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Windham Group



## ***ENERGY RISK MANAGEMENT***

Howard Rennell, Pat Shigueta,  
& Karen Palladino

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

**www.e-windham.com**

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### **ENERGY MARKET REPORT FOR AUGUST 10, 2009**

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OPEC President Jose Botelho de Vasconcelos said oil prices are not bad at current levels for OPEC, signaling OPEC is unlikely to cut output at its meeting on September 9<sup>th</sup>. He said the recent rise in oil prices to over \$70/barrel would enable oil companies to continue to invest in the oil industry.

Kuwait's national representative to OPEC, Nawal al-Fuzaia said core Gulf OPEC members are delivering over 90% of the oil production cuts OPEC agreed to last year. She said it is unclear what OPEC would decide when minister meet in September.

#### Market Watch

The National Hurricane Center said a broad area of low pressure southwest of the Cape Verde Islands in the Eastern Atlantic could become the first named tropical storm of the year. There is a 30%-50% chance of this system becoming a tropical cyclone in the next 48 hours. The weather models do not expect the Cape Verde system to threaten land during the next five days as it moves westward over the Atlantic Ocean.

Traders said Koch Industries Inc is moving a supertanker of North Sea Forties crude to the US. The VLCC, Mercury Glory, is on its way to the US refining hub of Galveston, Texas. This is the ninth VLCC chartered to ship Forties to the US since late February.

Venezuela's President Hugo Chavez on Sunday ended a subsidy on fuel sold to Colombia in a growing diplomatic spat over plans to host more US troops there. Colombia is planning to house a few hundred more US troops at seven Colombian military bases and Venezuela's President says it risks sparking war in South America. Colombia's President Alvaro Uribe said the troop plan is necessary to fight drug traffickers but Chavez claims a greater US presence in the region is a direct threat to him. Under a 2008 agreement, Venezuela sells between 50,000 and 120,000 barrels of subsidized gasoline each month to Colombia to combat fuel smuggling. On Friday, US President Barack Obama on Friday denied the US is planning to set up military bases in Colombia as part of the upgraded security agreement and said he has no intention of sending large numbers of additional troops.

CME Group announced the launch of trading and clearing services for three new financially settled five decimals natural gas liquids swap futures contracts starting August 16<sup>th</sup> for trade date August 17<sup>th</sup>. The contracts and commodity codes for the new swap futures will be Mont Belvieu LDH propane five decimals(OPIS) (BO), Mont Belvieu ethane five decimals(OPIS) (CO) and Mont Belvieu normal butane five decimals(OPIS) (DO).

According to Bernstein Research, oil prices may increase above \$100/barrel by early 2011 as global demand rises and producers fail to increase supply. Oil prices in the near term should remain at or below \$75/barrel, moving higher in 2010 as global demand increases and into triple digits by late 2010 or early 2011, as demand outpaces supply. It said underinvestment in oil fields means a slow recovery for non-OPEC oil output since drillers need oil prices at or above \$75/barrel to push them to expand production capacity any quicker.

China will unveil a plan to foster the development of new energy sources, including wind, solar and nuclear by the end of the year. The development and utilization of clean coal technologies would be an important part in the new energy plan. China is committed to making renewable energy 10% of China's primary energy mix by 2010 and 15% by 2020.

**August Calendar Averages**

**CL – \$71.41**  
**HO – \$1.9177**  
**RB – \$2.0456**

Ecuador's Oil Minister, Germanico Pinto said there is no need for OPEC output cuts as prices are stabilizing. He said he sees oil prices at between \$70/barrel and \$72/barrel through the end of the year.

