



ENERGY RISK MANAGEMENT

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ENERGY MARKET REPORT FOR JULY 27, 2009

According to a Reuters survey, world oil demand will increase for the first time in two years in 2010 as a recovery in the world economy increases demand. However the expected increase of 1.1% worldwide is unlikely to deplete all the excess supplies, despite the slow growth in production outside OPEC. Oil demand is expected to increase by 900,000 bpd to 84.9 million bpd in 2010. Non-OPEC supply was seen increasing by an average of 100,000 bpd in 2010 to 50.5 million bpd, with the need for crude from OPEC seen increasing by an average of 400,000 bpd to 29.5 million bpd. About 25% of next year's

Market Watch

According to the Commerce Department, new home sales in June increased by 11% on the month to a seasonally adjusted annual rate of 384,000. It was the third consecutive increase. It reached its highest level since last November when sales totaled 390,000. Home construction unexpectedly increased in June by 3.6% to a seasonally adjusted 582,000 annual rate. Year over year, new home sales were 21.3% lower than the level in June 2008.

The Federal Reserve Bank of Dallas's Texas monthly manufacturing index fell by 25.5% in July.

Goldman Sachs Group Inc closed its recommendation to buy crude futures for December 2011 delivery after long dated oil prices approached its target of \$85/barrel. It said the reliance on distillates may limit further near term upside.

Saudi Arabia is burning more crude in domestic power plants to keep new wells pumping and produce cleaner electricity. The use of more crude to generate electricity allows the country to put to use new output from a major new oilfield while holding firm to its OPEC commitment to cut exports. According to consultancy FACTS Global Energy, Saudi Arabia is burning as much as 470,000 bpd of crude this year, up 62% on the year. A Saudi source said the maximum it could burn at power stations would be 300,000 bpd, although another 120,000 bpd could be burned to power refineries and other facilities related to upstream production. Saudi Arabia is likely to halt its fuel oil imports over the summer.

Analysts and industry sources said China may consider a modest cut of about 2% in retail fuel prices after benchmark crude prices fell more than 5% since China's last price increase. China could cut prices by 150 and 200 yuan/ton, the second cut this year, as early as this week. Under a price system, in effect since January 2009, China said it may readjust gasoline and diesel prices when the moving average shifts more than 4%, however the country will also take into account other factors such as domestic demand and supply situations.

Energen Corp hedged an additional 492,000 barrels of its 2010 oil production, an additional 456,000 barrels of its 2011 production level. It hedged its 2010 and 2011 oil production at a price of \$76.30/barrel and \$79.50/barrel, respectively.

GLG Partners is launching an oil production company that will be listed on the London Stock Exchange this fall. GLG intends to fund a venture called Lothian, that will be floated on the London Stock Exchange in September and then acquire oil production assets worldwide. Launching an operating company like Lothian represents a departure for GLG, which manages \$18 billion in hedge funds and more traditional long-only investments.

July Calendar Averages
CL – \$63.75
HO – \$1.6433
RB – \$1.7640

increased oil demand, 200,000 bpd, is expected to come from China.

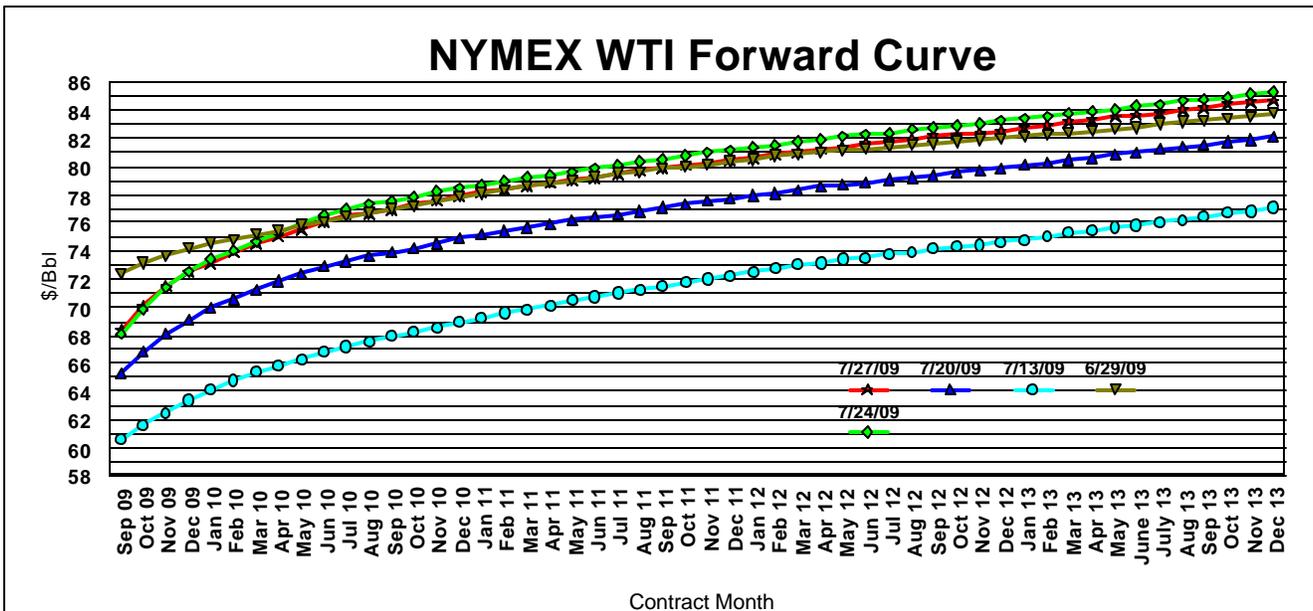
According to the Lundberg survey, the US average retail price of gasoline fell by 7.14 cents to \$2.486/gallon in the two weeks ending July 24th.

