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ENERGY MARKET REPORT FOR AUGUST 20, 2010

Iran's President Mahmoud Ahmadinejad said Iran is ready to return to stalled talks with world powers without conditions over a plan to swap nuclear material for fuel. He said Iran was open to resuming talks by late August or early September with permanent members of the UN Security Council and

Germany. He said Iran would stop higher grade uranium enrichment if it is assured of nuclear fuel supplies for its Bushehr nuclear plant. On Wednesday, Supreme Leader Ayatollah Ali Khamenei said Iran would not conduct talks with the US about its nuclear program unless sanctions and military threats were lifted. Meanwhile, Iran's nuclear chief Ali Akbar Salehi said Iran will proceed with its uranium enrichment program so it can provide fuel for the Bushehr plant due to go online on Saturday. He said Iran will continue to enrich uranium as the country may not always be in a position to buy fuel for the plant from Russia. Separately, Russia's Deputy Foreign Minister Sergei Ryabkov said there is a 100% guarantee that Iran's first nuclear power plant will be used only for peaceful purposes.

The New York Times reported that the US persuaded Israel that Iran would take a year or longer to build a nuclear weapon, lessening the prospect of a preemptive strike on Iran's nuclear facilities. US President Barack Obama's top adviser of nuclear issues, Gary Samore said the US believes international inspectors would detect any Iranian move toward breakout within weeks, leaving the US and Israel enough time to craft a response.

A South Korean government official said South Korea will soon start separate talks with the US and Iran as it comes under pressure to join US led sanctions. South Korea faces a conundrum over

Market Watch

The US National Hurricane Center said a low pressure system southwest of the Cape Verde Islands strengthened overnight and has a 40% chance of developing into a tropical depression over the next 48 hours. It is too soon for computer weather models to project where the system will make landfall, if at all. Elsewhere, the NHC said there is a 10% chance a tropical wave could strengthen into a depression in the Bay of Campeche over the next day or two after it crosses the Yucatan Peninsula.

The US Transportation Department said US highway travel in June was up 1.3% on the year at 3.4 billion miles. The increase followed a 0.1% fall in May. Total highway travel for the year is up 0.1% or 1.6 billion miles.

Venezuela's El Nacional newspaper reported that Venezuela suspended temporary power rationing in three western states after repairing a transformer at the Planta Centro power generator in Falcon state. 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.

**August
Calendar Averages**
CL – \$78.28
HO – \$2.0835
RB – \$2.0402

whether to support the US and impose sanctions against Iran or heed Iran's warning that new sanctions could risk business deals and endanger a major source of oil.

The API said US demand for crude oil and oil products in July increased by 3.8% on the year to 19.327 million bpd.

US oil inventories are at their highest level in at least 20 years but a sharp reduction in crude oil stocks held on tankers at sea shows global supplies have been tightening. Total US oil stocks increased by 5.9 million barrels to 1.13 billion barrels last week, the highest level since the EIA began releasing weekly data in 1990. However oil stocks held in tankers offshore have declined by 45 million barrels during June and July to about half the peak level above 100 million barrels last year. According to the Gibson Tanker Report, oil stored globally in tankers offshore fell by 30% in July alone or 25.6 million barrels to about 59 million barrels.