A rebel commander in the Niger Delta accused the military of attacking one of his fellow militants with gunboats, underlining the fragility of an amnesty offer from President Umaru Yar'Adua. Ateke Tom, who leads a militant faction in Rivers state in the eastern Niger Delta said fellow rebel leader Soboma George had visited him at his camp in the creeks on Sunday after returning from the capital Abuja to discuss Yar'Adua's offer. He said gunboats from the joint military taskforce opened fire on rebel leader Soboma George as he left the meeting. Meanwhile Nigeria's main militant group, the Movement for the Emancipation of the Niger Delta said attacks on oil and gas facilities in the Niger Delta will continue if peace talks with the government fail. MEND declared a 60 day ceasefire on July 14<sup>th</sup>.

The EIA reported that the US retail price of diesel increased by 7.5 cents/gallon to \$2.625/gallon in the week ending August 10<sup>th</sup>. It is at the highest level seen since November 24<sup>th</sup>. The EIA reported that the US retail price of gasoline increased by 9 cents/gallon to \$2.647/gallon on the week.

According to the Lundberg survey, the average retail price of gasoline in the US increased by 15.83 cents/gallon in the two weeks ending August 7<sup>th</sup> to \$2.6442/gallon.

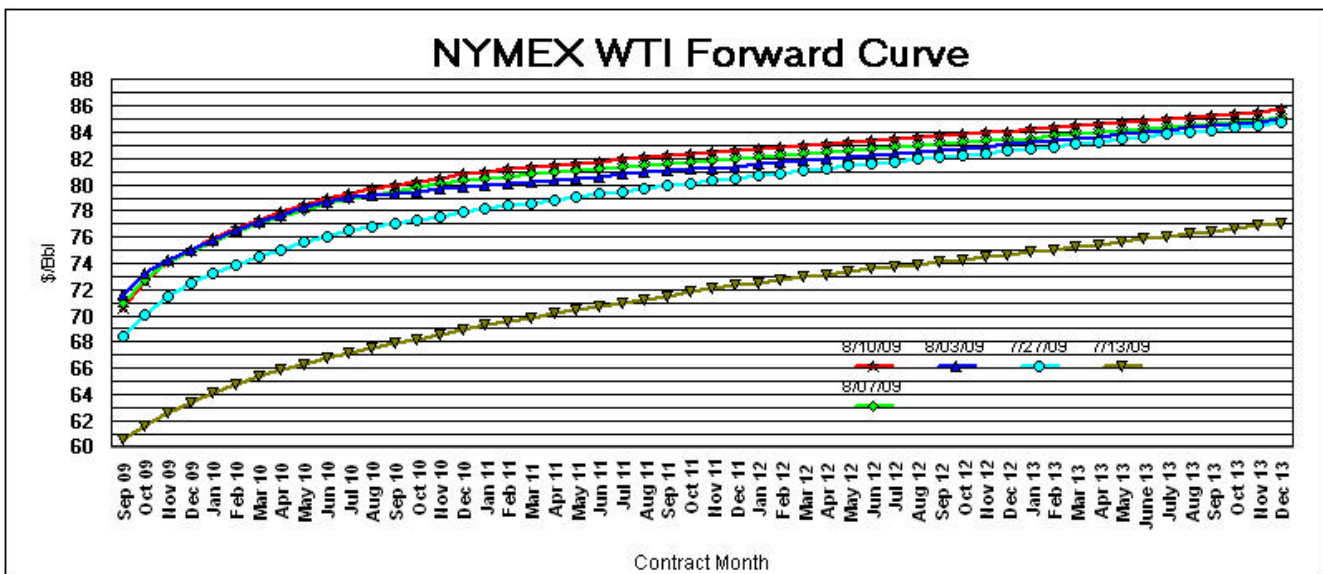
**Refinery News**

Credit Suisse reported that refining margins in most regions of the US increased slightly last week. Margins in the Gulf Coast increased by 54 cents to \$11.55/barrel in the week ending August 7<sup>th</sup>, while margins in the Rockies increased by 25 cents to \$15.15/barrel. Margins in the West Coast increased by 30 cents to \$15.27/barrel while margins in the Midwest increased by 16 cents to \$10.50/barrel. However margins in the Northeast fell by \$1.04 to \$5.88/barrel.

