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ENERGY MARKET REPORT FOR AUGUST 4, 2011

The US Energy Department said about 31.6% of the 30.64 million barrels of crude oil sold from the SPR has been delivered as of Wednesday. It said 2.92 million barrels of crude was delivered since July 29th, bringing the total shipments as of Wednesday to 9.69 million barrels. A total of 8.74 million barrels of crude were shipped in July, as scheduled. Deliveries in August, including barrels between August 8 and 14 to 1 million barrels over the final three days of the month.

Oil Movements reported that OPEC's oil exports, excluding Angola and Ecuador, are expected to fall by 150,000 bpd to 22.78 million bpd in the four weeks

Market Watch

The US Labor Department said initial claims for unemployment benefits fell by 1,000 to a seasonally adjusted 400,000. The prior week's figure was revised up to 401,000 from the previously reported 398,000. The four week moving average of claims fell by 6,750 to 407,750, the lowest level since mid-April. The report showed the number of continuing unemployment benefits increased by 10,000 to 3.73 million in the week ending July 23rd. The unemployment rate for workers with unemployment insurance for the week ending July 23rd was unchanged at 3%.

The yen fell sharply as Japan intervened to curb the currency's strength to support its economy. The Bank of Japan decided to expand its special fund for asset purchases and liquidity supplying operations by a total of Y10 trillion at the end of the of policy board meeting on Thursday in response to increasing concerns over the negative impact of the strong yen on the economy. The central bank's policy board said it would increase the size of the asset purchase program to Y15 trillion from the previous Y10 trillion. It also expanded its six month fixed rate operations to Y15 trillion from Y10 trillion. The policy board also decided to keep its unsecured overnight call loan rate target unchanged in a range of 0%-0.1%.

The European Central Bank held interest rates at 1.5% on Thursday, pausing a policy tightening cycle it started in April in the face of growing evidence the euro zone's economic recovery is losing momentum. It said the interest rate on its deposit facility would remain at 0.75% and the rate on the marginal lending facility would remain at 2.25%. European Central Bank President Jean-Claude Trichet said the European Central Bank's government bond buying program is still in operation. It has not bought any bonds since March and recent central bank policymaker comments suggested the program had effectively been shutdown.

According to a Reuters survey, the record divergence between WTI and Brent crude is likely to widen further. In the survey of 29 traders, bank analysts, refiners and hedge fund managers, 69% said Brent's premium to US crude could increase past \$30/barrel sometime in the next 12 months, with almost half of those predicting it could reach \$40/barrel or above. Brent's premium over WTI has increased since last year due to increasing inventories at Cushing, Oklahoma, declining output from North Sea oilfields and the loss of crude exports from war torn Libya.

Transocean Ltd said high oil prices and several new deep water discoveries are driving a recovery in demand for the contract driller's rigs. Its chief executive Steven Newman said demand for drilling would be driven by recent deep water discoveries off Brazil, Ghana, Vietnam and in the Gulf of Mexico. Transocean has added \$1.5 billion worth of new drilling contracts since April.

The National Oceanic and Atmospheric Administration said it sees an 85% chance of above normal activity this Atlantic Hurricane season. It forecasts a 70% probability that the current season will see 14-19 named storms, including the five which have already occurred and seven to ten hurricanes, including three to five intense hurricanes with sustained winds of 111 mph or more.

**August
Calendar Averages**
CL – \$91.81
HO – \$3.0255
RB – \$2.9400

ending August 20th. Exports are expected to fall by 760,000 bpd on the year.

An EU spokesman said a sanctioned Revolutionary Guard named as Iran's Oil Minister would not be banned from travelling to Vienna as OPEC's president under European Union regulations. Iran's parliament approved Rostam Ghasemi as oil minister, who is under European sanctions for his alleged role in the country's nuclear program.

According to the Government Accountability Office, more than a dozen foreign companies were engaged in the development of Iran's oil and natural gas sectors during a 15 month period that ended in May 2011. It said 16 non-US companies from China, India, Venezuela and other countries were conducting commercial activity in the development of Iran's energy sector. The GAO however said it did not try to determine whether the activities violated US sanctions against Iran. It said it was working on a report that would look at companies that sell refined petroleum products to Iran.

A NATO official said a Libyan tanker reported to have been seized by rebels is about to enter the rebel held port of Benghazi after it was cleared to proceed by NATO ships enforcing an arms embargo.

