



ENERGY RISK MANAGEMENT

Howard Rennell, Pat Shigueta,
& Karen Palladino
(212) 624-1132 (888) 885-6100

www.e-windham.com

ENERGY MARKET REPORT FOR AUGUST 10, 2010

The US National Hurricane Center said a low pressure system over the southeastern Gulf of Mexico strengthened Tuesday morning and now had a 70% chance of becoming a tropical depression over the next 48 hours as it moves towards the Louisiana coast. Computer models show it will move northwest across the Gulf over the next few days before

making landfall in southeast Louisiana. Separately, the NHC continued to follow a low pressure system in the central Atlantic about 820 miles northeast of the eastern Caribbean Islands that weakened overnight. The system has a 60% chance of strengthening into a tropical depression over the next 48 hours, down from a 70% chance earlier. The Atlantic system however is not expected to affect the Gulf of Mexico. The NHC also said a tropical wave formed in the Central Atlantic about 700 miles east of the eastern Caribbean Islands. It said the wave was moving west and had a 10% chance of developing over the next two days.

In its latest Short Term Energy Outlook, the EIA stated that world oil demand is expected to increase by 1.57 million bpd in 2010 to 85.91 million bpd and by 1.51 million bpd to 87.42 million bpd in 2011.

Its estimate is up 0.10% from its previous estimate of 85.82 million bpd in 2010 and 0.15% from its previous estimate of 87.29 million bpd in 2011. Countries outside the OECD, especially China, Saudi Arabia and Brazil, represent most of the expected growth in world demand. The EIA's non-OPEC supply forecast was increased by 100,000 bpd with an expected 720,000 bpd growth in 2010. Meanwhile OPEC's

API Stocks

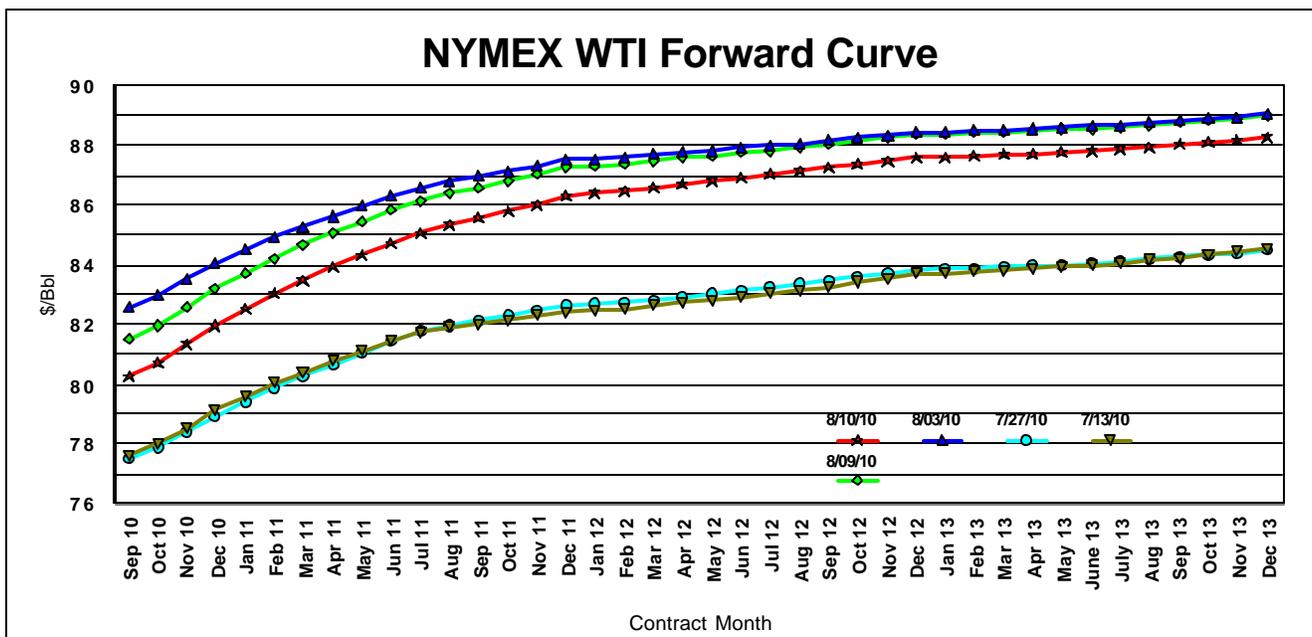
Crude – down 2.187 million barrels
Distillate – up 2.286 million barrels
Gasoline – down 1.536 million barrels
Refinery runs – down 2.5% at 84.2%

