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## ***ENERGY RISK MANAGEMENT***

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### **ENERGY MARKET REPORT FOR JULY 22, 2010**

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The National Hurricane Center said a tropical depression has formed in the Bahamas, with winds of 35 mph. The depression is moving to the west-northwest at 15 mph and is expected to increase in forward speed over the next 48 hours. It could become a tropical storm later on Thursday. It has a 50% chance of it strengthening into a tropical storm and at most a 15% chance of it strengthening into a hurricane. The storm is expected to track a path along northern Cuba and southern Florida and into the Gulf of Mexico sometime on Friday. The system could approach the Louisiana or Texas

#### **Market Watch**

The US Labor Department reported that the number of US workers filing initial claims of unemployment increased by 37,000 to 464,000 in the week ending July 17<sup>th</sup>. Economists had expected claims to increase by 21,000. The previous week's level of claims was revised slightly downward from 429,000 to 427,000. The four week moving average increased by 1,250 to 456,000 in the week ending July 17<sup>th</sup>. The number of applicants filing for federal extended unemployment benefits fell by 404,049 between June 26<sup>th</sup> and July 3<sup>rd</sup>. It reported that the number of continuing claims fell by 223,000 to 4,487,000 from the preceding week's revised level of 4,710,000. The unemployment rate for workers with unemployment insurance for the week ending July 10<sup>th</sup> was 3.5%, down 0.2% from the prior week's unrevised rate of 3.7%.

Federal Reserve Chairman Ben Bernanke reiterated that the current policy of ultra-low interest rates remain appropriate despite a worsening economic outlook. He said the Federal Reserve continues to plan for an eventual return to more normal rates. However he added that the central bank is prepared to take further policy actions as needed if the recovery falters.

The Euro zone's private sector surged in July. European purchasing managers' indexes showed private sector business activity grew in July, indicating third quarter euro zone growth of about 0.6-0.7%. Markit's Eurozone Flash Services PMI increased to 56 in July from 55.5 in June, outpacing expectations of 55. The euro zone's manufacturing sector, which drove a large part of the economy's return to growth in the third quarter of last year also accelerated. While the euro zone economy has emerged from its worst post-war recession it grew only 0.2% between January and March following a 0.1% expansion in the final three months of 2009. It is expected to have grown 0.6% in the second quarter. However growth is seen slowing to 0.3% later in the year.

US House Democratic leaders plan to remove some features from legislation intended to overhaul the laws governing oil and natural gas development on federal lands in an effort to improve the bill's chances of passage. The House is expected to vote as early as next week on legislation that tightens regulations of offshore drilling, formally restructures the agency that regulates such drilling and removes the cap on economic damages paid to residents and small businesses by oil companies after oil spills.

A study shows the importance that independent oil and gas companies play in the Gulf of Mexico. The Economic Impact of the Gulf of Mexico Offshore Oil and Natural Gas Industry and the Role of the Independents show that in 2009 about half of the nearly 400,000 oil and gas jobs in the Gulf were generated by independents. Independents generated \$38 billion in economic value and \$10 billion in federal, state and local revenue. The study also shows that independents represent a large and growing portion of the deepwater segment.

coastlines by early Sunday.

Energy companies operating in the Gulf of Mexico were closely monitoring a tropical depression that could strengthen into a storm and pass through the region. Both BP and Shell started evacuating non-essential workers from offshore platforms in the Gulf on Thursday. Also pipeline operator, Enbridge said it plans to evacuate on Friday 20 to 30 nonessential personnel offshore from facilities connected to its regional offshore gas pipelines. Operations were normal at the Louisiana Offshore Oil Port.

