



ENERGY RISK MANAGEMENT

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ENERGY MARKET REPORT FOR AUGUST 11, 2009

The EIA said in its latest Short Term Energy Outlook that the future level of oil prices will mainly depend upon the timing and pace of the global economic recovery and the resultant impact on world oil demand that would tend to erode surplus stocks. The EIA stated that the price of WTI crude is expected to remain roughly flat at an average of \$70/barrel in the fourth quarter of 2009. It expects WTI crude oil prices to average \$60/barrel in 2009, down 35 cents from its previous estimate, before recovering to an average of \$72/barrel in

2010, down 42 cents from its previous estimate. The price of gasoline is expected to average \$2.34/gallon in 2009 and \$2.66/gallon in 2010 while the price of diesel is expected to average

Market Watch

The US National Hurricane Center said the second tropical depression of the Atlantic hurricane season formed over the far eastern Atlantic Ocean early Tuesday. It said the depression could strengthen into the first tropical storm of the Atlantic season in a day or two. Most weather models forecast the system will turn toward the north and possibly turn back east in a few days, remaining over the Central Atlantic, well clear of any land, the Caribbean Sea and the Gulf of Mexico. Separately, the NHC is watching two tropical waves, one over the Windward Islands in the Caribbean and one over the Atlantic Ocean east of the Lesser Antilles, but gave both a small chance, less than 30% of developing into a tropical storm over the next 48 hours.

T. Boone Pickens, who has called for the end of US reliance on oil from unfriendly countries, appeared to suggest that the US should not leave Iraq without a commitment for access to the country's oil.

According to the Department of Transportation, US airlines' average fuel cost per gallon for scheduled flights fell by 46% in June on the year but increased by 8.7% on the month to \$1.88/gallon. It also said total fuel consumption was 1.44 billion gallons in June, down 8.8% on the year and up 4.8% from May.

According to the Labor Department, US productivity staged its largest gain in almost six years in the second quarter despite an ongoing contraction in the overall economy. Non-farm business productivity increased by a higher than expected 6.4% at an annual rate last quarter, the most since the third quarter of 2003. Productivity in the first quarter increased by 0.3%. It was revised down from 1.6%.

The Commerce Department said US wholesalers cut inventories in June. Inventories fell more than expected, falling 1.7% to a seasonally adjusted \$393.9 billion compared to the prior month. Sales increased 0.4% to a seasonally adjusted \$313.1 billion.

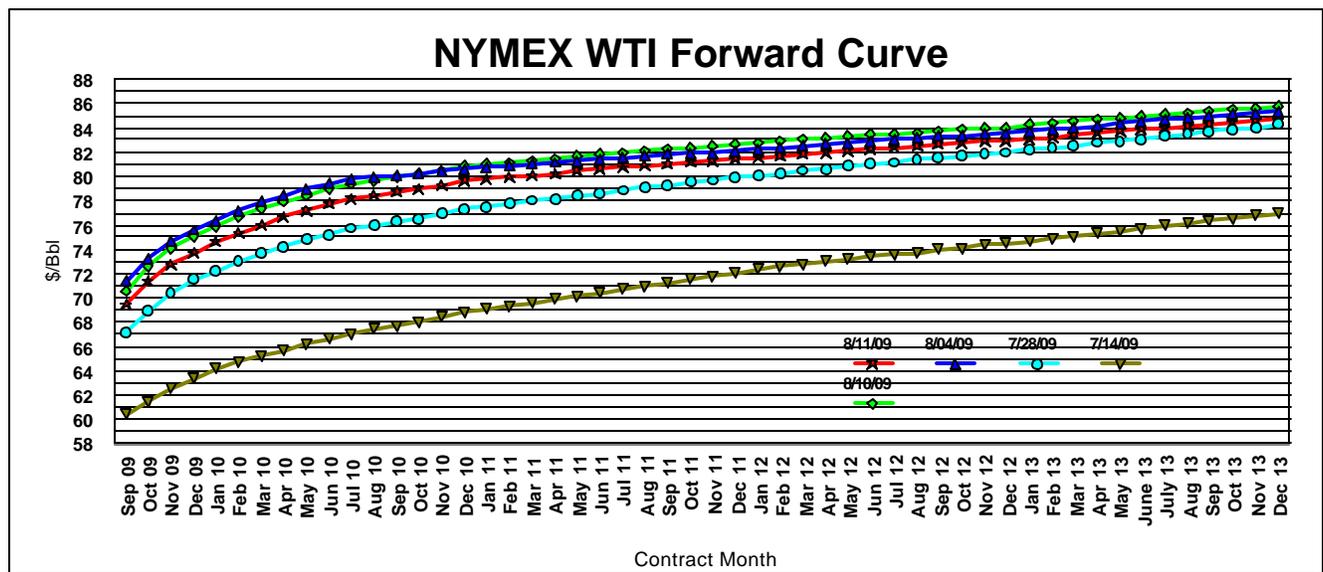
The Baltic Exchange's main sea freight index remained near a three month low on Tuesday. The index fell 2.45% or 66 points to 2,623 points on Tuesday, its lowest level since May 18th. The Baltic's Capesize index fell 1.36% on Tuesday and was at its lowest since May 21st.

