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ENERGY RISK MANAGEMENT

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ENERGY MARKET REPORT FOR AUGUST 23, 2011

The US National Hurricane Center said the core of Hurricane Irene, currently a category 2 hurricane, is headed towards the Turks and Caicos Islands and the southeastern Bahamas. The hurricane was packing maximum sustained winds of 100 mph and was moving west northwestwards at 10 mph. It said that by the time Irene reaches US shores, it is likely to be a much more potent storm, perhaps as high as a category four storm. It is expected to move parallel to Florida's east coast on Thursday for a possible landfall in North Carolina on Saturday. It is

Market Watch

The US Commerce Department said new home sales fell during July to the lowest level in five months. New homes sales fell by 0.7% on the month to a seasonally adjusted annual rate of 298,000, the lowest level since February. Sales in June were revised to a 2.9% decline to 300,000 from a previously reported 1% decline to 312,000. The median price in July for a new home was \$222,000.

A gauge of factory output on the US eastern seaboard fell further into negative territory in August on slower growth in new orders and shipments. The Federal Reserve Bank of Richmond said its composite index of factory activity in its district fell to -10 from -1 in July.

JP Morgan lowered its price forecast for Brent crude, as rebel forces moved into the Libyan capital of Tripoli, increasing the possibility that the country's crude could soon begin to return to the market while a bleak economic outlook implies that oil demand could fall at the same time. It sees Brent averaging \$115/barrel next year, down \$9/barrel from its previous forecast. Between now and the end of next year it expects the crude to trade in a \$110-\$120/barrel range.

Citigroup has cut its oil price forecast for Brent crude to \$95/barrel at the end of 2011 and to an average \$86/barrel in 2012.

BNP Paribas cut its crude oil price forecasts for 2011 and 2012 citing the emergence of double dip recession fears and abundant flow of crude into the market through the US SPR. It cut its 2011 WTI price forecast by \$5 to \$97/barrel and its 2012 forecast by \$10 to \$107/barrel. It also cut its Brent price forecast for this year by \$2 to \$114/barrel and by \$4 to \$124/barrel for 2012.

Morgan Stanley said Gaddafi's departure could increase Libyan crude production and thus lead to normal inventory draws and reducing the need for incremental OPEC output in the fourth quarter of 2011. It said Libyan production increasing from 80,000 bpd to 300,000 bpd in October presents downside of \$4/barrel to its current 2011 Brent forecast of \$120/barrel.

UBS said it increased its one month silver forecast to \$46 from a previous estimate of \$35. It also revised its three month forecast to \$50 from its previous forecast of \$33.

Economic growth is stagnating in Europe. Markit's composite euro zone PMI for August, a measure of private sector activity which combines services and manufacturing, was flat from the previous month at 51.1. The euro zone's services PMI fell to 51.5 this month from 51.6 in July. The PMI for the euro zone's manufacturing sector fell to 49.7 from 50.4.

The preliminary HSBC China Manufacturing Purchasing Managers Index increased to a two month high of 49.8 in August from a final reading of 49.3 in July. The manufacturing output sub-index, meanwhile increased to a two month high of 49.4 from a 28 month low of 47.2 in July.

Senator Bernie Sanders is demanding the US CFTC hold an emergency meeting to implement its plan for position limits. He said evidence shows that excessive speculation increased oil and gasoline prices. He rejected claims that the CFTC cannot impose strict position limits because it lacks sufficient information and encouraged the agency to hold an emergency meeting to implement the new safeguards.

API Stocks

Crude – down 3.342 million barrels
Distillate – up 1.966 million barrels
Gasoline – up 6.365 million barrels
Refinery runs – up 1.8%, at 89%

expected to approach Washington, DC by early Sunday. The Federal Emergency Management Agency warned that Hurricane Irene could threaten the entire East Coast. The NHC said a large low pressure area centered around 300 miles southeast of the Cape Verde Islands has a 20% chance of becoming a tropical cyclone during the next 48 hours as it moves to the west. Another low pressure system

located about 750 miles west-northwest of the northernmost Cape Verde Islands also has a 20% chance of becoming a tropical cyclone over the next couple of days.

