



## ***ENERGY RISK MANAGEMENT***

Howard Rennell, Pat Shigueta,  
& Karen Palladino  
**(212) 624-1132 (888) 885-6100**

**www.e-windham.com**

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### **ENERGY MARKET REPORT FOR JULY 29, 2011**

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The US National Hurricane Center said Tropical Storm Don is moving towards South Texas. A tropical storm warning is in effect for the Texas coast from the mouth of Rio Grande to Matagorda while the tropical storm warning from San Luis pass to north of Matagorda has been discontinued. It said that after moving through Texas, Tropical Storm Don will not last very long after interacting with the high terrain of Mexico and dissipation is likely between 36 and 48 hours. Meanwhile, a large tropical wave accompanied by a well defined low pressure system located about 1,200 miles east southeast of the Lesser Antilles still has a 30% chance of becoming a tropical cyclone during the next 48 hours.

#### Market Watch

The US Commerce Department said GDP increased at an annualized seasonally adjusted rate of 1.3% in April through June, while the first quarter GDP was revised down sharply to a 0.4% rate from an earlier estimate of a 1.9% gain. It reported that spending increased by an annualized rate of 0.1% in April through June following a 2.1% gain in the first quarter. The overall price index for personal consumption expenditures increased by 3.1% in the second quarter, down from a 3.9% increase in the first quarter.

The US Labor Department said the employment cost index increased 0.7% in the second quarter. It was the highest gain since the third quarter of 2008. Wages and salaries increased 0.4% in the latest quarter however benefit costs were 1.3% higher than in the previous quarter.

The Economic Cycle Research Institute said its Weekly Leading Index increased to 127.6 in the week ending July 22<sup>nd</sup> from 127.4 the previous week, originally reported at 127.5. The index's annualized growth rate increased to 2% from 1.6% the prior week, which was revised from 1.7%.

The Thompson Reuters/University of Michigan's final reading on the overall index of consumer sentiment in July stood at 63.7, down from 71.5 in June. It is slightly lower than the preliminary reading of 63.8. It fell to the lowest level since March 2009. The survey's index of consumer expectations fell to 56. Its barometer of current economic conditions was 75.8 in July, down from 82 in June.

Business activity in the US Midwest increased less than expected in July as the labor market weakened. The Institute for Supply Management-Chicago business barometer fell to 58.8 in July, down from 61.1 in June. The employment component of the index fell to 51.5 from 58.7 in June. New orders also fell to 59.4 from 61.2.

The Obama administration announced a proposal that would require automakers to reach an average fuel efficiency across their fleets of 54.5 miles/gallon by 2025. The plan supports the administration's pledge to cut US oil imports by a third over ten years. President Obama said the new rules cut the country's oil use by 2.2 million bpd over the next 15 years and save US consumers about \$2 trillion in fuel costs. In addition to cutting oil use, the standards are also expected to cut more than 6 billion metric tons of carbon pollution during the life of the program.

China's National Development and Reform Commission reported that the country's power supplies will remain tight in some regions for the rest of the summer even though electricity shortages since the start of the season were less severe than expected. It urged all parties and regions to continue their efforts to increase power supplies and curb unreasonable demand.

**July**  
**Calendar Averages**  
**CL – \$97.34**  
**HO – \$3.0774**  
**RB – \$3.0992**

The Bureau of Ocean Energy Management, Regulation and Enforcement reported that a total of 166,554 bpd of crude production was shut in the Gulf of Mexico due to Tropical Storm Don. Oil production shut on Friday accounted for 11.9% of the total from the US section of the US Gulf of Mexico, up from 6.8% on Thursday. It also reported that about 327 mmcf/d of natural gas production was shut in.

BP is starting to send workers back to its oil and gas platforms in the Gulf of Mexico after the passing of Tropical Storm Don. BP evacuated personnel from the Mad Dog, Holstein and Atlantis platforms. The Mad Dog and Holstein platforms were already shut down for maintenance prior to the storm. The Atlantis platform was producing about 100,000 bpd of oil equivalent prior to the storm. BP said it will restart the Atlantis platform in due course. Meanwhile, BHP Billiton said the company expected to remain its two platforms, Neptune and Shenzi, with support personnel over the weekend. Apache Corp said its offshore operations shut 1,970 bpd of oil and 41 mmcf/d natural gas due to Tropical Storm Don. It said it shut in four additional platforms in the western Gulf, bringing the total number of its idled offshore facilities to 10.

