



ENERGY RISK MANAGEMENT

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ENERGY MARKET REPORT FOR AUGUST 17, 2010

A former US envoy to the UN, John Bolton said Israel has eight days to launch a military strike against Iran's Bushehr nuclear facility and stop Iran from having a functioning nuclear plant. Iran is scheduled to start its first nuclear power plant on August 21st, when a shipment of nuclear fuel will be loaded into the plant's core. He however was skeptical about Israel launching an attack against Iran within the next eight days.

Separately, Iran's nuclear chief Ali Akbar Salehi warned that an attack on its first nuclear power plant would amount to

Market Watch

The Federal Reserve stated that US industrial production increased in July following a slight decline in June. Industrial production in July increased 1% while June's production figures were revised down to a 0.1% decline from the 0.1% gain initially reported. Capacity utilization also increased to 74.8% from an unrevised 74.1% the previous month.

The US Labor Department said US producer prices increased in July for the first time in four months. It said the seasonally adjusted Producer Price Index increased 0.2% after falling 0.5% in June. The core Producer Price Index, excluding food and energy prices, increased 0.3% in July. In the 12 months to July, producer prices increased by 4.2% after rising 2.8% in May.

The US Commerce Department said US housing starts increased but at a much weaker rate than expected in July while permits for future home construction fell to their lowest level in more than a year. It stated that housing starts increased by 1.7% to a seasonally adjusted annual rate of 546,000 units. Housing starts in June were revised to show an 8.7% decline, which was previously reported as a 5% decline. New building permits fell 3.1% to 565,000 units, the lowest level since May 2009.

Trade sources said two Very Large Crude Carriers with about 4 million barrels of Oman crude are set to move to the US West Coast after the arbitrage window was open over the past few weeks.

Venezuela's El Universal newspaper reported that the country will ration electricity in three western states after a transformer went out at the Planta Centro power generator in Falcon state. Authorities said power rationing will hopefully end on Thursday. Power rationing was necessary to avoid putting too much stress on a substation as well as to avoid a fresh round of blackouts in the area.

API Stocks

Crude – up 5.866 million barrels
Distillate – up 2.051 million barrels
Gasoline – up 2.026 million barrels
Refinery runs – up 1.3% at 85.5%

an international crime. Officials have stated that Iran has stepped up defensive measures at the Bushehr plant to protect it from possible attacks. Iran's Foreign Ministry spokesman dismissed a possible Israeli attack on the plant. He said according to international law, installations which have real fuel cannot be attacked because of the humanitarian consequences.

According to a SpendingPulse report by MasterCard Advisors, US gasoline demand increased by 1.7% or 158,000 bpd to 9.573 million bpd in the week ending August 13th. Demand was up 1.1% or 105,000 bpd on the year. In the latest four weeks, demand averaged 9.517 million bpd, up 208,714 bpd or 2.2% on the year. It reported that the US average retail price of gasoline increased for the fifth consecutive week by 1 cent to \$2.76/gallon in the latest week.

August Calendar Averages
CL – \$79.25
HO – \$2.1047
RB – \$2.0656

Goldman Sachs analysts said strong oil demand in the second half of 2010 will cut high inventories to more normal levels by year end, lifting US crude prices into an \$85-\$95/barrel trading range. Goldman’s forecast put crude at \$101/barrel in 12 months.

The US National Hurricane Center said a tropical wave over the central Caribbean Sea had a 10% chance of developing over the next 48 hours. It was too soon for the computer models to project where the system would make landfall. Earlier it stated that the remnants of Tropical Depression Five moved inland along the western Mississippi Gulf Coast over the last few hours and had no chance of redeveloping. On Monday, the NHC said the system had at least a 60% chance of redeveloping over the next 48 hours.