NATO declared that the end is near for Muammar Gaddafi, despite a defiant appearance from his son, Seif al-Islam. NATO has aircraft operating over Tripoli however an official could not confirm it had launched an air strike against the compound of Muammar Gaddafi. It said it does not know where Libya's leader is and added that NATO does not view him as a target. Turkey's Foreign Minister Ahmet Davutoglu said NATO would continue its military campaign in Libya until full security was established in the country. Meanwhile, former Croatian President Stipe Mesic who has close ties to Muammar Gaddafi said the Libyan leader said he was ready to step down if NATO ended its airstrikes. Libyan rebels took over the eastern oil hub town of Ras Lanuf on the road to Muammar Gaddafi's hometown of Sirte. Libyan rebels also took over Muammar Gaddafi's Bab al-Azizya compound and headquarters in Tripoli following a massive offensive.

Analysts stated that with Libyan opposition forces now in control of much of the country's oil fields, refineries and export terminals, Libyan crude oil could start returning to world markets quicker than previously expected. Wood Mackenzie said Libya is expected to get back up to 600,000 bpd of production within three months, assuming a quick end to hostilities and a focus by the new government on repairing infrastructure and stabilizing the sector. However it cautioned that it would take three years for Libya's oil production to rebound to preconflict levels.

Goldman Sachs said the recent success of rebel forces against Muammar Gaddafi is likely to mean Libya would produce more crude than initially expected by 2012. It had originally forecast production would average 250,000 bpd next year but now sees a greater possibility that production could reach 585,000 bpd by the end of 2012.

Turkish Energy Minister Taner Yildiz said Turkey wants Turkiye Petrolleri to resume oil exploration and production work in Libya if security is established.

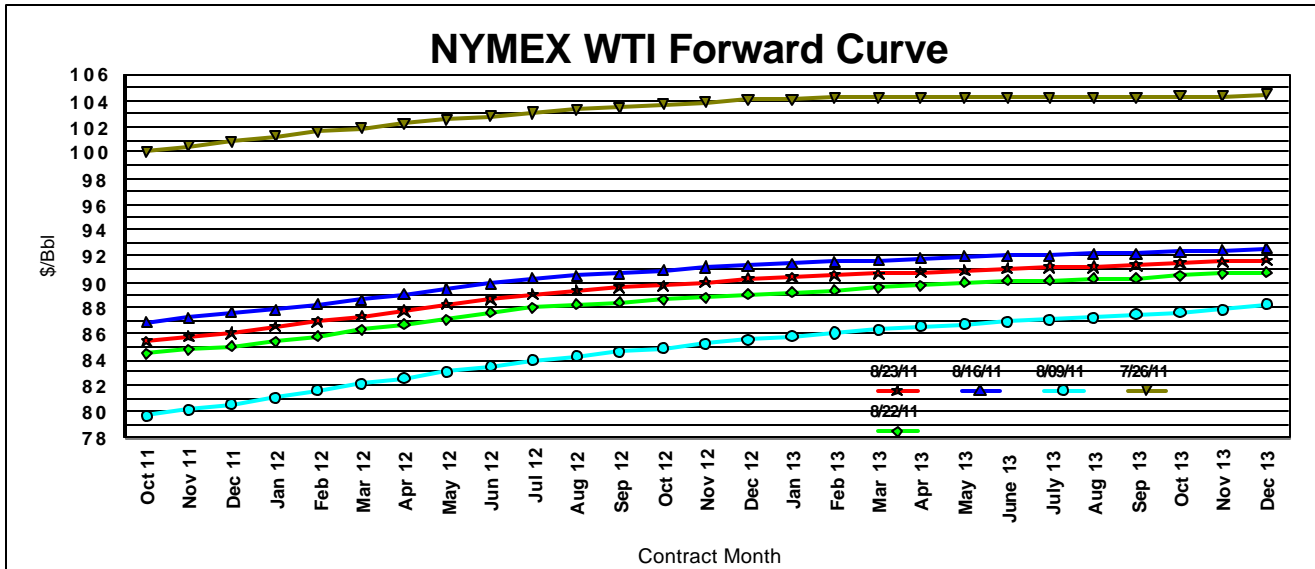
Russia's Gazprom will not begin talks on restarting its projects in Libya until a legitimate regime is in place in the country. Gazprom halted work at oil concessions producing 100,000 bpd when unrest started in the country in February.