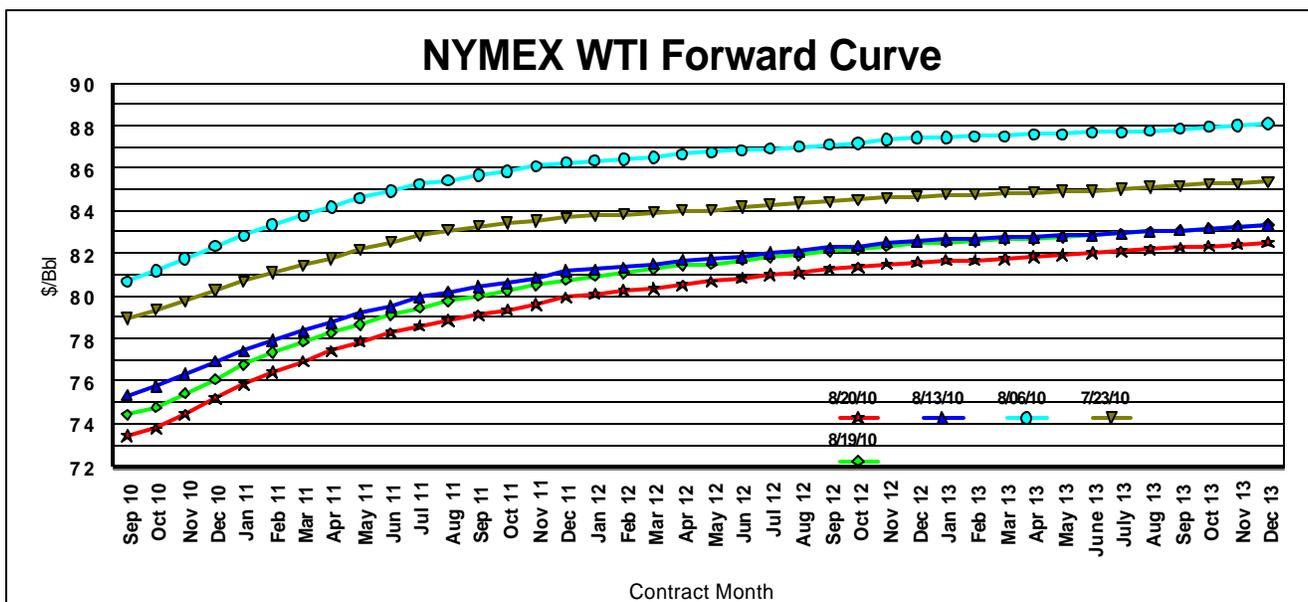
Euroilstock reported that oil refinery output in Europe fell by 3.4% on the month and by 2.6% on the year to 11.529 million bpd in July. Gasoline production in July fell by 2.7% on the month and by 7.2% on the year to 2.802 million bpd while middle distillate production fell by 3.1% on the month and by 1% on the year to 5.775 million bpd and fuel oil production fell by 5% on the month and by 2% on the year to 1.321 million bpd. Refinery utilization in Europe fell to 84.38% in July from 85.96% in June. Crude runs fell by 1.8% on the month and by 0.4% on the year to 11.054 million bpd.

Refinery News

Valero Energy Corp restarted its naphtha hydrotreater at its 142,000 bpd Corpus Christi, Texas refinery on Thursday. The unit was shut to repair a heat exchanger leak. The shutdown was not expected to have a material impact on production.

ConocoPhillips' oil refinery in Trainer, PA is operating at planned rates following several days of unplanned maintenance to repair a minor leak that was discovered earlier this week on a crude distillation unit. However the refinery is not operating at full capacity of 185,000 bpd due to economic reasons.

Motiva Enterprises LLC's fluid catalytic cracking unit at its 285,000 bpd Port Arthur, Texas refinery was expected to shutdown for a month of unplanned work next week.

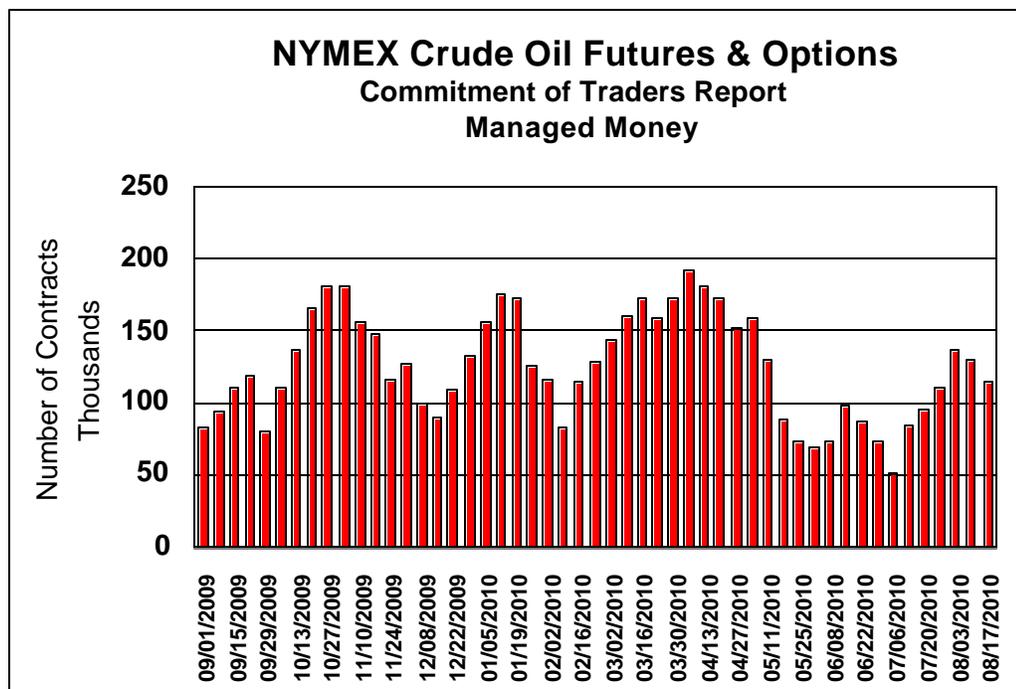


Suncor Energy Inc reported an outage at one of its hydrogen reformer units at its Fort McMurray, Alberta oil sands base plant. The production mix of low and high sulfur products will be impacted due to the repair work. An assessment is underway to determine the cause of the outage and a schedule to return the unit to operation. It said oil sands production continues to be more than 300,000 bpd.

