

**W** The  
Windham Group



## ***ENERGY RISK MANAGEMENT***

Howard Rennell, Pat Shigueta,  
& Karen Palladino

**(212) 624-1132 (888) 885-6100**

**www.e-windham.com**

---

### **ENERGY MARKET REPORT FOR AUGUST 7, 2009**

---

DEBKfile reported that Israel's Prime Minister Binyamin Netanyahu and his security cabinet were briefed on Middle East developments at a special session on Friday. Its military sources said the large number of officials meeting, indicated an out of the ordinary security development.

#### **Refinery News**

**Exxon Mobil Corp**

said it continued on Friday morning to return its 572,500 bpd Baytown, Texas complex to normal operations after a power surge triggered a small fire on Thursday afternoon. It said the power surge caused the partial shutdown and restart of several units, including a fluid catalytic cracking unit. The brief fire was in a pipe rack. Exxon Mobil also said it suffered a problem at an alkylation unit at its 238,600 bpd refinery in Joliet, Illinois on Thursday. It said there was a propane leak. The alkylation unit is currently being repaired.

Valero Energy Corp reduced rates on a crude distillation unit at its 325,000 bpd Port Arthur, Texas refinery due to a wet gas compressor problem.

ConocoPhillips warned on Friday of planned flaring between Saturday, August 8<sup>th</sup> and Thursday, August 13<sup>th</sup> at its 139,000 bpd Carson, California refining complex. The refinery shut a hydrogen plant at the refinery on July 27<sup>th</sup>.

#### **Market Watch**

Morgan Stanley is expected to move about 2.6 million barrels of gas oil into floating storage off Europe in August. It has hired three tankers to move and store surplus gas oil from Asia into the West. About 72 million barrels of gas oil and jet fuel is being stored in tankers globally, up from about 62 million barrels in June. The total volume of diesel and jet fuel stored at sea is enough to meet 85% of global daily demand.

According to the Labor Department, US job losses tapered off in July. Nonfarm payrolls fell by 247,000 in July, the smallest decline since last August and below the 275,000 decline economists had expected. Payroll cuts slowed in a variety of industries including manufacturing and many services while the automobile sector posted a rare increase, as anticipated seasonal layoffs failed to materialize last month. The unemployment rate fell 0.1% to 9.4%. Average hourly earnings increased \$0.03 last month to \$18.56.

The Baltic Exchange's main sea freight index fell 4.64% or 135 points to 2,772 points on Friday, dropping for the second consecutive day below the psychological 3,000 point level. The index is at its lowest since May 21<sup>st</sup>. The Baltic's Capesize Index fell by 4.04% on Friday and was at its lowest since May 22<sup>nd</sup>.

Venezuela's PDVSA agreed to begin repaying a \$1billion loan from its US refining and marketing subsidiary Citgo Petroleum Corp, made in December 2007.

**August Calendar Averages**

**CL – \$71.57**  
**HO – \$1.9157**  
**RB – \$2.0492**

Enterprise Products Partners LP said it plans to build a new 75,000 bpd natural gas liquid fractionator at the Mt Belvieu, Texas complex to accommodate increasing NGL volumes from producing areas in the Rockies, the Barnett Shale and the Eagle Ford Shale play in South Texas. The project, which will increase Enterprise's NGL fractionation

capacity at Mt Belvieu to about 300,000 bpd, is expected to be completed in the first quarter of 2011. It said the trend of high ngl export volumes is expected to continue through the rest of 2009 and most of 2010.

Societe du Pipeline Sud-Europeen said a pipeline leak in southern France has led to several thousand cubic meters of crude oil spilling into fields. Oil flow was halted Friday to contain the spill. It said there would be no halt in supplies to its clients.

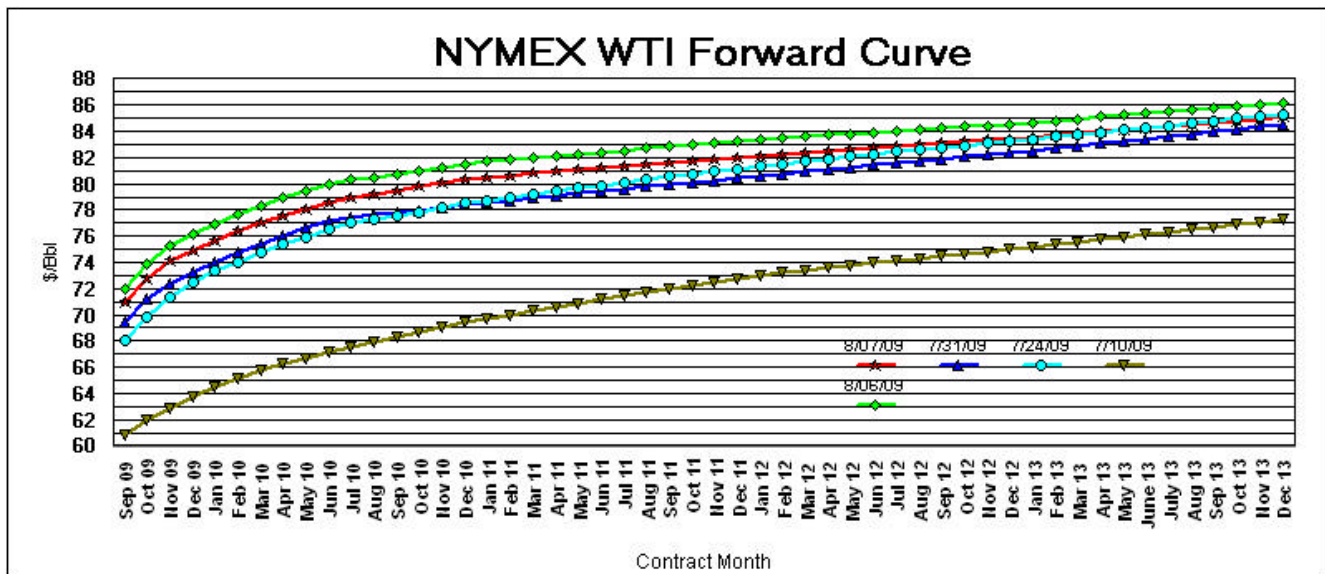
China's major refineries will cut crude oil processing in August as demand fails to keep pace with production. Twelve major refineries will process 2.63 million bpd of crude oil in August, down from 2.65 million bpd in July.

