



ENERGY RISK MANAGEMENT

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ENERGY MARKET REPORT FOR AUGUST 3, 2009

Iran's OPEC Governor Ali Khatibi predicted that oil prices will reach \$80/barrel by the end of the year, amid signs of a recovery in the world economy. He added that the seasonal demand for oil will increase in the fourth quarter to 29.1 million bpd.

An OPEC delegate said OPEC President Angola will host an extraordinary OPEC meeting in the capital city Luanda on December 22. The meeting was previously

Market Watch

Simpson Spence & Young Ltd reported that 29 oil tankers were being employed to store crude oil worldwide as of mid-July, down from 35 at the end of June. Of the 29, 25 Very Large Crude Carriers were used to store crude oil offshore, including 10 in the US Gulf of Mexico, eight in Europe, four in West Africa and three in Asia.

The Institute of Supply Management's composite manufacturing activity index increased to 48.9 in July from 44.8 in June. It increased for the seventh consecutive month. Chair of the ISM manufacturing business survey committee said the index could top 50 next month, it stays on its upward trend.

The dollar reached its lowest level of the year against a basket of currencies on Monday as stocks rallied on the back of strong bank earnings and strong manufacturing sector data from Europe. The dollar index fell to 77.928, its lowest since December.

The Baltic Exchange's main sea freight index fell to a near three week low of 2.96% or 99 points to 3.251 points on Monday on slowing Chinese iron ore demand and ship availability. The Baltic's Capesize index fell by 3.68% on Monday. It was the third session of declines.

China's Purchasing Managers' Index increased for a fifth month to a seasonally adjusted 53.3 in July from 53.2 in June.

An economist, Nouriel Roubini said China may have overstocked on commodities, risking a slowdown in buying and a correction in prices in the second half of the year. He also reiterated that the world recession would continue until year end. He said he expects most commodity prices to continue a gradual recovery in step with rising general economic growth.

China's National Development and Reform Commission said the country used 3.35% less energy to generate each dollar of gross domestic product in the six months through June 2009 than a year earlier. It is a larger decline than the 2.89% decline reached in the first quarter and faster than the 2.88% decrease registered in the same period of 2008. The country has set a goal of cutting energy intensity by 20% over the five year to 2010.

China's Sinopec Group denied reports on Monday that it was seeking changes in the oil pricing mechanism, which it said allows speculators to anticipate official price changes. The official China National Radio reported that Sinopec Group was in discussions with CNPC and the top economic planner to fine tune the new oil pricing mechanism, which was put in place in January.

A top security official said attacks on Iraqi pipelines and other oil facilities have declined sharply, boding well for the safety of foreign firms seeking to invest in the country's oil sector.

August Calendar Averages

CL – \$71.58
HO – \$1.8713
RB – \$2.0693

expected to be held on December 17th, which would have clashed with UN-led talks on climate change.

Iranian Supreme Leader Ayatollah Ali Khamenei praised President Mahmoud Ahmadinejad as he confirmed him in official Monday and hailed the unprecedented vote the returned him to power. Meanwhile, Iran's President accused foreign governments of trying to cause trouble during the June election, which returned him to power.

The EIA reported that the US average retail price of diesel increased by 2.2 cents to \$2.55/gallon in the week ending August 3rd. It also reported that the US retail price of gasoline increased by 5.4 cents to \$2.557/gallon on the week.