Flint Hills Resources is restarting its CCR/NHT and hydrocracker units at its 288,000 bpd Corpus Christi, Texas refinery following the completion of maintenance.

Hess Corp said there was no impact to production from a brief power dip last week at the company's 70,000 bpd refinery in Port Reading, NJ. It said the precautionary safety measures caused the sulfur recovery unit to shutdown but the unit resumed operations very quickly.

Valero Energy Corp said process units at its 90,000 bpd Ardmore, Oklahoma refinery are in restart



mode and will increase toward planned rates. It also restarted a hydrocracking unit at its 170,000 bpd Benecia, California refinery during the weekend and was increasing the unit toward planned rates. Separately, workers at Valero Energy Corp's Texas City, Texas refinery rejected joining the US Steelworkers Union.

Exxon Mobil Corp said its Joliet, Illinois refinery is operating normally after repairs were completed on an akylation unit that leaked propane last week.

Justice Department officials reported that drug cartels sold millions of dollars worth of oil stolen from Mexico's government owned pipeline to refineries in the US. US Homeland Security Department is expected to pay \$2.4 million in seized funds to Mexico's tax bureau.

Neste Oil's Oyl diesel line-4 at the Porvoo refinery suffered a second fire in a week. However it is not expected to set back the current repair program on the unit. The first fire, which shut in 25% of the refinery's diesel capacity offline, was expected to close line-4 for at least two weeks.

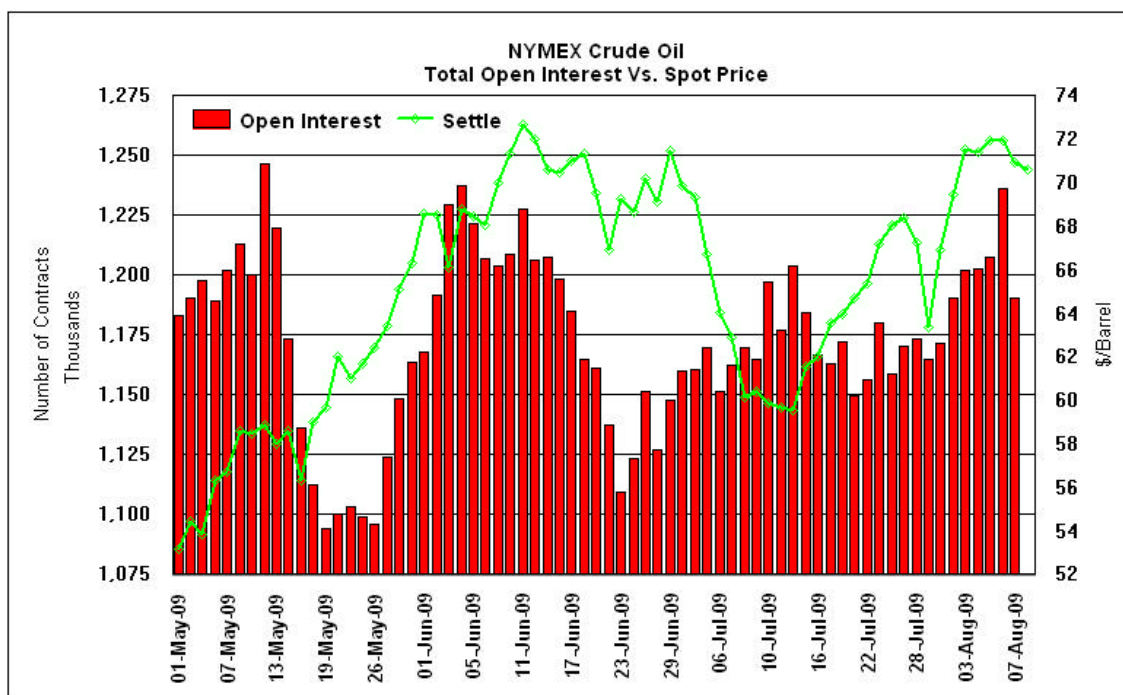
BP Plc's 400,000 bpd Rotterdam refinery suffered a small fire on Sunday but had no impact on production.