The EIA reported that the US average retail price of diesel increased by 3.2 cents to \$2.528/gallon in the week ending July 27th. The EIA also reported that the US average retail price of gasoline increased by 4 cents/gallon to \$2.503/gallon on the week. The rise follows four consecutive weeks of declines, which cut prices by 8.5% or 22.8 cents.

The CFTC is scheduled to hold the first of three hearings on Tuesday to consider whether to limit holdings of energy and agricultural contracts and whether some traders should be allowed to exceed position limits. Separately, according to a US House of Representatives Committee document Congress will consider steps to curb speculation in the credit default swaps market and could ban naked swaps. The bill would give regulators authority to set position limits on credit default swaps dealers. It would also shift oversight of ICE Trust Clearinghouse from the Federal Reserve to the Securities and Exchange Commission.

Refinery News

According to Reuters, US Gulf complex refiners posted an average profit of \$6.53/barrel last week. By contrast, simple refineries in the Mediterranean posted an average loss of 20 cents/barrel of Russian Urals last week, the largest loss since late June. Complex refineries in the Mediterranean running Urals posted a loss of 38 cents/barrel last week from \$1/barrel during the previous week. In Northwest Europe, complex refining margins for North Sea Brent increased to \$3.81/barrel last week from \$2.82/barrel during the previous week. In Asia, complex refining margins increased by 93 cents to \$2.93/barrel of Dubai crude last week, compared with an 11 cent increase to 32 cents for simple margins.



Credit Suisse reported that refinery margins in most US regions increased last week. US Gulf Coast margins increased by \$3.75 to \$10.96/barrel in the week ending July 24th, while West Coast margins increased by \$3.02 to \$14.12/barrel. Northeast margins increased by \$1.87/barrel to \$5.83/barrel and Midwest margins increased by \$1.74 to \$9.68/barrel. Margins in the Rockies fell by \$2.87 to \$13.82/barrel.

Valero Energy Corp said there was no effect on production from a brief power outage over the weekend at its 210,000 bpd refinery in Delaware City, Delaware. Separately, Valero said the restart timing of its 90,000 bpd Ardmore, Oklahoma refinery has not been established nor is there an estimate on the return to service of several units at its 250,000 bpd St. Charles refinery in Norco, Louisiana following a fire on June 9th.

Total Petrochemicals USA started a planned overhaul of unit 819 at its 232,000 bpd Port Arthur, Texas refinery on Sunday.

BP completed the restart of its 102,500 bpd fluid catalytic cracking unit at its 265,000 bpd Carson, California refinery and is operating at planned rates. The unit began restarting last week after completing unplanned repairs. BP also warned of planned flaring between Tuesday and Friday at its 265,000 bpd refinery in Carson, California.

Tesoro Corp shut a hydrocracking unit at its 166,000 bpd Golden Eagle refinery in Martinez, California for three weeks of unplanned repairs on July 21st.

Alon USA Energy Inc said it will cut rates at its 70,000 bpd Big Spring, Texas refinery during the third quarter in order to tie-in a new ultra low sulfur gasoline unit. The timing of the work is not yet finalized.

Imperial Oil Ltd's 187,000 bpd Strathcona refinery in Edmonton, Alberta is returning to normal production rates following a power outage more than a week ago. The refinery was one of two in the region that shutdown due to power outages during a severe electrical storm on July 18th. The other refinery affected was Petro-Canada's 135,000 bpd Edmonton refinery.

