



## ***ENERGY RISK MANAGEMENT***

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### **ENERGY MARKET REPORT FOR AUGUST 5, 2010**

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The National Hurricane Center said the remnant of Tropical Storm Colin, a low pressure area, reorganized and has a 70% chance of regaining tropical storm status later Thursday or Friday as it moves northwestward. However it is not expected to reach the Gulf of Mexico. Separately, the NHC projected a tropical wave over the southwest Caribbean weakened and has a 10% chance of developing over the next 48 hours, down from 20% earlier Thursday. The

#### **Market Watch**

The US Labor Department reported that the number of initial claims for unemployment benefits increased by 19,000 to 479,000 in the week ending July 31<sup>st</sup>. Economists were expecting initial claims to fall by 2,000 to 455,000. The four week moving average increased by 5,250 to 458,500. The report showed that the number of continuing claims fell by 34,000 to 4,537,000 from the preceding week's upwardly revised level of 4,571,000. The unemployment rate for workers with unemployment insurance for the week ending July 24 was 3.6%, unchanged from the prior week.

According to Thomson Reuters, US retailers posted July sales below analysts' expectations. The 28 retailers reported a 2.9% rise in July sales at stores open at least one year compared with market expectations of a 3.1% rise. Of the 28 retailers, 17 reported lower than expected sales while nine reported higher than expected sales.

The European Central Bank's President Jean Claude Trichet said third quarter euro zone economic data has been surprisingly strong so far but it still expects the bloc's economic recovery to be moderate and uneven. The euro zone economy grew by just 0.2% in the first quarter of the year on a quarterly basis. Second quarter figures are due next week and are expected to show stronger growth.

The People's Bank of China said the country's economy is on course for stable growth but added that the pressure for wage increases will intensify and authorities must manage inflationary expectations. It said China will see considerable net foreign currency inflows. It offered guarded optimism about the global economy, saying it was on the road to recovery, despite challenges posed by the euro crisis and government deficits. China's economy grew 10.3% year on year in the second quarter and analysts expect data for July, due next week, to show a slowdown in the second half.

The National Oceanic and Atmospheric Administration reduced its forecast for the 2010 Atlantic-Caribbean hurricane season. It expects 14 to 20 tropical storms, with eight to 12 of those strengthening into hurricanes. It forecast that four to six of those would strengthen into major hurricanes. The NOAA had previously forecast 14 to 23 tropical storms, with 8 to 14 developing into hurricanes and three to seven becoming major hurricanes.

The Climate Prediction Center said the La Nina weather anomaly is strengthening in the Pacific Ocean and could increase the number of hurricanes along the Gulf Coast. It said the strengthening weather anomaly can contribute to increased Atlantic hurricane activity by decreasing the vertical wind shear over the Caribbean Sea and tropical Atlantic Ocean.

The Baltic Exchange's main sea freight index increased 1.07% or 21 points to 1,978 points after falling two consecutive days previously. The Baltic's capesize index increased 4.64%. Meanwhile the Baltic panama index fell by 1.53%.

**August  
Calendar Averages**  
**CL – \$82.09**  
**HO – \$2.1857**  
**RB – \$2.1754**

tropical wave is expected to move west over Central America during the next day or two. Elsewhere, tropical cyclone formation is not expected during the next 48 hours.

Genscape reported that oil inventories at the Cushing, Oklahoma crude oil terminal fell by 210,962 barrels to 39.76 million barrels in the week ending August 3<sup>rd</sup> from a record high of about 40 million barrels the previous week.

It estimated that crude tanks were filled to 77% of capacity as of Thursday, unchanged on the week.

