



ENERGY RISK MANAGEMENT

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ENERGY MARKET REPORT FOR AUGUST 24, 2011

Energy companies planned to shut more than 28 million barrels of oil storage capacity in the Bahamas ahead of Hurricane Irene. Buckeye Partners planned to shut its 21.6 million barrel storage facility by Wednesday night until the storm is over. Statoil also shut its 10 tank, 6.75 million barrel South Riding Point storage facility. Hurricane Irene, a category 3 storm with winds of 115 mph, moved through the Bahamas on a path that would take it to the US East Coast by the weekend. The US National Hurricane Center said it could reach Category 4 by Thursday before it potentially makes landfall on Saturday in North Carolina. Hurricane Irene is then

Market Watch

The US Commerce Department said demand for durable goods increased in July however a decline in a key measure of capital spending indicates continued weakness in the US economy. It reported that orders for factory goods increased by 4% in July to \$201.45 billion. However orders for nondefense capital goods, excluding aircraft, fell by 1.5%. The increase in factory orders in July following a 1.3% decline in June.

The Chicago Federal Reserve said that financial conditions in the US tightened for the third consecutive week, though they are still looser than would be expected at this stage in the economic cycle. The bank's weekly National Financial Conditions Index fell to -0.39 in the seven days to August 19th from -0.40 a week earlier and moved to -0.66 from 0.76 when adjusted for current economic conditions.

The Mortgage Bankers Association said US home mortgage applications for purchases fell to a 15 year low last week. Its seasonally adjusted index of mortgage application activity, which includes refinancing and home purchase demand, fell by 2.4% in the week ending August 19th. The seasonally adjusted index of loan requests for home purchases fell by 5.7% to its lowest level since December 1996. Refinancing demand also fell as interest rates increased with the refinance index falling 1.7%.

The US Federal Housing Finance Agency reported that its home price index increased by 0.9% in June to 183.7 following a 0.4% increase to 182 in May.

Eurostat reported that Euro zone industrial new orders unexpectedly fell in June as major industries appeared to cut back on spending. It reported that new orders fell by 0.7% on the month compared with expectations for a 0.5% increase. In the year to June 2011, new orders increased by 11.1%.

Moody's Investors Service cut its rating on Japan's government debt by one notch to Aa3 on Wednesday due to a buildup of debt since the 2009 global recession. The downgrade brings Moody's rating for Japan into line with rival agency Standard & Poor's, which cut Japan's rating in January to AA minus.

Barclays Capital said investments flows into commodities rebounded strongly in July by \$8.3 billion following a weak second quarter. The investment bank said commodities assets under management increased to \$431 billion at the end of July. Barclays Capital also said that without an economic calamity, it does not believe the long term oil price range can fall far below \$90-\$100/barrel.

The EIA has changed the methodology it uses to calculate US gasoline exports, resulting in an increase in the government's estimates of exports. Under the new methodology, which relies on the most recently available Census data to estimate gasoline exports, the US shipped 395,000 bpd of gasoline in the week ending August 12th, up from 255,000 bpd in the previous week. Previously, the gasoline export model relied on historical prices and five years of monthly export data tracked by the Census Bureau.

DOE Stocks

Crude – down 2.213 million barrels

Distillate – up 1.731 million barrels

Gasoline – up 1.355 million barrels

Refinery runs – up 1.2%, at 90.3%

expected to continue on a northeast path until the next potential landfall by late Sunday near the eastern tip of New York's Long Island and on to the Connecticut-Massachusetts coastline.

A senior Libyan rebel representative for reconstruction said a Libyan rebel government would honor all the oil contracts granted during the Muammar Gaddafi era. Meanwhile, rebel

authorities in Libya have called on workers to return immediately to the oil terminals by Ras Lanuf and Brega in the east of the country to restart the facilities. The terminal at Ras Lanuf was undamaged while the one at Brega suffered damage to a storage tank.

Italy's Eni said it was in close contact with the Libyan rebels since April and is not worried about its oil contracts in the country. Eni produced about 270,000 bpd of oil equivalent in 2010 in Libya.

