

W The
Windham Group



ENERGY RISK MANAGEMENT

Howard Rennell, Pat Shigueta,
& Karen Palladino

(212) 624-1132 (888) 885-6100

www.e-windham.com

ENERGY MARKET REPORT FOR JULY 23, 2009

The head of the IEA, Nobuo Tanaka said a rapid rally in oil prices, based on expectations of an economic recovery rather than supply and demand, could undermine its slight growth. He said there was little evidence of increasing oil demand even though there are signs of economic strengthening in China.

Oil Movements reported that OPEC's seaborne oil exports, excluding Angola and Ecuador, will fall by 390,000 bpd to 22.39 million bpd in the four weeks ending August 8th. The fall in sailings is the largest drop since the four weeks ending April 18th. Oil Movement estimates OPEC is complying with

Market Watch

The US Labor Department reported that the number of initial claims for state unemployment insurance increased by 30,000 to 554,000 in the week ending July 18th. The Labor Department also said the number of mass layoffs, or job cuts involving at least 50 people from one employer, fell to 2,763 in June from 2,933 in May. Of the June total, 1,235 mass layoffs were reported in the manufacturing sector. The unemployment rate reached a 26-year high of 9.5% in June.

The National Association of Realtors said sales of previously owned homes in the US in June increased by 3.6% to annual rate of 4.89 million units from a downwardly revised level of 4.72 million in May. The inventory of existing homes for sale fell by 0.7% to 3.82 million in June. The average national home price fell 15.4% on the year to \$181,800.

The Association of American Railroads reported that freight traffic across North America fell by 19.1% in the week ending July 18th, including an 18.3% drop in US rail freight. In the first 28 weeks of the year, North American rail freight fell by 19.9% to 9.3 million carloads from 11.6 million in 2008. US rail carloads increased by 2.4% to 268,553 in the July 18th week.

The Baltic Exchange's main sea freight index fell for the fourth consecutive day by 1.53% or 53 points to 3,355 points on Thursday. The Baltic's Capesize index fell by 3.71% on Thursday, also posting a one week low.

The Bank of Canada said the country's economy will pull out of its recession during this quarter. It said the world economy averted a worse case scenario and was bottoming out. It said growth is expected to turn positive.

The Chinese Communist Party's decision-making Politburo reiterated on Thursday that a recovery in the country is not yet on a solid footing. It said China will stick to its current loose monetary stance and a proactive fiscal policy. Separately, China's Foreign Minister Yang Jiechi expressed confidence that his country's economy could reach an 8% growth target this year.

According to the China Iron and Steel Association, China's daily crude steel production in early July was estimated at 1.524 million tons. It is up about 1% from its June daily production data but was down 8% when compared with June output figures provided by China's National Statistics Bureau.

Government data showed that India's infrastructure sector output in June increased by 6.5% on the year, up from an unrevised 2.8% in May. During April-June, the output increased 4.8% compared with 3.5% last year. The sector accounts for 26.7% of India's industrial output.

July Calendar Averages

CL – \$63.19
HO – \$1.6251
RB – \$1.7438

more than 70% of its agreed cuts. Separately, Lloyd's Marine Intelligence Unit estimates average OPEC seaborne exports, also excluding Ecuador and Angola, fell in the four weeks ending July 12th to 20.25 million bpd from 21.01 million bpd.

The premium for back month crude oil futures has increased significantly since mid-July, which should prompt traders to store more crude on land and at sea. An analyst said although the implied carrying charge of about 85 cents/month may not represent a full carry, it is large enough to trigger a round of buy and store programs that will be filling up offshore vessels that were offloaded in May. Onshore storage in the US costs 75-85 cents/barrel a month while storage in offshore tankers costs \$1.02. In addition to the wider contango, lower prices for chartering of VLCCs may help revive the offshore storage trend. Separately, a Barclays Capital analyst said Brent crude is expected to fall below \$63/barrel in the next few weeks, before the expiry of the September contract on August 14th, as the contango widens. He said the catalyst for the push lower could come from the continued deterioration in the spreads, particularly as the December 2009-December 2010 spread trades lower