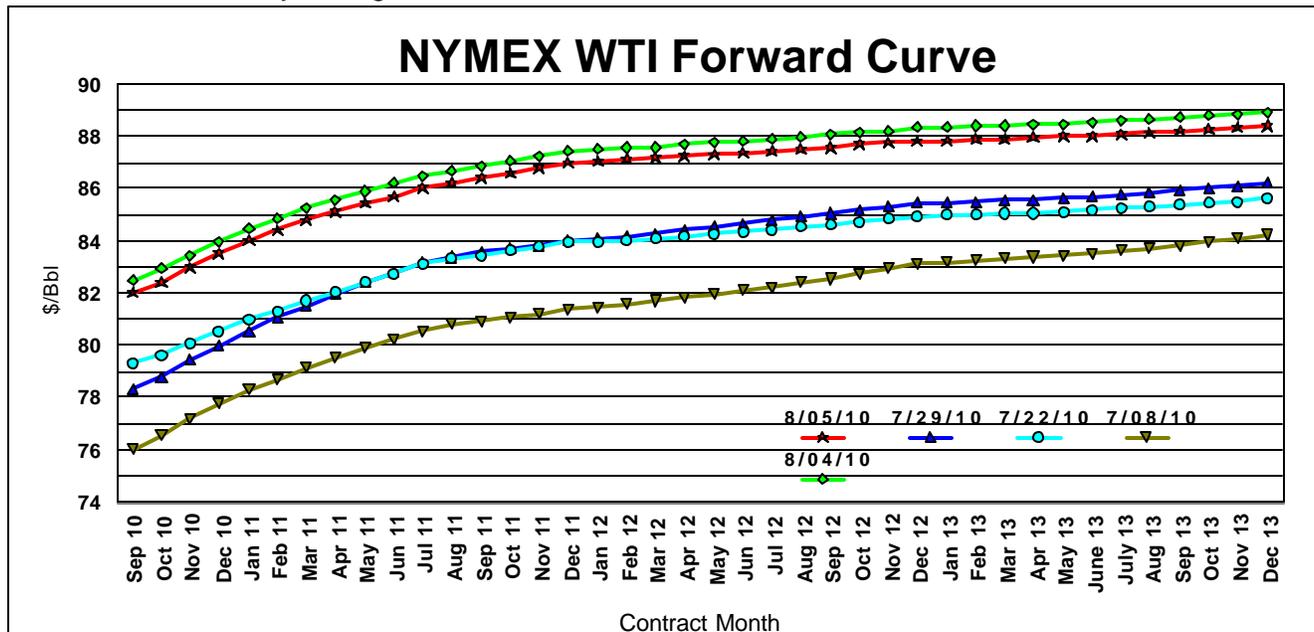
Oil Movements reported that OPEC's oil exports in the week ending August 21<sup>st</sup> are expected to fall by 420,000 bpd to 23.33 million bpd.

A member of the UAE's Supreme Petroleum Council said the country considers crude prices in the \$70-\$80/barrel range to be reasonable but has no target price. According to a report prepared by The Oil & Gas Year in partnership with ADNOC and the Abu Dhabi Department of Economic Development the country plans to increase installed crude oil production capacity to 3.5 million bpd by 2018 from 2.7 million barrels. The report shows that Abu Dhabi's crude reserves stand at 98.2 billion barrels or 9% of the world's total and 5.8 trillion cubic meters of natural gas or 5% of the world's total.

Iran's Oil Minister Massoud Mirkazemi arrived in China on Thursday for two days of talks with Chinese officials on joint energy projects. China has come under criticism for its commercial ties with Iran, charges rejected by Beijing. The special adviser for nonproliferation and arms control at the US State Department Robert Einhorn said China should observe sanctions against Iran aimed at forcing it to curtail its nuclear ambitions. China's Foreign Ministry Thursday insisted that China does not violate UN Security Council resolutions in its ties with Iran.

Turkey exported far more gasoline to Iran in June than previously indicated. Turkey sold 138,673 tons or 1.2 million barrels of gasoline to Iran in June. Iran turned to Turkey and China for gasoline imports when most other sellers stopped supplying it ahead of US sanctions. Turkey received \$121.8 million from Iran for the sales.

BP Plc said it started pumping cement into its Macondo well in the Gulf of Mexico to begin the permanent sealing of the leak. The cementing follows the injection Tuesday and Wednesday of about 2,300 barrels of heavy drilling mud.



## **Refinery News**

BP Plc reported flaring due to a problem at its 265,000 bpd refinery in Carson, California on Wednesday night. It shutdown a hydrodesulphurization unit at the refinery to investigate and repair a possible leak.

Murphy Oil Corp's 125,000 bpd Meraux, Louisiana refinery was running at slightly reduced rates due to maintenance. Separately, Murphy Oil said its Milford Haven, Wales refinery has reached 128,000 bpd after maintenance. It expects the refinery to increase its runs further in the coming months.

