



ENERGY RISK MANAGEMENT

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ENERGY MARKET REPORT FOR AUGUST 18, 2010

Iran's Supreme Leader, Ayatollah Ali Khamenei said Iran would not conduct talks with the US about its nuclear program unless sanctions and military threats are lifted. He said Iran has always rejected US offers for talks because negotiations under threat are not negotiations.

Market Watch

The US National Hurricane Center said a tropical wave over the west central Caribbean Sea south of eastern Cuba still has a low 10% chance of developing over the next 48 hours as it moves west. It is too soon for computer models to project where the system would make landfall, if at all.

According to a Dow Jones Newswires survey, oil prices should continue to increase amid an ongoing economic recovery. The average price of light, sweet crude in 2010 is seen at \$79/barrel, down from a previous estimate of \$79.10/barrel while in 2011 the average price is estimated at \$85/barrel, unchanged from the previous estimate. The average price of Brent crude in 2010 is estimated at \$78/barrel, down from a previous estimate of \$78.60/barrel while the price in 2011 is estimated at \$84.50/barrel, up from a previous estimate of \$82.80/barrel.

Russia defended the nuclear plant it is building for Iran in the southern city of Bushehr, ahead of ceremony to mark the formal launch of the facility on August 21st. Russia's Foreign Minister Sergei Lavrov described the power plant as an anchor that would keep Iran firmly fixed to peaceful use of nuclear energy.

Venezuela's ambassador to Iran, David Velasquez said Venezuela will continue to supply Iran with gasoline despite sanctions imposed against the Islamic Republic by the US, European Union and others. He said Venezuela would not be breaking any US laws by exporting gasoline to Iran. Venezuela is exporting about 20,000 bpd of gasoline to Iran.

The top official overseeing the Gulf of Mexico oil spill response, Retired Coast Guard Admiral Thad Allen said BP Plc has more testing ahead before it can finally plug its ruptured oil well in the Gulf. BP engineers and government scientists are concerned that the cement injected to the top of the well

may have trapped up to 1,000 barrels of oil in the space between the well pipe and the surrounding rock layers. They want to make sure pumping in mud and cement through the relief well will not increase pressure and force the oil up.

DOE Stocks

Crude – down 818,000 barrels
Distillate – up 1.069 million barrels
Gasoline – down 39,000 barrels
Refinery runs – up 1.9%, at 90%

Refinery News

BP Plc shut the White Oak pipeline that transports finished products from its 405,000 bpd Whiting, Indiana refinery to two Illinois terminals to find the source of a leak.

**August
Calendar Averages**
CL – \$78.95
HO – \$2.0985
RB – \$2.0576

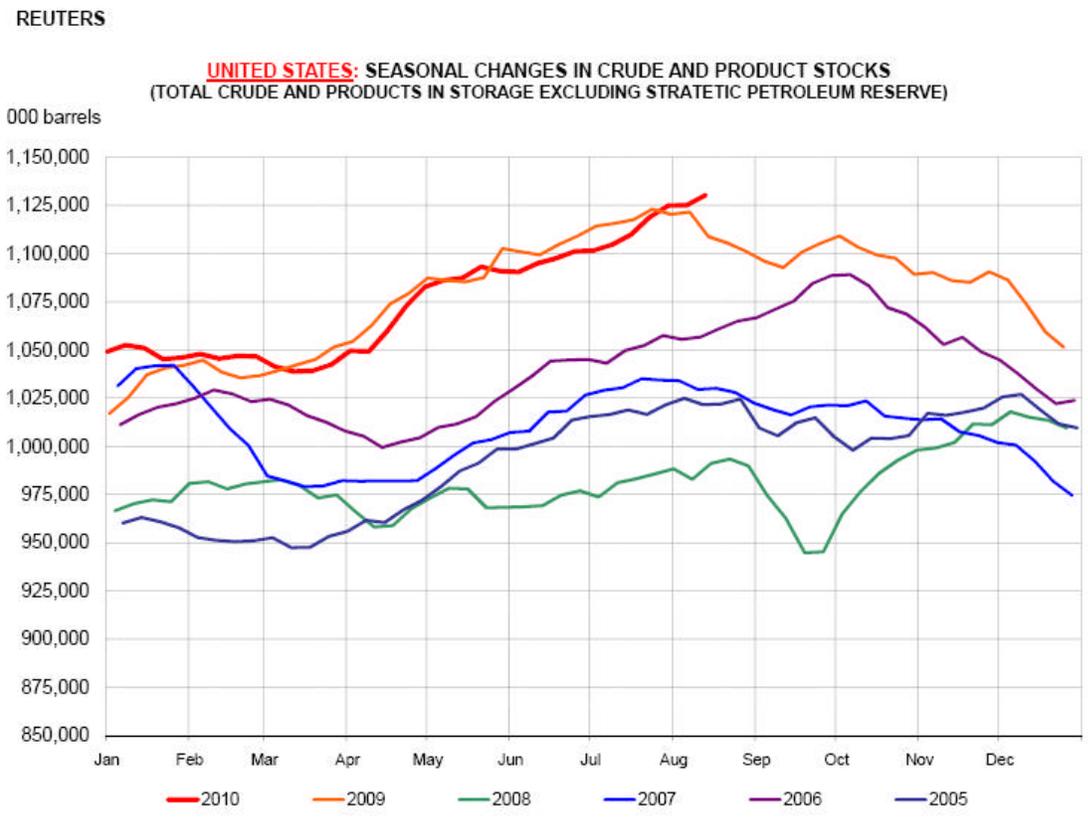
Valero Energy Corp shut a naphtha hydrotreater unit at complex 7 of the East Plant at its 315,000 bpd Corpus Christi, Texas refinery on Tuesday evening to repair a leak at a heat exchanger. Valero said it expects no material impact on production at the refinery.