Russia's President Dmitry Medvedev said there were still two powers in Libya despite the success of rebels against the forces of Muammar Gaddafi and called for talks to resolve the situation. He said that Russia would consider establishing full diplomatic relations with the rebels if they have the energy and possibilities to unite the country for a new democratic beginning.

The UK's Foreign Secretary William Hague said Britain is working with allies at the UN to unfreeze Libyan assets blocked after Muammar Gaddafi launched a crackdown on protesters. Meanwhile France is working with its allies at the UN to draw up a resolution to unfreeze Libyan assets blocked by the UN Security Council sanctions.

A delegate from a Gulf OPEC country said OPEC's Gulf members are unlikely to reduce oil output in the early phases of a restart of Libyan oil production because it is unclear how long a significant recovery will take.

Brokers and analysts said the number of tankers booked this month out of the Middle East has remained steady from July's levels due to Saudi Arabia maintaining its pledge to increase its crude output. According to shipbrokers, 124 Very Large Crude Carriers were booked out of the Middle East for August compared with 125 in July. Of the 124 vessels fixed, 85% of the vessels were bound for Asia, while the remainder were bound for the US and Europe. Shipbrokers said they anticipate September fixtures to be at a similar level to August.

The AAA reported that about 100,000 more Americans will travel by automobile over the Labor Day holiday than a year ago. Car travel over the holiday period is expected to increase by 0.5% on the year, with 27.3 million Americans driving between September 1st and September 5th, up from 27.2 million a year ago. It reported that about 2.5 million travelers or 8% of holiday travelers would fly over the weekend, down 1.9% on the year.

Refinery News

Colonial Pipeline Co said it resumed service for its two fuel pipeline routes in the Northeast after verifying the lines were not damaged by Tuesday's earthquake in central Virginia measuring 5.8. Colonial Pipeline restarted Line 3 and 4. It halted service along the lines, which connect to a fuel terminal in Linden, NJ and a fuel tank center in central Maryland, to Greensboro, N.C. Colonial Pipeline also stated that it does not expect the approaching Hurricane Irene to force a major shutdown along its East Coast fuels pipeline system.

