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ENERGY RISK MANAGEMENT

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ENERGY MARKET REPORT FOR AUGUST 2, 2011

The National Hurricane Center said Tropical Storm Emily, about 215 miles southeast of Puerto Rico is expected to either make landfall in Florida or move past its eastern shores by early Saturday. It is not expected to achieve hurricane status. The NHC said Tropical Storm Emily was moving through the Caribbean and making its initial landfall on the island of Hispaniola late Wednesday and continuing to the northwest and moving towards the Bahamas by early Friday and Florida's northern coastline by early Sunday. The NHC's projected path for Emily, however allows for the possibility the storm may enter the Gulf of Mexico early Saturday, running up

Market Watch

The US Commerce Department said spending declined by 0.2% in June after rising an upwardly revised 0.1% in May. The drop was the biggest since September 2009. It reported that incomes increased by 0.1% after increasing 0.2% in May. As income outpaced spending, consumers saved more. The saving rate increased to 5.4%, the largest amount in nearly a year. The saving rate in May was 5%. The price index for personal consumption expenditures, excluding food and energy costs increased 1.3% on the year in June. The overall PCE price index increased 2.6% on the year in June.

The International Council of Shopping Centers and Goldman Sachs reported that US chain store sales fell 0.3% in the week ending July 30th to 535.4.

The Thomson Reuters/PayNet Small Business Lending Index, which measures the overall volume of financing to US small businesses, increased by 25% on the year in June after increasing a revised 28% in May.

Fitch Ratings said the agreement to increase the borrowing capacity of the US means the risk of a sovereign default is extremely low. It said the AAA status remains strong. It expects to conclude its scheduled review of the US sovereign rating by the end of August.

Citigroup said crude oil supplies in the second half will increase and pressure prices with the return of Libyan crude oil exports in the third quarter and higher than expected production from Kuwait. It estimates Brent crude oil will fall to an average \$110/barrel in the third quarter, \$105/barrel in the fourth quarter and \$100/barrel in the first quarter of 2012. It forecast Libya could be producing 200,000-300,000 bpd as early as September.

Barclays became the latest investment bank to fall short in commodities trading after Goldman Sachs and Morgan Stanley reported significantly lower earnings for the asset class in the second quarter. Its income from its currency, fixed income and commodities division fell 20% on the year to 3.92 billion pounds in the first half. It said it had lower contributions from commodities. Barclays' daily average VaR in commodities fell to 14 million pounds in the first half of the year compared with 16 million a year ago while the overall VaR fell to 48 million from 57 million. Meanwhile BNP Paribas became the latest European bank to report strong earnings in commodities trading. BNP's second quarter investment banking revenues increased by 5.7% on the year to 2.88 billion euros.

Dow Jones-UBS Commodities Index tracked an estimated \$80.2 billion at the end of the second quarter compared with \$59.2 billion a year ago.

CME Group Inc's daily trading volume in July increased by 17% on the year as the exchange saw increasing volume for interest rate futures. Its daily volume averaged 12.7 million contracts in July.

IntercontinentalExchange Inc's July daily trading volume increased by 14% on the year to 1.3 million contracts, up from 1.2 million contracts a year earlier. Brent crude futures and options saw volume increased by 30% on the year. Gasoil futures and options saw volume increase 9.8% on the year.

API Stocks

Crude – down 3.314 million barrels
Distillate – up 1.387 million barrels
Gasoline – up 2.549 million barrels
Refinery runs – up 0.9%, at 86.7%

Florida's western coastline.

According to a SpendingPulse report released by MasterCard Advisors LLC, US weekly gasoline demand increased 0.1% in the week ending July 29th to 9.274 million bpd. Gasoline demand increased by 12,000 bpd on the week following a decline of 107,000 bpd a week ago.

Demand in the latest four weeks averaged 9.235 million bpd, down 1.9% on the year. It reported that the US average retail price of gasoline increased by 1 cent to \$3.70/gallon on the week.

Venezuela's El Nuevo Herald reported that Libya has requested that the Venezuelan government sell crude oil in international markets on its behalf in a bid to get around international sanctions. Libya's leader Muammar Gaddafi asked Hugo Chavez's government to take control of more than a dozen tankers, each with a capacity to store more than 160,000 tons of oil, which would be sold by Venezuela.

Refinery News

ConocoPhillips reported an equipment failure led to a release of hydrogen sulfide from a furnace at its 146,000 bpd refinery in Borger, Texas on Monday.

