

DOE Stocks

Crude – up 4.108 million barrels
Distillate – up 1.763 million barrels
Gasoline – up 2.273 million barrels
Refinery runs – down 2.3%, at 87.7%

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ENERGY MARKET REPORT FOR AUGUST 25, 2010

The US National Hurricane Center reported that Danielle regained hurricane strength in the Atlantic. Danielle, a Category 1 storm, was still expected to veer northwest in the Atlantic and then turn north to the east of Bermuda. The NHC said Tropical Storm Earl formed in the Atlantic Ocean on Wednesday. The storm was about 520 miles west of the southernmost Cape Verde Islands. It is expected to strengthen over the next 48 hours and could become a hurricane by Friday. Computer models showed the system tracking mostly to the northwest away from oil and gas production in the Gulf of Mexico but strengthening to a Category 2 hurricane by day 5 of the outlook. The NHC also said that a weak low pressure system over the western Gulf of Mexico early Wednesday had only a 10% chance of becoming a tropical cyclone during the next 48 hours.

The top US official overseeing the Gulf of Mexico oil spill, Retired US Coast Guard Admiral Thad Allen said the effort to retrieve subsea equipment has

Market Watch

The US Commerce Department reported that demand for US manufactured durable goods increased less than expected in July. It reported that durable goods orders increased by 0.3% to a seasonally adjusted \$193.02 billion. Meanwhile, the latest Institute for Supply Management's manufacturing index fell to 55.5 in July from 56.2 and 59.7 reported for prior months.

The Commerce Department also reported that new home purchases in July fell to a record low as inventories increased. Sales fell by 12.4% on the month to a seasonally adjusted annual rate of 276,000.

The American Trucking Association's advance seasonally adjusted For-Hire Truck Tonnage Index in July increased by 1.5% on the month. The July increase put the seasonally adjusted index at 110 compared with 108.3 in June.

AAA reported that US automobile travel over the Labor Day weekend in early September is projected to increase 10% on the year to the highest level since 2008. An estimated 31.4 million Americans will travel by car, up from 28.5 million a year ago but down 5.9 million from the record of 37.3 million in 2008. It estimated that a total of 34.4 million travelers are expected to travel at least 50 miles round trip from home by all methods over the holiday. AAA also reported that the US average retail price of gasoline as of Wednesday is \$2.696/gallon, up from \$2.623/gallon a year ago.

Infinium Capital Management, a high frequency trading firm, faces possible civil charges by regulators after its new trading system malfunctioned and sparked a \$1 rally in oil prices on February 3rd. The trading malfunction explains the quick rally in the market that day and may have been the catalyst for the abrupt and largely unexplained \$5 decline in prices. The CME is investigating the incident while the CFTC is also looking at what went wrong. Documents show Infinium used an algorithm to execute a lead/lag strategy between an exchange traded fund called US Oil Fund and the US crude benchmark future contract, WTI. Ahead of the close on February 3rd, the firm sent 4,612 buy limit orders into the market as the system malfunctioned and then quickly offset the position, mostly with large block trades, leaving it with a \$1.03 million loss. Its trading caused oil prices to rally from \$76.60 to \$77.60 with trading volume increasing nearly eight fold in less than a minute.

been delayed by the buildup of ice-like crystals that hampered submarine operations. The crystals blocked the path of submarine cameras and a drill designed to recover pieces of drilling pipe from the blowout preventer. The hydrates have been successfully removed however and BP can proceed with the removal of the pipe.

Kuwait Oil Minister Sheik Ahmad Abdullah al-Sabah said he was satisfied with the price of oil and predicted it would increase in the fourth quarter. Separately, Kuwait's Oil Minister said Kuwait and Iraq agreed in principle on a deal to regulate production from the border oil fields. The deal calls for a unified international company to drill for oil on the joint border fields. It also allows international oil companies to come and agree with both countries to drill at the same time for the same field.

The EIA reported that crude imports in the week ending August 20th totaled 9.881 million bpd, up 320,000 bpd on the week. US import of Canadian crude increased by 210,000 bpd to 1.98 million bpd, a sign that pipeline problems and maintenance projects are not impeding increased crude flows to the US from its main supplier. Canada's Enbridge Inc kept a US stretch of its Canada-US Lakehead pipeline system shut since July 26th as a result of an oil spill and maintenance on Canadian crude projects may have cut shipments in the previous week.

Iran's Oil Minister Massoud Mirkazemi denied reports that sanctions are making it harder for the country to import gasoline. According to Reuters, Iran's gasoline imports for August are expected to fall by about 50% on the month and fall by almost 90% on the year.

Iran has test fired its surface-to-surface Fateh 110 missile, less than a week after a similar test was carried out on another missile. Iran's Defense Minister Ahmad Vahidi said the third generation Fateh 110 was a single stage solid propellant missile with a longer range. The launch followed an announcement by the Defense Minister that Iran had successfully test fired its Qiam short range missile.