ExxonMobil Pipeline Co is expected to begin drilling a bypass to the damaged

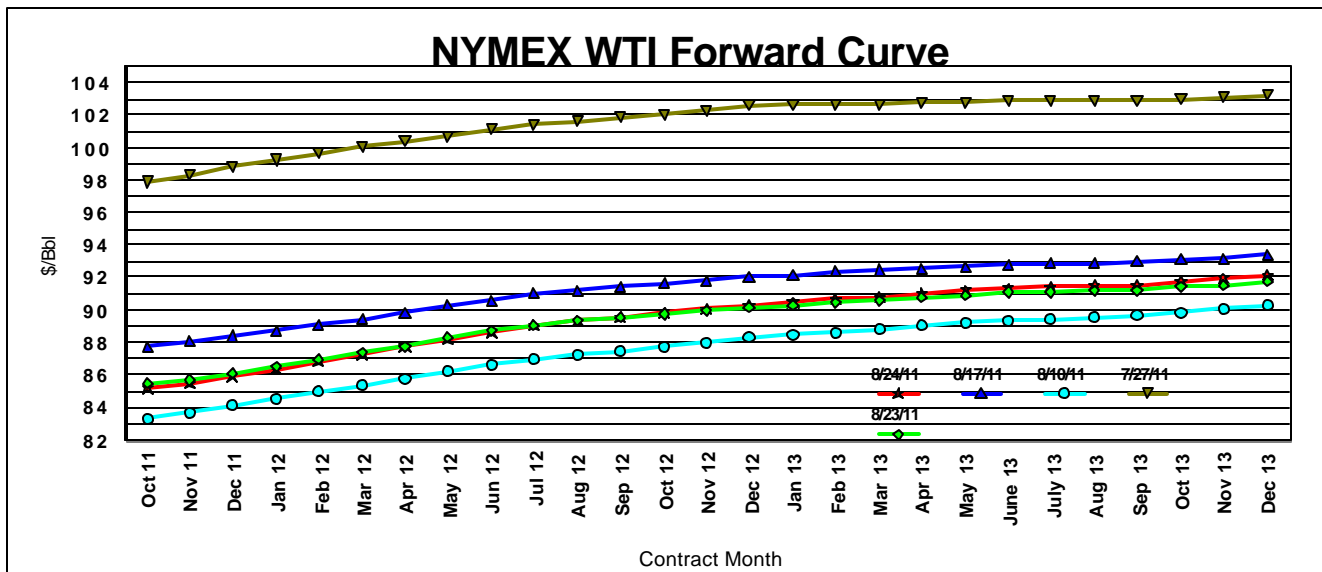
August

Calendar Averages

CL – \$86.12

HO – \$2.9283

RB – \$2.8427



portion of its Silvertip crude oil pipeline as early as next week. The 40,000 bpd pipeline was shutdown on July 1st when it leaked about 1,000 barrels of crude into the Yellowstone River. It estimates the new portion of the pipeline would be running in about a month. Exxon has received approval from federal Pipeline and Hazardous Materials Safety Administration to restart a 20 mile section of the Silvertip pipeline running between Laurel and Billings, Montana.

Enbridge Inc reached an agreement with unnamed clients for long term use of its Enbridge Northern Gateway Pipelines. It filed with Canadian energy regulator, National Energy Board, agreements for long term use and capacity on the proposed crude oil export pipeline and the condensate import pipeline. The pipeline would transport 525,000 bpd of oil for export from a terminal near Edmonton to a port in Kitimat, B.C. where tankers would complete the journey overseas to Asia. A smaller pipeline flowing in the other direction would carry 193,000 bpd of condensate.

ConocoPhillips and PBF Energy were watching Hurricane Irene which was expected to hit the US East Coast by the weekend. ConocoPhillips said its 238,000 bpd Bayway refinery in Linden, NJ was operating normally. PBF Energy's 182,200 bpd refinery in Delaware City, Delaware and 160,000 bpd refinery in Paulsboro, NJ were getting ready for the storm.

Sunoco Inc said a crude distillation unit at its 335,000 bpd Philadelphia refinery was running at reduced rates following a fire on Wednesday morning. Sources familiar with refinery operations said the 135,000 bpd crude unit was shut following the fire.

Valero Energy Corp said no production units were affected at its 171,000 bpd McKee, Texas refinery, which had reported a unit upset. It said there was no impact to production.

BP Plc reported maintenance on the electrostatic precipitator at its fluid catalytic cracking unit 1 at the 437,080 bpd refinery in Texas City, Texas. The maintenance is expected to last from August 24-25.

Marathon Petroleum Corp notified authorities that a fluid catalytic cracker at its 210,000 bpd refinery in Catlettsburg, Kentucky was still down after a fire shut down the unit a week ago.

South Africa's Sasol said a fire started at its Secunda coal to liquids plant in the north eastern Mpumalanga province but that the situation was under control.

Iraq has signed a preliminary agreement for Egypt's Al Qalaa to build a 150,000 bpd refinery near the northern city of Mosul. Under the agreement, Al Qalaa has been given three years to carry out feasibility studies and designs for the refinery before deciding whether to go ahead with construction. Crude oil for the refinery would be produced from two nearby fields, Najmah and Qaiyarah, which are being developed by Angola's Sonangol.

Iran's deputy chairman of parliament's energy commission, Nasser Soudani denied he had said the oil rich country had decided to resume gasoline imports.

India's local oil product sales in July increased by an annual 3.2% to 11.76 million tons. Growth in diesel sales increased an annual 5.3% in July to 5.08 million tons compared with 2.9% in June to 4.82 million tons. Gasoline consumption in July increased an annual 4.8% to 1.21 million tons compared with a 0.5% increase in June.

