



ENERGY RISK MANAGEMENT

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ENERGY MARKET REPORT FOR AUGUST 9, 2011

In its latest monthly report, OPEC cut its global demand growth forecast for this year by 150,000 bpd due to a downward revision in US growth and weakening Chinese demand. Global oil demand is expected to increase by 1.2 million bpd. The downward revision represents only a fraction of the 88.14 million bpd OPEC expects to be consumed this year. It however warned that were higher oil prices to persist or the most industrialized economies to suffer further setbacks, this may be translated into a reduction of the current growth by a further 200,000 bpd. OPEC also revised its oil demand growth expectation downward by about 20,000 bpd for next year to 1.3 million bpd.

The EIA stated in its latest Short Term Energy Outlook that global oil demand growth, led by China, is expected to outpace the growth in supplies from countries outside of OPEC, leading markets to rely on both a drawdown of inventories and production increases in OPEC countries to close the gap. However OPEC members are not expected to increase production over the next few months. World oil demand is expected to grow by 1.37 million bpd in 2011 to 88.19 million bpd from 86.8 million bpd in 2010 and by 1.64 million bpd to 89.83 million bpd in 2012.

API Stocks
Crude – down 5.213 million barrels
Distillate – down 558,000 barrels
Gasoline – down 1.005 million barrels
Refinery runs – up 0.5%, at 87.6%

Market Watch

The US Federal Reserve signaled it planned to keep its short term interest rate close to zero for at least two years as it downgraded its view of the US economy. Fed officials said economic growth this year so far has been considerably slower than expected.

The US Labor Department said US productivity fell in the second quarter as the economic recovery remained tepid and labor costs continued to increase. Nonfarm business productivity fell at a 0.3% annual rate in April through June after falling by 0.6% in the first three months of 2011. The first quarter figure was revised down sharply from an originally reported 1.8% increase. The economy grew at a 1.3% annual rate in the second quarter following a 0.4% increase during the first quarter. It reported that unit labor costs increased at a 2.2% annual rate in the second quarter following a 4.8% increase in the first quarter of the year.

The International Council of Shopping Centers and Goldman Sachs reported that US chain store retail sales fell 0.5% to 532.8 in the week ending August 6th.

According to a Reuters survey, the US faces a one in four odds of falling back into recession and a weaker economic outlook is increasing the likelihood the Federal Reserve will soon do more to support growth.

China's National Bureau of Statistics reported that China's Producer Price Index increased 7.5% on the year in July following a 7.1% increase in June. It also reported that China's industrial output in July slowed to 14% year on year from a 15.1% increase in June.

China's Premier Wen Jiabao urged countries to work together to stabilize financial markets on Tuesday.

The EIA expects non-OPEC crude oil production to increase by an average of 650,000 bpd in 2011 and 2012 to 52.28 million bpd and 53.08 million bpd, respectively. Meanwhile OPEC's oil production in 2011 is expected to fall by 260,000 bpd to 29.51 million bpd but increase by 500,000 bpd to 30.01 million bpd in 2012.