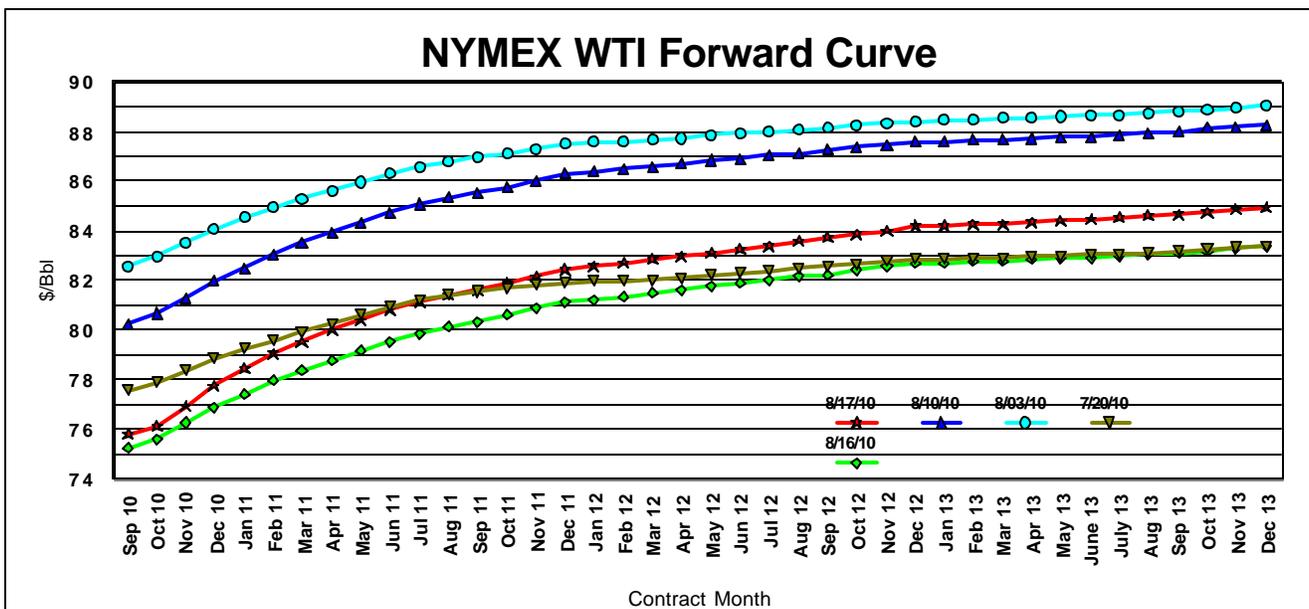
Refinery News

A pump seal failure was discovered on the contact condenser bottoms pump at Flint Hills Resources’ 288,468 bpd Corpus Christi, Texas refinery’s west plant on Monday. The leak was stopped. The cause of the seal failure remains under investigation.

Motiva Enterprises LLC nearly returned a fluid catalytic cracking unit at its 285,000 bpd Port Arthur, Texas refinery to full operations following the completion of repairs. It began performing repairs on the unit on August 2nd.

Shell Oil Co reported that its 166,000 bpd Martinez, California refinery suffered a process upset that resulted in excess emissions. Shell did not specify whether production was affected by the upset.

ConocoPhillips has reduced rates at its 185,000 bpd Trainer, Pennsylvania refinery for the past two weeks due to a leak on a crude unit. It is planning to perform four to five weeks of work on its fluid catalytic cracking unit and reformer unit in September.



Alon USA reported an emissions event at its 70,000 bpd refinery in Big Spring, Texas on Monday due to an open valve at the fluid catalytic cracking unit.

Total SA shut a fluid catalytic cracking unit at its 174,000 bpd Port Arthur, Texas refinery for unplanned work last weekend. The shutdown was expected to last seven to 10 days.

Output from Neste Oil's 58,000 bpd Naantali refinery will increase to 90% of its production capacity by Thursday. However its return to full capacity has been delayed for two more weeks while a fluid catalytic cracking unit damaged by fire is repaired.

Crude supplies to refineries in Mumbai have partially resumed following the August 7th collision of two vessels that led to the closure of two of India's busiest ports. Smaller ships are delivering crude to the refineries while larger ships are still restricted from entering the Mumbai port and Jawaharlal Nehru port.

Abu Dhabi National Oil Co reissued a tender to import 180,000 tons of gasoline as it prepares to shut two units at its 415,000 bpd Ruwais refinery.

China's largest crude oil berth is now officially operational at northeastern China's Dalian port. The new facilities will expand Dalian port's annual crude transportation capacity by more than 30% to 80 million tons or 1.6 million bpd.

Production News

Oil exports from Iraq's southern Basra terminal increased on Tuesday to 1.56 million bpd after declining to 720,000 bpd on Monday due to pipeline repairs. A shipping source said three ships were loading crude and six were waiting at anchor. A South Oil Co official said two export turbines pumping crude to the offshore terminal stopped working on Sunday evening and caused the drop of exports.

BP Plc said the contribution of crude from the 200,000 bpd North Sea Buzzard field fell to 49% of total Forties production in the week ending August 15th from 53% a week earlier. The decline was partly due to the completion of six days of maintenance at BP's Unity Riser platform in the North Sea.

Crude oil production from nine of the main North Sea streams will increase by 7.6% in September to 1.836 million bpd. Brent crude production in September is expected to increase by 6,000 bpd on the month to 164,000 bpd while Forties crude production is expected to increase by 153,000 bpd to 540,000 bpd. Oseberg crude production is expected to increase by 6,000 bpd to 162,000 bpd; Ekofisk production is expected to fall by 6,000 bpd to 378,000 bpd; DUC production is expected to increase by 23,000 bpd to 120,000 bpd; Flotta crude production is expected to fall by 20,000 bpd to 43,000 bpd; Gullfaks crude production is expected to increase by 6,000 bpd to 171,000 bpd; Staffjord crude production is expected to increase by 61,000 bpd to 171,000 bpd and Troll crude production is expected to fall by 100,000 bpd to 87,000 bpd.