The Petroleum Association of Japan reported that crude oil stocks held by Japanese refiners in the week ending August 20th fell by 381,963 kiloliters or 2.4 million barrels to 15.45 million kl or 97.17 million barrels. Crude stocks fell by 2.3 million barrels on the year. It also reported that gasoline stocks fell by 40,000 barrels on the week but increased by 1.36 million barrels on the year to 14.07 million barrels while kerosene stocks increased by increased by 900,000 barrels on the week and by 5.76 million barrels on the year to 19.02 million barrels. Japan's naphtha stocks were unchanged on the week and fell by 1.17 million barrels to 10.01 million barrels. The PAJ reported that Japan's average refinery runs increased from 85.4% to 86.1% in the latest week. It also reported that total oil sales increased by 5.6% on the week and by 8.3% on the year to 2.82 million bpd.

Western arbitrage volumes for October arrival of fuel oil look set to increase to above average levels for the first time in four months. So far, 2.7-2.8 million tons of Caribbean/US Gulf Coast origin cargoes have been fixed for October arrival into Singapore.

Production News

Saudi officials said Saudi Arabia is likely to produce a daily average of 9.8 million bpd of crude in August due to high demand from Asia and domestically. Senior Gulf OPEC officials said on Monday that Saudi Arabia would adjust its oil export levels if needed as Libya resumes its own oil production, though the group expects Libya's output recovery after Muammar Gaddafi's reign would be slow and gradual.

Statoil found oil and gas near the Gullfaks South area in the North Sea. It reported that preliminary estimates of the discovery, in production license 50, are between 500,000 and 1.5 million standard cubic meters recoverable oil equivalents.

Royal Dutch Shell Plc said no oil has leaked from a North Sea offshore facility since a relief valve on an affected pipeline was closed on Friday. About 1,300 barrels of oil spilled into the North Sea over a nine day period starting August 10th after an underwater pipeline started leaking.

Brazil's Petrobras said that its crude oil and natural gas production fell in July due to maintenance at several offshore platforms. Petrobras produced an average of 2.568 million bpd of oil equivalent in July, down 2.8% from 2.641 million bpd of oil equivalent in June. The company's domestic crude oil production fell by 3.9% on the month to 1.968 million bpd. It natural gas production also fell to 74 million cubic meters/day in July from 74.5 million cubic meters/day in June.

China's energy informational portal C! Energy reported that the country may postpone cutting domestic fuel prices because of a recent increase in international oil prices. Earlier this month, it forecast that China would likely cut the price of its refined oil products by as much as CNY300 or

\$47/ton by August 25th. However ICE Brent crude futures have recovered, rising as much as 9% to about \$109/barrel. C1 said if prompt Brent crude prices remain between \$109 and \$110/barrel, a downward price adjustment would not happen until early September.

Market Commentary

Crude traded in a choppy fashion as the dollar strengthened and inventories fell 2.21 million barrels. The initial higher reaction was short lived as inventories for gasoline and heating oil rose. Market participants wait anxiously for word from Federal Reserve Chairman Ben Benanke regarding another stimulus package. Refiners continue to reap nice profits as the 3-2-1 crack spread widened to \$33.57, much higher than its yearly average of \$19.87. Crude oil continues to bounce around the \$85.00, uncertain of direction. For the short-term, prices should continue higher, working towards \$90.00.

Crude oil: Oct 11 314,556 -317 Nov 11 145,834 +537 Dec 11 198,227 -182 Totals 1,465,056 +250
 Heating oil: Sept 11 39,153 -3,338 Oct 11 69,889 +3,008 Nov 11 40,956 +57 Dec 11 50,301 -481
 Totals 307,763 +722 Rbob: Sept 11 29,896 -4,766 Oct 11 66,403 -753 Nov 11 31,805 -1,002 Totals 249,769 -2,000

Crude Oil		Heating Oil		Rbob	
Support	Resistance	Support	Resistance	Support	Resistance
7552	8988	27020	32777	25145	33369
7487	9122	26680	33370	24240	35915
7365	9726	27375	33510	23631	36310
6423	9872	23685		23414	
6394	10071	22960			
6119	10222				
50-day MA	92.32				
200-day MA	95.22				

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