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## ***ENERGY RISK MANAGEMENT***

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### **ENERGY MARKET REPORT FOR JULY 25, 2011**

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Iraq's Oil Minister Abdul Kareem Luaibi said Iraq is satisfied with oil prices and believes the crude market is balanced. OPEC's basket of crudes increased to \$113.66/barrel on Friday from \$113.20/barrel on Thursday.

ICAP said the number of ships storing crude oil off the US Gulf

Coast increased to six since the beginning of June. It said three Very Large Crude Carriers and three Suezmax tankers are currently chartered as storage vessels. The renewed interest in floating storage is more likely due to a lack of capacity in onshore storage rather than a financial play to profit from the cheaper oil prices now compared to the higher prices in the coming months.

The EIA reported that the US average retail price of diesel increased by 2.6 cents to \$3.949/gallon in the week ending July 25, 2011. The price of diesel is up \$1.03/gallon or 35.2% on the year. The EIA also reported that the US average retail price of gasoline increased by 1.7 cents to \$3.699/gallon on the week. The price of gasoline is 95 cents/gallon or 34.6% above a year ago.

According to the Lundberg survey, the price of retail gasoline increased by 8.5 cents in the last two weeks to \$3.70/gallons.

The US has tried for years to wean China off Iranian oil however China's energy and business ties with Iran continue to expand. China is Iran's largest buyer of crude. China's crude imports increased by almost 50% to 13.4 million tons or 550,000 bpd.

Yemen's opposition dismissed a government plan for talks aimed at easing unrest following months of protests demanding President Ali Abdullah Saleh's overthrow.

#### Market Watch

The US National Hurricane Center said a low pressure system over Cuba is unlikely to develop into a tropical cyclone during the next 48 hours. Significant development of the system is not expected during the next couple of days as it moves westward and interacts with land.

The Federal Reserve Bank of Chicago's national activity index in June stood at -0.46 following a reading of -0.55 in May.

Morgan Stanley said demand would be the primary driver of the price of crude rather than supply shocks. Its commodities analyst sees the price of Brent crude at \$130/barrel in the second half of 2011 and in all of 2012, with prices moving higher as inventories fall.

The US Chamber of Commerce said it supports an effort to expedite the permitting of a pipeline that would carry crude oil from Canada to US refineries. It is urging House lawmakers to vote for a bill that would require the Obama administration to act on TransCanada Corp's application for the pipeline by November 1<sup>st</sup>. The House of Representatives is expected to vote on the measure this week. The White House said it opposes the bill and said it was unnecessary.

## Refinery News

**July**  
**Calendar Averages**  
**CL – \$97.29**  
**HO – \$3.0719**  
**RB – \$3.0911**

Colonial Pipeline allocated Cycle 43 shipments on its Line 20 carrying distillates from Atlanta, Georgia to Nashville, Tennessee.

Credit Suisse reported that US regional refining margins were modestly lower in the week ending July 22<sup>nd</sup>. Refining margins fell by 26 cents to \$10.76/barrel in the Northeast while margins in the Midwest fell by \$2.16 to \$29.84/barrel and margins in the Gulf Coast fell by 2 cents to \$31.97/barrel. Refinery margins in the Rockies region fell by 78 cents to \$34.30/barrel while margins in the West Coast fell by \$2.78/barrel to \$12.28/barrel.

Alon said production was not impacted by the sulfur recovery unit trip at its 67,000 bpd refinery in Big Spring, Texas. The company had reported a problem at the unit on Friday.

