



## ***ENERGY RISK MANAGEMENT***

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### **ENERGY MARKET REPORT FOR AUGUST 17, 2011**

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The US Energy Department said about 61.5% of the 30.64 million barrels of crude oil sold from the government's emergency stockpiles has been delivered as of August 15<sup>th</sup>. It said 4.65 million barrels of crude oil was delivered since the previous report, bringing total shipments as of Monday to 18.84 million barrels.

Russia's Foreign Minister Sergei Lavrov said he hoped that talks between the six world powers and Iran on Tehran's nuclear program would resume soon and use Russia's proposal as their basis. He said Iran had show an interest in the proposal. Iran's Foreign Minister Ali Akbar Salehi said that Russia's new nuclear proposal aimed at reviving talks had good elements the deserved further study.

#### **Refinery News**

Coffeyville Resources reported a release of material to the flare at its 115,700 bpd refinery in Coffeyville, Kansas due to unknown causes on Tuesday.

#### **Market Watch**

The US National Hurricane Center said a tropical wave over the central Caribbean has a 30% chance of becoming a tropical cyclone over the next 48 hours. Conditions remain conducive for some gradual development of the wave during the next couple of days. Most computer models forecast the system to move over Central America in a few days. Only one model expects it to reach the Gulf of Mexico after crossing the Yucatan Peninsula.

The US Labor Department said the Producer Price Index increased a seasonally adjusted 0.2% in July following a 0.4% decline in June. The report showed that last month's increase in producer prices was driven by higher costs for food, tobacco products, trucks and pharmaceuticals. The Core Producer Price Index, excluding food and energy, increased 0.4% in July after rising 0.3% in June. It is the largest increase since January.

The Mortgage Bankers Association said its seasonally adjusted index of mortgage application activity, which includes both refinancing and home purchase demand, increased 4.1% in the week ending August 12<sup>th</sup>. Its seasonally adjusted index of refinancing applications increased 8% to their highest level since early November. Refinancing accounted for 78.8% of total applications, up from 75.6% the previous week.

Philadelphia Federal Reserve President Charles Plosser said he disagreed with the Fed's decision to keep interest rates low for another two years because policy should be dictated by the economy rather than a timeline. The Fed last week pledged to keep interest rates low for at least two years and said it would consider further steps to help growth.

The European Union's Eurostat office said core inflation in the euro zone fell in July by 0.8% on the month and increased by 1.5% on the year. It said consumer prices overall in the 17 countries using the euro fell 0.6% on the month in July and increased 2.5% on the year.

In July, Platts proposed to change the way it calculates its Brent price as of January 2012. The change would increase liquidity following a steady decline in supplies of the North Sea crude streams used to set the dated benchmark, BFOE, consisting of Brent, Forties, Oseberg and Ekofisk crude. Royal Dutch Shell said that while it supported the Platts proposals, the adjustments would require other changes which should all be implemented at the same time. Shell proposed the amendments be made in the first quarter of 2013.

Separately, Platts is considering additional price assessments for Russian ESPO Blend which could turn the crude into an alternative benchmark for sweet grades in the Asia-Pacific region. The changes include extending the price assessment period and pricing ESPO on a delivered basis.

**DOE Stocks**

**Crude** – up 4.233 million barrels  
**Distillate** – up 2.449 million barrels  
**Gasoline** – down 3.51 million barrels  
**Refinery runs** – down 0.9%, at 89.1%

Tesoro Corp said all units at its 93,000 bpd refinery in Kapolei, Hawaii resumed operations and were returning to planned rates. The units were shut due to failure of a piping component on Monday.

Sweden's Preem said it will shut its 113,000 bpd Gothenburg refinery for six weeks starting in early September.

Brazil's Petrobras is gradually restarting operations at its 31,000 bpd refinery in Argentina after a fatal explosion forced the refinery to shut down last week.

Russia's Transneft restarted a 2 million ton/year diesel pipeline linked to TNK-BP's Ryazan refinery. The pipeline was damaged on Monday while a power cable was being laid along the link.

At least two spot fuel oil cargoes from Iran, totaling about 120,000 tons for August-September loading have been offered.