BP and Irving Oil announced they will not proceed with its proposed second refinery in St. John, New Brunswick, as a result of world economic and industry conditions. Their technical and commercial feasibility study concluded that the project was not viable at a time of global economic recession and dampening forecasts for oil product demand in North America. To preserve future options in the event that market conditions return to previous levels, Irving Oil will continue with the environmental permitting processes related to the proposed second refinery.

Petronas' Engen unit said a fire at its 125,000 bpd refinery in Durban, South Africa will reduce production for a week. The refinery will operate at 60% of its capacity compared with the 80-90% that was scheduled. The fire started on Sunday in a fluid catalytic cracking unit and was extinguished within 15 minutes.

Saudi Aramco said there is no problem with its operations at its Ras Tanura refinery. Separately, Saudi Aramco and Total are seeking to borrow \$8 billion to build an oil refinery on Saudi Arabia's Persian Gulf coast. The 400,000 bpd Jubail refinery will be fully operational by the second half of 2013.

Japan's Nippon Oil Corp plans to refine 3.73 million kiloliters or 757,000 bpd of crude in August, down 17% on the year but up 10% on the month.

Japan's Cosmo Oil plans to refine 6.56 million kiloliters or 454,000 bpd of crude in July-September, down 3.5 % on the year. The operating rates of Cosmo's crude distillation units will average 70.7% during the three months.

South Korea's refiners are expected to increase their total crude processing volume in August by 1.4% on the month. However the volume will still be only 79% of total capacity due to weak refining margins.

Korea National Oil Corp said South Korea's crude imports in June fell by 8.1% on the year to 62.02 million barrels or 2.07 million bpd due to large stocks and weakening refining margins. The country's private crude stocks at the end of June fell by 14.3% on the year to 14 million barrels.

The Ministry of Knowledge Economy said South Korea's oil product exports are expected to fall by 43.6% in the second half of the year to \$10.67 billion due to worsening refining margins and lower operating rates. In terms of volume, the exports of oil products are expected to fall by 12.9% to 162.47 million barrels from 186.58 million barrels.

South Korea's Yeochun Naphtha Cracking Center has finalized a deal to buy a total 500,000 tons of naphtha for October 2009-March 2010 arrival at a discount of \$4-\$5/ton to Japan spot quotes on a cost and freight basis.

Production News

The loading rate for the nine main North Sea crude streams will average 1.906 million bpd in August, down 19.13% on the month. The Brent crude stream is scheduled to load 135,000 bpd, down 12.9% on the month while the Forties crude stream is scheduled to load 310,000 bpd, down 52.9% on the month and the Oseberg crude stream is scheduled to load 194,000 bpd, down 0.51% on the month. The Ekofisk crude stream is scheduled to load 379,000 bpd, unchanged on the month, the Flotta crude stream is scheduled to load 84,000 bpd, up 33.3% on the month, the Gullfaks crude stream is scheduled to load 248,000 bpd, down 10.14% on the month, the Statfjord crude stream is scheduled to load 166,000 bpd, down 24.9% on the month and the Troll crude stream is scheduled to load about 256,000 bpd or 7.95 million barrels in August, unchanged on the month. The DUC crude stream is scheduled to load 135,000 bpd, down 12.9% on the month.

Nigeria is expected to export five 950,000 barrel cargoes of Brass Blend crude in September, increasing its total exports for September to at least 46 cargoes.

Chevron Corp will start producing 100,000 bpd of oil from its Tombua-Landana plant in Angola this quarter. Chevron has previously stated that it expects to produce up to 100,000 bpd there by 2011.

Venezuela's Oil Minister Rafael Ramirez confirmed that a Tuesday deadline for companies to present final bids on the Carabobo bidding round has been pushed back. He said no new deadline has been set.