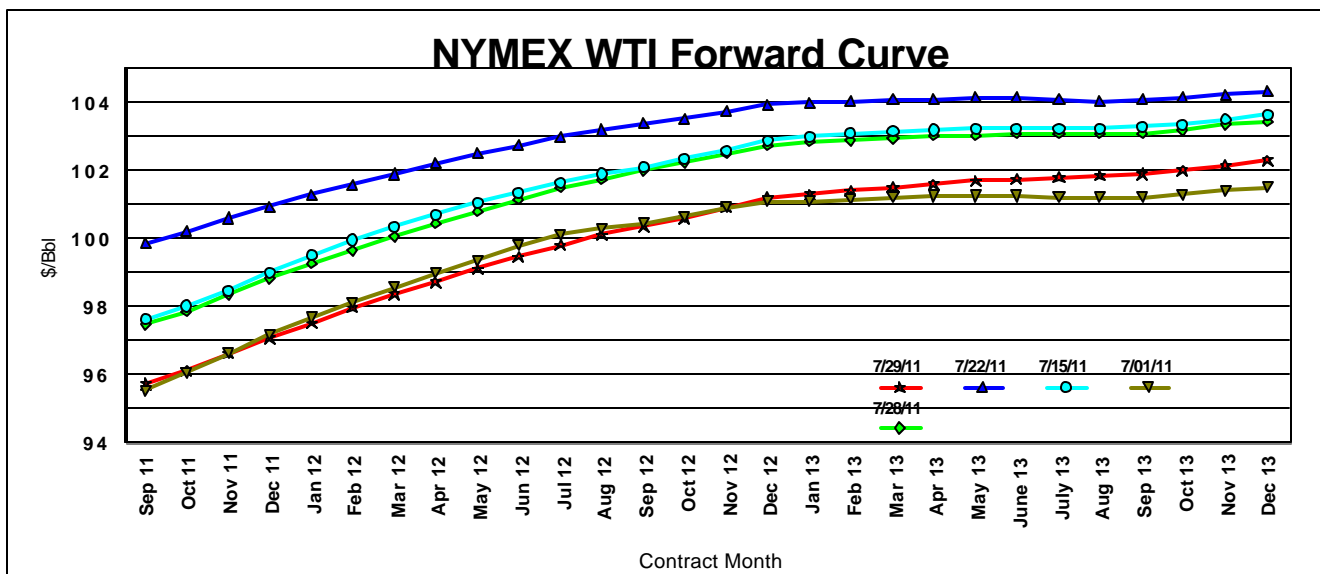
The Energy Department said about 22.1% of the 30.64 million barrels of crude oil sold from the US SPR has been delivered as of Friday. It said five million barrels of crude oil has been delivered since July 21<sup>st</sup>, in addition to the 1.77 million barrels reported delivered last week. A total of 8.7 million barrels of crude is scheduled to be shipped this month with the remaining 21.9 million barrels scheduled for August delivery.

A tanker carrying about 35,000 tons of fuel reached Benghazi and was berthed at the rebel held port on Friday morning. The tanker was most likely carrying diesel from floating storage in Malta.

**Refinery News**

Citgo Petroleum Corp said its Corpus Christi, Texas refinery is closely monitoring the progression of Tropical Storm Don. It said it has contingency plans in place that will be implemented if and when necessary.

BP Plc will begin the process of restarting one of three residual hydrotreating units trains at its 475,000 bpd refinery in Texas City, Texas. The train was depressurized on July 18<sup>th</sup> to facilitate repairs to fix a leak in the unit's heat exchanger. Separately, BP reported an ultracracker problem at the refinery on Thursday.



ConocoPhillips reported a release of butane caused by a pipeline leak at its 146,000 bpd refinery in Borger, Texas on Thursday.

Chevron Corp said it expects to complete the sale of its 210,000 bpd Pembroke refinery in Britain next week after it secured government approval.

TransCanada Corp said a section of its Keystone XL project could be completed by the end of next year, if the project receives US regulatory approvals by the end of December. It said it could complete the section of the Keystone that runs from Cushing, Oklahoma to US refineries along the Gulf of Mexico within 12 months. The remaining portion of the line, running from Hardisty, Alberta to Steele City, Nebraska would take a further six months.

Korea National Oil Corp is restarting its 115,000 bpd Newfoundland refinery. All of the units at the North Come-By-Chance, Newfoundland refinery will resume normal operations over the next week after it was shut for planned maintenance in early May.

Russian refineries processed 5.41 million bpd in June, up 5.9% on the month and 9.5% on the year.