Refinery News

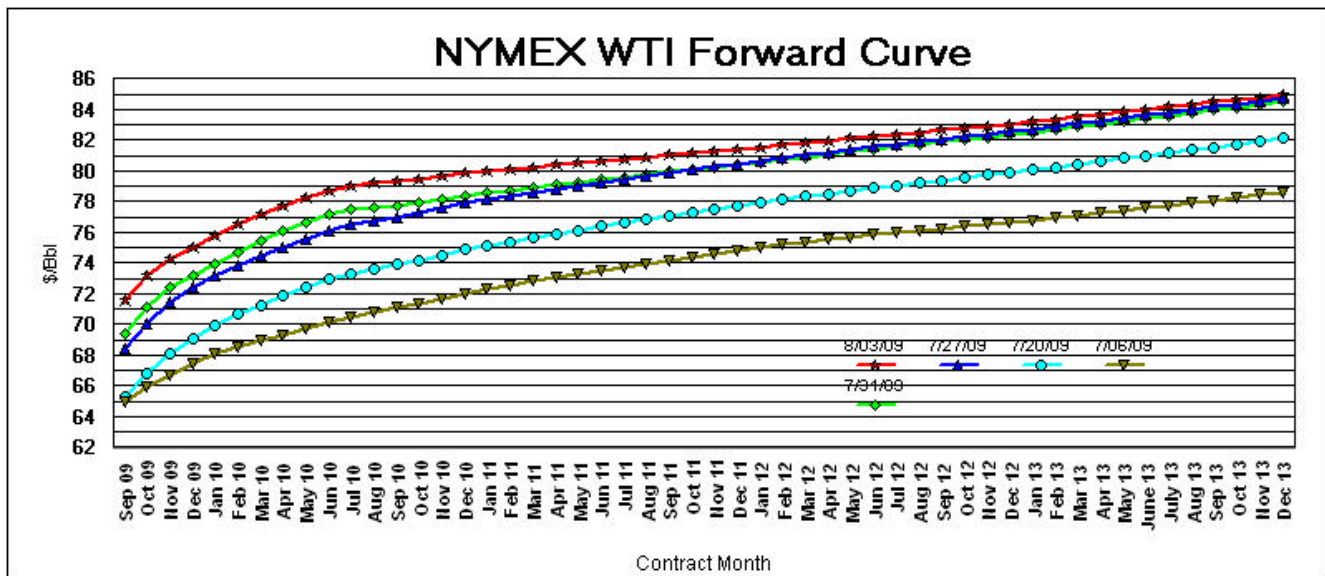
According to Credit Suisse, refinery margins in most US regions increased last week. Refinery margins in the Northeast increased by \$1.09 to \$6.92/barrel while margins in the Gulf Coast increased by 4 cents to \$11.01/barrel. In the Midwest, margins increased by 66 cents to \$10.34/barrel while margins in the West Coast increased by 84 cents to \$14.97/barrel. Margins in the Rockies however fell by 52 cents to \$14.90/barrel.

Valero Energy Corp reduced production rates at its 287,000 bpd Port Arthur, Texas refinery following a safety valve problem on Sunday. It said it would not have a material impact on production. Valero Energy Corp restarted its crude distillation unit, a coker and vacuum unit at its 186,000 bpd St. Charles refinery in Norco, Louisiana, which were idled by a fire on June 9^h. Separately, Valero Energy Corp is shutting down a 36,000 bpd hydrocracker unit at its 144,000 bpd Benecia, California refinery for planned repair work. The unit is expected to restart by the beginning of next week.

Flint Hills Resources LLC reported elevated levels of chemical emissions at its 300,000 bpd refinery in Corpus Christi, Texas after a coker unit leaked chemicals.

Hess Corp said a power failure on Friday at its 70,000 bpd refinery in Port Reading, New Jersey caused the sulfur recovery unit emissions to exceed permitted amounts. The facility was back in compliance later on Friday.

Tesoro Corp completed the restart of a 35,000 bpd hydrocracking unit and returned it to planned rates at its 166,000 bpd Martinez, California refinery. The unit was shut on July 21 for unplanned repairs.



Marathon Oil Corp said the completion of the expansion of its Detroit refinery will be slightly delayed from the previous mid-2012 deadline. The refinery is undergoing an upgrade that will allow it to process 80,000 bpd of heavy oil.

BP restarted its 386,000 bpd Rotterdam refinery on Friday after a power outage shutdown. It began the restart process on Friday.

A fluid catalytic cracking unit at Germany's Schwedt refinery resumed operations on Sunday after it was shut on Friday.

Total will close one of two atmospheric crude distillation units at its 331,000 bpd Gonfreville refinery in France from Tuesday for about one month due to poor demand for oil products. Total also plans to shut oil units for one month's maintenance in September.

Japan's TonenGeneral Sekiyu said its 92,000 bpd fluid catalytic cracking unit at its 335,000 bpd Kawasaki refinery has resumed operations following an unplanned shutdown last week. The unit was shut on Friday due to a minor leak in a pipeline.

A new 35,000 bpd condensate splitter at Japan Energy's 205,200 bpd Mizushima refinery will begin trial operations starting August 10th.

Taiwan's Formosa Petrochemical Corp has shut one of its two 84,000 bpd gasoline making units over the weekend because of a technical problem late last week. The unit will remain shut for one to two weeks.

The China Oil, Gas and Petrochemicals newsletter reported that China's crude oil stocks, including both state strategic and commercial reserves, fell by 2.7% on the month to 37.7 million tons or 275 million barrels at the end of June. The inventory level is equivalent to about 77 days of net imports. Meanwhile diesel stocks increased by 7.1% on the month to 37.5 million barrels at the end of June while gasoline stocks stood at 23.7 million barrels at the end of June.