The Norwegian Petroleum Directorate said Norway's oil production increased to 1.804 million bpd on average in July from 1.785 million bpd in June.

Norway's Troll oil stream is scheduled to load about 87,000 bpd or 2.6 million barrels in September, down from 187,000 bpd or 5.8 million barrels in August due to maintenance.

Angola's crude oil exports were expected to average 1.75 million bpd in October, up 15% on the month. Preliminary loading schedules showed 57 cargoes were due to be loaded in October, up from 48 cargoes or 1.52 million bpd planned for September.

Colombia's National Hydrocarbons Agency said the country's oil production in July increased by 19.6% on the year to 786,000 bpd. Average output for the first six months of the year stood at 770,000 bpd.

Brazil's Petrobras expects to pump first oil from two fields in the US Gulf of Mexico later this year. Petrobras operates the Cascade and Chinook fields, which were affected by the offshore drilling moratorium in the wake of the BP Plc oil spill. The first two development wells at the fields, however were previously drilled and not affected by the ban. Separately, Petrobras plans to drill six presalt wells in the Santos Basin in the second half of 2010. The planned wells will increase the total number of presalt wells in Santos this year to 16.

Cuba plans to drill seven exploratory wells in its Gulf of Mexico waters over the next two years. Cuba estimates it has up to 20 billion barrels of oil in its offshore area but the US Geological Survey has estimated a more modest 4.6 billion barrels and 10 trillion cubic feet of gas.

OPEC's news agency reported that OPEC's basket of crudes fell further to \$72.27/barrel on Monday from \$72.64/barrel on Friday.

Market Commentary

Crude oil rebounded after five consecutive down days as equity markets rose. Weakness in the dollar also bolstered the appeal of commodities as an investment hedge and made the dollar denominated crude oil less expensive for buyers. Expectations for sizeable draws in crude oil inventories as a result of falling imports added to today's bullish sentiment. With gasoline inventories expected to decrease by 500,000 barrels, the September 3-2-1-crack spread, after losing 38 cents yesterday, rose by 80 cents today. This spread has lost 32% so far, during the month of August. We believe that today's firmness is a knee jerk reaction to tomorrow's expected inventory numbers and that once the numbers come out the 3-2-1 spread will narrow once again. Crude oil continues to trade within the \$70.00-\$80.00 OPEC comfort zone. At this time, the energy markets may be a little over done to the down side and a technical correction is due. Based upon a spot continuation chart, prices may find themselves back up at the 200-day moving average, which is currently set at \$77.74. Without any new news, the aforementioned range should remain intact, with our bias still to the downside.

Crude oil: Sept 10 111,348 -27,330 Oct 10 274,022 +10,222 Nov 10 138,507 +3,230 Totals 1,290,792 -10,900 Heating oil: Sept 10 48,189 -3,446 Oct 10 57,407 +2,881 Nov 10 42,351 +597 Totals 300,290 +1,582 Rbob: Sept 10 57,500 -1,041 Oct 10 76,026 +2,082 Nov 10 47,107 -1,986 Totals 251,720 -533

The API reported builds across the board, with a large unexpected build in crude stocks of 5.866 million barrels. It reported a crude stock build of 2.595 million barrels in Padd 5 and a build of 2.086 million barrels in Padd 2. The API reported that crude runs fell by 40,000 bpd to 14.457 million bpd. It however reported the large build in crude stocks despite the fall in imports of 1.359 million bpd to 9.603 million bpd. The API reported that distillate stocks built by 2.051 million barrels on the week, with a build of 1.673 million barrels in Padd 1. Distillate stocks built as apparent demand fell by 1.6% on the week to 4.136 million bpd while apparent demand basis its three week moving average fell by 2.2% on the week to 4.243 million bpd. It also reported that distillate imports increased by 74,000 bpd or 31.9% on the week to 306,000 bpd. The API reported an unexpected build in gasoline stocks of 2.026 million barrels on the week, with a build of 1.484 million barrels in Padd 3 alone. It reported the build in gasoline stocks as apparent demand fell by 5.5% on the week to 9.177 million bpd while apparent demand basis its three week moving average fell by 0.7% to 9.355 million bpd.

Crude Oil		Heating Oil		Rbob	
Support	Resistance	Support	Resistance	Support	Resistance
7506	7781	18965	22530	19260	22345
7477	7885	19236	22700	18890	24880
7299	8325	18920	22945	18750	27085
7000	8625		23775	18420	

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