Japan's Idemitsu Kosan Co restarted a 140,000 bpd crude distillation unit at its Hokkaido refinery in northern Japan on Saturday after delaying the restart due to weak domestic demand.

Refined fuel stocks held by China's CNPC and Sinopec Group increased in July, the third consecutive increase, as sales decline for the first time since at least February. Inventories of gasoline, diesel and kerosene at the end of July increased by 7.5% while domestic sales fell by 10.5%. Diesel inventories saw the largest increase of 15.7% on the month.

China's Sinopec Group said it will build its planned 300,000 bpd refinery and 1 million ton/year ethylene complex with Kuwait in Zhanjiang city in the southern province of Guangdong, months after China's order to find a different site due to environmental concerns. The project will be completed in 2013.

South Korea's SK Energy and GS Caltex will export 600,000 barrels of spot diesel each in September while Hyundai Oilbank Corp will skip exports after exporting 400,000 barrels in August.



Tokyo Electric Power Co said its consumption of crude oil and fuel oil in July fell more than 20% on the year. Its crude oil demand fell by 20.4% to 238,000 kiloliters while its fuel oil consumption fell by 25.2% to 434,000 kl. Its LNG demand also fell by 9.3% to 1.589 million tons while its coal demand fell by 14.4% to 326,000 tons.

### **Production News**

Crude oil loadings from the four streams that comprise the North Sea BFOE benchmark, Brent, Forties, Oseberg and Ekofisk, are expected to increase in September to 1.16 million bpd or 34.75 million barrels from 1.03 million bpd or 32 million barrels in August. The North Sea Brent crude oil stream is scheduled to load 123,267 bpd or 3.698 million barrels in September, down from 135,484 bpd or 4.2 million barrels in August. The North Sea Ekofisk crude oil stream is scheduled to load 333,333 bpd or 10 million barrels of crude in September, down from 393,548 bpd or 12.2 million barrels in August.

The North Sea Statfjord crude stream is scheduled to load 3.42 million barrels in September, down 1.71 million barrels from August's 5.13 million barrels. The North Sea Gullfaks crude stream is scheduled to load 215,433 bpd or 6.463 million barrels, down 1.232 million barrels from August's 7.695 million barrels.

Saudi Arabia will keep its crude oil supplies to Asia in September steady from August levels. Saudi Aramco will supply crude at 7-8% below contracted volumes in September, unchanged from August.

Iran's OPEC Governor, Mohammad Ali Khatibi said the country is fully complying with its quotas. He also said that oil prices could improve from their current levels at about \$70/barrel.

Oman's average oil production increased by 6.6% to 792,700 bpd in the first six months of 2009 compared with a year earlier. It is targeting average output of 800,000 bpd this year, up from 757,000 bpd in 2008.

Venezuela's Oil Ministry reported that the country's oil exports in July fell by 88,000 bpd to 2.407 million bpd. Domestic consumption in Venezuela fell to 510,000 bpd in July, down from 548,000 bpd in June.

Some officials in Mexico question the large investment needed to tap the Chicontepec crude deposit as results fall short. Pemex has banked on an \$11 billion plan to tap the unconventional Chicontepec crude deposit to increase the country's oil production. However it was producing only 30,800 bpd in June, a modest increase from December's level. Official government estimates call for Chicontepec to produce 72,000 bpd this year and 737,000 bpd by 2017 however independent experts are skeptical of the goal and question whether the investment will be profitable.

