



ENERGY RISK MANAGEMENT

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ENERGY MARKET REPORT FOR JULY 27, 2011

The US National Hurricane Center said a low pressure system developed into a tropical storm. It said Tropical Storm Don could strike between New Orleans and North Mexico. It said the storm is aiming for Corpus Christi, Texas and is expected to make landfall late Friday, early Saturday. As a result, Shell said early preparations were under way to secure operations at its Perdido oil and gas platform, which can produce up to 100,000 bpd, and the nearby Noble Danny Adkins drilling rig. It said it evacuated some non-essential personnel from its southwest operations due to the threat of a possible storm.

Marathon Petroleum said it was monitoring the storm on behalf of its 76,000 bpd refinery in Texas City while LyondellBasell was monitoring the storm on behalf of its 280,700 bpd refinery in Houston, Texas. Mexico's Pemex said it had no immediate plan to evacuate platforms in the southern Gulf, halt production or close exporting ports.

Market Watch

The US Commerce Department said new orders for durable goods fell unexpectedly by 2.1% in June to a seasonally adjusted \$191.98 billion, weighed down by weak receipts for transportation equipment. It reversed May's downwardly revised 1.9% increase. New orders were pulled down by an 8.5% drop in orders for transportation equipment.

The Mortgage Bankers Association said its seasonally adjusted index of mortgage application activity, which includes both refinancing and home purchase demand, fell 5% in the week ending July 22nd. Its seasonally adjusted index of refinancing applications fell 5.5% following a 23.1% increase the previous week. The index of loan requests for home purchases was down 3.8%.

The Chicago Federal Reserve Bank's Midwest Manufacturing Index fell by 0.1% in June following an increase of 0.4% in May.

Barclays Capital said crude supplies will likely tighten next year due to global oil demand growth, mostly from non-OECD countries. It said this may result in higher crude prices as oil producers are set on a sustained path of increased social expenditures and therefore higher oil price requirements. It said \$100/barrel could be the new sustainable norm.

According to a Reuters survey, Brent crude oil prices will fall in the second half of the year to about \$110/barrel due to concerns that government debt problems and slow growth will cap demand.

The CME Group announced that its NYMEX heating oil contract will be discontinued after April 2013 and replaced by a contract for ultra-low sulfur diesel fuel, in response to changing environmental laws. Heating oil futures currently are listed for trading through January 2013. It said that effective August 22nd three additional months would be listed, allowing the contract to trade through the end of winter before going off the board for good with the April 2013 contract settlement at the end of March. On August 22nd, the NYMEX will also expand the listing of its NYMEX ultra-low sulfur diesel contract, currently listed through January 2013, by five years.

Under a bill approved by the House Energy and Power Subcommittee, US oil pipelines could be required to be buried deeper when crossing waterways to avoid the kind of leak that polluted the Yellowstone River this month. The legislation calls on the Transportation Department to determine within one year whether current regulations for pipelines crossing waterways wider than 100 feet are adequate. The legislation is now headed to the full House Energy and Commerce Subcommittee, which is expected to return in September.

DOE Stocks

Crude – up 2.296 million barrels
Distillate – up 3.385 million barrels
Gasoline – up 1.022 million barrels
Refinery runs – down 2%, at 88.3%

Refinery News

Total Petrochemicals began the process of restarting several processing units at its Port Arthur, Texas refinery after a lightning strike forced shutdowns.

Western Refining's oil refinery in El Paso, Texas experienced a power outage during a severe storm Tuesday night.

Tesoro Energy Corp said a process unit at its 97,000 bpd refinery in Wilmington, California was restarted after it was shut for regularly scheduled maintenance.

Coffeyville Resources reported that a unit restart caused flaring and a release of material to the air at its 115,700 bpd refinery in Coffeyville, Kansas early Tuesday.

Western Refining Inc said power was restored at its 122,000 bpd El Paso, Texas refinery. It is checking systems to prepare to restart its units.

Husky Energy Inc said it scheduled turnaround on a heavy oil upgrader in September-October. Its Toledo, Ohio refinery is scheduled to undergo a 38 day turnaround in the third quarter on its isocracker. Husky Energy is also planning a 15 day isocracker outage at its Lima, Ohio refinery in the autumn. The refinery will operate at 90% of capacity during the work.

