

**W** The  
Windham Group



## ***ENERGY RISK MANAGEMENT***

Howard Rennell, Pat Shigueta,  
& Karen Palladino  
**(212) 624-1132 (888) 885-6100**

**www.e-windham.com**

---

### **ENERGY MARKET REPORT FOR AUGUST 23, 2010**

---

The US National Hurricane Center said Tropical Storm Danielle, which formed over the open Atlantic on Sunday, strengthened to become the second hurricane of the Atlantic season on Monday afternoon.

Hurricane Danielle was located 1,320 miles east of the Lesser Antilles with wind speeds increasing to minimal hurricane strength of about 75 miles per hour from 65 mph earlier. Danielle was moving west northwest, with all computer models still showing the system steering in a more northwesterly direction towards Bermuda.

The top US official overseeing the Gulf of Mexico oil spill response, Retired Coast Guard Admiral Thad Allen said BP Plc aims to retrieve a failed blowout preventer atop its ruptured Macondo well in the Gulf of Mexico on Thursday. However, BP hopes to retrieve a 3,500 foot drillpipe believed to be hanging in the stack of pipes and valves to ease the removal and replacement with another blowout preventer. A relief well is 50 feet away from intersecting the Macondo well.

The EIA reported that the US average retail price of diesel fell by 2.2 cents to \$2.957/gallon in the week ending August 23<sup>rd</sup>. The price of diesel is up 28.9 cents/gallon or 10.8% on the year. It also reported that the US average price of gasoline fell by 4.1 cents/gallon to \$2.704/gallon on the week.

#### **Refinery News**

Buckeye Pipeline reported a leak in a gasoline tank at its terminal in Niles Township, Michigan over the weekend with more than 19,000 gallons spilling before the leak was stopped.

The outage of an Enbridge Inc pipeline following a rupture and oil spill four weeks ago has forced the company to limit individual shipper volumes on two other major lines in the US system. It is rationing space on Line 5, a 490,000 bpd pipeline to Sarnia, Ontario from Superior Wisconsin. It is also rationing the Southern Access pipeline, a 400,000 bpd line to Flanagan, Illinois from Superior. Shippers' nominations will be cut back by 26% on Line 5 and by 23% on Southern Access for September. Refineries served by the pipeline in Ohio, Michigan, Pennsylvania and Ontario have

#### **Market Watch**

Private weather forecaster, Weather Services International (WSI) said most of the US will experience a warmer than normal fall this year, which could curb early season heating demand. Meanwhile, it stated that it expects temperatures across most parts of Europe to average warmer than normal in the period from September to November.

The head of a UN Environment Program team investigating oil pollution in the Niger Delta said Royal Dutch Shell Plc is only to blame for 10% of the 9 million barrels of oil leaked in the last 40 years. A full report is due to be published in December.

**August  
Calendar Averages**  
**CL – \$77.96**  
**HO – \$2.0755**  
**RB – \$2.0302**

been forced to seek alternative supplies. At least three refineries in the US Upper Midwest have cut production.

Motiva Enterprises LLC is going to shutdown its 90,000 bpd fluid catalytic cracking unit at its 285,000 bpd refinery in Port Arthur, Texas. The repairs are scheduled to start on August 30<sup>th</sup> and last for an unspecified period of time.

Delek US Holdings Inc's 58,000 bpd Tyler, Texas refinery is performing unanticipated maintenance on a fluid catalytic cracking unit.

ConocoPhillips reported emissions of sulfur dioxide late Friday after a power failure at its 306,000 bpd Wood River refinery in Illinois. A report filed with regulators did not say what units were impacted by the outage or any impact on production.