Refinery News

Canada's Enbridge Inc said the final test before the restart of an oil pipeline that ruptured in Michigan will likely be completed on Monday. However the actual restart date of Line 6B in Enbridge's Lakehead System will be set by the company's US regulator, the Pipeline and Hazardous Materials Safety Board, which will review safety tests of the pipeline before it approves a restart.

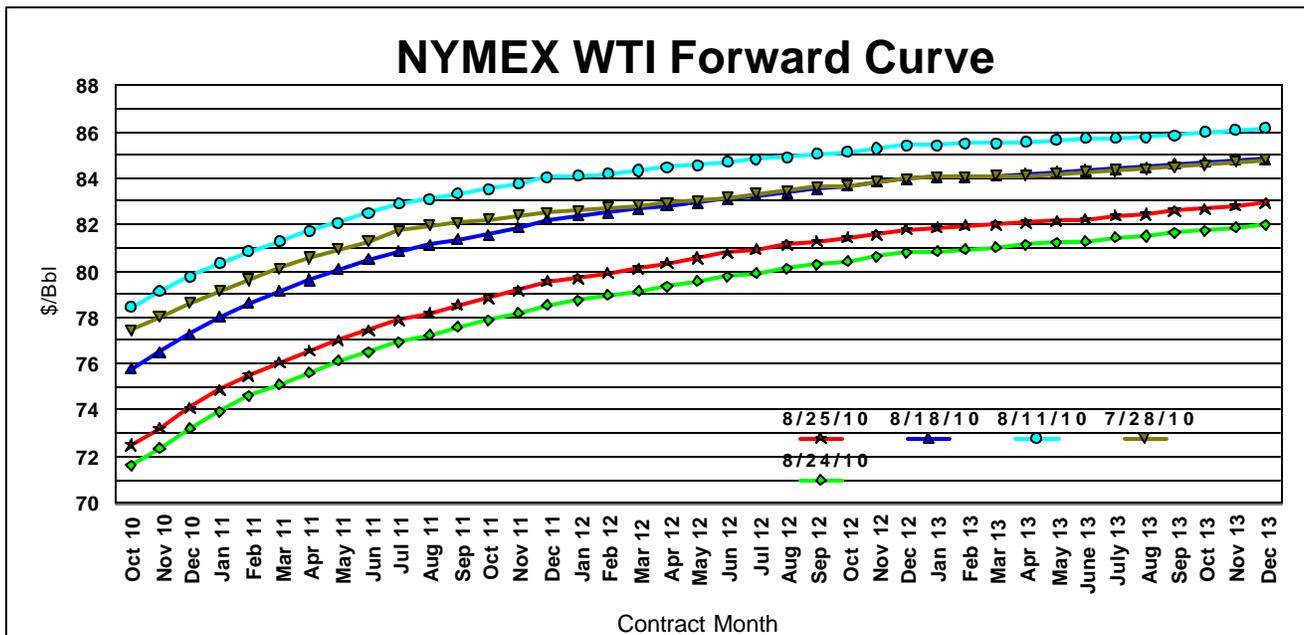
ExxonMobil Corp this week is starting planned turnaround at its 560,000 bpd Baytown, Texas refinery. A crude unit and reformer unit are among units scheduled to shut down for planned work.

Chevron Corp said a gas compressor on an unidentified unit was resuming operations late Tuesday at its 279,000 bpd El Segundo, California refinery.

Motiva Enterprises LLC aims to shut down its fluid catalytic cracking unit at its 285,000 bpd Port Arthur, Texas refinery next week for unplanned maintenance.

Royal Dutch Shell's 400,000 bpd Pernis refinery in Rotterdam is scheduled to undergo partial maintenance in September. Maintenance is expected to last about three weeks and will include work on the hydrocracker and hydro-desulfurizer units. The maintenance is likely to impact distillate supplies in Northwest Europe.

<p style="text-align: center;">August Calendar Averages CL – \$77.31 HO – \$2.0619 RB – \$2.0109</p>
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China Petroleum & Chemical Industry Association said China's apparent crude demand in the third quarter is expected to slow to 5.8% on the year. China's apparent crude demand will likely reach 108 million metric tons or 8.6 million bpd between July and September.

Japan's Ministry of Finance stated that the country's crude oil imports in July increased by 2% on the year to 18.058 million kiloliters or 3.66 million bpd. Japan's imports of liquefied natural gas totaled 5.608 million tons in July, up 4.2% on the year.