Bulgaria's Neftochim refinery has started to reduce crude processing to effectively stop production. The decision comes after the customs office revoked the 142,000 bpd refinery licenses to sell fuels.

Hess Corp said its Hovensa refinery in St. Croix lost money in the second quarter because of higher fuel costs. However it stated that the 350,000 bpd refinery remains profitable and the company will continue to reconfiguration to get better returns from operations. Separately, Hess said problems in multiple producing regions are prompting the integrated oil company to lower its daily production estimates for the year. It cut its 2011 daily production estimates to 375,000 and 385,000 barrels from earlier forecasts of 385,000 and 395,000 barrels. Its average daily production during the second quarter was the equivalent of 372,000 bpd of oil, down 10% on the year.

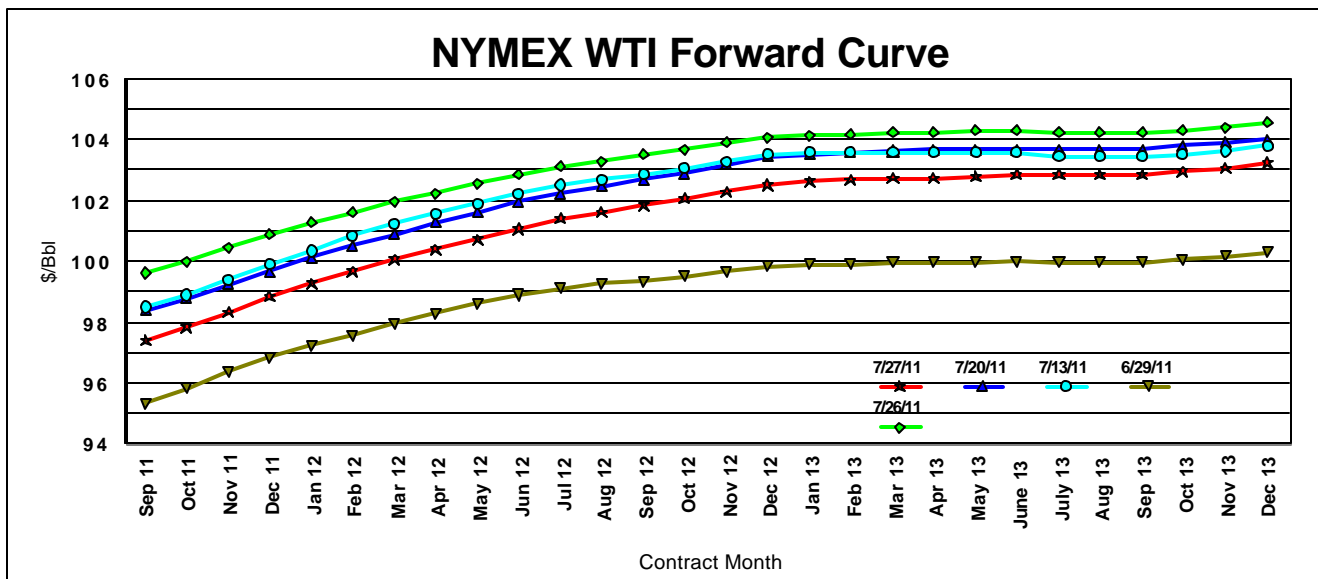
Engineers India Ltd expects HPCL Mittal's 180,000 bpd Bathinda refinery to start processing crude in August. It was expected to start operations by mid-2011.

Japan's JX Nippon Oil & Energy Corp plans to refine 1.2 million bpd of crude oil in August for domestic consumption, up 1% on the year.

Taiwan's Formosa Petrochemical Corp is scheduled to shut its No. 3 naphtha cracker in mid-August for planned maintenance even if it fails to restart its No. 1 unit.

Iran has temporarily cut its oil exports to India by 90,000 bpd due to technical problems in the country's oil terminals. Iran's semi official Mehr news agency said the country had no intention to cut its oil exports to India. It was not due to the ongoing payment dispute. The report stated that India compensated the loss of Iranian crude supplies from other oil sources. Separately, a source said Iran's total oil exports in July fell by 100,000 bpd amid an unresolved dispute with India.