Frontier Oil expects the crude unit at its 52,000 bpd Cheyenne, Wyoming refinery to be shut for two to three weeks while repairs are completed following a fire in July.

Western Refining Inc will suspend operations this fall at its Yorktown, VA refinery due to tight refining margins on the East Coast. It plans to shut down the refinery in September. It has been seeking to sell the refinery but has not found any buyers.

Royal Dutch Shell said it was experiencing crude supply delays at its Sarnia, Ontario refinery due to the Enbridge Michigan pipeline outage.

Spain's Cepsa's Huelva refinery was operating at 90,000 bpd on Thursday after a fatal accident on Wednesday. Eight of the refinery's units were shut as a precaution.

Idemitsu Kosan Co restarted its 33,000 bpd residue fluid catalytic cracking unit at its 140,000 bpd Hokkaido refinery. The restart was originally planned for July 20<sup>th</sup>.

China's Sinopec is close to completing an expansion of its Changling refinery. It has completed 91% of the expansion, including adding a sulfur removal unit with 1.2 million tons a year and 60,000 ton/year sulfur recycling unit. Sinopec plans to increase refining capacity at Changling to between 6 million tons and 6.5 million tons, or 120,500 bpd to 130,500 bpd by October from 5 million tons currently. It plans to further increase capacity to 8 million tons by next August and to 10 million tons by 2015.

Indonesia's Pertamina plans to increase the capacity of its oil product storage tanks in Tanjung Uban almost fourfold to 3 million barrels. Pertamina is expected to import 6.1 million barrels of gasoline in August, down from 6.9 million barrels in July. It is also expected to import 4.3 million barrels of diesel in August, down from 5.4 million barrels in July.

Belarus is testing new routes for its oil imports from Venezuela. It is considering shipments via Lithuanian ports as Minsk seeks to diversify crude deliveries due to strained relations with Russia.

Gasoline stocks held in independent storage in the Amsterdam-Rotterdam-Antwerp area in the week ending August 5<sup>th</sup> fell by 9.06% on the week but increased by 22.11% on the year to 823,000 tons. Fuel oil stocks increased by 3.92% on the week and by 48.78% on the year to 610,000 tons while gas oil stocks increased by 4.55% on the week but fell by 10.08% on the year to 2.55 million tons, naphtha stocks increased by 72.22% on the week but fell by 34.04% on the year to 62,000 tons and jet fuel stocks increased by 11.69% on the week and by 5.79% on the year to 841,000 tons.

## **Production News**

Brazil's crude oil exports in July fell by 37% on the month to 1.504 million tons after falling 27% in June. The drop in Brazil's crude oil exports in July was due mainly to restocking following

maintenance at Petrobras' Paulinia refinery. The maintenance allowed Petrobras to increase Paulinia's capacity to 390,000 bpd.

OPEC's news agency reported that OPEC's basket of crudes increased by 47 cents to \$78.88/barrel on Wednesday from \$78.41/barrel on Tuesday.

**Market Commentary**

Crude oil turned lower today in response to the highest number of jobless claims in three months. With jobless claims coming in at 479,000 for the week ending July 30, concerns regarding a slowing economic recovery circulated the marketplace. A struggling economy makes it difficult to justify crude oil trading at the \$82.00 level. With the lack of supportive economic news, this market could easily be trading back below \$80.00, targeting the 200-day moving average of \$77.79. Inventory numbers are also non-supportive, with stock levels at Cushing, OK posting near record highs. We will have to have a wait and see attitude to see how prices finish the week and if the equities market can lend enough support for prices to remain above \$80.00.

Crude oil Sept 10 318,383 -9,804 Oct 10 108,880 +8,505 Nov 10 85,606 +6,293 Totals 1,246,066 +11,417 Heating oil Sept 10 86,420 -15 Oct 10 42,422 +1,479 Nov 10 35,174 +785 Totals 308,908 +2,864 Rbob Sept 10 100,770 -2,547 Oct 10 44,004 -1,263 Nov 10 35,708 +263 Totals 245,919 -1,676.

Crude Oil		Heating Oil		Rbob	
Support	Resistance	Support	Resistance	Support	Resistance
8150	8325	21445	22530	21280	22345
79.00	8625	20870	22700	18890	24880
7885	8710	20000	22945	18750	27085
7775		18965	23775	18420	

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