The US is monitoring Libyan chemical weapons sites, according to an off-camera Pentagon briefing.

A senior Gulf OPEC official said Saudi Arabia would adjust its oil export levels if needed as Libya resumes its oil production even though OPEC expects Libya's output to slowly recover. OPEC officials said the group currently sees no need for an emergency meeting to discuss the situation.

A senior Iranian official said a top UN IAEA official last week toured Iranian nuclear sites, including site where uranium is enriched. He said Iran allowed the visit to show the country's goodwill. The team was also taken to see advanced centrifuges adding that at the end of the tour the delegation had talks with Iran's atomic organization chief Fereydoun Abbasi Davani.

**August
Calendar Averages**
CL – \$86.18
HO – \$2.9264
RB – \$2.8406



According to a SpendingPulse report released by MasterCard Advisors LLC, US weekly gasoline demand fell 0.8% on the week to 9.063 million bpd in the week ending August 19th. Demand in the latest four weeks averaged 9.145 million bpd, down 3.8% on the year. It reported that the average retail price of gasoline fell by 4 cents to \$3.59/gallon.

Refinery News

The Pipeline and Hazardous Materials Safety Administration said ExxonMobil Corp received approval to restart a 20 mile section of the Silvertip pipeline running between Laurel and Billings, Montana. ExxonMobil Pipeline Co is expected to begin drilling a bypass to its 40,000 bpd Silvertip crude oil pipeline as early as next week.

Enbridge Inc said its Line 6B was apportioned by 21% while Line 5 was apportioned by 4% for September.

Colonial Pipeline Co halted product shipments along two of its pipeline routes in the Northeast after a 5.9 earthquake struck the region. Colonial halted service along its Line 3 and Line 4, which connect Linden, NJ and central Maryland to Greensboro, N.C. as a precautionary measure shortly following the earthquake. It said it would resume operations on the two lines hopefully by Tuesday evening.

Rail shipments of crude oil from the Midwest to refiners in the Gulf Coast appear set to increase next year to nearly double the volume now flowing in pipelines between the regions. Rail shipments have already increased to about 100,000 bpd in recent months. The daily cargoes between the Midwest and the Gulf Coast could triple to 300,000 bpd by late 2012. Two rail terminals in St. James, Louisiana receive the majority of the crude. US Development Corp is doubling the size of its St. James terminal to receive 130,000 bpd of crude starting in October. The Association of American Railroads said total US crude and petroleum product shipments by rail hit a record weekly high last month and reached 7,529 carloads last week or about 780,000 bpd, up 15% on the year.

Sunoco said its 335,000 bpd Philadelphia refinery and 178,000 bpd Marcus Hook refinery in Pennsylvania were operating normally after a 5.9 magnitude earthquake struck the US East Coast.

Colonial Pipeline, which carries refined products from the Gulf Coast to Northeast reported no impact to its operations following the earthquake.

ConocoPhillips said operations continue at its Trainer, Pennsylvania refinery and Bayway refinery in Linden, NJ following the earthquake.

Husky said there was no impact on its Lima, Ohio refinery following the earthquake.

PBF Energy reported a loss of power possibly due to lightning at its 182,000 bpd Delaware City refinery.

Some workers at BP Plc's 405,000 bpd Whiting, Indiana refinery were moved from a section of the property after monitors detected high levels of a chemical that could cause health problems. A compressor upset at the refinery occurred before operators detected a chemical release. The compressor was shut and the upset caused no significant impact to production.

BP Plc's 225,000 bpd Cherry Point refinery in Ferndale, Washington resumed normal operations after a diesel unit malfunctioned on Sunday. The upset caused no significant impact to production.

Tesoro Corp's 98,000 bpd refinery in Wilmington, California is back on line after experiencing a temporary power outage on Sunday, which resulted in some flaring. It said its alkylation unit was operating normally.

Italy's Api will shut its 85,000 bpd refinery in Italy on October 27th for about 20 days.