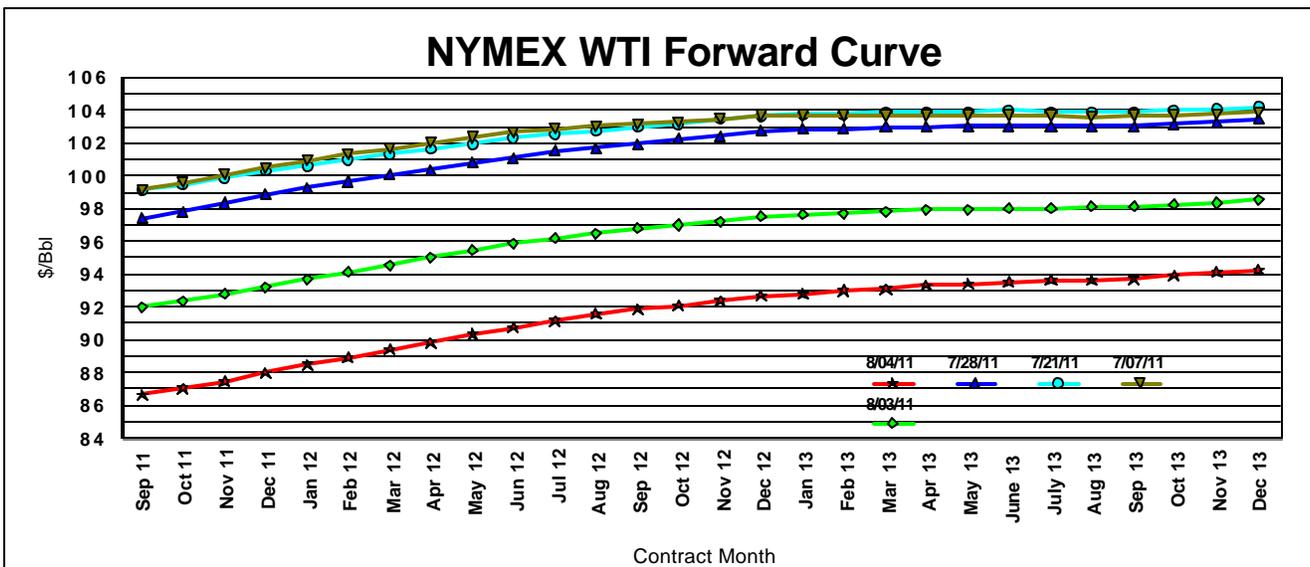
Refinery News

ConocoPhillips restarted a wet gas compressor at its 362,000 bpd Wood River refinery in Illinois after it was shut due to a power failure on Wednesday.

Western Refining Inc said it will start supplying its 122,000 bpd refinery in El Paso, Texas with crude from nearby shale oil prospects.

Delek US Holdings Inc is increasing runs of cheaper crude prices off of WTI at its 80,000 bpd refinery in El Dorado, Texas. It aims to run 35,000 bpd of WTI priced crude as soon as space can be secured on pipeline to deliver it to the plant.

Tesoro Corp said its seven refineries would run between 86.5% and 92.5% of their combined refining capacity of 665,000 bpd during the third quarter of 2011. The company's refineries ran at 87% of their combined capacity in the second quarter of 2011. Tesoro plans to replace the vacuum distillation unit at its 100,000 bpd Los Angeles refinery by the third quarter of 2012 to increase its yield of clean refined products. It is also proceeding with the expansion of its 58,000 bpd Mandan, North Dakota



refinery to 68,000 bpd by the second quarter of 2012 to process cheaper Bakken shale crude. During the third quarter, Tesoro plans for its two California refineries, which have a combined throughput of 266,000 bpd to run between 240,000 and 250,000 bpd. Its two Pacific Northwest refineries, which have a combined capacity of 188,000 bpd, are planned to run between 160,000 bpd and 170,000 bpd in the third quarter. The Mandan and Salt Lake City refineries, which have a capacity of 115,500 bpd, are planned to run between 110,000 and 120,000 bpd. Its 93,500 bpd Kapolei, Hawaii refinery is expected to run between 65,000 and 75,000 bpd in the third quarter.

Plains All American Pipeline LP said it increased available throughput capacity of its Mesa pipeline system by about 100,000 bpd to 420,000 bpd. It also stated that it plans to double the rail capacity at its Patoka, Illinois and St. James, Louisiana terminals.

Shell Pipeline Co LP is considering the reversal of the Houma-to-Houston pipeline system to ship Eagle Ford and other oils eastward. The reversal would provide pipeline access to additional crudes across the 300 miles of the US Gulf of Mexico refining complex. The reversal of the pipeline would connect the Houston and Port Arthur, Texas markets to the Louisiana markets and would enable distribution of 300,000 bpd of crude.

Musket Corp said it would expand its Dore, North Dakota crude by rail facility. It said the loading facility would be capable of moving unit trains of crude oil from Bakken Shale to markets across the country with a capacity of 70,000 bpd. The company signed a long term agreement with Banner Pipeline Co to deliver crude oil to the facility.

China's 12 major refineries are expected to increase their crude oil throughput in August by about 6% on the month to meet domestic fuel demand. The refineries are expected to process 2.89 million bpd of crude this month, up 170,000 bpd from July.

Japan's Idemitsu Kosan Co completed an upgrade of its 45,000 bpd fluid catalytic cracking unit at its Chiba refinery to increase output of high value added petrochemical products and gasoline reformulate. The unit is currently in test production will begin commercial production starting in the autumn. It increased its propylene output capacity to 86,000 tons from 67,000 tons per year while that of gasoline reformate has increased to 1.5 million kiloliters or 26,000 bpd a year from 1.3 million kl.