Iraq's State Oil Marketing Organization raised the official selling price of its Basra crude for US buyers for September to second month WTI minus \$2, up \$1.85 on the month while the price of its Basra crude bound for Europe was set at BFOE minus 80 cents, down 60 cents and the price of its Basra crude bound for Asia was set at the Oman/Dubai average minus 80 cents, down \$1.55 on the month. Meanwhile the price of its Kirkuk crude bound for the US was set at spot WTI, up \$3.00 on the month and the price of its Kirkuk crude bound for Europe was set at BFOE minus 45 cents, up 10 cents.

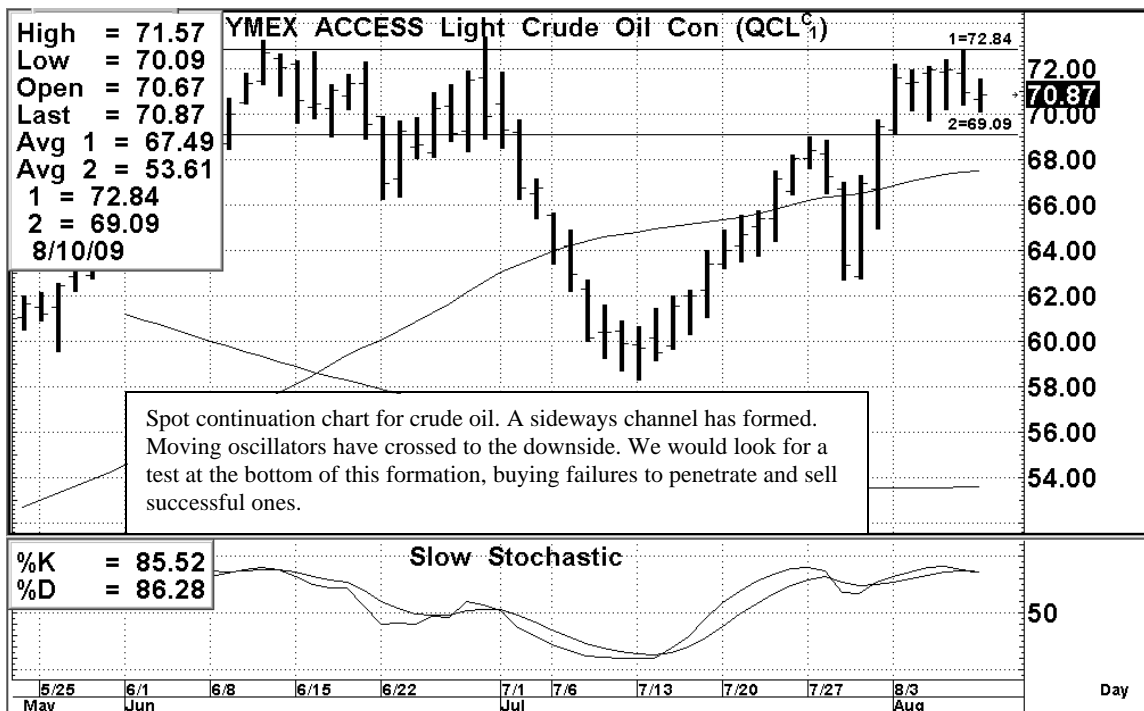
Kazakhstan is unlikely to reintroduce an oil export duty this year despite a suggestion by its anti-trust body. The country set its oil export duty at zero in January as world oil prices fell. The anti-trust committee called for an increase in the duty citing the increase in domestic fuel prices.