China has completed plans for a second phase of strategic crude oil reserves with a capacity of 26.8 million cubic meters or 170 million barrels after filling the first four storage tanks. China plans to build eight strategic oil stockpiling bases in the second phase. At least 3 million cubic meters or 19 million barrels of tanks have come onstream since the end of last year. By the end of 2009 or early 2010, about 11 million cubic meters or 69 million barrels of storage capacity may be added under SPR Phase II and almost all of them will be ready for crude storage by the end of 2011. Its first phase has a capacity of 16.2 million cubic meters or 102 million barrels, in above ground tank farms.

**Production News**

Baker Hughes said the number of rigs searching for oil and natural gas in the US in July increased by 36 to 931. The worldwide rig count for July was 2,080, up 93 from the 1,987 reported in June. Baker Hughes reported that the number of rigs drilling for oil and natural gas this week increased by 18 to 966. The number of rigs searching for oil increased by 16 rigs to 277 rigs while the number of rigs searching for gas increased by 4 to 681 rigs.

The North Sea Forties crude oil stream will load about 15.6 million barrels or 520,000 bpd, up 6 million barrels from 9.6 million barrels or 310,000 bpd in August. Meanwhile the September program for North Sea Oseberg crude oil scheduled the loading of 5.45 million barrels, down 559,000 barrels from



August.

Chevron Corp said it made an oil and natural gas discovery near the Cabinda coast of Angola. It said the 79-3XST1 discovery well had a flow rate of 11.6 million cubic feet of natural gas and 2,550 barrels of liquid hydrocarbons per day. Last month, it said it started production at the Mafumerira Norte project ahead of schedule in the same production block. The project will eventually consist of 14 wells and reach a total production of 30,000 bpd of crude and 30 million cubic feet of natural gas/day in 2011. Chevron is also drilling in the Banzala Field in the block as well as the Nemba and Kokongo fields.

Tengizchevroil increased its oil production in the first half of 2009 by 16% on the year to 10.2 million tons or 81.2 million barrels. It exported 7.5 million metric tons of crude via the CPC pipeline to Novorossiisk.

Brazil's government is considering changes to oil legislation that would secure the government large stakes in the largest fields in the sub-salt region off the country's coast. The government is drafting new oil laws to increase state control over the discoveries, including proposals for the state to impose limits over private companies' participation on the exploration and commercialization of the oil. In 2007, Brazil discovered about 8 billion barrels of crude in the Tupi field, opening a new oil exploration area that could hold more than 50 billion barrels.

OPEC's news agency reported that OPEC's basket of crudes increased further to \$72.92/barrel on Thursday from \$72.45/barrel on Wednesday.

