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Windham Group



## ***ENERGY RISK MANAGEMENT***

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### **ENERGY MARKET REPORT FOR AUGUST 3, 2011**

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The EIA reported that crude inventories in the US SPR fell by 4.5 million barrels last week as the government continued to draw stocks as part of a coordinated effort with the IEA. Oil inventories in the Gulf Coast increased by 2.96 million barrels in the week ending July 29<sup>th</sup> while gasoline in the region increased by 2.1 million barrels. Crude inventories at Cushing, Oklahoma fell to 97.4 million barrels on the week.

Iran's parliament approved President Mahmoud Ahmadinejad's candidate as oil minister on Wednesday, putting a military commander who is under international sanctions in charge

#### **Market Watch**

According to ADP, private businesses added more jobs in July than expected but the gain was not strong enough to allay concerns about the economy. Private sector jobs in the US increased by 114,000 in July compared with market expectations of an increase of 105,000. The June data was revised to show an increase of 145,000, up from a previously reported 157,000.

Meanwhile, Challenger Gray & Christmas, an outplacement firm, said an unexpected increase in private sector downsizing increased the number of announced job cuts to a 16 month high of 66,414 in July, 60% above June's 41,432 and the highest since March 2010.

The US Labor Department stated that unemployment rates in most metropolitan areas of the US fell during June from a year earlier. Jobless rates were lower in 224 of the 372 metropolitan areas measured. Unemployment rates were higher in 127 areas and unchanged in 21 areas. The data also showed 217 metropolitan areas reported year over year increases in non-farm payroll employment while 143 reported decreases and 12 had no change.

The US Commerce Department said orders for US factory good fell for the second time in three months in June. Orders for manufactured goods fell by 0.8% from the prior month to \$440.69 billion. The decline follows a 0.6% increase in May and a drop of 0.9% in April.

The Institute for Supply Management said the US non-manufacturing sector expanded at a sluggish pace in July. The ISM's non-manufacturing purchasing managers' index fell to 52.7 in July from 53.3 in June. Its business activity/production index in July increased to 56.1 from 53.4 while the new orders index fell to 51.7 from 53.6 in June. The ISM employment index fell to 52.5 in July from 54.1 in June while the prices index fell to 56.6 from 60.9.

The Mortgage Bankers Association said its seasonally adjusted index of mortgage application activity, which includes refinancing and home purchase demand, increased by 7.1% in the week ending July 29<sup>th</sup>. Its seasonally adjusted index of refinancing applications increased 7.8% while the index of loan requests for home purchases increased 5.1%.

Morgan Stanley said the spreads between light and heavy crudes is set to widen from the third quarter this year due to higher production from OPEC and lower fuel oil demand. It said OPEC is expected to increase production to meet higher demand in the second half of the year and added that lower demand for fuel oil would weigh on residual crack spreads and cut demand for heavier, fuel oil yielding crude. Fuel oil demand is expected to fall next year as the shipping industry will use bunker fuel with lower sulfur content from 2012 to meet emission targets and as power plants burn less residual fuel for electricity.

The Colorado State University hurricane forecasting team on Wednesday maintained its 2011 Atlantic hurricane season forecast at nine hurricanes, with five of them expected to become major hurricanes. It said the hurricane season would likely see 16 tropical storms. It sees a 70% probability of a major hurricane making landfall along the US coastline.

The IntercontinentalExchange's chief executive Jeffrey Sprecher said the WTI crude contract no longer reflected global oil prices adding that the price divergence from the Brent contract may continue for some time.

Societe Generale said there was an outflow of \$6 billion of net investments in commodities in June, mainly due to poor sentiment toward agricultural commodities and midyear portfolio rebalancing. Agriculture made up the bulk, about \$3.5 billion of the outflows. The energy sector reported an outflow of \$1.17 billion while base metals reported an outflow of \$880 million and precious metals reported an outflow of \$270 million.

**DOE Stocks**

**Crude** – up 950,000 barrels  
**Distillate** – up 409,000 barrels  
**Gasoline** – up 1.701 million barrels  
**Refinery runs** – up 1%, at 89.3%

of the country's oil industry. A majority of lawmakers voted in favor of Rostam Qasemi, a Revolutionary Guards commander.