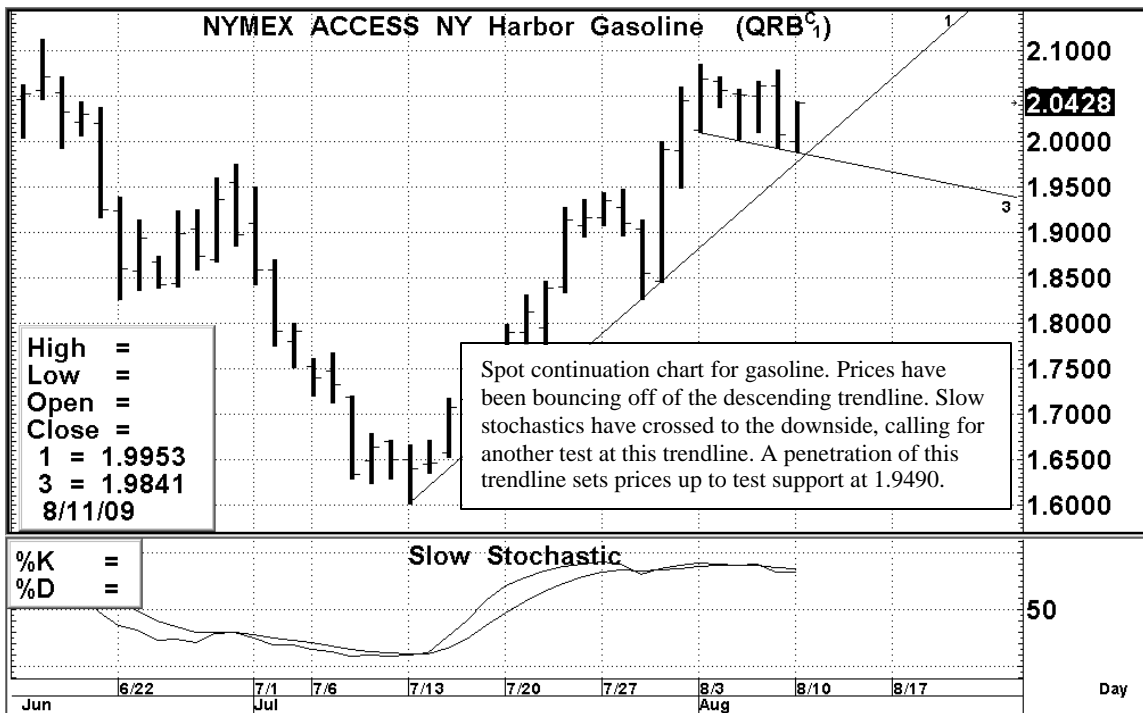
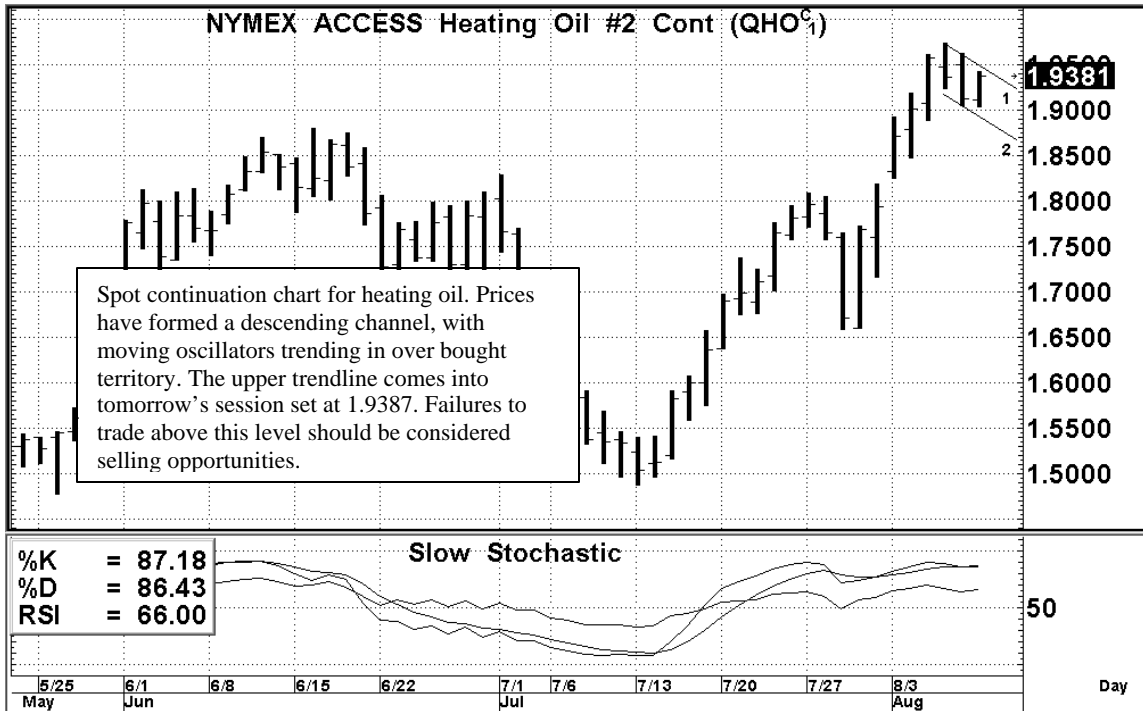
OPEC's news agency reported that OPEC's basket of crudes fell to \$71.96/barrel on Friday from \$72.92/barrel on Thursday. It also reported that OPEC's basket of crudes increased to \$72.04/barrel in the week ending August 7<sup>th</sup> from \$67.66/barrel on July 31<sup>st</sup>.