The Petroleum Association of Japan reported that the country's crude oil inventories in the week ending August 21st increased by 5.32% on the week and by 2.89% on the year to 15.81 million kiloliters. Japan's gasoline inventories increased by 5.07% on the week and by 6.49% on the year to 2.02 million kl while its kerosene stocks increased by 5.26% on the week but fell by 27.315 on the year to 2.11 million kl and its gas oil stocks fell by 0.43% on the week and by 7.11% on the year to 1.8 million kl. Japan's naphtha stocks fell by 4.64% on the week to 1.78 million kl while its jet fuel stocks increased by 2.82% on the week and by 12.47% on the year to 1.04 million kl. The PAJ reported that refinery runs stood at 80.9%, down from 81.4% the previous week. The PAJ also reported that crude throughput fell by 23,224 kl to 4.177 million kl. Gasoline production fell by 28,288 kl to 1.275 million kl while gas oil production fell by 41,391 kl to 925,000 kl and kerosene production fell by 15,768 kl to 217,000 kl.

Production News

Shell Petroleum Development Co said it was forced to shut down its Otumara-Escravos flow station in Nigeria's southern Delta state due to a protest by a group of local women. It said it is in talks with the occupiers. The women are protesting about a lack of amenities, particularly the provision of electricity and the protection of their shore against erosion. Last week, they blocked access to Chevron Corp's new Escravos/Warri natural gas pipeline in the area.

BHP Billiton Ltd expects to resume drilling in the US Gulf of Mexico by the end of the year but annual oil and gas production is likely to remain flat in the current fiscal year. It produced 159 million barrels of oil equivalent over the 12 months ending June 30, 2010 and is likely to produce the same amount in the current fiscal year after BP's Gulf of Mexico oil spill prompted the government to impose a six month moratorium on offshore drilling.

Abu Dhabi National Oil Co is expected to increase its condensate output by about 60,000 bpd by the end of the year when it starts up two gas projects in the UAE. The new output will likely be processed at Abu Dhabi Oil Refining Co's condensate splitters in Ruwais, allowing the country to possibly export surplus naphtha while using the gasoline produced to meet domestic demand.

Cameroon's oil production is expected to drop by an additional 15% in 2011 to 55,000 bpd before the start up of new fields helps increase the country's oil production. Cameroon's oil production, which has been steadily declining, could increase to 100,000 bpd by 2014.

The head of Norway's Petoro, Kjell Pedersen said firms seeking to tap into the maturing oil and gas fields offshore Norway must decide on the necessary investment in the next couple of years before it is too late. He said if those decisions are made, Petoro could invest \$3.25 billion every year for the next 10 to 15 years. Petoro has no oilfield operations of its own but manages the state's stakes in oil and gas fields off Norway.

Provisional loading schedules indicate Nigeria plans to export about 2.1 million bpd of crude in October.

Russia plans to export 5.5 million metric tons or 1.34 million bpd of Urals crude in September from its Baltic Sea port of Primorsk, unchanged on the month. Russia also plans to export 34 cargoes of Urals crude totaling 3.54 million tons from the Black Sea port of Novorossiisk and seven 100,000 ton cargoes of Urals from Poland's Baltic Sea port of Gdansk. Russia also plans to export six cargoes of Siberian Light totaling 421,000 tons from Tuapse and a total of 1.4 million tons of ESPO crude from the Far East port of Kozmino in September.

Parker Drilling co expects stable demand for oil and some gas drilling in the US Gulf for its US barge drilling segment.

OPEC's news agency reported that OPEC's basket of crudes fell by \$1.24/barrel to \$69.69/barrel on Tuesday from \$70.93/barrel on Monday.

Market Commentary

After five straight days of down moves and hitting an eleven week low, crude oil rebounded along with the stock market. Traders ignored the bearish inventory report as they turn their attention from gasoline to heating oil, which traded higher on the day, taking the rest of the complex with it. Although distillate stocks in PADD 1 increased overall, the 500ppm sulfur decreased 563,000 barrels, primarily all in the Central Atlantic, giving the impression of diesel fuel shortages. This move higher helped to narrow the front-end spreads. Perhaps a supportive signal for crude oil was the 779,000-barrel draw in Cushing, OK, the NYMEX delivery point. Once again it appears that crude oil is reestablishing its comfort zone between \$70.00 and \$80.00 level, leading the way for a technical correction. Based upon a spot continuation chart, crude oil is searching for a bottom prior to another move back up towards the \$80.00 level. Should prices settle above the \$73.05 level, a stretch to \$74.50 should follow.

Crude oil: Oct 10 323,006 -3,906 Nov 10 139,502 +2,023 Dec 10 189,345 +177 Totals 1,246,784 +2,369 Heating oil: Sept 10 25,465 -3,625 Oct 10 777,182 +5,106 Nov 10 42,177 -671 Totals 309,435 +5,139 Rbob: Sept 10 33,915 -5,868 Oct 10 90,342 +878 Nov 10 49,288 +136 Totals 251,276 -3,366.

Crude Oil		Heating Oil		Rbob	
Support	Resistance	Support	Resistance	Support	Resistance
	7305	18965	22530	18240	19260
7109	7450	19236	22700	16010	22345
7000	7569	18920	22945		24880
6715	7781		23775		27085

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