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## ***ENERGY RISK MANAGEMENT***

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### **ENERGY MARKET REPORT FOR AUGUST 25, 2011**

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Hurricane Irene remains on track to make landfall in North Carolina by Saturday morning with major hurricane strength, then skirt the eastern seaboard and approach the southern coastline of New Jersey by Sunday morning. In its five day forecast, the NHC showed Hurricane Irene making initial landfall shortly after 8am Saturday in North Carolina at least at category three strength then continuing north-northeast along the US coastline. Iran is then expected to pass slightly east of Washington D.C. by 8 am Sunday before moving to the southern coastline of New Jersey. A direct hit on New York City is possible later on Sunday.

#### **Market Watch**

The US Coast Guard plans to close New York Harbor to all vessel traffic within the next 24-96 hours as part of its hurricane preparedness plan. The plan calls for all ships and ocean going barges not already sent out to sea to double and triple tied to all available ports in the New York Harbor area and all remaining vessels to be sent up the Hudson River to wait out Hurricane Irene's passage.

The US Labor Department reported that the number of initial claims for unemployment increased by 5,000 to a seasonally adjusted 417,000 in the week ending August 20<sup>th</sup>. Claims filed in the previous week were revised up to 412,000 from an originally reported 408,000. The four-week moving average of new claims increased by 4,000 to 407,500. It reported that the number of continuing unemployment claims fell by 8,000 to 3,641,000 in the week ending August 13<sup>th</sup>. The unemployment rate for workers with unemployment insurance for the week ending August 13<sup>th</sup> was 2.9%, down from the prior week's 3%.

UBS and Citigroup lowered their forecast for global growth, with sharp reductions to its euro zone view and more modest cuts for China but ruled out the likelihood of a recession for now. UBS cut its global GDP growth forecast for 2012 to 3.3% while Citigroup cut its global GDP growth forecast for 2011 to 3.1% from 3.4% and for 2012, to 3.2% from 3.7%. Citigroup however said it does not currently expect recessions in the major economies as the slowdown in economic growth is not enough to reverse global profits. For advanced economies, Citigroup cut its growth forecast to 1.4% from 1.8% for 2011 and to 1.7% from 2.2% for 2012. UBS maintained its 2011 GDP growth view for the euro zone at 1.8% but cut its forecast for 2012 by a full percentage point to 1%. Both UBS and Citigroup expect China's economy to grow at 9% this year, down from previous estimates of 9.3% and 9.2%, respectively.

JP Morgan expects the Brent-WTI spread to start narrowing from April 2012 to as low as \$10/barrel by the end of the year due to the return of refineries from maintenance and additional transportation options. It lowered its WTI crude price forecast for 2011 to \$94/barrel from \$98/barrel and 2012 price forecast to \$97.50/barrel from \$114/barrel.

The Japan Meteorological Agency said Japan would see mostly average to warmer weather in September to November.

High frequency trading firm Optiver Holding BV set aside \$19.3 million to deal with one of the largest oil manipulation cases. The three year old case, brought by the US CFTC against the company may now be heading for settlement. According to the CFTC, Optiver gained a \$1 million profit in 2007 by banging the close in crude, gasoline and heating oil markets. They accumulated a large position just before the market settled and offset that position at the close itself, manipulating prices through sheer volume of trades.

The head of the CFTC, Gary Gensler said the CFTC expects to vote next month on two proposals that would outline when the market would have to comply with new steps designed to bring more oversight to the swaps market. The proposals would allow the public to comment on a timetable for when the industry must comply with new Dodd-Frank rules for swap clearing and trading, internal business documentation and margin rules for uncleared swaps. It is scheduled to vote on position limits on September 22<sup>nd</sup>.

The French Labor Ministry said the number of unemployed workers in France increased by 36,100 in July to 2.76 million. It is the highest level since February 2000.

**August  
Calendar Averages**  
**CL – \$86.08**  
**HO – \$2.9313**  
**RB – \$2.8493**

Buckeye Partners said there was no damage from Hurricane Irene to the Borco oil storage terminal in the Bahamas.

