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## ***ENERGY RISK MANAGEMENT***

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### **ENERGY MARKET REPORT FOR JULY 23, 2010**

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The National Hurricane Center said Tropical Storm Bonnie weakened to a tropical depression as it moved across southern Florida. It said Bonnie could regain tropical storm strength again when it moves into the Gulf of Mexico later on Friday or early Saturday.

Crews working on the BP oil spill in the Gulf of Mexico evacuated on Friday as Tropical Storm Bonnie approaches the Gulf. The cap in place for a week on the ruptured well will remain in place, however efforts to complete the relief well for a permanent fix

have been set back by the evacuation order. Officials said the evacuation of the drilling rig will lead to a delay of up to 12 days in the final operation to plug BP's ruptured well. BP confirmed it would suspend well activities temporarily because of the weather but would continue to monitor the well as

#### **Market Watch**

Iran and China are in talks to use the yuan to settle sales and purchases. Sources stated that a yuan account may be set up in a Chinese bank for such an arrangement.

China's Ministry of Industry and Information Technology said the country's energy intensity or energy consumption per unit of GDP fell by 15.6% at the end of 2009 from the 2005 level. The reduction level, which is more than the 14.38% previously reported, brings the country closer to achieving its target of a 20% reduction in energy intensity in the five years to the end of 2010.

HSBC Holdings said it agreed on a strategic alliance with Total, which will give the clients of Europe's largest bank access to energy derivative trading. It said the joint venture will start by offering oil derivatives operations but could develop into other energy products.

Increasing German business morale and news of growth in Britain's economy signaled that Europe's economy is accelerating, while concerns of a slowdown in the US economy grows. According to Germany's Ifo survey, business morale in the country posted a record increase in July to reach its highest level in three years. In Britain, official figures showed the economy grew 1.1% in the second quarter, the largest growth rate in four years. A call for an immediate start to tax hikes and spending cuts from European Central Bank President Jean-Claude Trichet, a day after Federal Reserve Chairman Ben Bernanke noted ways the Federal Reserve could counter a slowing economy in the US, underscored the divergence in tone.

The Committee of European Banking Supervisors said seven out of 91 European banks have failed so called "stress tests" designed to assess their ability to survive a future financial crisis. Five Spanish banks were reportedly among those that failed the tests. The results were designed to measure how European banks would withstand another economic downturn.

The World Trade Organization called for countries to work together in natural resource trade. It said government must cooperate more to deal with the challenges for both importing and exporting countries in natural resource trade, such as export restrictions and import tariffs. The report defines natural resources as fuels, forestry, mining and fisheries. Trade in such goods in 2008 was \$3.7 trillion or 24% of total world trade in merchandise goods.

**July  
Calendar Averages**  
**CL- \$75.83**  
**HO – \$2.0018**  
**RB – \$2.0533**

long as weather permits. BP also said workers were securing eight platforms in the Gulf of Mexico and preparing to evacuate all workers. It did not state how much production was shut in.

The Louisiana Department of Natural Resources said the US government's moratorium on new deepwater oil drilling is halting nearly all exploration in the Gulf of Mexico. It said approved shallow water drilling permits in the Gulf have dropped significantly following the federal moratorium on deepwater drilling earlier this year.

Separately, Schlumberger Ltd said the six month moratorium on new deepwater oil drilling in the Gulf of Mexico is unlikely to have a long term impact in the area.

The API reported that US crude oil and product demand in June increased by 1.7% on the year to 19.072 million bpd. It reported that gasoline demand in June fell by 0.5% on the year to 9.18 million bpd, the lowest level for the month since 2004. For the first half of the year, gasoline demand fell by 0.6% on the year to 8.88 million bpd. Distillate fuel and jet fuel demand increased by 5.5% and 8.5%, respectively, compared with 2009. The API also reported that oil production in June averaged 5.354 million bpd, up 3.3% on the year.