**Refinery News**

Colonial Pipeline allocated Cycle 45 shipments on its Line 01, its main gasoline line north of Collins, Mississippi.

Magellan Midstream Partners LP said it was exploring a project to use a combination of idled lines that it owns in Oklahoma and existing pipelines in Texas to provide a crude oil route from Cushing to the Gulf. It said shippers have shown a significant amount of interest for the pipeline, which would be able to carry between 60,000 and 70,000 bpd.

Tesoro Corp said a power outage forced the shutdown of all units at its 93,500 bpd refinery in Kapolei, Hawaii on Tuesday. It said it would restart the units and resume normal operations.

ConocoPhillips reported equipment malfunction at its 247,000 bpd Alliance refinery in Belle Chase, Louisiana on Tuesday.

Citgo Petroleum Corp said production rates at its 429,500 bpd refinery in Lake Charles, Louisiana have returned to normal after completion of scheduled turnarounds. It reported that the sulfur recovery units tripped while it was in the process of cleaning the fuel gas system.

Enterprise Products Partners LP reported a release of nitrogen oxide and nitrogen dioxide from a flare stack due to an electrical power shutdown at its Mt. Belvieu plant in Texas that tripped offline. A report filed with the National Response Center said power was restored to the plant and the incident ended.

Royal Dutch Shell Plc is conducting unplanned maintenance on a processing unit at its oil sands mining site. It said production from the oil sands project has been marginally reduced.

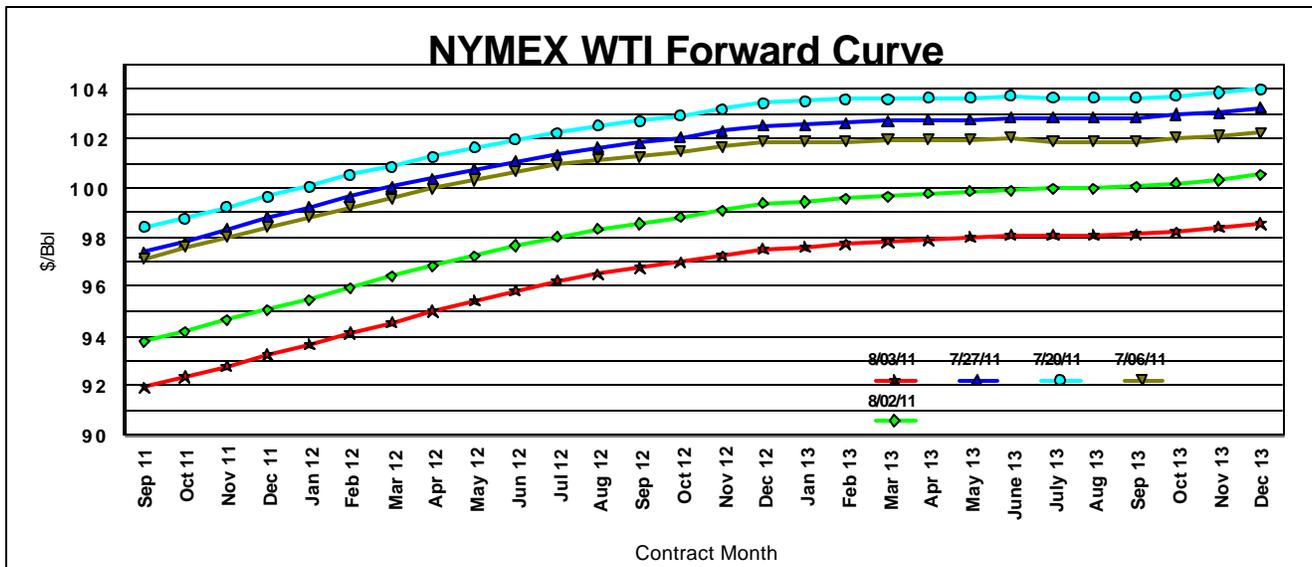
Petroplus does not plan any major maintenance in the second half of 2011.

Bulgaria's Lukoil Neftochim refinery has resumed operations after it almost halted operations over a licensing dispute. The 142,000 bpd refinery has been operating at minimal levels and was preparing to halt production after the customs agency stripped it last week of two key licenses necessary for its operations. The move was prompted by the refinery's failure to install additional meters and other equipment to link its production and storage facilities to the Bulgarian revenue agency and allow for better monitoring of the amounts of crude and fuel entering and exiting the refinery.