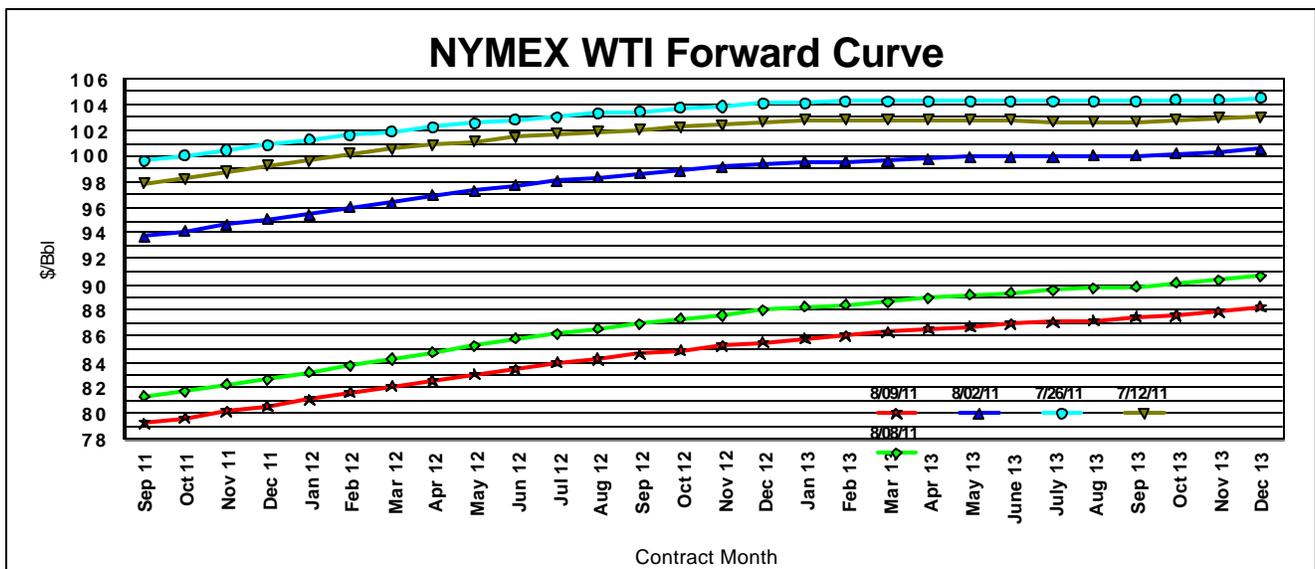
million bpd in 2012. The EIA projects OPEC surplus crude oil production capacity would fall from 4 million bpd at the end of 2010 to 3.5 million bpd at the end of 2011 followed by a further decline to 3.3 million bpd by the end of 2012. The EIA expects that OECD commercial inventories will fall in 2011 and 2012. Days of supply are expected to fall from 58 days during the fourth quarter of 2010 to 56 days and 55 days in the fourth quarters of 2011 and 2012, respectively. The EIA also reported that US petroleum demand is expected to fall by 150,000 bpd to 19.03 million bpd in 2011 and increase by 170,000 bpd to 19.2 million bpd in 2012. Gasoline demand in 2011 is estimated to fall by 110,000 bpd to 8.88 million bpd but increase by 50,000 bpd to 8.93 million bpd in 2012. Distillate demand is expected to increase by 20,000 bpd to 3.82 million bpd in 2011 while demand in 2012 is expected to increase by 70,000 bpd to 3.89 million bpd. Crude oil inventories ended July at an estimated 354 million barrels, down 3 million barrels on the year but 21 million barrels higher than the previous five year average for the month. It said that following the release of 31 million barrels of crude oil are expected to increase to about 369 million barrels by the end of September. Crude oil stocks are expected to gradually draw down to near their five year averages by the end of 2012. In regards to prices, the EIA expects the US average refiner acquisition cost of crude oil to increase from \$100/barrel in 2011 to \$107/barrel in 2012. It also forecast that gasoline prices are expected to increase from \$2.78/gallon in 2010 to \$3.53/gallon in 2011 and to \$3.64/gallon in 2012 due to increases in oil prices. The price of diesel, which averaged \$2.99/gallon in 2010, is expected to average \$3.83/gallon in 2011 and \$3.96/gallon in 2012.

**August
Calendar Averages**
CL – \$87.82
HO – \$2.9443
RB – \$2.8463

According to a SpendingPulse report released by MasterCard, US retail gasoline demand in the week ending August 5th fell by 3.3% on the year and by 1.8% on the week to 9.107 million bpd. Over the latest four weeks, the average US gasoline consumption fell 2.2% on the year to 9.253 million bpd. It reported that the US average retail price of gasoline remained flat at \$3.70/gallon on the week.

Colombia's Defense Minister Rodrigo Rivera said oil companies need to increase their private security forces to help combat a wave of attacks and kidnappings by Marxist rebels. On Sunday, Colombian rebels were blamed for blowing up oil drilling equipment and burning 1,000 barrels of crude at a field near Venezuela. Colombia's Defense Minister said the armed forces would continue doing all it could to protect the oil industry from attacks. The country's oil production has increased to 929,000 bpd in July from an average of 531,000 bpd in 2007.

Iran's President Mahmoud Ahmadinejad called for the completion of the nationalization of the country's oil industry.



Refinery News

Colonial Pipeline allocated Cycle 46 shipments on its Line 01, main gasoline line north of Collins, Mississippi.

Enterprise Product Partners LP has a number of producers who were supportive of its proposed pipeline to carry crude oil from the oil hub of Cushing, Oklahoma to Houston and refineries along the Gulf Coast. The project is one of several under discussion to move landlocked oil in Cushing to refineries in the Gulf Coast.

BP Plc said it was investigating the cause of a leak at ultraformer No. 3 that led to a release of benzene from a cooling tower at its 437,080 bpd refinery in Texas City, Texas. It also reported that its fluid catalytic cracking unit 3 will resume operations following maintenance on Tuesday. The startup of the unit will span through August 9-12.