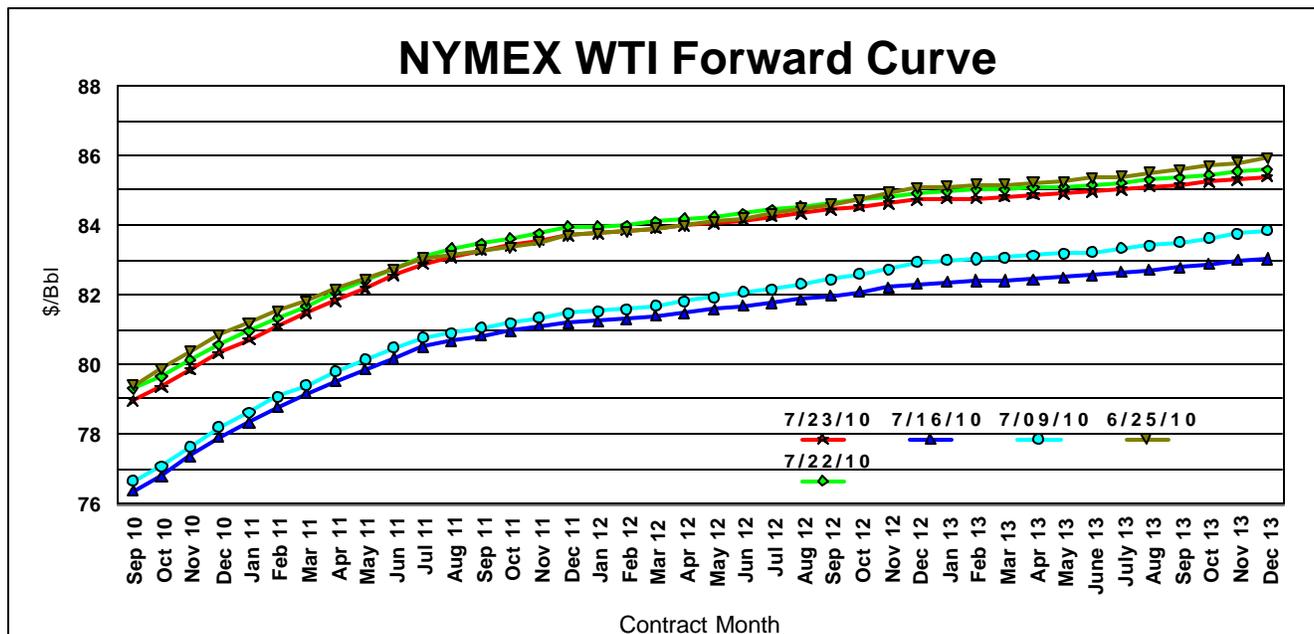
**Refinery News**

Alon USA Energy restarted a fluid catalytic cracking unit at its 70,000 bpd Big Spring, Texas refinery on Friday after it was shut on Wednesday.

Royal Dutch Shell Plc has asked Delek US Holdings to restart talks to acquire Shell's 130,000 bpd Montreal refinery in an effort to keep the refinery operating. Shell said it will sell the refinery for \$144 million to \$192 million, if Delek can conduct a major maintenance turnaround quickly enough and ensure it can continue supplying customers. It said Delek would have to respond to its proposal within the next 48 hours.

Murphy Oil said it has no plans to close any of the three refineries it is putting up for sale. It is hoping to sell the three refineries in one transaction. However it said it would consider individual sales of the refineries.

Russia's TNK-BP said it restarted operations at its Lysychansk refinery in Ukraine after it was shutdown during the weekend due to a blackout.



Italy's ERG SpA said its 238,000 bpd Priolo South refinery suffered a fire Thursday afternoon due to a fuel gas leak in a secondary pipeline. Production at the refinery was unaffected.

### **Production News**

The Bureau of Ocean Energy Management, Regulation and Enforcement reported that about 28% of oil production and about 10% of natural gas production in the Gulf of Mexico was shutdown on Friday due to Tropical Storm Bonnie. As of March, estimated energy production from the Gulf of Mexico was 1.6 million bpd of crude and 6.4 bcf/d of natural gas. Personnel from 11 production platforms have been evacuated so far due to the threat of the storm.

Chevron Corp is evacuating nonessential workers from its operations in the Gulf of Mexico as a precaution ahead of Tropical Storm Bonnie. It said it is shutting down production at its facilities.

Royal Dutch Shell Plc said it shut down production at most of its Eastern Gulf of Mexico operations and that it is in the process of shutting in output from the Central Gulf assets ahead of Tropical Storm Bonnie. It has evacuated about 615 workers due to the storm while 900 remain offshore. It said it will continue to evacuate workers on Friday.

Apache Corp shut in a small portion of its Gulf of Mexico oil and gas production ahead of Tropical Storm Bonnie and has evacuated about 25 offshore personnel. It has shut in about 2,350 bpd of crude and 6.7 million cubic feet/day of natural gas.

ConocoPhillips and ExxonMobil Corp said they are evacuating nonessential workers from some US Gulf of Mexico facilities. ConocoPhillips is evacuating workers from the Magnolia oil and gas production platform that it operates in the Gulf while ExxonMobil said it is moving nonessential workers from those offshore facilities that are in the storm's projected path. Both companies said that no oil and gas production had been affected by the evacuations.

Anadarko Petroleum is evacuating workers from its Gulf of Mexico operations due to the threat from Tropical Storm Bonnie. It said no production has been shut in yet.

Murphy Oil said it is shutting in its oil and gas production in the Gulf of Mexico, including 20,000 bpd of crude and about 60 mmcf/d of natural gas. It has shut in its Medusa, Habanero and Thunderhawk platforms as a precaution.

North Sea Forties crude output in August could be delayed more than previously expected. Late last week traders said two July loading Forties crude cargoes had been delayed until early August due to production glitches. Up to nine August shipments are likely to be deferred.