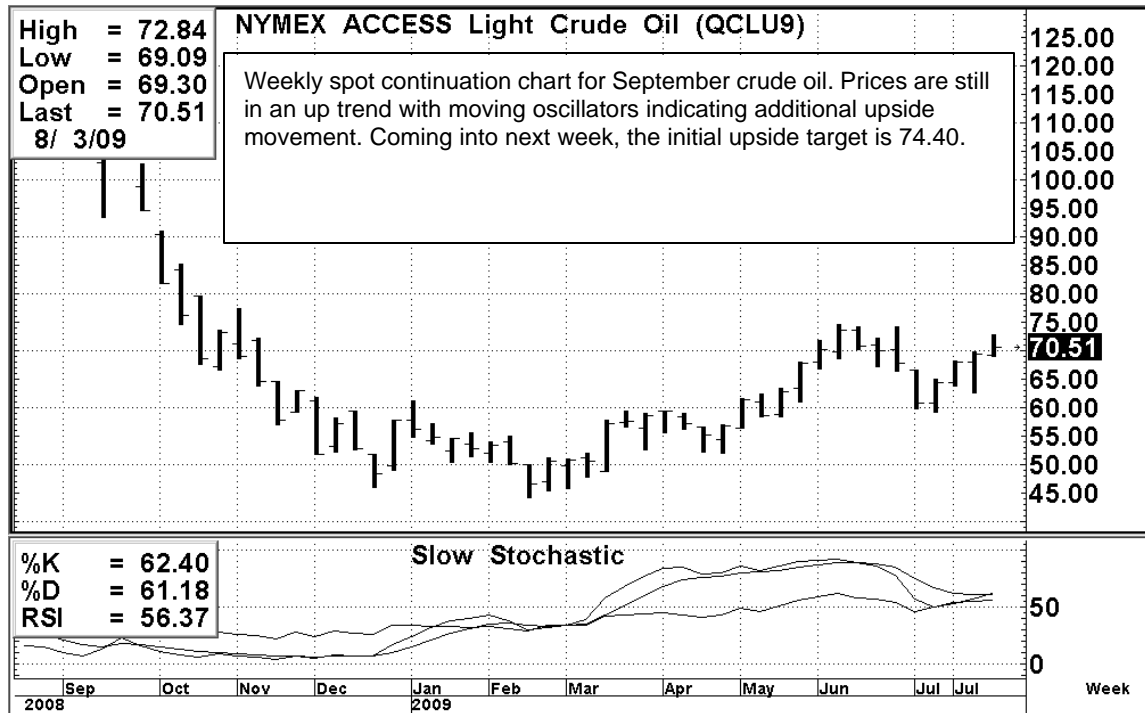
### **Market Commentary**

Crude oil was unable to sustain its highest level in five weeks as the dollar increased against the euro. The markets' initial move was to the upside in response to the release of the unemployment figures but once the dollar strengthened, commodities lost their appeal as a hedge. Despite the slowing down of job losses, some 7 million people are still out of work and unless we can see a definitive pick up in demand, we must remain with our stance that it will be difficult for this market to maintain strength. We would look for crude oil to continue to react to any immediate sign regarding the global economic situation. Heating oil experienced its highest level of trading since November but retreated from those highs. Thoughts of heightened diesel demand helped to spur this market. As with the crude oil, heating oil will continue to respond to economic news and without any concrete shift in demand, we cannot see this market holding onto its recent highs. Gasoline enjoyed a late seasonal rally, reaching its highest level since last October. With the U.S. summer driving season approaching its sunset and demand remaining sluggish, gasoline should come under pressure. One supporting factor may be refinery turnarounds, which could lead to a drawing on stock levels. Our overall opinion of the energy markets is bearish until we can get a shift in the global economy.

Crude Oil (SEP.09 300,436 -9,169 OCT.09 137,431 +5,837 NOV.09 72,394 +6,589 DEC.09 163,848 +6,324 JAN.10 39,686 +3,213 FEB.10 28,482 +2,716 Totals: 1,236,403 +28,651 Heating Oil (HO) SEP.09 67,283 +1,449 OCT.09 40,602 +1,278 NOV.09 27,207 +941 DEC.09 40,993 +1,219 JAN.10 20,763 -370 FEB.10 14,619 +117 Totals: 304,183 +4,892 Harbor RBOB SEP.09 93,975 +1,279 OCT.09 41,174 +2,385 NOV.09 20,835 +868 DEC.09 24,115 +357 JAN.10 11,828 +554 FEB.10 3,664 +63 Totals: 218,007 +5,707

The latest Commitment of Traders report showed that non-commercials in the crude market increased their net long position by 29,569 contracts to 34,145 contracts in the week ending August 4<sup>th</sup>. The combined futures and options report also showed that non-commercials in the crude increased their net long position by 36,668 contracts on the week to 114,073 contracts, the highest level seen since early June. Non-commercials cut their total long position by 19,711 contracts on the week.

Meanwhile, the combined futures and options report also showed that non-commercials in the product markets increased their net long positions. Non-commercials in the heating oil market increased their net long position by 4,343 contracts to 33,090 contracts while non-commercials in the RBOB market increased their net long position by 2,646 contracts to 56,953 contracts on the week.



<b>Crude Support</b>	<b>Crude Resistance</b>
71.50, 70.65, 69.70, 69.00, 68.10, 66.20, 63.74, 62.70, 61.61, 60.95,	72.85. 73.38, 74.50, 76.13
<b>Heat Support</b>	<b>Heat resistance</b>
1.8880, 1.8775, 1.8655, 1.8000, 1.7340, 1.4220, 1.4130, 1.3720	2.0000, 2.0420, 204.65
<b>Gasoline support</b>	<b>Gasoline resistance</b>
2.0020, 1.9070, 1.7989, 1.7895, 1.5887, 1.5370, 1.5260, 1.3560, 1.3400,	2.1100, 2.1600, 2.3350

The information contained in this letter is taken from sources, which we believe to be reliable, but is not guaranteed by us as to accuracy or completeness and is sent to you for information purposes only. The Windham Group bases its market recommendations solely on the judgment of its personnel. Reproduction in whole or part or other use without written permission is prohibited.