The DOE said about 81.9% of the 30.64 million barrels of crude oil sold from the SPR has been delivered as of August 23<sup>rd</sup>. It said 6.24 million barrels of crude was delivered since the previous report, dated August 15<sup>th</sup>, bringing total shipments as of Tuesday to 25.08 million barrels.

The North Atlantic Treaty Organization insisted Thursday that it was not targeting Muammar Gaddafi or coordinating with Libyan rebels, after Britain’s Defense Secretary said the alliance was helping hunt down the Libyan leader.

**Refinery News**

Colonial Pipeline allocated Cycle 49 shipments on its Line 20 carrying distillates from Atlanta, Georgia to Nashville, Tennessee.

According to The Washington Post, the US State Department’s final environmental review of a proposed Canada to Texas oil pipeline will affirm an earlier finding that the project will have limited adverse environmental impacts. The State Department assessment expected as soon as Friday would remove a major roadblock to the construction of the Keystone XL pipeline.

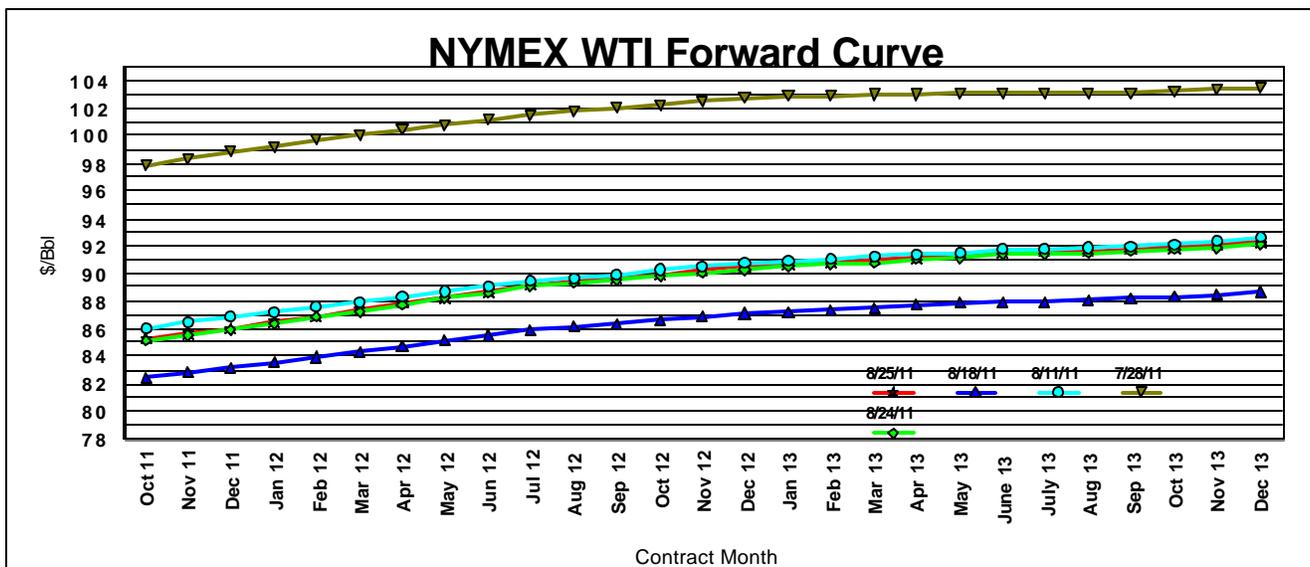
A power blip on Thursday caused flaring at BP Plc’s and Valero Energy Corp’s refineries in Texas City, Texas. Operations at BP’s Texas City refinery were unaffected by the brief power blip.

ExxonMobil Corp reported hydrogen sulfide emissions from a flare stack due to unknown causes at its 238,600 bpd Joliet, Illinois refinery on Wednesday. It said it was try to stabilize operations.

Citgo Petroleum Corp reported a problem in a fluid catalytic cracking unit at its 429,500 bpd refinery in Lake Charles, Louisiana that led to emissions.

ConocoPhillips reported a release of materials to the atmosphere at its 362,000 bpd Wood River refinery in Illinois. It said a compressor was restarted at the refinery.