**Market Commentary**

The energy markets were mixed today with crude oil dipping and both gasoline and heating oil gaining. A weaker stock market helped to put pressure on crude oil as the dollar rose against the euro. According to the U.S. National Hurricane Center, there is a possibility of a low-pressure system southwest of Cape Verde Islands, in the eastern Atlantic Ocean, turning into a tropical storm as it moves west. This may lead to the shutting in of production and may delay tankers entering into the Gulf of Mexico. Market participants are awaiting clarity as to the current global economic situation. Several key events are taking place this week; among them is a meeting of the U.S. Federal Reserve, which takes place this Tuesday and Wednesday. Retail sales, the CPI and jobless claims are due out at the end of the week. Traders, for the moment, appear to have a wait and see attitude as to whether or not the Fed will raise interests. Technically, crude oil appears to have formed a period of consolidation. Slow stochastics have crossed to the downside, with percent K crossing below percent D. There is currently a sideways pattern forming on the spot continuation chart. The range is tight and set between \$72.84 and \$69.09. A penetration to the upside should take prices to the \$76.60 area, with a penetration to the downside setting up for a test at the \$65.34 level. Gasoline and heating oil gained strength today from the possibility of a hurricane forming and heading towards the Gulf. Possibly adding to the strength are preliminary expectations for stock levels, which are calling for a 1.2 million draw in gasoline stocks and a draw of 100,000 barrels in distillate supplies. Our key focus would be on demand for both of these products as it is tied to the economic situation. Technically, both gasoline and heating are due for a correction to the downside.

Crude Oil (SEP.09 262,861 -37,575 OCT.09 133,757 -3,674 NOV.09 75,050 +2,656 DEC.09 162,714 -1,134 JAN.10 39,451 -235 FEB.10 28,255 -227 Totals: 1,190,768 -45,635 Heating Oil (HO) SEP.09 64,335 -2,948 OCT.09 42,156 +1,554 NOV.09 28,508 +1,301 DEC.09 41,855 +862 JAN.10 21,067 +304 FEB.10 14,656 +37 Totals: 305,861 +1,678 Harbor RBOB SEP.09 89,441 -4,534 OCT.09 42,078 +904 NOV.09 21,129 +294 DEC.09 24,940 +825 JAN.10 11,785 -43 FEB.10 3,677 +13 Totals: 215,646 -2,361





<b>Crude Support</b>	<b>Crude Resistance</b>
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>
1.9841, 1.9490, 1.9070, 1.8450, 1.7989, 1.7895, 1.5887, 1.5370, 1.5260, 1.3560, 1.3400,	2.1100, 2.1600, 2.3350

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