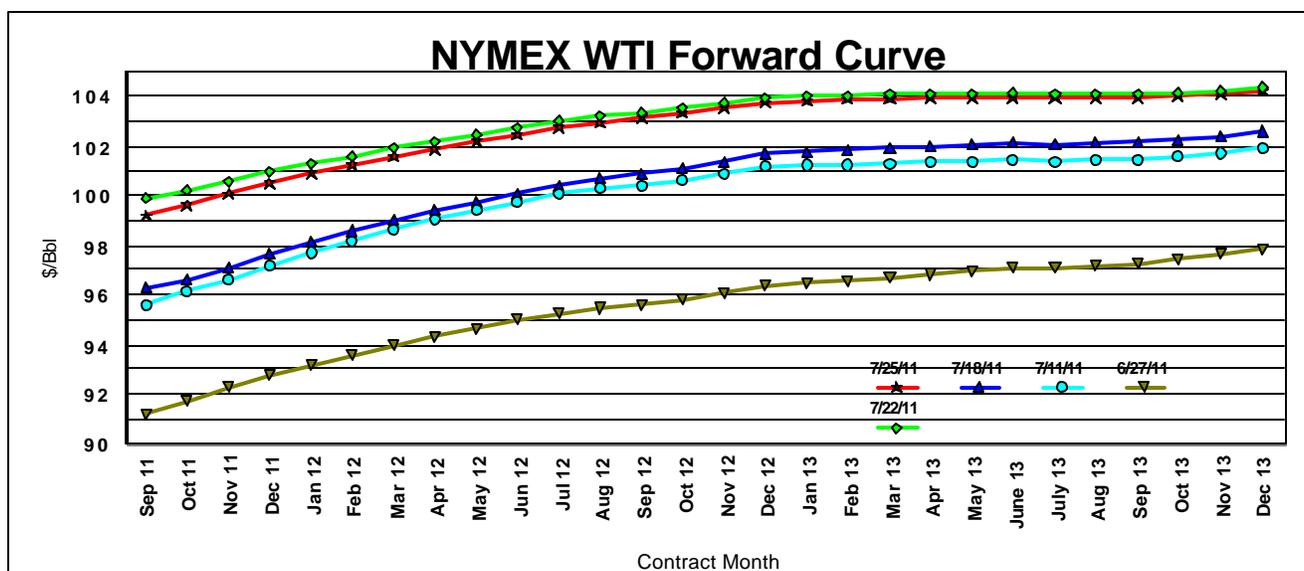
ConocoPhillips said operations have been restored safely at the units affected by a brief power dip at its 120,200 bpd Rodeo, California refinery. It said a power dip on Saturday impacted operations of some process units.

ExxonMobil reported a release of nitrogen oxide and nitrogen dioxide from a flare stack due to an equipment malfunction at its 238,600 bpd refinery in Channahon, Illinois on Sunday.

Valero Energy Corp reported that a Regenerative Thermal Oxidizer had a malfunction that released benzene at its 287,000 bpd Port Arthur, Texas refinery on Saturday. It said the problem did not cause any material impact to its production. Separately, Valero said it expects to restart a crude unit at its 214,000 bpd Texas City, Texas refinery. A leak prompted the shutdown of the crude unit at the refinery. It also stated that a compressor associated with the coker unit caused a power outage at complex 7 in its Texas City refinery. The coker unit continued to operate and no other units were affected by the outage.

PBF Energy reported the release of sulfur dioxide after both compressors went offline at its 182,000 bpd Delaware City, Delaware refinery.

Flint Hills Resources on Sunday shut several conversion units at its Port Arthur, Texas facility after a third party steam supplier began to cut supply to the facility. The aromatics unit, cyclohexane unit, pyro-naphtha hydrogenation unit and the gasoline hydrogenation unit were shut to minimize the impact of the steam loss.



Japan's Taiyo Sekiyu KK said it has not restarted its 32,000 bpd No. 2 crude distillation unit at its Shikoku refinery yet. The unit has been undergoing regular maintenance since July 10<sup>th</sup>. It was originally due to resume operations on Sunday.

Iraq's Oil Ministry has signed an agreement with the Refinery of Karbala Corp Ltd to set up the Karbala refinery at an estimated cost of \$6.5 billion. The refinery would have a daily capacity of 200,000 barrels of crude and would produce high octane gasoline and diesel fuel for the local market.