Indonesia's BPMIGAS said the country has a stockpile of about 12 million barrels of crude in several different production areas which will be used to compensate for declining oil output in the future. Indonesia's crude oil production fell to 826,600 bpd in July, from 829,200 bpd in June because several wells were shutdown for technical reasons.

The UAE reopened its Jebel Ali oil export terminal on Monday after halting operations for a few hours in the morning due to bad weather conditions. The terminal was also closed on Sunday morning but reopened later in the day as weather conditions improved. Meanwhile oil exports from Saudi Arabia's Ras Tanura continued as normal despite poor weather.

Iran's August gasoline imports are expected to remain steady from shipments in the previous month, as Iran builds inventories ahead of Ramadan. It will import about 128,000 bpd of gasoline next month or about 15 cargoes, unchanged from July's level.

Production News

Saudi Arabia plans to keep its oil shipments to the US unchanged in September. Separately, Saudi Arabia may cut the official price of its Light oil for September sales to Asia as a fall in demand for diesel fuel and gasoline cut refiners' crude purchases in the past month. It may reduce Arab Light crude by an average of \$1.30/barrel and its Extra light crude by an average of \$1.40/barrel.

According to a Reuters survey, OPEC's oil production increased by 80,000 bpd to 28.57 million bpd in July. OPEC 11 produced 26.07 million bpd, up 50,000 bpd on the month. OPEC's production was 1.23 million bpd higher in July than the implied target of 24.84 million bpd. IT has a 71% compliance rate, down from 72% in June. Saudi Arabia increased its production by 50,000 bpd to 8.07 million bpd while Iran's production increased by 20,000 bpd to 3.81 million bpd. Nigeria's oil production fell by 40,000 bpd from June to 1.69 million bpd. Meanwhile Iraq's oil production increased by 30,000 bpd on the month to 2.5 million bpd in July.

OPEC said Venezuela's oil production fell by 8,000 bpd or 0.3% on the month to 2.207 million bpd in June. Last week Venezuelan officials said the country is producing 3 million bpd.

Russia's Energy Ministry reported that Russia's oil output in July stood at 9.91 million bpd, up from 9.89 million bpd in June while exports via pipeline monopoly Transneft fell to 4.02 million bpd, down 5% on the month. Russia's natural gas production increased by 10.7% to 1.34 billion cubic meters/day from 1.21 bcm/day in June.

Oil supplies to countries outside the Commonwealth of Independent States via Transneft's pipeline system fell by 4.4% on the year to 16.988 million metric tons in July. Of the total, exports of Russian oil amounted to 14.825 million tons in July. Russia's oil exports to CIS countries totaled 2.804 million tons in July, up 2.4% on the year while Russia's exports to countries outside the CIS fell by 4.2% on the year to 18.532 million metric tons in July.

The head of Iraq's State Oil Marketing Organization, Falah Alamri said Iraq's oil exports in July increased to 2.037 million bpd, the highest level since the US-led invasion in 2003. The monthly average in June was 1.925 million bpd. Exports from Iraq's southern Basra oil terminal reached 1.493 million bpd while exports from Kirkuk in Iraq's north reached 544,000 bpd.

An official at India's Oil and Natural Gas Corp said a sub sea pipeline leakage has cut 40,000 bpd and 5 million cubic meters/day of gas production from western offshore fields of Panna and Mukta.

The UK arm of the Abu Dhabi National Energy Co, TAQA Bratani Ltd said it has taken over as operator of the North Sea Brent system pipeline and facilities from August 1. The Brent system is responsible for transporting about 100,000 bpd of oil from about 20 North Sea oilfields.

Brazil's Petrobras notified the country's National Petroleum Agency late Friday that a wildcat well in the Santos Basin tested positive for oil. The BM-S-7 block also contains the Piracuca discovery, estimated to hold light oil and natural gas reserves of about 550 million barrels of oil equivalent.

Abu Dhabi National Oil Co cut the July retroactive selling price of its Murban crude by \$5.45/barrel to \$66.20/barrel. It also lowered its official selling price for Umm Shaif and Upper Zakum by \$5.45/barrel to \$65.70/barel and \$64.45/barrel, respectively.