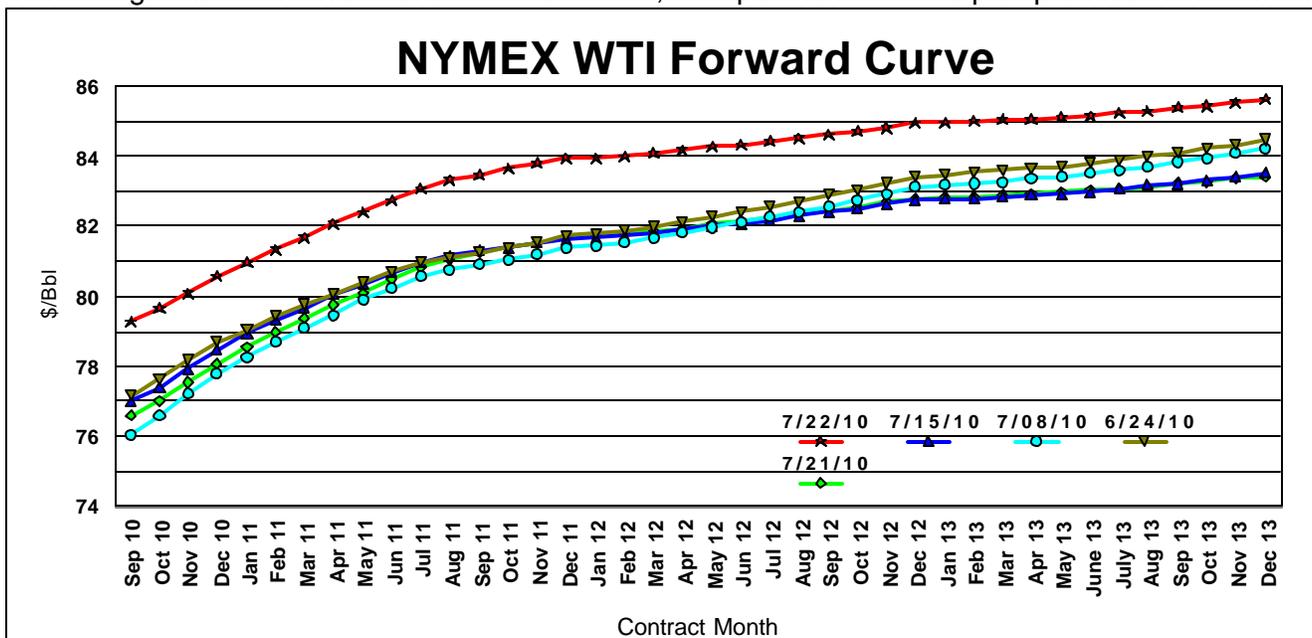
<b>July</b> <b>Calendar Averages</b> <b>CL- \$75.62</b> <b>HO – \$1.9986</b> <b>RB – \$2.0487</b>
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The US government and BP started evacuating specialized vessels working on the Gulf of Mexico oil spill as a precaution ahead of a storm. A full scale evacuation is expected to delay by up to two weeks the final operation to seal the well. The recently installed containment system may have to be opened or removed if an evacuation is ordered.

ConocoPhillips' chief executive James Mulva said the creation of a joint strike force to handle oil spills could be one of the steps that could help end a deepwater drilling ban in the US Gulf of Mexico. The newly created company, known as Marine Well Containment Co, aims to field a ready to deploy oil spill containment system similar to the one developed by BP. BP, although not one of the founders, is expected to join the group once it manages to stop the leaking well. Conoco, ExxonMobil, Chevron and Royal Dutch Shell aim to restore official and public confidence in their ability to handle large scale deepwater spills.

Oil Movements reported that OPEC's oil exports, excluding Angola and Ecuador, are expected to fall by 200,000 bpd in the four weeks ending August 7<sup>th</sup> to 23.55 million bpd.

According to a report by Energy Market Consultants part of FACTS Global Energy Group, Iran is forecast to become self sufficient in gasoline production in the next five years. Iran produces between 280,000 and 285,000 bpd of gasoline and until recently had obtained the remaining 30% of about 115,000 to 120,000 bpd through term contracts or spot purchases from major oil companies, including many from Europe. EMC assumes a base scenario where Iran is able to complete its current schedule of upgrades at Arak, Abadan and Isfahan refineries as well as the construction of one of three condensate splitters at the Bandar Abbas refinery by 2015. Iran will be able to meet its domestic gasoline demand estimated at about 400,000 bpd and have a surplus production of between



60,000 and 70,000 bpd. It however said that in the near term the withdrawal of international trading companies selling to Iran via the UAE means it would have to source its gasoline imports from a very limited number of suppliers. The cost of selling refined products to Iran, in terms of insurance and credit, will also increase significantly, which would have to be paid by Iran.

Iran's Vice President Mohammad Reza Rahimi said Iran wants to move away from taking payment in dollars and euros for its crude exports. International Oil Daily reported on July 15 that Iran is considering switching to the UAE's dirham from the euro for oil sales to Europe. Financial sanctions imposed by the US and UN make it difficult for Iran to collect dollars from foreign banks for the sale of its oil. The US Treasury Department has threatened international banks that are accepting dollars transactions with Iran from being banned from the US banking system. An analyst said the measure is pushing Iran to turn to smaller, more local banks and to diversify its accounts.

### **Refinery News**

ConocoPhillips scrapped plans to upgrade its 260,000 bpd Wilhelmshaven refinery in Germany. ConocoPhillips may sell the facility or convert it into an oil terminal. It joins other major oil companies looking to reduce refining assets in Europe, where refining margins are low due to weak demand and excess global capacity.

The Petroleum Association of Japan reported that the country's crude inventory in the week ending July 17<sup>th</sup> increased by 938,454 kiloliters to 17.626 million kl on the week. It also reported that the country's gasoline stocks fell by 35,497 kl to 2.155 million kl while its gas oil stocks fell by 40,949 kl to 1.841 million kl, its kerosene stocks increased by 91,414 kl to 1.885 million kl, its naphtha stocks increased by 63,798 kl to 2.16 million kl and its jet fuel stocks increased by 101,604 kl to 1.048 million kl. The PAJ also reported that Japan's refinery runs increased to 75.2% from 71.9% during the previous week.

Vitol Tank Terminals International announced plans to build an oil product terminal in Vassiliko, Cyprus. The project is expected to be completed in 2012 and will have a capacity of about 340,000 cubic meters for storage of gasoline, diesel, jet fuel and fuel oil. Construction of the terminal will begin in the next few months.