Venezuela’s 187,000 bpd Puerto La Cruz refinery suffered an explosion on Tuesday forcing PDVSA to shut the facility’s 5,000 bpd alkylation unit. PDVSA however said the explosion did not spark a fire at the refinery. It said the explosion had no impact on output.

Hovensa LLC shut an unidentified unit at its 500,000 bpd St. Croix refinery due to a pipe leak Tuesday afternoon.

Brazil’s Petrobras is carrying out 30 days of maintenance at its 189,000 bpd Repar refinery until August 30th. Petrobras said it is scheduled to conduct 30 days of maintenance at its 170,000 bpd Cubatao refinery starting in September. It has not disclosed which refinery units will be affected or how it will affect imports.

According to consultancy JBC Energy, refiners in North America and Europe could shut down a combined 4.3 million bpd or about 11% of refining capacity by 2013. It forecast that 2.5 million bpd of unprofitable refining capacity will need to be shut down in Europe by 2013, assuming refinery utilization stays at an average 82%. It said North American shutdowns of about 1.8 million bpd are



Source: Energy Information Administration

required by 2013 to balance out the market, assuming refinery utilization averages of 86%.

Japan's JX Holdings said it has indefinitely shut the 17,000 bpd reformer unit at its Osaka refinery after a fire broke out at the 115,000 bpd facility earlier on Wednesday.

Vitol Group is building up its flotilla of tankers slated to store jet fuel in Northwest Europe. It has booked five tankers, with a potential to hold 450,000 metric tons of jet fuel in August.

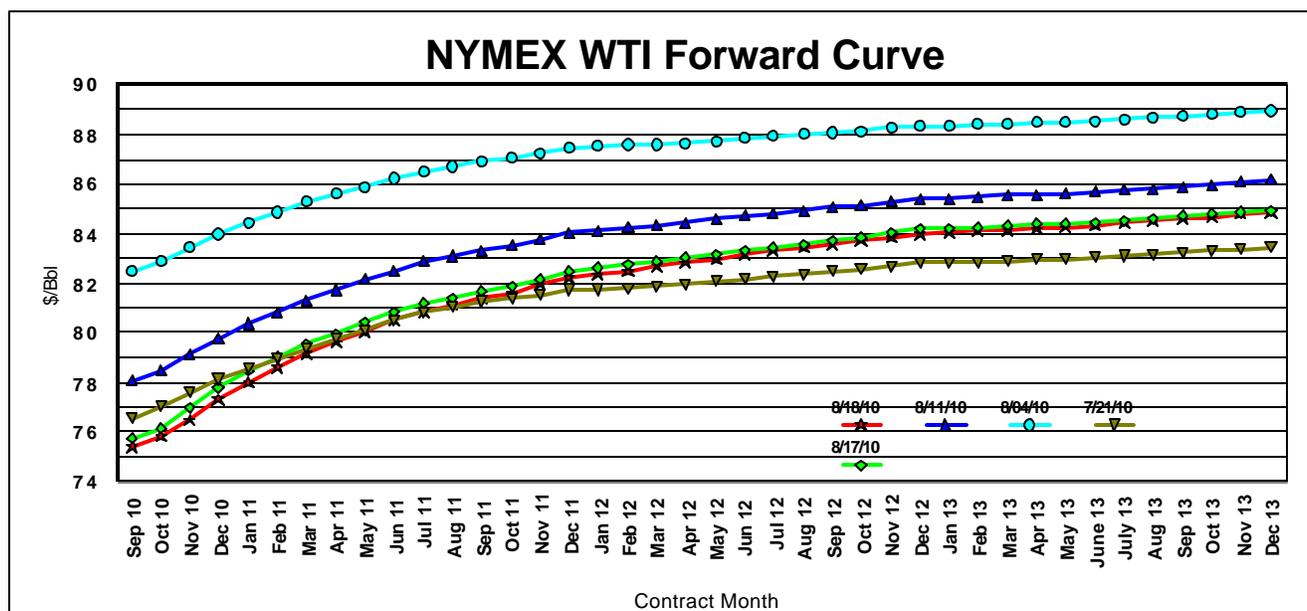
The Petroleum Association of Japan reported that crude stocks in the week ending August 14th fell by 6.54 million barrels on the week and by 2.95 million barrels on the year to 94.44 million barrels. Japan's gasoline stocks fell by 90,000 barrels on the week but increased by 50,000 barrels on the year to 12.1 million barrels while its kerosene stocks increased by 360,000 barrels but fell by 5.1 million barrels on the year to 12.6 million barrels and naphtha stocks fell by 1.63 million barrels on the week to 11.72 million barrels. Japan's crude runs increased by 30,000 bpd on the week and by 70,000 bpd on the year to 3.77 million bpd. Japan's refinery utilization rate increased by 0.7% on the week and by 5.2% on the year to 81.4%. Japan's total oil product sales increased by 11.1% on the week but fell by 5.3% on the year to 3.08 million bpd. The PAJ reported that gasoline sales increased by 16% on the week but fell by 0.4% on the year to 1.16 million bpd while gas oil sales increased by 24.4% on the week and by 2.2% on the year to 700,000 bpd and kerosene sales fell by 25.4% on the week and by 9% on the year to 140,000 bpd. Japan's naphtha sales fell by 1.4% on the week and by 29.1% on the year to 340,000 bpd while its jet fuel sales fell by 44.4% on the week and by 25.5% on the year to 63,000 bpd.