The Bulgarian anti-monopoly commission has launched an investigation into the Bulgarian trading arm of Russia's Lukoil over suspected abuse of dominant market position and possible cartel agreements. The Commission for the Protection of Competition said it carried out a survey of the Bulgarian fuel market and established similar movements in the wholesale fuel prices which it said could be a result of cartel agreements.

India said it is considering purchasing more crude from countries other than Iran and purchasing from the spot market as National Iranian Oil Co has informed the country that it may become difficult to continue supplying oil without resolving a payment dispute. The Indian government is also pursuing several options to make payments to Iran.

**August  
Calendar Averages  
CL – \$93.54  
HO – \$3.0693  
RB – \$3.0075**



The Petroleum Association of Japan reported that the country's crude oil inventories in the week ending July 30<sup>th</sup> increased by 7.55 million barrels on the week but fell by 940,000 barrels on the year to 104.33 million barrels. It also reported that gasoline stocks increased by 1.11 million barrels on the week and by 340,000 barrels on the year to 13.57 million barrels while kerosene stocks increased by 290,000 barrels on the week and by 4.05 million barrels on the year to 16.26 million barrels and naphtha stocks fell by 260,000 barrels on the week and by 3.64 million barrels on the year to 9.39 million barrels. It reported that Japan's crude runs fell by 40,000 bpd on the week and on the year to 3.49 million bpd. The PAJ also reported that total oil sales increased by 3.8% on the week and by 2.9% on the year to 2.85 million bpd.

Algeria's Sonatrach issued another tender for more gasoline to be delivered in August. The new tender is for two 25,000 ton cargoes of gasoline to be delivered between August 15-20 and August 25-30.

Western fuel oil shipments to East Asia for August arrival are at below average volumes for a third consecutive month at 3-3.1 million tons. September volumes currently stand at 2.1-2.2 million tons booked, with the West to East arbitrage window notionally closed due to a strong Western market.

### **Production News**

Royal Dutch Shell said it shut one of its Nigerian flowstations in the Niger Delta following oil pipeline leaks. The Adibawa flowstation has been closed after a number of incidents were reported along two of its trunklines. Local youths claimed responsibility for attacking the same pipelines because they said Shell stopped paying them for surveillance work.

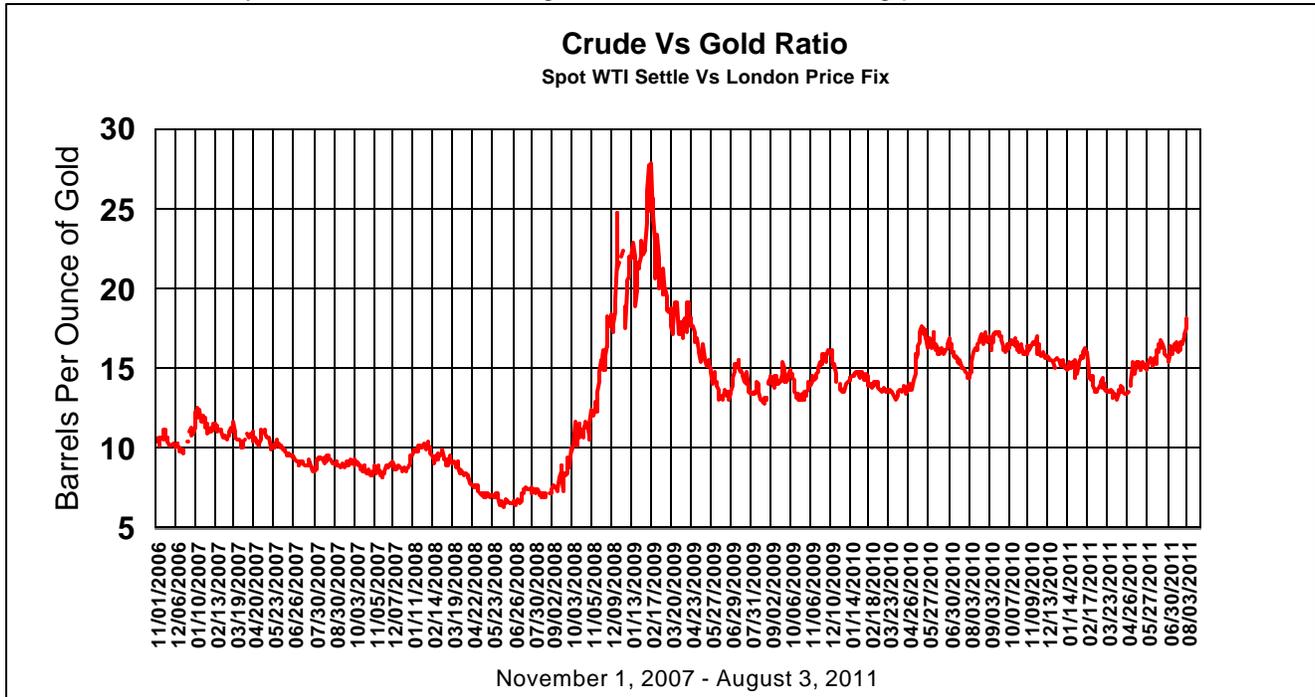
Three Ekofisk crude cargoes have been canceled from the August program due to reduced production following a fire at a BP operated platform on July 13<sup>th</sup>. The platform was linked to the Norwegian Valhall field, which was producing 42,000 bpd at the time of the fire.