\$2.46/gallon and \$2.84/gallon in 2009 and 2010, respectively. It said world oil demand fell by 3.1 million bpd in the first half of 2009 compared with year earlier levels. Overall world oil demand is expected to fall by 1.71 million bpd in 2009 to 83.76 million bpd and increase by 940,000 bpd to 84.7 million bpd in 2010. Its world demand estimates for both 2009 and 2010 are down 90,000 bpd from the previous forecast. Total non-OPEC production is expected to increase by 410,000 bpd in 2009 to 50.06 million bpd and by 160,000 bpd to 50.22 million bpd in 2010.

August Calendar Averages
CL – \$71.13
HO – \$1.9168
RB – \$2.0451

OPEC production is expected to fall by 1.75 million bpd to 33.97 million bpd in 2009, up 1.37% from its previous estimate while OPEC production in 2010 is expected to increase by 440,000 bpd to 34.41 million bpd, down 0.49% from its previous estimate. OECD commercial oil inventories stood at 2.75 billion barrels at the end of the second quarter of 2009. At 61 days, OECD stocks are well above average levels for that time of the year. The EIA also reported that US petroleum demand is expected to fall by 790,000 bpd or 4.05% on the year to 18.71 million bpd, down 0.74% from its previous estimate. Demand in 2010 is expected to increase by 280,000 bpd or 1.5% on the year to 18.99 million bpd, down 0.89% from its previous estimate. Gasoline demand in 2009 is expected to fall by 10,000 bpd or 0.11% to 8.98 million bpd, down 20,000 bpd or 0.22% from its previous forecast while demand in 2010 is expected to increase by 50,000 bpd or 0.56% to 9.03 million bpd, down 0.33% from its previous estimate. Distillate demand in 2009 is forecast to fall by 330,000 bpd or 8.35% to 3.62 million bpd, down 50,000 bpd or 1.36% from its previous estimate while demand in 2010 is expected to increase by 120,000 bpd or 3.31% to 3.74 million bpd, down 0.7% from its previous estimate. US oil production is expected to increase to an average 5.22 million bpd in 2009 and 5.25 million bpd in 2010. The EIA also stated that annual US emissions of the main greenhouse gas from the burning of coal, natural gas and petroleum should fall 5% in 2009. Petroleum emissions are expected to fall 4% in 2009, mostly due to declines in transportation.

In its monthly report, OPEC said world demand for its oil will fall further than previously expected next year due to higher supplies from non-OPEC producers and a slow economic recovery. Demand for OPEC oil will average 27.97 million bpd, down 480,000 bpd from 2009. It previously expected a fall of 380,000 bpd. OPEC said supplies from non-OPEC countries will increase by 430,000 bpd in 2010. The estimate is up 100,000 bpd from the previous forecast. OPEC left its forecast for world oil demand unchanged from last month with demand expected to fall by 1.65 million bpd in 2009 before increasing by 500,000 bpd in 2010. It also reported that OPEC increased its output in July to 26.2 million bpd, up from 26.09 million bpd in June.



The IEA's chief economist Fatih Birol said a fragile global economic recovery will be hurt if oil prices remain at \$70/barrel or rise above. He said he did not want a decision from OPEC to increase prices to levels that could hurt the economic recovery. In regards to natural gas demand, he said there may not be enough natural gas demand in Europe to support both the Nabucco and South Stream projects. The European Union-backed Nabucco pipeline project aims to deliver 31 billion cubic meters of gas to Europe by 2014 while Russia's South Stream project plans to deliver Russian gas starting in 2015.

A member of Kuwait's Supreme Oil Council said an oil price of \$70 to \$90/barrel in 2010 would be acceptable to Kuwait given the state of the world economy. He said a price of \$100 is detrimental to the interests of oil producers in the long term. High prices encourage development of alternative energy sources that reduces long term demand for oil.

Nigeria's army said a natural gas pipeline serving the Utorogu gas plant operated by Royal Dutch Shell Plc has been attacked by locals in the Niger Delta, underscoring the risk of violence flaring up again in the region despite a ceasefire. The pipeline transports gas from a local field to the plant.