**July
Calendar Averages**
CL – \$97.43
HO – \$3.0748
RB – \$3.0974



India's Mangalore Refinery and Petrochemicals Ltd bought a cargo of Yemeni Masila crude for loading in September. It bought the 600,000 barrel cargo for loading in the first half of September.

Petrobras said it would have to increase its gasoline imports if the government lowers the mandatory mix of ethanol in the fuel.

The Petroleum Association of Japan reported that crude stocks held by Japanese refiners fell by 690,061 kl in the week ending July 23rd to 15.39 million kl or 96.79 million barrels. Crude stocks were down 9.74 million barrels on the year. It also reported that gasoline stocks fell by 880,000 barrels on the week and by 930,000 barrels on the year to 12.46 million barrels while kerosene stocks increased by 930,000 barrels on the week and by 3.86 million barrels on the year to 15.97 million barrels and naphtha stocks fell by 320,000 barrels on the week and by 3.14 million barrels on the year to 9.65 million barrels. Refinery runs increased by 1.5% on the week and by 8.9% on the year to 84.7%. The PAJ reported that total oil sales fell by 0.1% on the week but increased by 2.1% on the year to 2.75 million bpd.

Kyushu Electric Power Co spent far more on fossil fuels, especially oil, in the second quarter than previously planned as the Fukushima nuclear plant crisis increased concerns over nuclear safety and kept reactors offline. It used an additional 160,000 kiloliters or 1 million barrels of oil in the April-June period compared with an original plan of 20,000 kl and used an additional 230,000 tons of liquefied natural gas against a planned 550,000 tons.

The Institute of Energy Economics for Japan stated that Japan's total oil product sales are expected to increase 2.2% in the financial year to next March if local authorities keep nuclear reactors shut following routine maintenance due to safety concerns in light of the Fukushima nuclear plant crisis.

Production News

ConocoPhillips said it is curtailing some Eagle Ford production due to lack of trucks.

BP said repair work at Azerbaijan's Chirag oilfield has been completed and production is resuming after a suspension of more than two weeks. It said maintenance work that started on July 10th was completed and production should return to previous levels of about 85,000 bpd in the next few days. It said it would restore exports through the Baku-Supsa pipeline in the coming days.

Kuwait and Saudi Arabia have delayed bidding for onshore and offshore gas work contracts at the Hout oil field until early September. Bidding was originally due to close on June 6^h but was later extended to August 1st and has now been pushed back to September 5th.

The Iraqi government has officially asked Kuwait to stop work the Mubarak Al Kabeer port being built on the northern tip of the Persian Gulf, saying it would block Iraq's access to the sea. It has asked Kuwait to stop work in building the Mubarak port until it is assured that Iraq's rights to sail and navigate in the jointly shared waterway will not be affected. Kuwaiti officials have stated that it would proceed with its plans to build the facility despite concerns raised by Iraq. It said the port would start operations in March 2016.

Market Commentary

As the debt limit showdown continues in Washington, D.C; energy prices came under pressure as traders try to leverage their positions. Unexpected inventory builds in crude oil, gasoline and distillates aided in the sell-off. The inability of prices to sustain strength above the \$100 level is evidence of the uncertainty looming over this market. With today's settlement below the 50-day moving average of \$97.47 and the cross of the slow stochastics, the near-term for crude oil has shifted to the downside. If Republicans and Democrats in Washington cannot come to an agreement before the weekend, we would anticipate further selling and for the September crude oil to test the 200-day moving average of \$94.83.

Crude oil: Sept 11 370,529 +46 Oct 11 97,15 +4,816 Nov 11 79,768 +1,391 Totals 1,506,662 +8,601
 Heating oil: Aug 11 24,737 -10,111 Sept 11 97,159 +4,125 Oct 11 39,110 +938 Totals 313,430 -3,684
 Rbob: Aug 11 17,594 -5,585 Sept 11 100,750 +3,304 Oct 11 35,478 +746 Totals 258,380 -261

Crude Oil		Heating Oil		Rbob	
Support	Resistance	Support	Resistance	Support	Resistance
9924			31379		
9746	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	97.46			23414	
200-day MA	94.83				

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