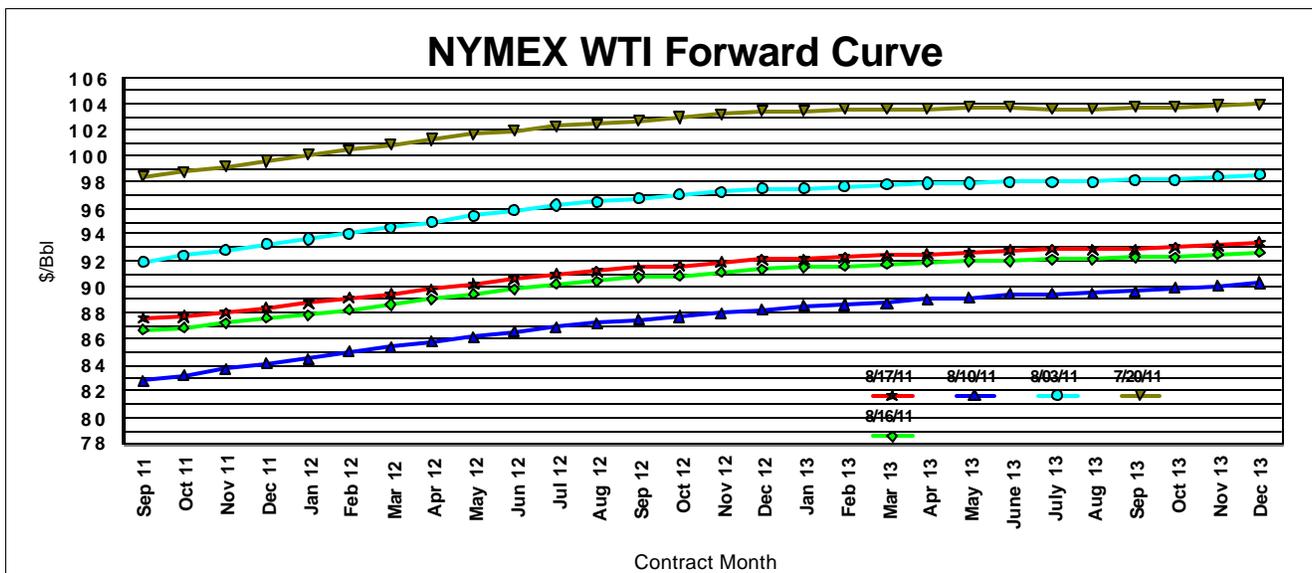
**Production News**

Royal Dutch Shell said a large amount of oil remained in its leaking pipeline, raising the possibility that Britain's worst oil spill for a decade could worsen. It said about 660 tons of oil still remained inside the leaking pipeline. It estimates the total volume of oil which leaked remained at just over 218 tons.

**August Calendar Averages**  
**CL – \$86.99**  
**HO – \$2.9320**  
**RB – \$2.8427**

Iraq has awarded a \$471.7 million contract for an oil export facility expansion and sub-sea pipeline to Italy's Saipem. Saipem will build a single point mooring buoy with an export capacity of 900,000 bpd and construct a 50 km pipeline to transport crude oil from storage depots in Iraq's southern Faw peninsula to the new floating terminal. It should complete engineering, procurements and construction work within 24 months.

Brazil's Petrobras started production at its P-56 oil rig located in the Marlim Sul oil field in the Campos Basin off the coast of southeastern Brazil on Tuesday. The platform started production at one well, lifting 16,000 bpd. Total production should increase to 100,000 bpd from 10 producing wells in the first quarter of 2012. Separately, Petrobras said it would import 630,000 barrels of gasoline by the end of August.



Angola is scheduled to export two cargoes of the new Pazflor crude in October, which would increase the country's total crude exports to 1.6 million bpd, down from 1.67 million bpd in September.

The Joint Organization Data Initiative said oil production in Saudi Arabia increased by 10.3% in June to 9.813 million bpd from 8.895 million bpd a month earlier. The country exported 7.38 million bpd of crude oil and condensate in June, up from 6.84 million bpd in May.

Oman's Finance Ministry said the country's crude oil production increased 3% in the first six months of 2011 to 140.11 million barrels or 878,800 bpd. However Oman's exports fell by 1.8% on the year to 131.17 million barrels in the first six months of the year.

Market sources said twenty three cargoes of Colombian crude are scheduled to load in September.

### **Market Commentary**

The energy markets settled higher on the day as the dollar lost value against the euro. The higher settlement in crude oil came despite larger than expected builds in U.S. stockpiles. Worth noting is that the U.S. SPR released 5.9 million barrels of crude oil, bringing total releases since July 17 to 20.4 million barrels. Despite these releases, net crude oil inventories declined, with stockpiles at Cushing, OK declining for the third straight week. The decline in inventories at Cushing is evident in the spot month spread, which has gained 29 cents in the past three weeks. This spread now stands at -.15, the strongest level since July of 2010. At that time, the price of crude oil was trading around \$86.19 a barrel, \$ 1.39 cheaper than today's settlement of \$87.58. With demand for both gasoline and distillate down year on year, we cannot conceive that prices will be able to sustain strength. Technically, crude oil appears to have additional room to the upside, but we would like to see how it reacts to the \$90.00 level.

Crude oil: Sept 11 130,701 -39,519 Oct 11 275,622 +22,406 Nov 11 147,646 +2,655 Totals 1,553,021 -9,813 Heating oil: Sept 11 61,109 -2,803 Oct 11 59,800 +2,385 Nov 11 39,472 +1,752 Totals 311,693 +989 Rbob: Sept 11 58,232 -89 Oct 11 63,869 +2,642 Nov 11 32,121 -907 Totals 256,851 +3,352

Crude Oil		Heating Oil		Rbob	
Support	Resistance	Support	Resistance	Support	Resistance
7552		27020	32777	25145	33369
7487		26680	33370	24240	35915
7365	8988	27375	33510	23631	36310
6423	9122	23685		23414	
6394	9726	22960			
6119	9872				
	10071				
	10222				
<b>50-day MA</b>	<b>93.91</b>				
<b>200-day MA</b>	<b>95.28</b>				

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