India's oil products sales increased 3.7% in July to 10.81 million tons from 10.42 million tons a year earlier. India's gasoline sales in July increased by 14.8% to 1.16 million tons from 1.01 million tons in July while its diesel sales increased by 6.4% to 4.81 million tons from 4.52 million tons a year earlier.

Saudi Arabia has purchased at least three to four extra cargoes of gasoline for September to November. Saudi Arabia typically imports between 60,000 bpd and 70,000 bpd of gasoline monthly however traders said it was buying more following maintenance at one of its refineries.

Production News

Royal Dutch Shell Plc said force majeure has been declared on August and September exports of Nigerian Bonny Light crude following production deferment from recent crude theft activities in eastern



Niger Delta. Oil output from Nigeria's Bonny Light crude stream has been reduced by as much as 100,000 bpd following recent sabotage of pipelines.

The Norwegian Petroleum Directorate said Norway's crude oil output in July increased to 1.804 million bpd, up slightly from June. It reported that so far this year, crude production has averaged about 1.9 million bpd.

Petroecuador exported 6.78 million barrels or 218,586 bpd of crude in July, down 3% from 7.02 million barrels or 226,452 bpd last year. Exports of Oriente crude were 4.81 million barrels in July while exports of Napo crude were 1.97 million barrels.

Iraq's Missan Oil Co is working to double its current crude production from the southern oil fields in Missan governorate next year. It said about 90,000 bpd if produced from the Buzorgan, Fakka and Abu Ghirab oil fields.

Russia's Gazprom Neft expects to produce over 51 million tons or 1.02 million bpd in 2011. Gazprom has so far produced 25.8 million tons or 1.03 million bpd in the first six months of the year.

OPEC's news agency reported that OPEC's basket of crudes increased by 98 cents to \$73.25/barrel on Tuesday from \$72.27/barrel on Monday.

Market Commentary

Crude oil fell as much as 2.6% during the day as the market reacted to total petroleum stocks increasing to their highest level in at least 20 years. This stockpile increase coupled with concern about a slowing U.S. economy, heightened demand worries. Despite expected declines for gasoline and crude oil, the declines were below forecasted levels. The overall market remains well supplied as demand continues to suffer. WTI has been trading at a discount to Brent based on brimming stock levels in Cushing, OK. The spot month contract had been trading at a discount to Brent since the beginning of July. Today's decrease of 687,000 barrels at Cushing momentarily narrowed the discount however, news of a force majeure by Royal Dutch Shell on its Nigerian Bonnie Light, forced a narrowing of this spread again. Going forward, there is belief that an extended ban on offshore drilling in the U.S. will help the WTI to gain against the Brent.

A late morning comeback came on the heels of a rebounding stock market, with crude oil moving towards the high of the day. Once again, our stance of this market is that it would continue to be range bound as long as the current stockpile situation remains the same and as long as the global economic situation is questionable.

Crude oil: Sept 10 66-840 -44,508 Oct 10 286,890 +12,868 Nov 10 138,749 +242 Totals 1,267,340 -23,452 Heating oil: Sept 10 45,195 -2,994 Oct 10 57,680 +273 Nov 10 42,654 +303 Totals 298,369 -1,921 Rbob: Sept 10 54,341 -3,159 Oct 10 76,202 +176 Nov 10 47,842 +735 Totals 251,053 -667.

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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