Traders said two fuel cargoes, both for first half August loading from Saudi Arabia, were sold unexpectedly to East Asian buyers at higher prices amid tightening supplies. The cargoes had been expected to remain in the Middle East, amid an unexpected shortage of exports from Iran for July and August loadings. August arrival volumes into East Asia from the Middle East are at 500,000-550,000 tons so far, the lowest level in nine months and down from over 1 million tons for each of the last six months.

India's Oil Minister Jaipal Reddy said India expects to pay via Turkey the first tranche of arrears to Iran for crude oil purchases. He said he is hopeful that Iran will continue to supply crude to India in August but added that the country has already finalized alternative arrangements with other crude suppliers as a protective measure. Payments have been pending since December when India's central bank scrapped a long standing clearing mechanism.

Japan's crude imports in June fell by 4.4% on the year and by 1% on the month to 3.046 million bpd while its oil product imports increased by 15.4% on the year and by 16.8% on the month to 578,740 bpd and its oil product exports increased by 15.9% on the year and by 25.1% on the month to 543,155 bpd. Japan's total refinery output increased by 0.4% on the year and by 7% on the month to 2.888 million bpd in June. Japan's total crude inventory in June fell by 1.3% on the year and by 3.2% on the month to 103.372 million barrels.

### **Production News**

A fourth cargo of North Sea Forties crude has been delayed in August, further disrupting supplies. Reduced output at Nexen's Buzzard field in the North Sea has cut flows along the Forties pipeline. In the latest deferral, the cargo is scheduled to load on August 22-24, a day later than initially scheduled.

Royal Dutch Shell resumed production from one of its crude oil flow stations in the Niger Delta that was shutdown by protesting youths on July 14<sup>th</sup>. Shell did not disclose details on the amount of production that was lost during the outage. The Kolo Creek oilfield produces about 25,000 bpd, which feeds out to Shell's Bonny export terminal.

NuStar Energy LP signed deals with Valero Energy Corp and EOG Resources regarding the Eagle Ford shale oil play in south Texas.

Two oil drilling platforms operated by ConocoPhillips at Bohai Bay are still leaking small amounts of crude oil.

Five large Iraqi Basra oil cargoes are heading to Europe this and next month. The exports of Iraqi Basra oil were triggered by a US oil stocks release in June and a strengthening of Russian crude values. Five Basra cargoes to Europe delivered over one month would represent about 300,000 bpd.

The official selling price of Oman crude was set at \$110.78/barrel for September term supply, up \$2.94 from August.

### **Market Commentary**

Crude oil tumbled once again, stopping at a weekly low of \$94.95. Economic news was not promising; with consumer sentiment falling to its lowest in two-years and the unemployment situation in the U.S. weakening. The second quarter proved to be economically feeble, raising concerns going forward. The U.S. debt ceiling will be the focus beginning next week as Washington has yet to reach an agreement in regards to the debt ceiling before the defaulting deadline on August 2<sup>nd</sup>. The September crude oil contract bounced off of support at \$95.00 and was unable to trade with conviction above the 50-day moving average of \$97.35. With the September below the 50-day moving average, extended moves lower should follow, with an initial test at \$93.55.

The Commitment of Traders report showed that non-commercials in the crude market increased their net long position by 3,820 contracts to 158,767 contracts in the week ending July 26<sup>th</sup>. The combined futures and options report showed that non-commercials increased their net long position by 4,801 contracts to 207,075 contracts on the week. Meanwhile the disaggregated futures and options report showed that managed money funds increased their net long position by 9,138 contracts to 191,423 contracts on the week.

Crude oil: Sept 11 361,370 -6,289 Oct 11 101,169 +2,074 Nov 11 87,644 +1,443 Totals 1,510,658 +563  
 Heating oil: Sept 11 105,866 +2,906 Oct 11 40,510 +1,418 Nov 11 30,559 +973 Totals 310,436 -4,326  
 Rbob: Sept 11 98,153 -4,354 Oct 11 38,147 +1,954 Nov 11 21,246 +680 Totals 249,820 -6808

Crude Oil		Heating Oil		Rbob	
Support	Resistance	Support	Resistance	Support	Resistance
	9735		31379		
	10071	27150	32777		33369
9	10222	26680	33370	26965	35915
9355	10339	27375	33510	26300	36310
9122	10845	23685		25683	
8950	11120	22960		25145	
8744	11483			24240	
8625	11563			23631	
<b>50-day MA</b>	<b>97.35</b>			23414	
<b>200-day MA</b>	<b>94.90</b>				

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