ConocoPhillips shut its 198,400 bpd Ponca City, Oklahoma refinery following a power loss due to severe thunderstorms on Monday.

Euroilstock reported that refinery runs in 16 European countries increased to 82.49% in July from 81.06% in June however it was down from last year's level of 86.47%. Total oil and product stocks in July increased by 0.1% on the month but fell by 2% on the year to 1.109 billion barrels. It reported that crude oil inventory fell by 0.6% on the month and 2.6% on the year to 461.29 million barrels while gasoline stocks increased by 1% on the month and 0.7% on the year to 111.18 million barrels and middle distillate stocks increased by 1% on the month but fell by 1.1% on the year to 402 million barrels.

China's National Bureau of Statistics reported that the country processed 37.49 million metric tons or 8.86 million bpd of crude in July, up 5.9% on the year. China produced 17.3 million metric tons or 4.09 million bpd of crude oil in July, up 0.4% on the year but down 2.4% on the month. China produced 13.99 million tons of diesel in July, up 4.3% on the year and 6.54 million tons of gasoline, up 3.4% on the year. Its fuel oil production reached 1.45 million tons, up 2% on the year while its kerosene production increased by 8.5% on the year to 1.63 million tons. China's natural gas production reached 8.37 billion cubic meters in July, up 10% on the year.

The Baku-Tbilisi-Ceyhan oil pipeline is expected to pump 20.3 million barrels of crude oil in September, down 1.4 million barrels on the month.

The Azeri-Turkish Baku-Ceyhan pipeline is expected to cut exports of the Azeri Light crude grade in September to 20.3 million barrels. In August, the export volume from Ceyhan is scheduled to be 21.7 million barrels.

Tokyo Electric Power Co's usage of liquefied natural gas for power generation in July was the highest in almost four years. It consumed 5.289 million tons of LNG in the second quarter, during which it bought 1.2 million tons on the spot market. In July, Tepco consumed 1.994 million tons of LNG, up 18.5% on the year. Its total crude oil and fuel oil consumption fell by 30.9% on the year to 531,000 kiloliters.

Production News

Saudi Aramco will supply full contracted volumes to at least one Asian refiner in September. It also left supplies to European customers unchanged in September despite a decline in oil prices in the past week.

BP Plc said production at the Valhall oil platform in the Norwegian sector of the North Sea is unlikely to resume operations before the end of August after it damaged by a fire on July 13th. The restart is about two weeks later than originally planned. It said production would resume when the necessary BP reviews and any required modifications have been completed.

PDVSA said Venezuela's four heavy oil upgraders are expected to complete their restarting process on Tuesday night and likely be fully operational by Wednesday morning. Late Monday, PDVSA halted operations at its crude processing facilities following a power failure in a transmission in the eastern part of the country. An official at the petroleum workers union, Futpv, said he expected the plants to resume the same level of production before Monday's blackout.

Market Commentary

Crude oil fell 5.4% during today's trading session, still reeling from Friday's S&P downgrade of U.S. debt and word by the Federal Reserve that interest rates would most likely remain the same through out 2013. This combined with OPEC's revision for world oil demand for 2011 pushed prices to their lowest level since September. Many product traders were forced to the sidelines, trying to ride out market volatility. Gasoline, unlike heating oil and crude oil settled higher on the day supported by refinery outages. Supportive API numbers lead to a late afternoon run-up in all three markets. Based upon a weekly spot continuation chart for crude oil and Friday's break below the long-standing ascending channel, prices still have more room to the downside. The penetration of this channel sets prices up for a test at \$61.19.

Crude oil: Sept 11 302,179 -25,515 Oct 11 166,120 +22,761 Nov 11 113,612 +8,206 Totals 1,553,276 +7,208
 Heating oil: Sept 11 83,791 -4,539 Oct 11 48,804 +2,439 Nov 11 34,224 +1,467 Totals 304,990 +1,359
 Rbob: Sept 11 69,138 -3,743 Oct 11 50,120 +3,531 Nov 11 25,325 +1,380 Totals 238,854 -4,963

Crude Oil		Heating Oil		Rbob	
Support	Resistance	Support	Resistance	Support	Resistance
7552	8385				26300
7487	8832	27020	32777		25683
7365	8988	26680	33370	25145	26965
6423	9122	27375	33510	24240	33369
6394	9726	23685		23631	35915
6119	9924	22960		23414	36310
	10071				
	10222				
50-day MA	96.06				
200-day MA	95.20				