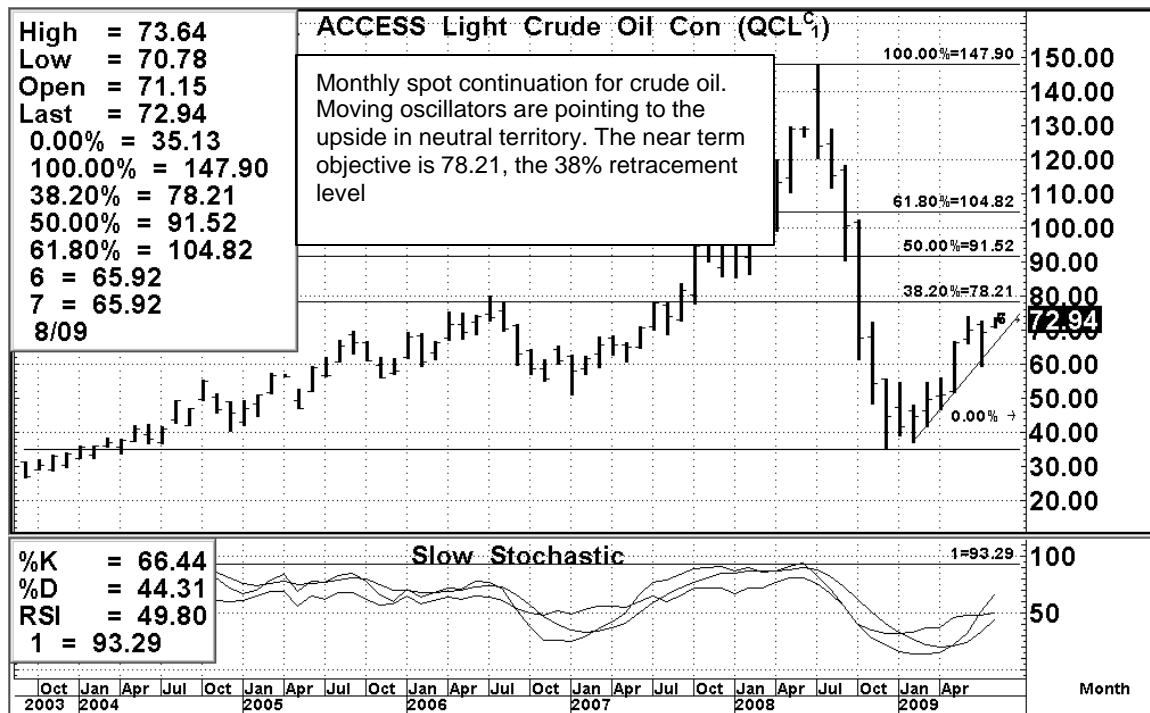
OPEC's news agency reported that OPEC's basket of crudes increased to \$68.59/barrel on Friday from \$66.42/barrel on Thursday. It also reported that OPEC's basket of crudes increased by \$1.94/barrel to \$67.66/barrel in the week ending July 31st.

Market Commentary

The energy markets rallied today after a report showed that U.S. manufacturing decreased at the slowest pace in 11 months and China's factory output advanced to the highest level in almost a year. Market participants, who grew increasingly optimistic about the economy, brought crude back above \$72.00, with the September contract topping out at \$72.20. It remains yet to be seen if the economy is in recovery and will continue to recover or if it will start to slow again. The underlying fundamentals

of this market remain the same; we still have an abundance of crude oil and sluggish demand. Technical indicators for crude oil are trending higher in neutral territory. We would look for a continued move higher with prices working towards the 38% retracement level of \$78.21. Gasoline cracks remain strong again today ahead of expectations of a draw in crude oil. Should refiners continue to refrain from turning out product, this will be supportive for gasoline and heating oil.

Crude Oil (SEP.09 319,255 +5,882 OCT.09 118,654 +11,904 NOV.09 58,603 +135 DEC.09 159,545 -4,584 JAN.10 34,472 +379 FEB.10 23,896 +1,169 Totals: 1,190,714 +18,776. Heating Oil (HO) SEP.09 70,876 -1,420 OCT.09 37,515 +1,354 NOV.09 25,565 +316 DEC.09 38,494 -17 JAN.10 21,437 +9 FEB.10 14,249 +221 Totals: 299,525 -2,625. Harbor RBOB SEP.09 96,013 +313 OCT.09 34,553 +1,042 NOV.09 16,795 +596 DEC.09 21,662 -233 JAN.10 11,001 +301 FEB.10 3,490 +189 Totals: 206,003 - 664



Crude Support	Crude Resistance
66.20, 63.74, 62.40, 61.61, 60.95, 56.40, 56.75, 55.45	72.20, 73.38, 74.50, 76.13
Heat Support	Heat resistance
1.8655, 1.8000, 1.7340, 1.4220, 1.4130, 1.3720	1.9090, 1.9135
Gasoline support	Gasoline resistance
2.0250, 1.9070, 1.7989, 1.7895, 1.5887, 1.5370, 1.5260, 1.3560, 1.3400,	2.1100, 2.1600, 2.3350

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