Kuwait said it foiled an al Qaeda linked plan to bomb a US Army camp and other important facilities in the OPEC oil exporter. An Interior Ministry statement did not say if the targeted facilities included oil industry plants in Kuwait.

Refinery News

The US Coast Guard said two barge tows collided in the Intracoastal Waterway between Port Arthur and Galveston, Texas halting oil industry and other vessel traffic.

Citgo Corp restarted its fluid catalytic cracking unit No. 1 in the East plant section of its 163,000 bpd Corpus Christi, Texas refinery. The unit was restarted on Monday following its unplanned shutdown on July 19 due to a fire in the refinery's alkylation unit.

According to Euroilstock, oil and product stocks in 16 European countries fell in July by 0.5% on the month to 1.145 billion barrels. However it was up 1.5% on the year. Crude oil inventories fell by 1% on the month but increased by 0.4% on the year to 484.57 million barrels while gasoline stocks fell by 2.8% on the month and by 0.9% on the year to 118.75 million barrels. Middle distillate stocks increased by 0.3% on the month and by 6.8% on the year to 400.88 million barrels. Crude oil intake fell by 0.3% on the month and by 8.7% on the year to 10.877 million bpd. Refinery utilization fell to 83.03% in July from 83.25% in June.

Taiwan's Formosa Petrochemical Corp aims to restart one of its two gasoline making units late this week after failing to resume operations early in the week from an outage in early August. It shut the 84,000 bpd residual fluid catalytic cracking unit due to a technical problem. The estimated 14 day outage will see Formosa cutting back at least 60,000-90,000 tons of gasoline supplies, instead of deferring shipments.

According to China's General Administration of Customs preliminary data, China imported 19.63 million tons or 4.62 million bpd in July, up 14% on the month and 42% on the year. The year on year increase, the fastest rise since January 2006. China's crude imports in the year through July are up 5.8% at 110.4 million tons. Refined fuel imports totaled 3.8 million tons in July while imports in the January-July period fell by 8.6% to 23.39 million tons. It reported that China's refinery crude processing increased by 8.3% on the year to a new record of 33.33 million tons or 7.8 million bpd, the sixth consecutive increase. Separately, China's National Statistical Bureau reported that the country's crude oil production in July fell by 0.3% on the year to 16.14 million tons or 3.19 million bpd. Production in the first seven months fell by 1% to 109.64 million tons.

The increase in Singapore's onshore fuel oil stocks to a five week high last Thursday was partly skewed by the first time inclusion of inventory data from Chemoil Energy Ltd's Helios storage. International Enterprise reported that fuel oil inventories in the week ending August 5th increased by 37% or 5.261 million barrels to 19.32 million barrels. Excluding data from the Helios terminal, onshore fuel oil stocks stood at 17.416 million barrels, up 3.357 million barrels on the week.

The BP Plc led Baku-Tbilisi-Ceyhan oil pipeline is expected to pump about 766,666 bpd in September, down from about 839,000 bpd in August. The September shipments are scheduled to total 23 million barrels.

Indonesia bought 1.8 million barrels of Asia-Pacific crude in its tender for October arrival sweet grades, the lowest amount in eight months, due to high stock levels. It is also the first time that Indonesia had not bought any West African, Mediterranean or Caspian crudes since its monthly tender for February arrival.

Indonesia's Pertamina agreed to buy 240,000 tons of liquefied petroleum gas to supply the domestic market from the Bontang plant. Indonesia has been converting some of its gas at the Bontang liquefied natural gas plant into LPG after the world economic crisis pushed down global LPG demand and also amid domestic political pressure to supply more gas to the domestic market.

Production News

Venezuela's Oil Minister, Rafael Ramirez, said the government wants the Carabobo auction for heavy oil drilling rights to take place before the end of the year. However he said the government is not in any rush as the upward move in oil prices is working in the government's favor as it seeks out oil companies that can transform the tar-like crude into marketable oil and gasoline.

Iraq's oil exports have reached a post war high but its failure to attract the investment it needs to overhaul its infrastructure will prevent it from becoming one of the world's top oil producers for some time. Its oil production is unlikely to increase much further in the next three years despite long term plans to more than double its output. Iraq's oil export averaged 2.037 million bpd in July, a high not seen since the US led invasion in 2003. The IEA sees political barriers preventing large output gains for at least five years. It expects Iraq's output to fall to 2.23 million bpd in 2010 before increasing to about 2.7 million bpd in 2014. Also, while most of Iraq's oil is shipped from the offshore southern Basra terminal, rusting subsea pipelines limit the sustainable flow to 1.5 million bpd. Iraq has commissioned work on a project to add pipelines and mooring facilities in Basra. However without the facilities, Iraq lacks a route to market for its target output of 6 million bpd. Iraq is also planning more drilling to increase its production.