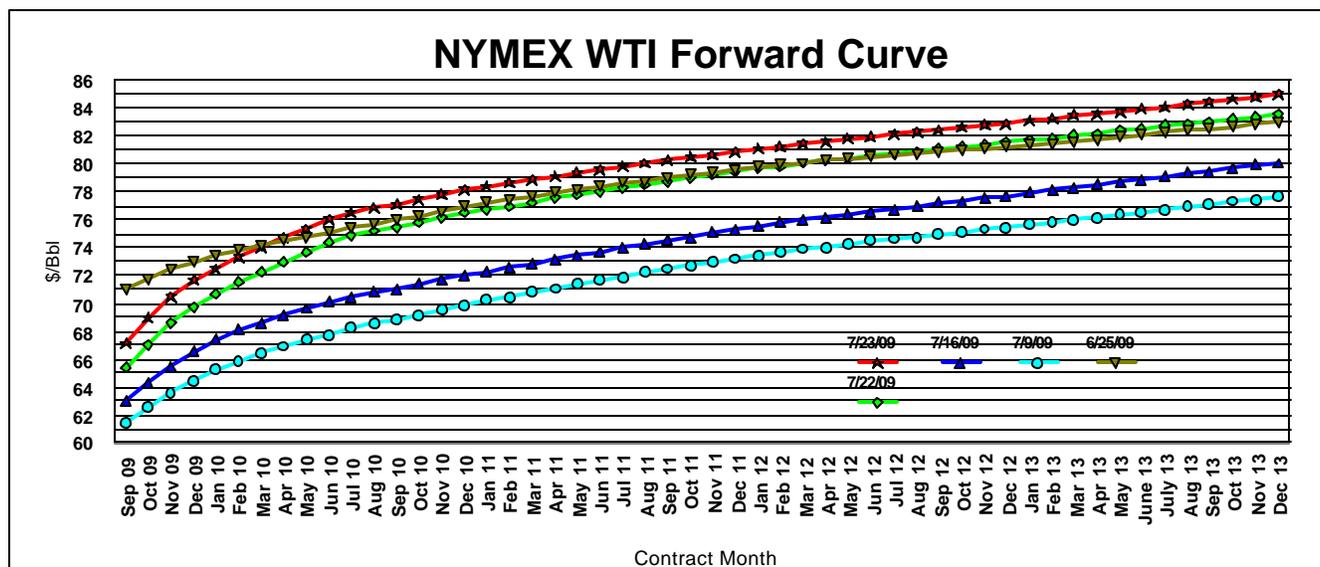
According to Lyxor Asset Management, a subsidiary of Societe Generale, demand for commodities exchange traded funds increased in June. Commodities exchange traded funds were the most popular products in the ETF range, with net inflows into the Lyxor ETF Commodities CRB totaling \$176 million, up 57% on the month.

Refinery News

Valero Energy Corp said it will begin planned work in September on a 95,000 bpd crude unit and a 24,000 bpd fluid catalytic cracking unit at its 100,000 bpd Three Rivers, Texas refinery. It also plans to perform work on a fluid catalytic cracking unit at its 210,000 bpd Delaware City, Delaware refinery in September.

Gasoline stocks in independent tanks in the Amsterdam-Rotterdam-Antwerp area in the week ending July 23rd increased by 0.53% on the week but fell by 6.91% on the year to 754,000 tons. Gas oil stocks fell by 0.18% on the week but increased by 70.32% on the year to 2.8 million tons while fuel oil stocks increased by 20.13% on the week but fell by 24.3% on the year to 567,000 tons. Naphtha stocks fell by 12.82% on the week and by 15% on the year to 68,000 tons while jet fuel stocks fell by 11.57% on the week but increased by 67.8% on the year to 688,000 tons.

According to Singapore's International Enterprise, the country's residual fuel stocks fell by 188,000



barrels to 13.881 million barrels in the week ending July 22nd. It also reported that the country's light distillate stocks fell by 132,000 barrels to 9.949 million barrels while its middle distillate stocks fell by 25,000 barrels to 13.778 million barrels on the week.

The Petroleum Association of Japan reported that the country's oil inventories in the week ending July 18th fell by 5.45 million barrels on the week and by 7.48 million barrels on the year to 101.75 million barrels. Japanese refineries ran their facilities at an average rate of 70.9% of their total capacity of 4.83 million bpd, up 0.9% on the week. Japan's gasoline stocks fell by 240,000 barrels on the week but increased by 790,000 barrels to 14.06 million barrels while its kerosene stocks built by 500,000 barrels on the week and by 2.12 million barrels on the year to 15.5 million barrels. It also reported that Japan's naphtha stocks built by 410,000 barrels on the week. The PAJ reported that Japan's total oil product sales increased by 0.5% on the week but fell by 23% on the year to 2.31 million bpd. Japan's gasoline sales increased by 7% on the week but fell by 3.7% on the year to 930,000 bpd while its kerosene sales built by 0.8% on the week but fell by 42.6% on the year to 80,000 bpd. Gas oil sales fell by 14.7% on the week and by 16.7% on the year to 480,000 bpd.