Valero Energy Corp reported a valve problem at its 142,000 bpd refinery in Corpus Christi, Texas on Monday that led to a release of hydrocarbons. It said there was no impact to operations at the refinery. Separately, Valero Energy Corp said a crude unit at its 214,000 bpd Texas City, Texas refinery returned to planned rates. A leak prompted the shutdown of the crude unit at the refinery on July 18th.

BP Plc is still working on a crude unit at its 405,000 bpd Whiting, Indiana refinery.

Citgo Petroleum Corp reported emissions due to a unit upset at the acid plant of its 429,500 bpd refinery in Lake Charles, Louisiana.

Hovensa LLC said its 350,000 bpd St. Croix refinery was operating as normal ahead of Tropical Storm Emily. It said it continued to monitor the storm and took precautions to ensure the safety of its employees and contractors.

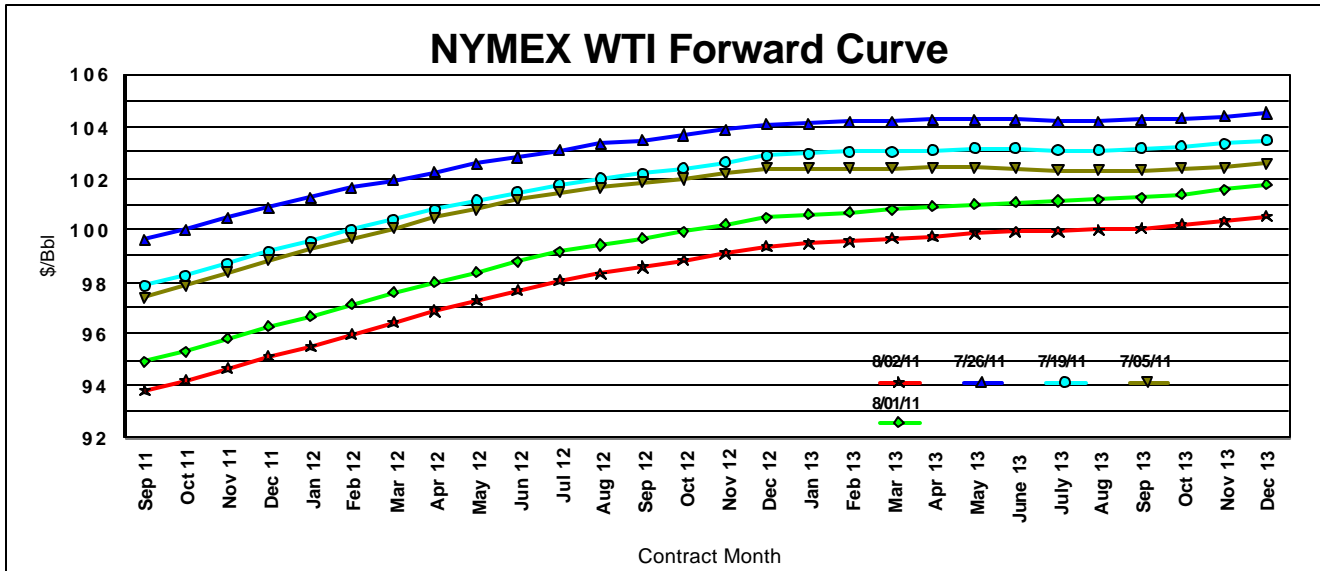
Taiwan's Formosa Petrochemical Corp will shut the largest of its three naphtha units, with a capacity of 1.2 million tons/year, as planned in mid-August for maintenance.

Japan's Cosmo Oil Co said that the schedule for restarting its 220,000 bpd Chiba refinery remains unclear because the company must obtain approval from the government and local communities after implementing safety measures. It aims to resume partial operations as early as autumn, with the restart of a crude distillation unit expected by year end. The refinery has been shut since March after the earthquake caused a liquefied petroleum gas fire.

A shutdown of a 200,000 bpd crude distillation unit at PetroChina's 410,000 bpd Dalian refinery may last for another two weeks or longer, cutting the refinery's operations and possibly causing a delay in receiving foreign crude cargoes. The outage of the crude unit forced the refinery to cut back throughput last month to less than 1.2 million tons or 283,000 bpd.

Bulgaria will allow Russia's Lukoil to fully restart processing after halting its Bulgarian plant in a tax dispute. The dispute is part of Bulgaria's

**August
Calendar Averages**
CL – \$94.34
HO – \$3.0945
RB – \$3.0457



government's efforts to prove it can impose rules and enforce its tax system. Lukoil later reported that its 142,000 bpd Bulgarian refinery has started to increase its processing of crude oil after customs officials removed their seals from the installation.