India's Oil Ministry reported that India's refinery runs in June fell 1.7% on the month to 14.14 million tons or 3.45 million bpd due to shutdowns at some refineries. Refinery throughput in June however increased by 4.7% on the year. Refinery runs in India are expected to fall in August and September as refiners shutdown in the wake of weak demand during the monsoon season.

India's Petroleum Planning and Analysis Cell reported that the country's crude oil imports in June increased 6.5% on the year to 13.67 million tons or 3.34 million bpd. India's oil product imports fell 2.4% to 1.51 million tons while oil product exports fell by 8.7% to 4.53 million tons in June. India's crude oil production in June increased 7.7% on the year to 3.17 million tons or 773,500 bpd.

Two August loading fuel oil cargoes totaling up to 195,000 tons were offered from Saudi Arabia on Monday, in line with expectations of more supplies from the country for next month.

Hokkaido Electric Power Co said it expects its group consumption of fuel oil for power generation to total 2 million kiloliter or 34,400 bpd this business year, more than triple its original projection, if it cannot restart two of its three nuclear reactors. In March, it had originally planned to burn 600,000 kl of low sulfur fuel oil.

A preliminary export schedule showed that Russia may cut Urals crude from the Baltic Sea port of Primorsk in August to 5.3 million tons from 5.5 million tons in July. The port of Novoroiisk may ship 3.6 million tons of Urals in August, down 1.1% from 3.64 million tons set for loading in July.

### **Production News**

A senior Iraqi oil official said Iraq is about to reach a final agreement with the Syrian government to start exporting 10,000 bpd of Iraqi crude to Syria and gradually increase that amount. The Iraqi oil would be shipped to Syria through an existing pipeline which has been idle since the US led invasion in 2003.

Crude oil production at Cnooc Ltd's four Bozhong oil fields in China's Bohai Bay returned to normal levels of 39,000 bpd. Production was cut on April 22<sup>nd</sup> following a malfunction on a floating production, storage and offloading vessel due to rough weather.

Vietnam's General Statistics Office reported that the country produced 1.207 million tons or 280,000 bpd of crude in July, down 5.6% on the year. Crude production in the first seven months of the year totaled 8.417 million tons, down 1% on the year. Its natural gas output fell by 14% to 700 million cubic meters in July.

