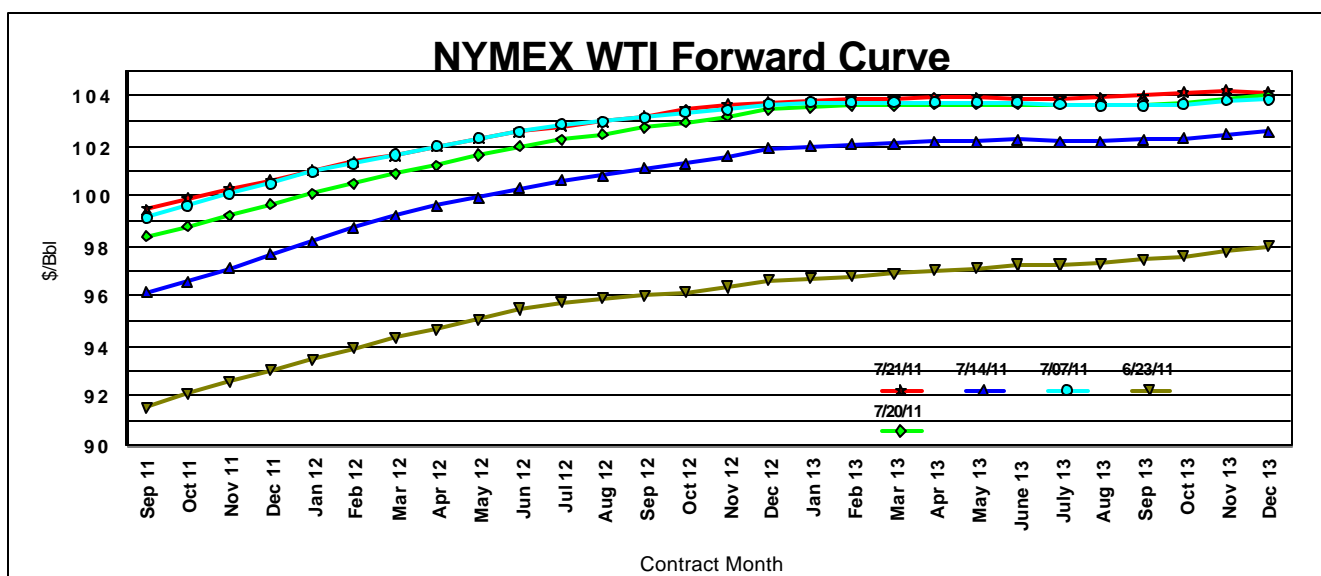
The Energy Department said oil deliveries from the US SPR would total 8.7 million barrels in July, up 1.7 million bpd from its previous estimate. The revision means more oil is expected to reach the market quicker than previously expected. The Energy Department has delivered 1.77 million barrels of crude from the SPR, with 750,000 barrels delivered to Valero Energy, 520,000 barrels to Plains Marketing and 500,000 barrels to Shell Trading Co. The remaining 21.9 million barrels of oil will be delivered in August. It said it would not act on its own to hold another release of oil from the SPR.

The US Senate is scheduled to vote on a House passed budget plan on Friday, in what would be another symbolic vote that is expected to be defeated by senators. The plan calls for immediate deep budget cuts, caps future spending and states that the increase of the country's \$14.29 trillion debt ceiling would be contingent on the congressional passage of a constitutional amendment requiring the federal government to balance its budget. Meanwhile, the White House denied a New York Times report that President Barack Obama and Republican House of Representatives speaker John Boehner were close to a deal to cut the deficit and raise the debt limit.

Standard & Poor's said there was a 50-50 chance it would lower the long term US AAA credit rating within the next three months. The downgrade could happen possibly as soon as early August. It said if an agreement is reached the increase the debt ceiling but nothing meaningful is done in terms of deficit reduction, the US would likely have its rating cut to AA.

Chicago Federal Reserve Bank President Charles Evans said if the US economy does not show signs of sustainable improvement this quarter, the Federal Reserve should find new ways to help it. He said rather than buying bonds, the Fed should provide more precise guidance on how long the Fed would keep rates low. Currently, the central bank has promised to keep them low for an extended period. It could also institute price level targeting, in which it explicitly allows for inflation to increase above the 2% target to make up for periods at which inflation was below target. However he said he would support further bond buying should the circumstances warrant it.