China's Ministry of Industry and Information Technology said the country's crude runs this year will likely reach 460 million metric tons or 9.24 million bpd, up 8.5% on the year. Domestic crude production will likely increase 3-4% to 210 million tons while apparent oil product consumption will likely reach 267 million tons, up 8.8% on the year. It reported that China's implied diesel consumption was likely to increase 10.1% this year at 172 million tons or 3.53 million bpd. It also reported that gas production will likely increase 12.5% to 106.3 billion cubic meters and domestic apparent consumption is expected to reach 124.6 billion cubic meters, up 16.1%.

India's Petroleum Planning & Analysis Cell reported that the country's total sales of refined oil products in June increased by 1.9% on the year to 12.1 million tons, the lowest level since November. India's diesel sales in June increased by 2.9% to 5.35 million tons from 5.2 million tons while its gasoline sales in June increased to 1.25 million tons from 1.24 million tons.

Malaysia ordered Titan Petrochemicals and other shipping firms using supertankers to store crude at the port of Pasir Gudang to relocate by the end of the month. As many as eight very large crude carriers, which can hold up to 16 million barrels of oil, are currently anchored off the port. The Malaysian government has ordered shipping companies to move their VLCCs to Tanjung Pelepas or other nearby ports.

Production News

Russia remained the world's top oil producer in July, ahead of Saudi Arabia, with a production level of 10.258 million bpd. Russia has kept its oil production stable above 10 million bpd since September 2009. Russia produced a total of 43.38 million tons of crude oil in July, about 12% of global supply but exported just 19.92 million tons or 46% of the total as domestic demand increased. Meanwhile, Russia's exports via Transneft increased by 3.1% to 4.09 million bpd in July from 3.97 million bpd in June.

Norway's Petoro said the Norwegian government's oil and gas production fell 20% to 845,000 bpd of oil equivalent in the second quarter due to operational problems, extensive maintenance and falling output from mature fields.

Colombia's Mines and Energy Ministry reported its first month on month decline in oil production in more than a year. Colombia's oil production in July averaged 929,226 bpd, a slight drop from June's output of 930,569 bpd.

Mexico's Pemex said crude oil production in July totaled 2.536 million bpd, the lowest level for any month year to date.

Marathon Oil Corp's second quarter earnings increased by 40% to \$996 million due to higher oil prices. In the latest quarter, exploration and production earnings increased by 39% on higher liquid hydrocarbon prices, partly offset by sales volume in Libya and Europe. Its second quarter production averaged 341,000 bpd of oil equivalent, of which 59% was oil liquid hydrocarbons and 41% was natural gas. Marathon expects third quarter production to be between 330,000 and 350,000 bpd of oil equivalent. Marathon Oil anticipates producing an average 360,000 to 380,000 bpd of oil equivalent in 2012.

Abu Dhabi National Oil Co increased the July retroactive selling price of its Murban crude by \$1.80/barrel to \$113.95/barrel. It set the price of its Lower Zakum, Umm Shaif and Upper Zakum at \$113.65/barrel, \$113.15/barrel and \$109.95/barrel, respectively.

OPEC's news agency reported that OPEC's basket of crudes increased to \$113.57/barrel on Monday from Friday's \$112.18/barrel level.

Market Commentary

Crude oil reached a five-week low as nervousness over the economy continued to infiltrate the market. According to a report by the U.S. Commerce Department, consumer purchases fell by .2 percent, adding to an already heightened financial concern. With inventory numbers expected to show an increase of 1.5 million barrels in crude oil, one can only think that prices will continue to head lower. Brent traded lower as well, with the September contract settling down 34 cents on the day. Brent has been supported by delays in shipments due to oilfield and pipeline maintenance and by Asian demand. The maintenance has led to delays in shipments of seven cargoes that were expected to load in August. We would continue to look for choppy trading sessions and for a retreat back to the medium term low of \$89.61.

Crude oil: Sept 11 364,537 +2,443 Oct 11 114,443 +8,971 Nov 11 91,132 +2,794 Totals 1,536,140 +14,546 Heating oil: Sept 11 107,556 +753 Oct 11 38,379 +372 Nov 11 30,735 -250 Totals 303,899 +1,748 Rbob: Sept 11 92,945 -2,560 Oct 11 40,155 +1,810 Nov 11 22,183 +132 Totals 246,670 +1,054

Crude Oil		Heating Oil		Rbob	
Support	Resistance	Support	Resistance	Support	Resistance
9122	9726				9122
8950	9924	27150	32777		33369
8727	10071	26680	33370	26965	35915
8625	10222	27375	33510	26300	36310
	10339	23685		25683	
	10845	22960		25145	
	11120			24240	
	11483			23631	
50-day MA	97.17			23414	
200-day MA	95.08				

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