### **Market Commentary**

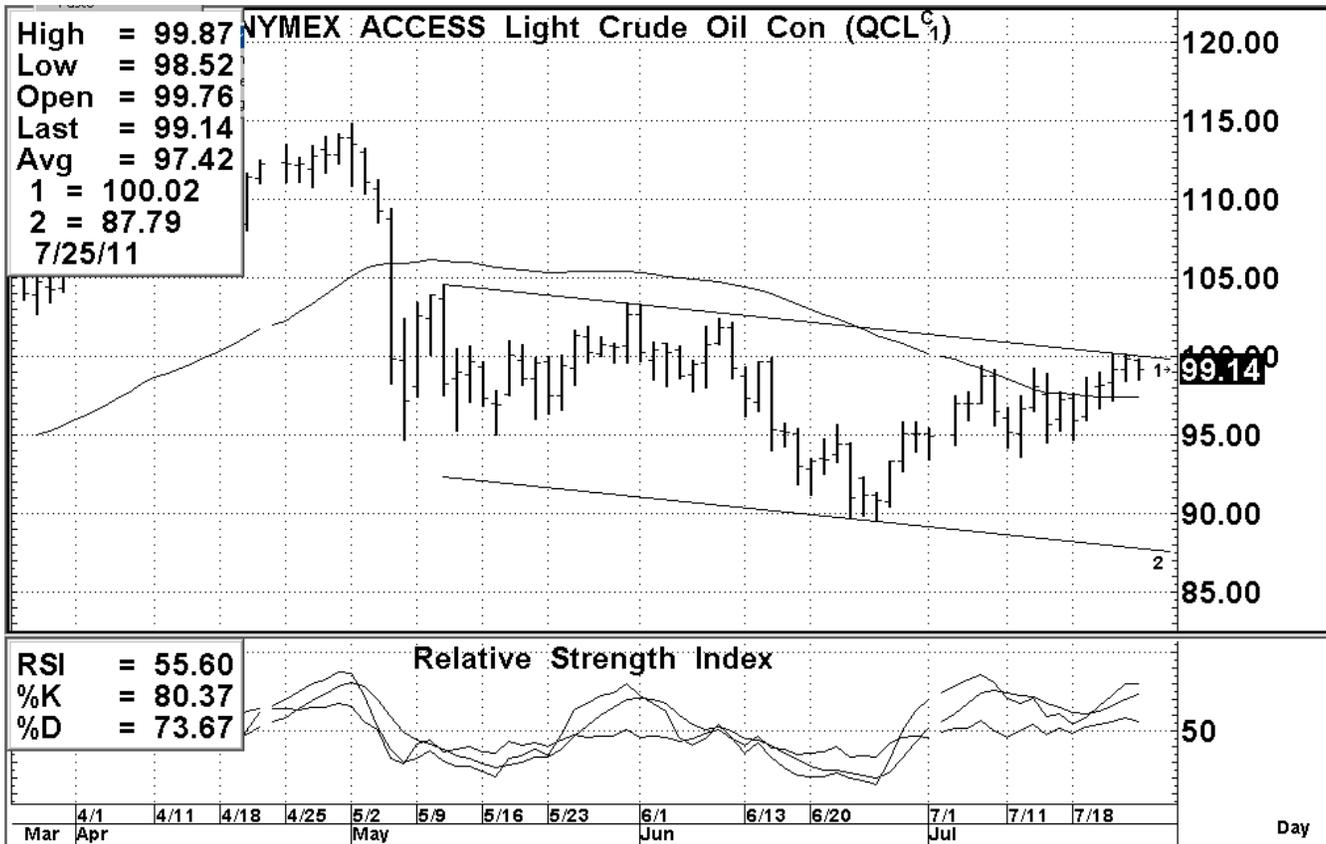
Chary traders sold off crude oil once again as they await news in regards to the U.S. Congress reaching an agreement on the passage of new government debt limits. Volume was light and trading was choppy. Also providing support to this market has been the Brent/WTI spread which is close to \$19.00 a barrel. The current state of the U.S. economy continues to hinder demand, while at the same time limited supply in Europe has been pushing prices higher. This has forced the widening of the

arbitrage between the two. Supply levels at Cushing, OK, the NYMEX delivery point are currently 37% above the 5-year average, with refinery utilization running at 88%. Asian demand has helped to prop up prices in Europe, as demand in that sector remains strong.

Once again prices were unable to gain and sustain strength above the psychological \$100 level. This is also the top of a slightly descending channel on a daily spot continuation chart. We would look to use the upper line of this channel as a pivotal area, selling failed attempts to trade above it and buying successful ones.

Crude oil: Sept 11 377,153 -4,561 Oct 11 95,066 +1,756 Nov 11 76,901 +3,556 Totals 1,500,826 +9,907 Heating oil: Aug 11 41,955 -2,656 Sept 11 87,340 +5,243 Oct 11 37,128 +519 Totals 315,948 +3,419 Rbob: Aug 11 30,493 -5,104 Sept 11 94,645 +6,837 Oct 11 35,090 +509 Totals 2362,267 +3,669

Crude Oil		Heating Oil		Rbob	
Support	Resistance	Support	Resistance	Support	Resistance
9924			31379		
9742	10071	27150	32777		33369
9428	10222	26680	33370	26965	35915
9355	10339	27375	33510	26300	36310
9122	10845	23685		25683	
8950	11120	22960		25145	
8700	11483			24240	
8625	11563			23631	
50-day MA	97.51			23414	
200-day MA	94.34				



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