Sources and analysts said the European Central Bank's readiness to accept a selective default in



Greece must have been secured with a concession from euro zone leaders. ECB President Jean-Claude Trichet previously rejected the idea of a short term or selective default, fearing a market contagion. Germany's Chancellor Angela Merkel and French President Nicolas Sarkozy reached a joint position and ECB President Trichet appears to have indicated he could accept a deal on the basis that it would be far reaching and led by the EFSF rescue fund. The EFSF rescue fund would be allowed for the first time to help states earlier with precautionary loans, to recapitalize banks and to intervene in the secondary bond market.

Oil Movements reported that OPEC's oil exports, excluding Angola and Ecuador, is expected to increase by 360,000 bpd to 23.05 million bpd in the four weeks ending August 6th. It reported that shipments from Middle East OPEC members are expected to increase by 340,000 bpd in the four week period.

US Commodity and Futures Trading Commission Chairman Gary Gensler said the CFTC would take up rules on clearing and position limits in September.

Traders welcomed the IntercontinentalExchange's consultation to reduce the sulfur content of gasoil futures on hope that it would increase its liquidity. The proposal would seek to change its existing 1,000 parts per million sulfur content to 10 ppm.

Morgan Stanley's commodities trading risk fell in the second quarter from the first quarter. Its Value at Risk for commodities averaged \$30 million per day in the second quarter, down from \$33 million in the first quarter. Meanwhile, Goldman Sachs raised its commodities VaR to \$39 million in the second quarter from \$37 million in the first quarter. JP Morgan Chase increased its commodities VaR to \$16 million from \$13 million.

Refinery News

Kinder Morgan Energy Partners LP said its Trans Mountain oil pipeline to Canada's West Coast from Alberta is oversubscribed for August so it will only move 70% of nominated volumes. Kinder Morgan said it accepted nominations totaling 264,306 bpd for the month on the 300,000 bpd pipeline.

Enbridge Inc said it would ration space on two lines for August due to high nominations and capacity restrictions. It said it would apportion its 290,000 bpd Line 6B downstream of its terminal at Stockbridge, Michigan by 21%. It also restricts its 100,000 bpd Line 17 by 13%, which runs to Toledo, Ohio from a connection with 6B at Stockbridge.

Citgo Corp's 163,000 bpd Corpus Christi, Texas refinery resumed normal operating rates following operational upsets on Tuesday that forced a cutback at the facility's East Plant processing units.

ConocoPhillips said it is seeking California state permits to run more crude at its 120,000 bpd refinery in Rodeo, California. It would involve expanding throughput by 10% at the Arroyo Grande section of the refinery, adjacent to Rodeo. Its overall capacity would remain unchanged.

ExxonMobil Corp said an incident occurred at its Fawley refinery that resulted in the death of one of its contractors.

Spain's Repsol began shutting down production units at its 220,000 bpd refinery in Bilbao due to a strike.

Total's 230,000 bpd Raffinerie Mitteldeutschland refinery in Germany resumed operations following a maintenance shutdown.

According to Euroilstock, total refinery production in 16 European countries in June increased by 2.6% on the month but fell by 8% on the year to 10.96 million bpd. Crude intake increased by 2% on the week but fell by 7.4% on the year to 10.602 million bpd. It reported that gasoline production increased by 3% on the week but fell by 8% on the year to 2.598 million bpd and middle distillate production increased by 2.5% on the week but fell by 7.8% on the year to 5.58 million bpd. Fuel oil production increased by 4.9% on the week but fell by 7.5% on the year to 1.265 million bpd while naphtha production fell by 0.2% on the week but increased by 2.3% on the year to 807,000 bpd.

The Slovak Antimonopoly Office confirmed a 9 million euro or \$12.78 million fine for Slovneft abusing its dominant market position. It imposed the levy for non-transparent pricing policies for retailers in the 2005-2006 period.

Sources at two Indian refiners said they will not get crude from Iran in August. India and Iran have been attempting to find ways for India to pay for crude imports since December 2010 when the Reserve Bank of India halted the use of a clearing mechanism under US pressure.

Gasoline stocks held in independent storage in the Amsterdam-Rotterdam-Antwerp area in the week ending July 21st fell by 8.33% on the week to 682,000 tons. Gasoil stocks fell by 3.4% on the week to 2.531 million tons while fuel oil stocks fell by 10.78% on the week to 662,000 tons. Naphtha stocks fell by 31.25% on the week to 77,000 tons while jet fuel stocks increased by 8.19% on the week to 449,000 tons.