Royal Dutch Shell has agreed to sell its 93,000 bpd Heide refinery in Germany to UK private equity fund Klesch & Co for an undisclosed sum. Shell has been seeking buyers for other refineries in Europe as part of its plan to divest about 15% of its global refining capacity. Royal Dutch Shell said it remained in non-exclusive talks with Essar for the Indian company to buy the Stanlow refinery in the UK and the Harbarg refinery in Germany.

Taiwan's Formosa Petrochemical Corp shut its No. 2 84,000 bpd residual fluid catalytic cracking unit since Wednesday due to technical issues. The unit is expected to remain down until the end of August.

Taiwan's CPC Corp will commission a new diesel hydrodesulfurizer with a capacity of 40,000 bpd in



Dalin in mid-October, in a bid to increase its capability to produce low-sulfur products.

Kuwait Petroleum International Co signed a memorandum of understanding with Pertamina to conduct studies for a refinery in Indonesia. They will jointly carry out a pre-feasibility and feasibility study for an investment opportunity in Indonesia for the

proposed new Balongan refinery with a capacity of 200,000 to 300,000 bpd.

Indonesia's Pertamina is increasing its gasoline imports in August to about 7.2 million barrels. It has previously planned to import 5.9 million barrels.

South Korea's Korea National Oil Corp said the country's crude oil imports in July increased by 5.5% on the year to 69 million barrels. It also reported that South Korea's crude runs increased by 0.8% on the year in July to 70 million barrels. The country's oil product demand increased by 0.2% on the year to 61.3 million barrels. South Korea's end of July private oil stocks fell by 0.5% to 61 million barrels.

Venezuela's PDVSA launched a tender on Tuesday to buy six cargoes of diesel of 240,000 barrels each to be delivered to Ecuador's port of Balao or to La Libertad. According to the tender, the cargoes are expected to be delivered in the October-December period.

Petroecuador said it will double its diesel imports to 6.4 million barrels this year to fuel power stations. Last year, Ecuador imported about 3 million barrels of diesel for energy generation.

Production News

While new technology has enabled companies to extract gas from previously uneconomic shale plays, oil production from shale plays has increased. The Bakkan formation in North Dakota, for example, has seen oil production increase more than 20 times to 135,000 bpd in 2009 from recoverable reserves now estimated at nearly 4 billion barrels. The Bakkan play is the only proven and successful source of oil from a shale formation but independent producers are looking at other shale formations for similar potential. The true yield from these deposits will become clearer by the end of the year, with a number of companies expected to begin drilling wells in new territories. However geologists warn the optimism may be unfounded.

Norway's Petroleum Directorate said BP's oil spill in the Gulf of Mexico will probably delay the awarding of licenses offshore Norway. The head of the Petroleum Directorate, Bente Nyland, said exploration drilling offshore Norway would fall in 2011 compared with 2010. She said oil firms were on track to drill 40-50 exploration wells this year.

Pemex said Mexico produced 2.573 million bpd of crude oil in July, up 1% on the month. It said crude exports in July were 1.386 million bpd, up from 1.11 million bpd in June.

Nigeria's state oil company increased its official selling prices for its Bonny Light and Qua Iboe crude in September by 10 cents to a premium of \$1.85 over the Dated Brent benchmark, up from a premium of \$1.75 in August. The price for its Brass River crude was set at Dated Brent plus \$1.85.

OPEC's news agency reported that OPEC's basket of crudes fell by 2 cents to \$73.03/barrel on Thursday.