production is expected to increase by 1.03 million bpd in 2010 to 34.9 million bpd while production in 2011 is expected to increase by 1.23 million bpd to 36.13 million bpd. Commercial oil inventories held by OECD countries stood at an estimated 2.75 billion barrels at the end of the second quarter of 2010 or 61 days of forward supply and about 92 million barrels above the previous 5 year average. The EIA also reported that US petroleum demand in 2010 is expected to increase by 140,000 bpd to 18.91 million bpd, up 0.11% from its previous estimate while demand in 2011 is expected to increase by 160,000 bpd to 19.07 million bpd, up 0.05% from its previous estimate. Gasoline demand in 2010 is estimated to increase by 20,000 bpd to 9.02 million bpd, up 0.11% from its previous estimate while demand in 2011 is expected to increase by 70,000 bpd to 9.09 million bpd, also up 0.11% from the previous estimate. Distillate demand in 2010 is expected to increase by 50,000 bpd to 3.68 million bpd, down 0.11% from its previous estimate while demand in 2011 is expected to increase by 40,000 bpd to 3.72 million bpd, also down 0.11% from its previous estimate. The EIA stated that domestic crude production is expected to increase by 110,000 bpd to 5.43 million bpd in 2010. It said crude oil production in the Gulf of Mexico is expected to fall by 120,000 bpd next year mostly due to the six month moratorium. Projected ethanol production, which averaged 710,000 bpd in 2009, is expected to average 850,000 bpd in 2010 and 880,000 bpd in 2011. In regards to prices, WTI is expected to average \$80/barrel over the second half of the year and increase to \$85/barrel by the end of next year. The price of gasoline is expected to average \$2.77/gallon in 2010 and \$2.92/gallon in 2011. The price of gasoline is forecast to average \$2.80/gallon this summer, up 36 cents from last summer. Diesel fuel prices are expected to average \$2.97/gallon in 2010 and \$3.14/gallon in 2011.

**August
Calendar Averages**
CL – \$81.76
HO – \$2.1740
RB – \$2.1555

The SpendingPulse report by MasterCard Advisors said US gasoline demand fell by 1.6% in the week ending August 6th to 9.415 million bpd. Over the past four weeks, gasoline demand increased by an average 2.4% on the year. It also reported that the US average retail price of gasoline increased to \$2.75/gallon.

According to Euroilstock, the total crude and oil product inventories in Europe fell by 0.5% on the month but increased by 0.1% on the year to 1.14 billion barrels in July. It reported that crude stocks fell by 0.3% on the month but increased by 0.2% on the year to 483.26 million barrels while gasoline stocks fell by 2.7% on the month and year to 108.55 million barrels and middle distillate stocks fell by 0.3% on the month and 2.3% on the year to 403.5 million barrels. European fuel oil stocks fell by



0.4% on the month but increased by 5.4% on the year to 110.05 million barrels while naphtha stocks were unchanged on the month but increased by 24.1% on the year to 34.32 million barrels. Euroilstock reported that capacity utilization fell to 84.66% in July from 85.96% in June and 84.73% a year earlier.

BP PLC said it would suspend drilling activity of a relief well in the Gulf of Mexico, citing a National Hurricane Center forecast of a 60% chance of a tropical cyclone forming in that region. Separately, Transocean Ltd aims to move a rig and a drillship out of the path of a cluster of thunderstorms in the southeastern Gulf of Mexico. The company has evacuated some workers from its moored Deepwater Nautilus rig.

Refinery News

Tesoro Corp reported that a unit breakdown at its 97,000 bpd Los Angeles area refinery resulted in flaring activity. The unit was not identified.

Valero Energy Corp said there was no material impact to production at its 195,000 bpd refinery in Paulsboro, NJ due to an upset with a compressor.

Citgo Petroleum reported emissions of hydrogen chloride from an isomerization unit at its 429,500 bpd refinery in Lake Charles, Louisiana on Monday.

Motiva Enterprises LLC reported a release of materials from an unidentified process unit at its 220,000 bpd refinery in Norco, Louisiana on Monday.

BP Plc reported a release of sulfur dioxide at its 234,000 bpd refinery in Cherry Point, Washington on Monday from an incinerator of an offline unit which lost power. The unit's power was later restored and restarted operations.

Italy's Saras SpA is expected to increase its refinery runs in the remainder of the third quarter as refining margins recover. Its 300,000 bpd Sarroch refinery cut processing rates to between 3.3 million and 3.5 million tons in the third quarter due to weak refining margins from expected runs of 3.8-3.9 million tons. Saras expects to process between 3.8 million and 3.9 million metric tons of oil in the fourth quarter, bringing full year 2010 crude runs to 14.2 million tons.

Taiwan's Formosa Petrochemical Corp will restart the last of its three crude distillation units in October following a late July outage. It will postpone the maintenance at its No. 2 naphtha cracker until the end of September from August 20th due to the unplanned shutdown at its No. 1 cracker.

China's crude oil imports in July fell by 3.2% on the year. It was the first decline in 16 months as refiners drew on inventories after previous record purchases. China's General Administration of Customs reported that China imported 19 million tons or 4.47 million bpd of crude in July, down 17.5% from June's record level of 22.2 million tons. The reduced imports came after China's commercials crude stocks increased by 4.7% by the end of June, reversing declines in the previous two months. Meanwhile, the China Petroleum and Chemical Industry Association reported that China has increased its reliance on oil imports to 55.14%. It stated that China's apparent demand in the first half of 2010 increased by 15.1% on the year to 220 million metric tons.