Germany's Ruhr Oel is planning a six week turnaround at its Gelsenkirchen refinery in the second quarter of 2012. The maintenance work would reduce the overall capacity of the 266,000 bpd Ruhr Oel operations by about one third during that time.

Gasoline stocks held in independent storage at the Amsterdam-Rotterdam-Antwerp area in the week ending August 4th fell by 8.33% on the week and by 25.15% on the year to 616,000 tons. Gasoil stocks remained unchanged on the week but fell by 5.92% on the year to 2.399 million tons while fuel oil stocks increased by 2.89% on the week and by 40% on the year to 854,000 tons. Naphtha stocks fell by 13.64% on the week and by 38.71% on the year to 38,000 tons while jet fuel stocks increased by 0.84% on the week but fell by 42.93% on the year to 480,000 tons.

Singapore's International Enterprise reported that the country's residual fuel stocks fell by 237,000 barrels to 19.647 million barrels in the week ending August 3rd. It also reported that the country's light distillate stocks fell by 962,000 barrels to 9.582 million barrels while its middle distillate stocks fell by 1.152 million barrels to 13.376 million barrels on the week.

Production News

North Sea oil production in August is expected to fall by 7.8% on the month to 47.24 million barrels or 1.523 million bpd.

A fifth cargo of North Sea Forties crude has been delayed in August. Nexen's cargo scheduled to load on August 27-29 will be deferred by three days. Reduced output at Nexen's Buzzard oilfield in the North Sea has led to delays in the Forties loading program since May.

Separately, BP Plc plans to restart the North Sea Forties oil pipeline on Friday afternoon following the removal of a WWII mine found nearby and maintenance work. BP had scheduled work on the pipeline from August 1-5.

Apache Corp said the North Sea Forties field is scheduled to shut down for five days starting on Friday. Separately, Apache Corp's second quarter profit increased by 46% to \$4.34 billion due to higher oil and natural gas prices and record production levels. It reported record average production of 749,000 bpd, up 16% on the year. The company's total daily production of oil increased by 2.3% while natural gas production increased 27% and natural gas liquids production increased by 81%.

ExxonMobil Corp said it is ceasing production at its Xikomba oilfield offshore Angola as its hydrocarbon reserves have been depleted after more than seven years of production. The field started production in 2003 and was designed to yield about 100 million barrels of oil.

Canadian Natural Resources Ltd is expected to restart its oil sands plant eight months after it suffered a fire and has earmarked \$2.1 billion to begin its expansion next year. Canadian Natural said it began starting up the repaired units at its Horizon oil sands upgrader in Alberta this week. It said commissioning should take two or three weeks and the operations should be back at their 110,000 bpd capacity shortly.

Kazakhstan will ship 235,000 tons of crude oil less than planned via Russia in the third quarter due to reduced output following a workers' strike. It has fallen behind schedule on shipments via the Atyrau-Samara pipeline in July and August because of the field strikes. Kazakh producers were scheduled to ship about 4 million tons via Atyrau-Samara during the third quarter.

OPEC's news agency reported that OPEC's basket of crudes fell to \$110.55/barrel on Wednesday from \$111.85/barrel on Tuesday.

Market Commentary

The spot month in crude oil reached its lowest level in seven months, with the September contract falling as much as 5.8 percent on the day. Commodities across the board came under pressure, as was reflected in the CRB index, which fell by 2.5 percent. Two key support levels were penetrated at \$89.87 and again at \$87.10 as the flight from fear continued. The ever-negative economic outlook, coupled with the strength in the dollar, should continue to put pressure on prices. We would expect extended moves to the downside, with an initial stop at \$83.85, the 62% retracement between the range of \$64.23 and \$114.83. Should prices penetrate this level, an invalidation of the medium term will occur, changing the overall stance on this market bearish. We would then look for crude oil to test support at \$64.23

Crude oil: Sept 11 351,961 -849 Oct 11 116,086 +3,564 Nov 11 93,943 -1,708 Totals 1,536,175 +7,197
Heating oil: Sept 11 98,058 -5,217 Oct 11 41,472 +1,096 Nov 11 31,093 -581 Totals 299,188 -3,116
Rbob: Sept 11 86,721 -6,245 Oct 11 43,435 +1,408 Nov 11 22,343 +490 Totals 247,175 -4,425

Crude Oil		Heating Oil		Rbob	
Support	Resistance	Support	Resistance	Support	Resistance
8385	9122				9122
8005	8987	27150	32777		33369
7925	8718	26680	33370	26965	35915
7633	9726	27375	33510	26300	36310
7552	9924	23685		25683	
7487	10071	22960		25145	
6423	10222			24240	
	10339			23631	
50-day MA	96.73			23414	
200-day MA	95.17				

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