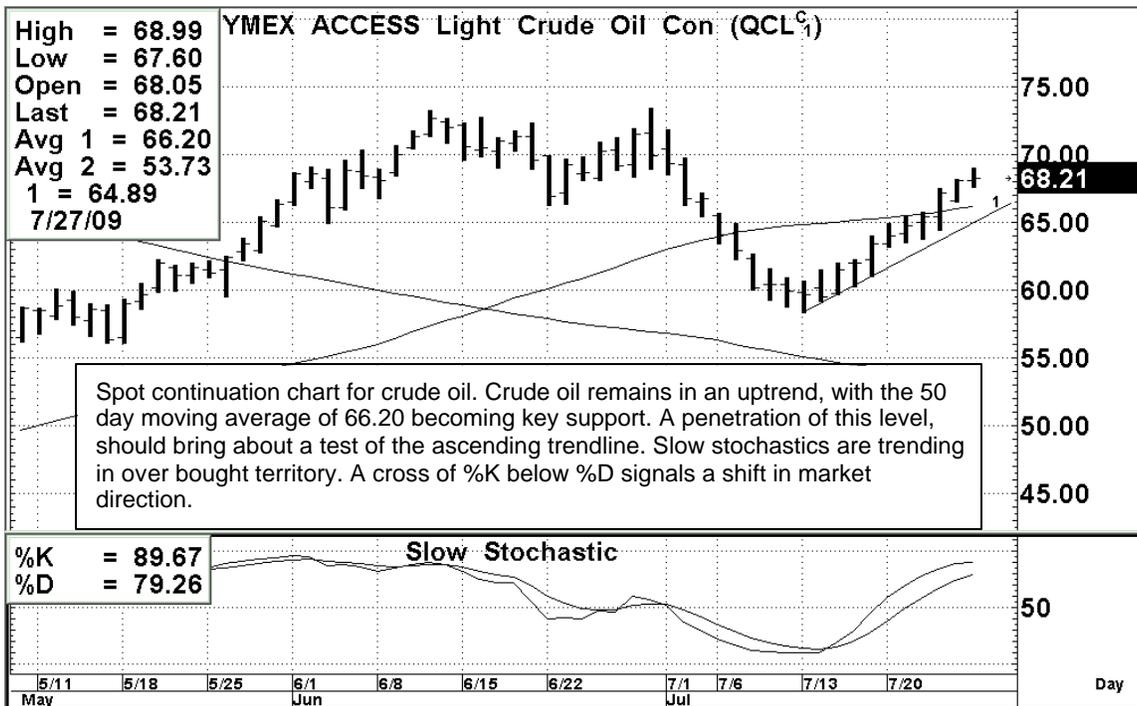
OPEC's news agency reported that OPEC's basket of crudes increased to \$67.80/barrel on Friday from \$66.46/barrel on Thursday.

Market Commentary

Unsupportive fundamentals were not enough to keep the energy markets from moving higher today as they reacted to a weaker dollar and better than expected new homes sales in the U.S. during the month of June. The U.S. Commerce Department reported that new homes sales rose 11 percent last month, the most in eight years. Adding to today's move higher was a report that Total SA has shut units at its 240,000 barrel a day refinery in Port Arthur, TX. Reduced refining capacity sparked hope that growing product inventory would start to decline. Gasoline moved to center stage as it outpaced crude oil and heating oil. Despite slight signs of economic growth, fuel demand remains poor. This market will continue to react to whispers of economic growth but without the true fundamentals of this market showing signs of recovery, it will be hard to justify prices holding onto strength. From a

technical standpoint, it appears that there is more room to the upside. The \$66.20 area in crude oil has become key support. We would look to use this level as a pivotal area, buying failed attempts to trade below it and selling successful penetrations.

Crude Oil (CL) SEP.09 332,239 -8,544 OCT.09 96,525 -2,238 NOV.09 52,329 -126 DEC.09 158,678 -5,245 JAN.10 33,511 -321 FEB.10 21,278 +269 Totals: 1,158,584 -21,386. Heating Oil (HO) AUG.09 23,869 -2,284 SEP.09 62,809 +671 OCT.09 34,098 -328 NOV.09 22,380 +500 DEC.09 37,839 -212 JAN.10 20,500 +415 Totals: 301,009 - 678. Harbor RBOB AUG.09 23,343 -4,729 SEP.09 84,218 +4,171 OCT.09 29,338 -258 NOV.09 15,111 -121 DEC.09 19,425 +196 JAN.10 9,499 +112 FEB.10 3,191 +102 Totals: 204,405 - 689



Crude Support	Crude Resistance
68.50, 66.20, 63.50, 62.25, 60.95, 56.40, 56.75, 55.45, 54.49, 48.00	70.10, 72.15, 73.38, 74.50, 76.13
Heat Support	Heat resistance
1.8020, 1.7840, 1.7295, 1.4220, 1.4130, 1.3720	1.8400, 1.8730, 1.9090, 1.9135
Gasoline support	Gasoline resistance
1.8820, 1.8650, 1.5887, 1.5370, 1.5260, 1.3560, 1.3400,	1.9555, 1.9800, 2.0650, 2.1600

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