India's Oil and Natural Gas Corp said crude supplies have not been affected due to the closure of the Mumbai port. Meanwhile, India's Environment Minister Jairam Ramesh said the Mumbai port will resume normal operations by Sunday. The port was closed after a weekend collision of two cargo ships off Mumbai's coast, causing an oil spill.

India's Bharat Petroleum Corp issued a tender to buy October loading sweet crude oil.

India's Oil Minister Murli Deora said ONGC Mittal Energy Ltd is looking to build a 180,000 bpd refinery in Nigeria.

Thailand's Energy Ministry reported that the country's crude oil imports in July increased by 10.9% on the year but fell by 1.8% on the month to 830,000 bpd.

Tokyo Electric Power Co consumed more oil, liquefied natural gas and thermal coal in July from a year earlier despite higher nuclear plant utilization. It consumed 295,000 kiloliters of crude in July, up 23.9% on the year. It also increased its consumption of fuel oil by 9.2% to 474,000 tons while it increased its demand for LNG by 5.9% to 1.683 million tons and its coal demand by 15.3% to 376,000 tons.

Istanbul Exporters Association of Chemical Materials reported that Turkey's gasoline sales to Iran fell by 73% in July as US led sanctions came into force. It reported sales of \$25.55 million in July, down from \$93.45 million in June. Turkey's gasoline exports to Iran were estimated at about 30,000 tons.

Production News

The output of four major North Sea crude oils, Brent, Forties, Oseberg and Ekofisk, for September is expected to increase by about 13% on the month to 1.24 million bpd or 37.3 million barrels, partly due to the end of planned maintenance in August. The North Sea Brent crude oil stream will produce about 4.91 million barrels in September, steady from August. Brent crude output will average about 163,666 bpd in September, up slightly from 158,000 bpd in August. The UK North Sea Forties crude oil output is expected to increase in September after production was cut in August due to planned maintenance and production problems. About 540,000 bpd or 16.2 million barrels of Forties crude is due to load in September, up from 387,000 bpd originally scheduled in August. The September program for North Sea Oseberg crude is scheduled at 4.85 million barrels, unchanged on the month. It is expected to load 161,667 bpd compared with 156,452 bpd in August. The Ekofisk crude system is expected to load 378,333 bpd or 11.35 million barrels in September, down from 383,871 bpd or 11.9 million barrels in August.

The September loading program for North Sea Flotta crude oil is scheduled at 1.3 million barrels, down 650,000 barrels on the month. It is expected to load 43,333 bpd in September, down from 62,903 bpd in August.

Saudi Arabia will leave its allocations of crude to at least two European oil companies unchanged in September. Meanwhile, Asian term buyers will receive full contract volumes in September, little changed from August levels. Term buyers in the US are also expected to receive similar contract volumes in September.

Ecuador's Petroecuador said its oil exports in July fell by 3.4% to 218,585 bpd compared with 226,203 bpd last year.

OPEC's news agency reported that OPEC's basket of crudes increased to \$78.28/barrel on Monday from \$78.15/barrel on Friday.

Market Commentary

Crude oil pared its losses in a late session rise as the market responded to the Federal Reserve saying that it will stay with its low interest policy for an extended period in a move to support the struggling economy. Early in the session, crude oil prices fell below \$80.00 a barrel on news that China's July crude oil imports fell 3.2 percent from a year ago. This is the first decline in Chinese

imports in 16 months as refiners pulled from storage. This early sell-off could have included liquidation from the unusually large number of speculators that are long this market in the September contract. Open interest in September is currently set at 252,051. With the pending expiration of the September contract coming up, these longs will have to liquidate, which should put pressure on the front end of the curve. We would look for this market to continue to have difficulty remaining above the \$80.00 level as it encounters influences such as high inventories, economic uncertainty and the aforementioned longs in the September contract. The 200-day moving average currently set at \$77.82, based upon a spot continuation chart remains our objective. With refining margins sinking the way they have refiners are sure to have cut back on production. Profit margins are at their lowest level in five months. Typically, gasoline inventories begin to decrease as summer grades are used up and not replenished aggressively. This has not been the case this summer. The 3-2-1 crack spread has lost 1.4% over night as concerns grow that margins could continue to deteriorate.

Crude oil Sept 10 252,051 -28,157 Oct 10 150,884 +16,512 Nov 10 112,767 +12,059 Totals 1,268,061 +12,157 Heating oil Sept 10 72,808 -5,776 Oct 10 47,429 +2,602 Nov 10 37,902 +1,546 Totals 304,508 -2,191 Rbob Sept 10 76,265 -10,671 Oct 10 58,327 +3,895 Nov 10 42,489 +2,357 Totals 244,407 -4,565.

Crude Oil		Heating Oil		Rbob	
Support	Resistance	Support	Resistance	Support	Resistance
	8325		22530		22345
79.00	8625	20870	22700	18890	24880
7885	8710	20000	22945	18750	27085
7782		18965	23775	18420	

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