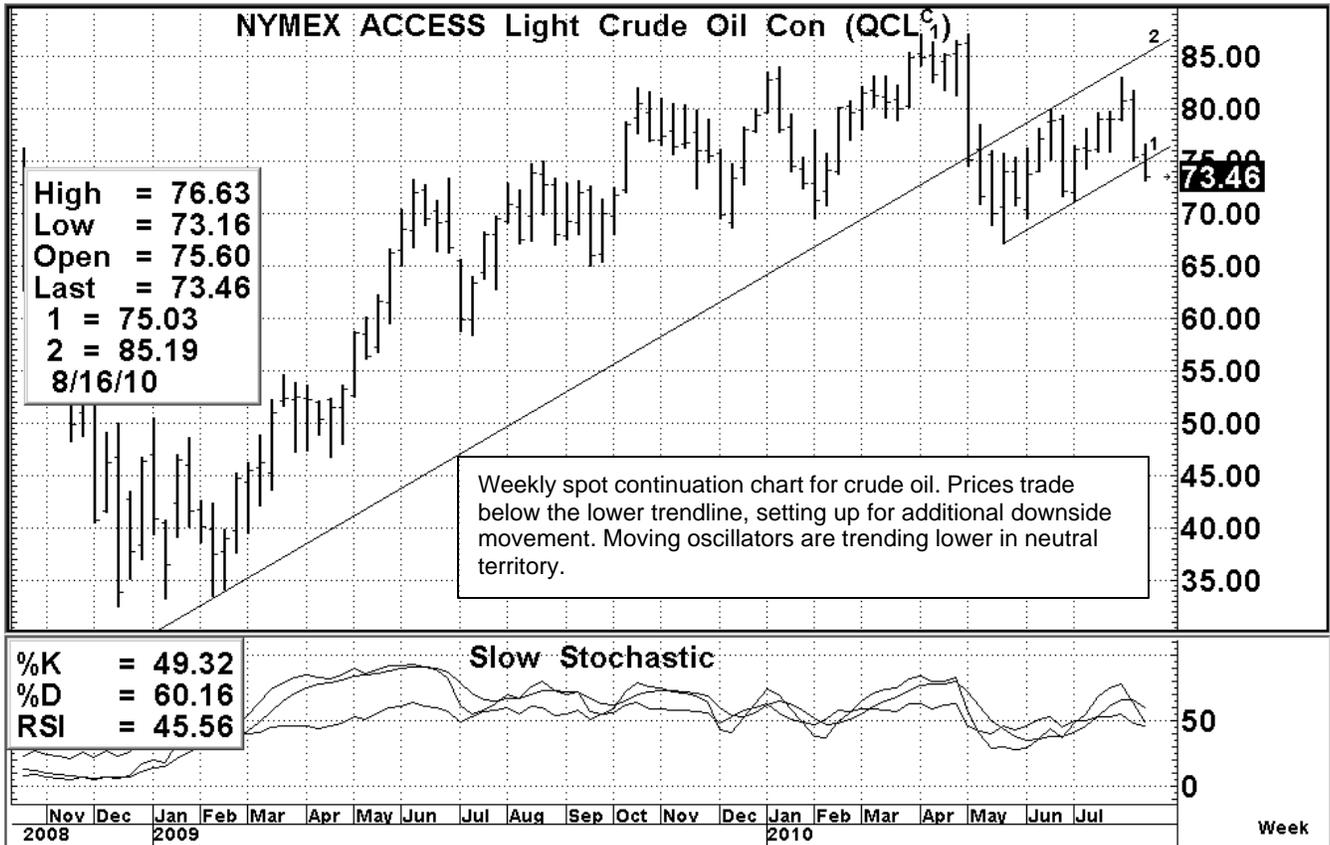
Market Commentary

Crude oil posted its second straight week of losses succumbing to pressure from the global economy, a strengthening dollar and bursting inventory numbers. Gasoline and heating oil were also lower, pressured by an inventory oversupply and lack of growing demand. The September crude oil contract dipped down towards the long-term weekly trendline of \$73.17 mentioned in yesterday's wire but failed to trade below it. With current fundamentals the way they are and the lack of economic support, prices should head lower next week. The initial downside objective would be \$70.00 and then \$64.87 below that.

The Commitment of Traders report showed that non-commercials in the crude market increased their net long position by 1,720 contracts to 62,056 contracts in the week ending August 17th. However the combined futures and options report showed that non-commercials cut their net long position by 3,643 contracts to 150,053 contracts on the week. The disaggregated futures and options report showed that managed money funds continued to cut their net long positions by 16,450 contracts to 114,455 contracts in the latest week. The funds have continued to cut their net long position amid the continued selling seen in the market in the past few trading sessions. Meanwhile, the combined futures and options report showed that non-commercials in the heating oil market cut their net long position by 24,008 contracts to 4,867 contracts while non-commercials in the RBOB market cut their net long position by 25,859 contracts to 24,744 contracts on the week.

Crude oil: Oct 10 311,703 +14,385 Nov 10 137,454 -2,652 Dec 10 188,721 -1,115 Totals 1,252,898 -12,225 Heating oil: Sept 10 39,219 -2,793 Oct 10 62,223 +2,672 Nov 10 43,407 +346 Totals 299,725 +1,785 Rbob: Sept 10 50,324 -2,114 Oct 10 81,142 +5,066 Nov 10 47,344 +263 Totals 254,065 +3,926.

Crude Oil		Heating Oil		Rbob	
Support	Resistance	Support	Resistance	Support	Resistance
7317	7506	18965	22530		19260
7109	7477	19236	22700	18890	22345
7000	7781	18920	22945	18750	24880
6487	7885		23775	18420	27085



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