Singapore's International Enterprise reported that the country's residual fuel stocks increased by 2.176 million barrels to 19.689 million barrels in the week ending July 21st. It also reported that the country's light distillate stocks fell by 317,000 barrels to 9.428 million barrels and its middle distillate stocks fell by 243,000 barrels to 15.614 million barrels on the week.

According to Reuters, China's apparent oil demand in June increased by 1% on the year to 8.99 million bpd.

China's General Administration of Customs confirmed that crude imports in June reached 19.7 million metric tons or 4.81 million bpd, down 11.6% on the year. China's liquefied natural gas imports reached 1.04 million tons, up 40.2% on the year. Meanwhile, official data indicate that China became a net importer of diesel in June for the first time since January while several regional traders have suggested actual imports did not increase. China's General Administration of Customs said China imported 335,465 metric tons of diesel in June and exported about 200,331 tons. Regional traders said China may be including diesel shipped to bonded areas from abroad in its import data. They said the data is misleading as such imports never make it into the domestic market. Gasoline exports also fell 20% on the year to 321,613 tons in June. Separately, China's fuel oil imports are expected to fall through the rest of the third quarter amid slowing domestic demand for gasoil and gasoline.

China's Xinhua News Agency reported that China's commercial crude oil stocks increased by 3.2% in June compared with May levels amid lower refinery runs during the month. Commercial gasoline stocks fell by 7% on the month while diesel stocks fell 1%. Overall oil product stocks fell by 3%.

South Korea's Korea National Oil Corp said the country imported 75.92 million barrels or 2.53 million bpd of crude in June, up 12.3% on the year. It reported that South Korea's refineries processed 75.07 million barrels of crude in June, up 4.6% on the year but down 2.9% on the month. South Korea's commercial crude oil stocks increased 10.5% on the year to 10.5 million barrels. It also reported that the country's oil product imports increased to 22.3 million barrels in June from 21.4 million barrels last year while its product exports increased to 33 million barrels from 30.1 million barrels last year.

The Petroleum Association of Japan reported that the country's crude oil stocks fell for the second consecutive week to 16 million kiloliters or 101 million barrels in the week ending July 16th. Crude stocks fell 2.45 million barrels on the week and by 5.52 million barrels on the year. It reported that gasoline stocks fell by 50,000 barrels on the week and by 330,000 barrels on the year to 13.34 million barrels while kerosene stocks increased by 170,000 barrels on the week and by 3.47 million barrels on the year to 15.04 million barrels. PAJ reported that the country's naphtha stocks increased by 1.06 million barrels on the week but fell by 2.89 million barrels on the year to 9.98 million barrels. It reported that crude runs increased by 230,000 bpd on the week and by 50,000 bpd to 3.54 million bpd.

Production News

Nigeria's state oil company cut the official selling prices for its main crude oil grades for August. Prices for Bonny Light and Qua Iboe crude have been set 85 cents lower than last month at a premium of \$1.95 over the Dated Brent benchmark compared with a premium of \$2.80 in July.

Canada's Environmental Minister Peter Kent said Canada would increase the monitoring of pollution from its tar sands in hopes that this would speed up the US' approval of the proposed Keystone XL pipeline to transport 700,000 bpd heavy Canadian crude to the US Gulf Coast. Environmentalists have campaigned against developing the tar sands of northern Alberta. The US State Department has stated that it expects to make a decision on whether to approve it by year end.

EnCana offered no details on the collapse of talks with PetroChina. It said it is seeing strong interest in cutback ridge lands from other potential joint venture partners.

Market Commentary

Crude oil suffered early morning losses, falling on a report that China's factory division shrank for the first time in a year. This heightened concern in regards to demand. A weak dollar propped up prices, pushing crude oil above \$100 for the first time since June 10th. We would continue to look for crude oil prices to work higher, testing initial resistance at \$102.22. Yesterday, we stated that we liked buying the \$100 call and selling the \$110 call, basis the October contract. This spread settled at \$3.14 yesterday and gained 22 cents today. With our view that prices can work higher, the \$100 call will continue to gain value over the \$110 call.

Crude oil: Sept 11 376,393 -1,012 Oct 11 88,173 Nov 11 69,829 +397 Totals 1,476,986 -16,896
 Heating oil: Aug 11 49,895 -3,649 Sept 11 79,031 +5,230 Oct 11 37,233 +1,052 Totals 314,986 +4,478
 Rbob: Aug 11 41,579 -3,653 Sept 11 79,869 +5,145 Oct 11 33,143 +1,434 Totals 254,339 +7,040.

| 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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