Marathon Petroleum said it extinguished a small fire at its 106,000 bpd refinery in Detroit, Michigan. The fire was caused by a 50% power loss at the plant that caused a leak at a reformer flange.



Valero Energy Corp said its Memphis refinery is increasing towards planned rates.

Gasoline stocks held in independent storage in the Amsterdam-Rotterdam-Antwerp area in the week ending August 25<sup>th</sup> fell by 3.79% on the week and by 41.51% on the year to 558,000 tons. Gasoil stocks fell by 4.72% on the week and by 12.61% on the year to 2.259 million tons while fuel oil stocks fell by 1.14% on the week and by 7.23% on the year to 693,000 tons. Naphtha stocks increased by 20.34% on the week and by 51.06% on the year to 71,000 tons while jet kero stocks increased by 2.1% on the week but fell by 27.25% on the year to 534,000 tons.

Singapore's International Enterprise reported that the country's residual fuel stocks increased by 324,000 barrels to 20.188 million barrels in the week ending August 24<sup>th</sup>. It also reported that Singapore's light distillate stocks fell by 156,000 barrels to 9.817 million barrels while middle distillate stocks fell by 1.229 million barrels to 12.998 million barrels on the week.

### **Production News**

The proportion of North Sea Buzzard crude entering the Forties pipeline fell last week but remained at a high level relative to the last few months. It contributed 38% of Forties output last week, down 15% from the previous week. It is however 18% higher than in July, when the proportion of Buzzard crude entering the pipeline fell as a platform encountered production issues.

Eni SpA chief executive Paolo Scaroni said he expects Libya's oil production to take between six and 18 months to restart. He said he was not concerned about Eni's contracts in Libya.

Indonesia produced 792,935 bpd of crude in July, down 2% from 809,047 bpd a year ago but up 3.1% from 768,870 bpd in June. It produced 127,326 bpd of condensate in July, down 7.8% on the year and down 3.7% on the month.

Mexico's National Statistics Institute said the country exported 1.223 million bpd of crude in July, down 11.7% on the year. In July, Mexico earned \$3.977 billion from crude exports and \$527 million from oil products.

PetroChina Co Ltd said it would increase strategic venture exploration efforts in Chad and Niger.

Russia's Prime Minister Vladimir Putin signed an order putting Russia's new oil product export duty regime into effect from October 1<sup>st</sup>. The order, which unifies oil product duty at 66% of the fee paid on crude oil exports, is part of the 60-66 reform of Russia's oil duty regime.

Brazil's cane industry association Unica said sugar production in Brazil's center-south reached 17.4 million tons from the start of the season to August 16<sup>th</sup>, down 11% on the year. Ethanol production fell by 19% on the year to 12 billion liters.

### **Market Commentary**

Prior to making it up the northeast coast, the impact of Hurricane Irene was already felt throughout the energy markets. With ten refineries located on the East Coast, heightened fear of supply disruptions pushed gasoline higher, with the soon to expire September contract settling .913 higher on the day. We would expect gasoline to remain strong into the weekend until damage, if any, is assessed. Focus was also on the Federal Reserve as traders await word concerning another economic stimulus package. Crude oil traded in a choppy fashion, at first following equities lower but turning on the strength in gasoline. The October contract was unable to surpass yesterday's high despite the weather related news. The near term upside objective remains \$90.00 and tomorrow we would expect that prices would make an attempt to test this level.

Crude oil: Oct 11 307,265 -7,291 Nov 11 149,428 +3,594 Dec 11 199,751 +1,524 Totals 1,464,463 -793 Heating oil: Sept 11 34,597 -4,556 Oct 11 74,748 +4,859 Nov 11 40,764 -192 Dec 11 51,316 +1,015 Totals 308,091 +328 Rbob: Sept 11 24,146 -5,750 Oct 11 70,852 +4,449 Nov 11 33,013 +1,208 Dec 11 48,885 +1,369 Totals 251,774 +2,005

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				
<b>50-day MA</b>	<b>92.12</b>				
<b>200-day MA</b>	<b>95.21</b>				

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