Nigeria's NNPC plans to export at least 2.05 million bpd of oil in September. The plans show it will export 10 full cargoes of Qua Iboe crude and one half cargo, plus six Forcados stems, five Bonga cargoes, four EA stems and three Yoho stems.

Angola's Oil Minister Jose Botelho de Vasconcelos said Angola is currently producing 1.79 million bpd of crude oil but could increase its production to 2 million bpd in the next two years. He also stated that oil prices at between \$70 and \$80/barrel satisfies both producers and consumers.

Mexico's Pemex reported that its oil production was 2.546 million bpd in June, down 1.8% from May. It said oil production averaged 2.592 million bpd in the first half of the year, down 1.4% on the year. Pemex exported 1.11 million bpd of crude in June compared with 1.59 million bpd in May and 1.24 million bpd in June 2009.

Separately, Mexico reported a trade deficit of \$341 million in June as crude oil export volumes fell. Petroleum exports fell by 7.9% to \$2.62 billion, of which \$2.24 billion was for crude oil.

Kazakhstan's KazMunaiGas said it signed an agreement to join a Royal Dutch Shell Plc subsidiary responsible for managing production at the Kashagan oil field in the Caspian Sea. The consortium is expected to start commercial production from 2012. Oil production will reach 1 million and 1.5 million bpd at the second and third phase respectively.

Woodside Petroleum Ltd posted a 10% fall in second quarter output. It said output in the second quarter fell to 17.5 million barrels of oil equivalent, down from 19.4 million boe a year earlier due to scheduled partial maintenance at its North West Shelf liquefied natural gas plant and declining output in some mature fields.

Royal Dutch Shell Plc plans to sell some of its onshore oil fields in southern Nigeria. The fields are believed to account for about 50,000 bpd of oil production.

OPEC's news agency reported that OPEC's basket of crudes increased by 31 cents to \$73.47/barrel on Thursday from \$73.16/barrel on Wednesday.

### **Market Commentary**

The oil market erased some of Thursday's gains and traded in its narrowest trading range since mid-April amid waning concern over Tropical Storm Bonnie, which later weakened to a tropical depression. The crude market posted its high of \$79.60 in overnight trading and erased its gains as the financial markets awaited the results of the stress tests on European banks. The market sold off to its low of \$78.40 on the opening of the open outcry session and settled in a sideways trading pattern. The market later attempted to test its highs late in the session amid a late rally in the equities markets. However its gains were limited and settled down 32 cents at \$78.98. Technically, the crude market is still seen testing its resistance at \$80. More distant resistance is seen at \$82.50 and \$84.50. Support is however seen at \$78.40, \$76.16, \$75.62 and \$74.70. The product markets also retraced their previous gains and settled in negative territory. The heating oil market posted a high of \$207.42 in overnight trading and sold off to its low of \$2.0371 by mid-day. It settled down 1.19 cents at \$2.0505. The heating oil market is seen finding resistance at \$2.0742, \$2.139, \$2.1625 and \$2.1875 while support is seen at \$2.0465, \$2.0371 and \$1.9842. The RBOB market, which settled down 2.44 cents at \$2.1222, posted a high of \$2.1584 and sold off to a low of \$2.1116 before it settled in a sideways trading pattern. Resistance is seen at \$2.1584 and \$2.1925 while support is seen at \$2.1195, \$2.0795 and \$2.063.

The Commitment of Traders report showed that non-commercials in the crude market increased their net long position by 1,500 contracts to 36,145 contracts in the week ending July 20<sup>th</sup>. The combined futures and options report showed that non-commercials increased their net long position by 2,025 contracts to 114,423 contracts on the week. The disaggregated futures and options report showed that producers/merchants cut their net short position by 9,941 contracts to 193,999 contracts while swap dealers cut their net long position by 10,907 contracts to 86,712 contracts on the week. Managed money funds continued to increase their net long position by 11,197 contracts to 95,652 contracts while other reportable cut their net long position by 9,170 contracts to 18,772 contracts. Meanwhile, the combined futures and options report showed that non-commercials in the heating oil increased their net long position by 943 contracts to 15,586 contracts while non-commercials in the RBOB market increased their net long position by 1,874 contracts to 43,640 contracts.

Crude oil Sept 10 371,296 +4,158 Oct 10 88,466 -87 Nov 10 62,121 +1,972 Totals 1,238,483 +7,701  
 Heating oil Aug 10 35,644 -5,050 Sept 10 71,359 +3,267 Oct 10 33,292 +591 Totals 302,682 +165  
 Gasoline Aug 10 38,944 -1,905 Sept 10 91,579 +812 Oct 10 34,453 -5 Totals 250,873 +3,279

Crude Oil		Heating Oil		Rbob	
Support	Resistance	Support	Resistance	Support	Resistance
7840	7960	20465	20742	21195	21584
7616	8000	20371	21390	20795	21925
7562	8250	19842	21625	20630	24880
7470	8450	18968	21875	20273	27085

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