Abu Dhabi's ADNOC is offering to sell two cargoes of gas oil due to weak fuel demand in the country amid slower economic activity. The UAE is typically short gas oil in the summer, when demand for power generation peaks. It offering in a tender a 35,000 ton cargo of 0.5% sulfur gas oil for loading on August 7-9 and a 40,000 ton cargo of 0.05% sulfur gas oil loading on August 7-9.

Production News

Nigeria is expected to export slightly lower volumes for its Qua Iboe and Bonny Light crude grades in September. Preliminary schedules show 11 Qua Iboe cargoes or 348,000 bpd loading in September, down from 12 cargoes or 368,000 bpd in August while 5 Bonny Light cargoes or 158,000 bpd are expected to load in September, down from 6 cargoes or 184,000 bpd in August. Agbami crude is expected to export 8 cargoes or 252,000 bpd, steady from the previous month while Yoho is expected to ship three cargoes.

A BP led consortium including China's CNPC will meet with Iraqi officials in August and possibly finalize an agreement to develop Iraq's Rumaila field.

A Colombian oil field, operated by Ecopetrol and Canada's Pacific Rubialies Energy Corp, is estimated to have 500 million barrels in reserves. If the estimate is correct, it will make the field the largest in the country.

EnCana Corp said its second quarter profit fell by 80% as oil and gas prices fell. It earned \$239 million, down from \$1.2 billion. In the second quarter, oil sands output from the Foster Creek and Christina Lake plays in northern Alberta increased by 65% to a net 40,700 bpd.

OPEC's news agency reported that OPEC's basket of crudes fell to \$64.68/barrel on Wednesday from \$65.04/barrel on Thursday.

Market Commentary

The oil market rallied to a three week high, driven higher by the strength in the equities markets. The equities markets were supported by strong corporate earnings and the existing home sales report, showing an increase in sales of previously owned homes of 3.6% on the month in June. It however seemed to ignore the unemployment report which showed an increase in initial claims. The market rallied to a high of \$67.47, a high not seen since July 2nd when the market posted a high of \$69.74. The market settled up \$1.76 at \$67.16, a level not seen since earlier this month. The Sep/Oct crude spread settled at -\$1.71, up from -\$1.64 on Wednesday. The strengthening of the contango also supported the market, which is expected to trigger further storage of crude offshore. The crude

market is seen finding support at \$64.50, \$63.50, \$62.25 and \$60.95 while resistance is seen at \$67.73, \$68.50 and \$70.10. Meanwhile the product markets were well supported with the RBOB market leading the way. The RBOB market rallied to a high of \$1.9279 late in the session and settled up 7.49 cents at \$1.9132, a level not seen since late June. The heating oil market rallied to a high of \$1.7761 by mid-day and settled up 5.32 cents at \$1.7644. The market's gains were limited given the fact that distillate stocks continued to build as seen in yesterday's DOE report. The product markets are seen finding resistance given the continued builds seen in product stocks.

Crude Oil (CL) SEP.09 335,971 +3,232 OCT.09 95,303 -2,604 NOV.09 48,681 +3,306 DEC.09 161,006 +1,722 JAN.10 32,057 +528 FEB.10 21,275 +266 Totals: 1,156,595 +6,796. Heating Oil (HO) AUG.09 28,968 -2,196 SEP.09 59,895 -1,559 OCT.09 34,253 +960 NOV.09 21,476 +595 DEC.09 37,651 +1,029 JAN.10 19,456 +170 FEB.10 12,997 -58 Totals: 300,215 +88. New York Harbor RBOB AUG.09 30,852 -3,682 SEP.09 76,445 +1,463 OCT.09 29,156 +314 NOV.09 15,356 +505 DEC.09 18,736 +528 JAN.10 9,597 +73 FEB.10 3,087 -6 Totals: 203,596 -235.

Crude Support	Crude Resistance
64.50, 63.50, 62.25, 60.95, 56.75, 55.45, 54.49, 48.00	67.47, 67.63, 68.50, 70.10, 72.15, 73.38, 74.50, 76.13
Heat Support	Heat resistance
1.4220, 1.4130, 1.3720	1.8400, 1.8730, 1.9090, 1.9135
Gasoline support	Gasoline resistance
1.5887, 1.5370, 1.5260, 1.3560, 1.3400, 131.80, 1.2700, 1.2625 1.1680	192.79, 1.9555, 1.9800 2.0650, 2.1600