### **Production News**

The North Sea crude market remains tight amid lower production but narrowing refining margins and expected higher output in September suggest the tightness will ease. Forties crude is the tightest in the market, mainly due to lower production and cargo deferrals due to maintenance work. Crude production is expected to return to normal in September as planned maintenance comes to an end.

Provisional crude export programs from Nigeria's NNPC show it plans to export at least 2.05 million bpd in September. Nigeria's NNPC will ship five cargoes of Erha crude, each containing 950,000 barrels, as part of its September exports plan. Nigeria will ship 158,000 bpd of Erha crude in September.

Iraq's Deputy Oil Minister Ahmad al-Shammaa said the country's al-Ahdab oil field is expected to produce 60,000 bpd during the first half of next year. He also said that China's CNPC, which secured a deal to develop the oilfield, is working on a pipeline to connect the field with Iraq's southern export terminal in Basra.

Iraqi Kurd oil is still flowing to Iran, despite a pledge to cut the flow of oil being smuggled to Iran. Tanker trucks drivers said the only impediment is the long lines that force them to wait for days to cross the border to unload fuel at Iranian ports or fuel depots. The cross border trade in fuel is a challenge to US efforts to impose sanctions on Iran. It is also causes tension between Iraq's Arab

majority and ethnic Kurds. The Shi'ite led federal government has stated that any trade in crude oil would be illegal. On Monday, the cabinet of the Kurdish Regional Government approved stricter measures including increased border surveillance to stop any illegal trade in crude across its borders.

Ecuador's Nonrenewable Natural Resources Minister, Wilson Pastor said the country has canceled Perenco's oil contracts following a long dispute. In September last year, the government began a process to cancel Perenco's oil contracts in the country, arguing the company had not fulfilled its obligations in the country.

China's Sinopec said it shut some oil wells in southern China due to flooding. The impact on the company's oilfields is limited so far. It said the company's largest field, Shengli is largely unaffected. The company has taken precautionary measures to cope with bad weather.

China's CNOOC limited announced that an independent oil field in Bohai Bay, BZ 29-4, has started production. The field is projected to produce at a peak of 7,800 bpd within 2010.

Brazil's OGX Petroleo e Gas Participacoes SA said that a well in the Campos Basin's BM-C-41 block showed signs of oil. It identified an oil-bearing region in the Aptian section of the 1-OGX-15-RJS well. It announced a similar discovery on Tuesday in the Albian section of the same well.

Canadian synthetic crude prices for August delivery increased amid talk of a fall in production at the Syncrude Canada Ltd oil sands plant in northern Alberta. Sources cited unspecified operational problems for the lower output at Syncrude.

OPEC's news agency reported that OPEC's basket of crudes was unchanged at \$73.16/barrel on Tuesday.

Tengizchevroil, the Chevron Corp-led consortium that operates the Tengiz oilfield in Kazakhstan will pay a \$1.4 million environmental fine for the unauthorized burning off of natural gas into the atmosphere.

### **Market Commentary**

The oil complex traded sharply higher, supported by the prospect of a tropical storm developing and moving into the Gulf of Mexico on Friday and reaching the Louisiana or Texas coastlines by Sunday. The National Hurricane Center said a tropical depression formed in the Bahamas and has 50% chance of it strengthening into a tropical storm and at most a 15% chance of it strengthening into a hurricane. The crude market's gains were also aided by European economic data and rising equities markets. The oil market rallied and settled in a sideways trading pattern for much of the day as it failed to test the \$79 level. However the market saw some further buying late in the session amid the weather forecasts. The market breached its resistance and rallied to a high of \$79.42 ahead of the close. The crude market settled up \$2.74 at \$79.30, its largest gain since late May. The crude market on Friday will be further driven by the development of the tropical depression. The market is seen testing its resistance at the \$80 level, with further resistance seen at \$82.50 and \$84.50. The product markets also settled sharply higher, with the heating oil settling up 7.32 cents at \$2.0624 and the RBOB market settling up 7.88 cents at \$2.1466. The markets settled at levels not seen since late last month. The heating oil market rallied to a high of \$2.0674 late in the session amid the strength in the crude market. The market is seen finding resistance at \$2.0685 followed by \$2.139, \$2.1625 and \$2.1875. Meanwhile, the RBOB market which also rallied sharply higher amid the strength in the equities market, is seen finding resistance at \$2.1472, \$2.1925 and \$2.236.

Crude oil Sept 10 367,138 +3,196 Oct 10 88,553 +5,417 Nov 10 60,149 +3,576 Totals 1,230,782  
+16,599 Heating oil Aug 10 40,694 -4,136 Sept 10 68,092 +3,217 Oct 10 32,701 +139 Totals

302,517 -946 Gasoline Aug 10 40,849 -2,717 Sept 10 90,767 +3,013 Oct 10 34,458 -80 Totals  
 247,594 +2,404

Crude Oil		Heating Oil		Rbob	
Support	Resistance	Support	Resistance	Support	Resistance
7800	7942	20255	20685	21195	21472
7616	8000	19846	21390	20795	21925
7562	8250	19759	21625	20630	24880
7470	8450	19115	21875	20273	27085

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