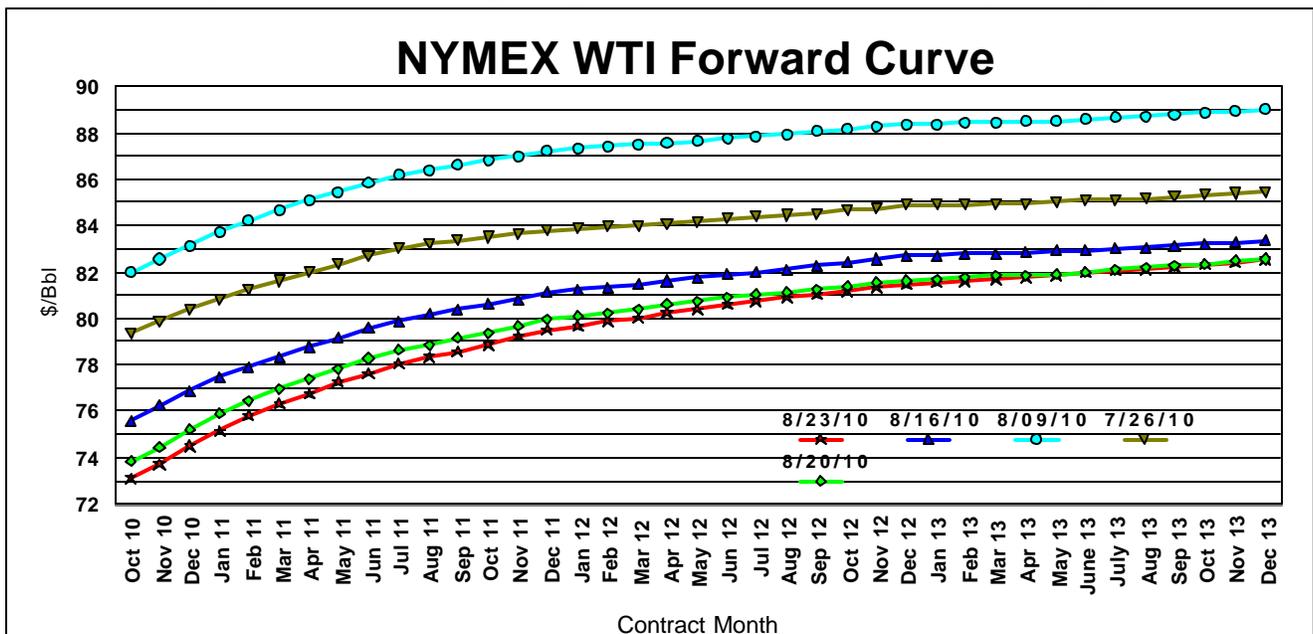
Indonesia's Pertamina restarted its 230,000 bpd Cilacap refinery last week after it was shut for maintenance work last month. It is running at 80% to 90% of capacity.

Japan's JX Nippon Oil & Energy Corp restarted a 17,000 bpd reformer unit at its Osaka refinery on Monday after it suffered a fire on August 18<sup>th</sup>.

Sinopec reported that its refining margins in July and August remained at the second quarter level of about \$5/barrel.

China's apparent oil demand in July increased by 3% on the year but fell by 5.3% on the month to 8.439 million bpd.

China's Xinhua News Agency reported that the country's commercial crude oil stock at the end of July increased by 1.3% on the month to 29.2 million metric tons or 214 million barrels. The increase was partly due to an increase in domestic crude output and a fall in refinery crude runs. Oil product stocks fell by 6.1% on the month to 16.21 million tons at the end of July, the lowest level this year, due partly to the decline in refinery output. Gasoline stocks fell by 3.8% on the month to 6.3 million tons while diesel inventories fell by 7.2% to 8.26 million tons. Kerosene stocks fell by 9.3% to 1.65 million tons. Crude runs fell by 3% from a record high the previous month to 8.35 million bpd in July.



Separately, China's General Administration of Customs reported that China's crude oil imports in July fell by 3.2% on the year to 19 million metric tons or 4.5 million bpd. China imported 14 tons of gasoline in July, down 43.18% on the year. China also imported 1.85 million tons of fuel oil in July, down 31% on the year and 124,024 tons of diesel, down 40% on the year. Meanwhile, it reported that China's gasoline exports increased by 6.1% on the year but fell by 22% on the month. It also reported that China increased its diesel exports in July by 22% on the year to 519,656 metric tons, almost double June's level of 269,982 tons.

### **Production News**

Provisional crude export programs from Nigeria's state oil company have started to filter through to the market showing it plans to ship a total of 5 million barrels of Akpo crude in October. In addition, 13 standard size cargoes of 950,000 barrels each or about 400,000 bpd of Qua Iboe crude will be exported during October.

PetroChina Co increased its annual crude production capacity by 274,100 metric tons or 5,500 bpd at its oil field in Xinjiang Uighur Autonomous region. It is targeting production of 20 million tons of oil equivalent this year or 400,000 bpd of oil equivalent.

The Central Bank of Ecuador reported that the country exported 62.04 million barrels of crude in the first six months of the year, 4% above the 59.73 million barrels reported last year.