Ecuador's central bank said the country's average oil production fell by 2.5% to 495,000 bpd in the first half of 2009 from 508,000 bpd in the same period last year. Petroecuador's oil production averaged 283,558 bpd in the first six months, not including shared production with private companies, while private companies' oil production averaged 211,442 bpd. Ecuador's oil exports reached \$569.9 million in June, up about 13% from May. It said Petroecuador increased its exports in June to \$473.9 million, up 18% from \$402.6 million in May.

A Russian Finance Ministry official said Russia will increase its oil export duty to \$237-\$241/ton from September, an increase of between 7% and 9% on the month. The export duties on light refined products, such as gasoline and gas oil will increase to \$172-\$175/ton in September, up from \$161.90 in August. The export duties on heavy refined products will increase to \$93-\$94/ton in September, up from \$87.20/ton in August.

The National Iranian Oil Co set the price of its Iranian Light crude bound for Northwest Europe was cut by 70 cents to BWAVE minus \$2.35 while the price of its Iranian Heavy crude was cut by 65 cents to BWAVE minus \$2.75 and the price of its Forozan crude was cut by 65 cents to BWAVE minus \$2.60. The price of its Iranian Light crude bound for the Mediterranean was increased by 25 cents to BWAVE minus \$2.00, the price of its Iranian Heavy crude was increased by 40 cents to BWAVE minus \$2.50 and the price of its Forozan crude was increased by 40 cents to BWAVE minus \$2.35. Meanwhile the price of its Iranian Light crude bound for Asia was cut by \$1.75 to the Oman/Dubai crude plus 9 cents, the price of its Iranian Heavy crude was cut by \$1.50 to the Oman/Dubai crude minus \$1.12 and the price of its Forozan crude was cut by \$1.50 to the Oman/Dubai crude minus \$1.07.

Kuwait Petroleum Corp set its official oil selling price at the Oman/Dubai average minus \$1.50/barrel for September term supply to Asia.

Mexico's Finance Minister Agustin Carstens said Mexico expects its basket of crude oil exports to average \$53/barrel in 2010. It said the lower expected oil price and falling output will mean government revenues will be 300 billion pesos or \$22.8 billion lower in 2010 compared to income forecast for this year. Mexico budgeted for \$70/barrel oil this year spent more than \$1 billion hedging its exposure to oil prices in late 2008 as the world economy worsened. The government has not said whether it plans to hedge its 2010 oil export revenues.

OPEC's news agency reported that OPEC's basket of crudes fell slightly to \$71.68/barrel on Monday from \$71.96/barrel on Friday.

Market Commentary

Crude oil rallied early in the session after a report showed that imports to China reached record levels last month. Chinese oil imports rose 18 percent or 4.6 million barrels a day. Crude oil responded negatively to the release of the U.S. Commerce Departments report of wholesale inventories. According to the report, U.S. wholesale inventories slipped 1.7 percent in June, sending waves of concern regarding the economy through the market place. Putting further pressure on prices was expectations of inventory builds in crude oil of approximately 1 million barrels. Despite the sell off in both crude oil and heating oil, September gasoline remained strong throughout the session, closing 1.48 cents higher on the day. Although no definitive news could be found, thoughts of a squeeze in the September contract and storms hitting the Gulf of Mexico were two mentioned scenarios. If storms were behind this move, one would think that the other markets would respond in kind, which they did not. We will have to have a wait and see attitude in regards to demand and the impact that the global economic situation is having on it.

Crude Oil (SEP.09 231,631 -31,230 OCT.09 139,845 +6,088 NOV.09 81,254 +6,204
DEC.09 159,869 -2,845 JAN.10 40,284 +833 FEB.10 28,546 +291 Totals: 1,172,137 -
18,631 Heating Oil (HO) SEP.09 62,197 -2,138 OCT.09 43,274 +1,118 NOV.09 29,647
+1,139
DEC.09 41,946 +91 JAN.10 21,206 +139 FEB.10 14,644 -12 Totals: 306,109 + 248 Harbor
RBOB SEP.09 85,860 -3,581 OCT.09 44,799 +2,721 NOV.09 21,207 +78 DEC.09 25,493
+553 JAN.10 11,722 -63 FEB.10 3,725 +48 Totals: 215,539 - 107

Crude Support	Crude Resistance
68.10, 66.20, 63.74, 62.70, 61.61, 60.95,	72.85. 73.38, 74.50, 76.13
Heat Support	Heat resistance
1.8775,1.8655, 1.8000, 1.7340, 1.4220, 1.4130, 1.3720	2.0000, 2.0420, 204.65
Gasoline support	Gasoline resistance
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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