Canadian Oil Sands Ltd said its Syncrude production averaged 323,800 bpd in July, up from 286,800 bpd in June.

According to shipping data, Iraq's oil exports from its southern ports increased in July to a six month high. Exports from the Basra oil terminal and Khor al-Amaya averaged 1.77 million bpd in July. Meanwhile exports of Kirkuk crude shipped from northern Iraq averaged 445,000 bpd.

Azerbaijan's SOCAR said the country's oil exports via Russia in January to July fell by 7.3% to 1.17 million tons from a year earlier.

India's Reliance will halt output of 8 million cubic meters/day of gas and about 15,000 bpd of oil at its MA field for two days later this week during maintenance of a floating platform.



BP Plc said an unexploded World War II mine which was next to the Forties pipeline in the North Sea has been successfully removed. It said the five day planned maintenance work on the pipeline system, which started on Monday, was proceeding as planned.

Nexen Inc said it is still in talks with the Yemeni government over the possible renewal of operating licenses in the country. Under existing agreements with the Yemeni government, Nexen has the right to produce oil from the Masila project until December 2011. It is negotiating a five year extension because it still sees significant value in the mature field. Nexen produces about 70,000 bpd of oil from its two blocks in Yemen.

Saudi Aramco set the price of its Arab Extra Light crude bound for Asia at the Oman/Dubai average plus \$3.05 for September, up 10 cents on the month while the price of its Super Light crude was set at the Oman/Dubai average plus \$4.65/barrel, up 80 cents on the month and the price of its Arab Light crude was set at the Oman/Dubai average plus \$0.75/barrel, down from \$1.35 in August.

### **Market Commentary**

Pessimistic inventory levels combined with negative economic numbers pushed crude oil to as low as 2.8 percent on the day. The economic outlook, looking ever grimmer, is the dominant market-moving factor. The near-term bearish outlook remains, making our downside objective \$89.87. This represents the 50% retracement level between the range of \$147.27 and \$32.48. Extended moves lower, followed by a break below the recent low of \$89.61, sets prices up for a test at the old consolidation pattern of \$70.97 and \$78.04.

Crude oil: Sept 11 352,810 -11,727 Oct 11 112,522 -1,921 Nov 11 95,651 +4,519 Totals 1,528,978  
-7,162 Heating oil: Sept 11 103,275 -4,281 Oct 11 40,376 +1,997 Nov 11 31,674 +939 Totals

302,304 -1,595 Rbob: Sept 11 92,966 +21 Oct 11 42,027 +1,872 Nov 11 21,853 -330 Totals 251,600 +4,930

Crude Oil		Heating Oil		Rbob	
Support	Resistance	Support	Resistance	Support	Resistance
9122	9726				9122
8987	9924	27150	32777		33369
8718	10071	26680	33370	26965	35915
8625	10222	27375	33510	26300	36310
	10339	23685		25683	
	10845	22960		25145	
	11120			24240	
	11483			23631	
<b>50-day MA</b>	<b>97.02</b>			23414	
<b>200-day MA</b>	<b>95.15</b>				

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