A US Virgin Islands port supplying the 350,000 bpd Hovensa LLC refinery in St. Croix reopened on Monday afternoon. The US Coast Guard closed the port in light of a tropical storm warning that was in effect at the US Virgin Islands ahead of Hurricane Irene.

South Korea's National Oil Corp said the country imported 78.29 million barrels or 2.53 million bpd of crude in July, up 13.5% on the year. South Korean refineries processed 78.24 million barrels of crude in July, up 11.7% on the year and up 4.2% on the month. It reported that South Korea's commercial crude oil stocks increased by 24.9% on the year to 10.57 million barrels. It also reported that South Korea's gasoline consumption in July increased by 24.1% on the month and by 9.2% on the year to 6.6 million barrels while its diesel consumption increased by 11.3% on the month and by 4% on the year to 11.7 million barrels.

Algeria's Sonatrach issued a tender to buy up to 175,000 tons of gasoline for delivery between September and December this year. Three cargoes are wanted for delivery in September, with a further cargo per month sought in the final quarter of 2011.

Production News

Royal Dutch Shell declared force majeure on Nigerian Bonny Light crude exports. A source said the force majeure was placed on crude exports for the rest of August and September. The reason for the force majeure was not immediately clear.

Saudi crude oil is scheduled to reach the US West Coast next month from storage in Okinawa. ConocoPhillips has chartered the 600,000 barrel Blue Sea tanker to load in Okinawa on August 24th. The crude would come from Saudi Aramco's leased storage in Okinawa. Saudi Aramco started shipping crude to Okinawa in February as part of an agreement with Japan Oil, Gas and Metals National Corp to store about 3.8 million barrels of crude for three years.

A Forties crude cargo has been dropped from the September loading program. Cargo F0919, which was due to load on September 23-25, has been canceled. Sources also stated that three cargoes of Forties crude have been delayed in September due to lower than expected production. The delayed

cargoes are F0901, F0902 and F0906, which were deferred by about two days. A cargo for August loading has also been delayed. Eleven out of 16 Forties cargoes for August loading have been delayed due to maintenance at the BP Plc operated Forties Pipeline System and a number of North Sea fields.

Nigeria is scheduled to export about 1.85 million bpd of crude oil in October. It is down from about 1.99 million bpd planned in September.

Indonesia's upstream oil and gas regulator BPMigas said operations at the Tiaka oil field in Central Sulawesi have been halted since Monday after protesters attacked the facility. About 30 protesters staged an attack at the field's facilities on Saturday.

PetroVietnam's upstream arm PVEP and Bolivia's YPFB signed a deal to jointly study three oil and gas blocks in Bolivia. Under the agreement, the two companies would study the blocks and establish reports on specific potential oil and gas areas.

Market Commentary

Rising equities pulled crude oil higher on anticipation that the U.S. Federal Reserve would initiate another round of economic stimuli. Adding to today's higher prices was concerns regarding the ability of Libya to produce crude oil from its damaged infrastructure. The new regime will have to work fast to bring production back on line, as they will be totally dependent on oil revenues. While we have to take a wait and see stance on this, technical play has turn to the upside for the near term. The \$90.00 level still stands, as the resistance area prices need to hold above. We would look for a bounce up to this level, selling failures to gain momentum above it.

Crude oil: Oct 11 314,873 +2,749 Nov 11 145,297 +1,321 Dec 11 198,409 -845 Totals 1,464,806 – 8,203 Heating oil: Sept 11 42,491 –3,234 Oct 11 66,881 -269 Nov 11 40,899 +1,727 Dec 11 50,782 +1,537 Totals 307,041 +704 Rbob: Sept 11 34,662 –4,036 Oct 11 67,156 -658 Nov 11 32,807 +235 Totals 251,769 –3,649

Crude Oil		Heating Oil		Rbob	
Support	Resistance	Support	Resistance	Support	Resistance
7552		27020	32777	25145	33369
7487	8337	26680	33370	24240	35915
7365	8988	27375	33510	23631	36310
6423	9122	23685		23414	
6394	9726	22960			
6119	9872				
	10071				
	10222				

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