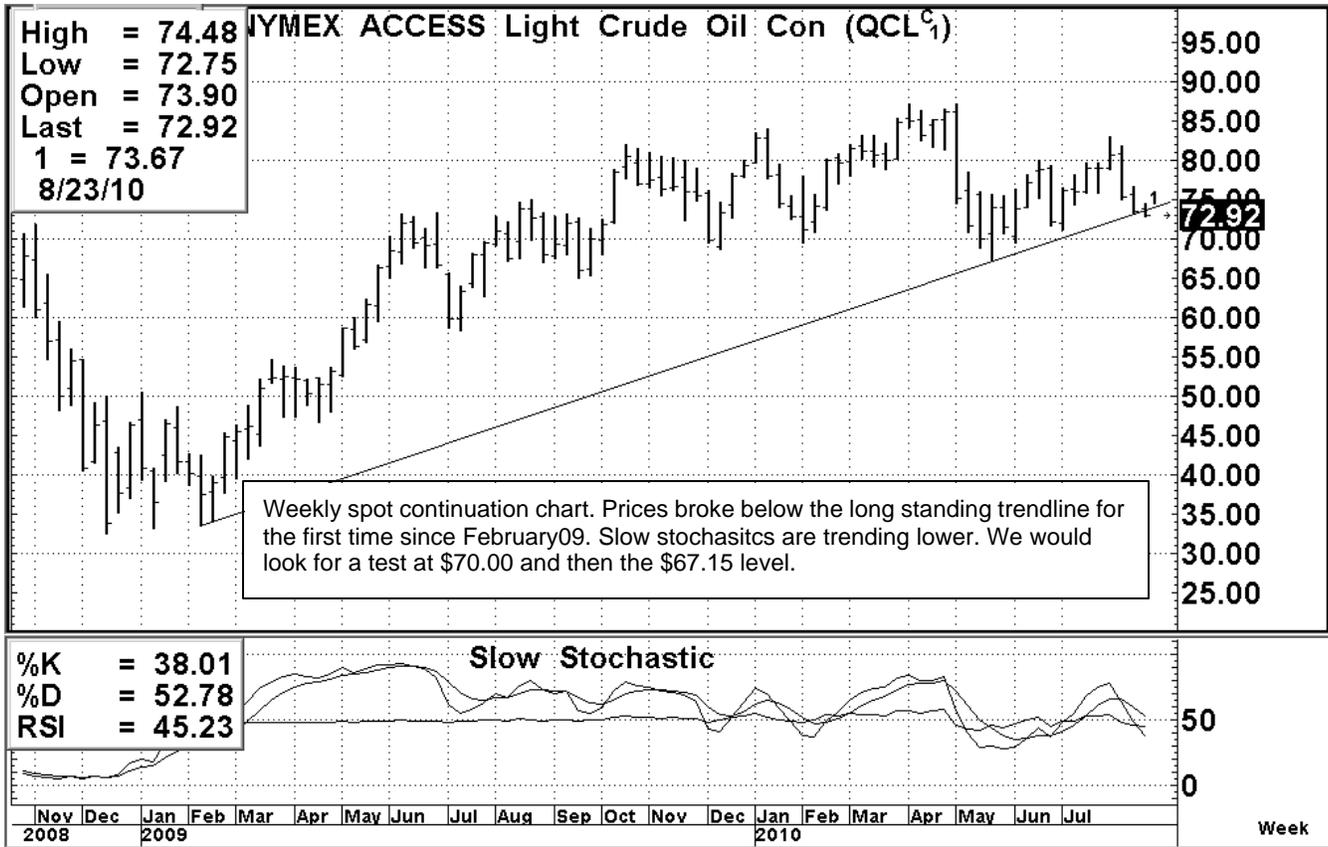
OPEC's news agency reported that OPEC's basket of crudes fell by \$2.70/barrel to \$72.68/barrel in the week ending August 20<sup>th</sup>.

### **Market Commentary**

Crude oil began the week on the downside as the dollar strengthened against the euro, lessening the appeal of commodities as an investment hedge. We are approaching turnaround time, where demand for crude oil tends to taper off as the U.S. summer driving season ends and refiners shut down for scheduled maintenance. Gasoline also tumbled as longs reduced their bullish bets. Hedge funds and large speculative traders cut bets on rising prices by 74 percent, the most since October 2008. Supplies for gasoline continue to run high and demand continues to suffer. If the equities markets sell off the way they have been, demand will remain soft, weighing further on prices across the board. Despite forecasts calling for Tropical Storm Danielle to become a hurricane, it is not expected to pass into or over the Gulf of Mexico, where about 31 percent of U.S. oil output hails from. Prices traded below last week's low of \$73.19, settling below key support at 7317. Coming into tomorrow's session and up until the release of the DOE inventory numbers on Wednesday, we would look for prices to continue in a downward fashion, looking for a test at the psychological support area of \$70.00.

Crude oil: Oct 10 320,396 +8,693 Nov 10 134,-2,666 Dec 10 190,287 +1,566 Totals 1,239,578 -13,320 Heating oil: Sept 10 34,148 -5,071 Oct 10 66,695 +4,472 Nov 10 43,167 -240 Totals 301,188 +1,463 Rbob: Sept 10 44,215 -6,109 Oct 10 84,412 +3,270 Nov 10 48,979 +1,635 Totals 253,419 -646

Crude Oil		Heating Oil		Rbob	
Support	Resistance	Support	Resistance	Support	Resistance
7215	7367	18965	22530		19260
7109	7506	19236	22700	18890	22345
7000	7477	18920	22945	18750	24880
6715	7781		23775	18420	27085



The information contained in this letter is taken from sources, which we believe to be reliable, but is not guaranteed by us as to accuracy or completeness and is sent to you for information purposes only. The Windham Group bases its market recommendations solely on the judgment of its personnel. Reproduction in whole or part or other use without written permission is prohibited.