



ENERGY RISK MANAGEMENT

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ENERGY MARKET REPORT FOR AUGUST 26, 2011

Despite Hurricane Irene failing to strengthen overnight Thursday as originally expected, the advance Irene continued to be the focus of many of the traders in the Northeast U.S. today. Colonial Pipeline said portions of its refined products pipeline system could be shut down due to closure of customer delivery terminals. The company did not expect it would be forced to close any of its facilities due to the storm. Buckeye Partners announced this afternoon that its products

Market Watch

Deutsche Bank lowered its forecast for oil prices for the second half of 2011 and for 2012 today as a result of its lowered expectations for economic growth. The bank sees Brent prices in 2011 now at \$112 down \$2 from earlier estimates, with the 2012 price averaging \$115 also down two dollars. The bank's WTI forecast for WTI has been lowered by \$6 to \$94 and its 2012 price estimate reduced by \$9 per barrel to \$95.00 per barrel. The bank was basing its weaker estimate on WTI values on the special case of supply and demand in the U.S. mid-continent and the possibility that the U.S. economy will underperform growth elsewhere in the world.

A recent poll this week of oil analysts by Reuters found that the group has lowered its outlook for Brent prices in 2012 from \$109.30 per barrel to \$107.90 per barrel. The potential return of Libyan production and weaker economic expectations weighed on most price outlooks.

U.S. consumer sentiment basis the Thomson Reuters/University of Michigan's final survey for August, while rebounding slightly from a preliminary mid August reading of 54.9 was still down for the month at 55.7. It was only slightly better than the lowest level since May 1980.

The U.S. Commerce Department reported this morning that the U.S. economy grew a meager 1% rate in the second quarter of this year, slightly less than market expectations for a 1.1% expansion.

Federal Reserve Chairman Bernanke spoke today at the Fed's annual conference. He noted that the central bank has lowered its outlook for U.S. economic growth and it remains critical for the economy's health to reduce unemployment. But he stopped short of signaling further action to boost the U.S. recovery. He also noted that most of the burden for ensuring a solid foundation for long-term growth lay at the feet of the White House and Congress. He noted that the economy's recovery has been damaged by investor concerns over Europe's debt and political fights on the U.S. budget. Meanwhile the president of the Philadelphia Federal Reserve Bank, a noted inflation hawk, said further bond purchases by the Fed would do the economy little good.

The head of the OECD said Bernanke's speech was "very sobering". He called on global fiscal authorities to turn to structural changes to fix problems.

The IMF's economic forecast to be released next month reportedly will not foresee a global recession but risks have risen according to a senior IMF official.

Al Arabiya TV reported Friday that three rockets have hit the border area between Kuwait and Iraq. The rockets appeared not to target the Mubarak port, which is currently under construction and has been a subject of disagreement between the two countries, as Iraq has claimed the port interferes with shipping lanes into Iraq.

The CFTC reported this afternoon that U.S. Long Index investment in commodity markets rose \$7.1 billion to \$329 billion in July, while short index investment in commodities fell \$2.7 billion to \$91.5 billion

pipeline from Macungie, PA to Auburn, NY will be shut due to lack of supply. It also reported its gasoline and distillate deliveries to its Brooklyn, Inwood terminals were being shut down. Magellan Midstream partners announced this morning that it has suspended operations at its petroleum terminals in North Carolina and Virginia with operations in Delaware slated to be stopped on Saturday along with its New Haven, CT terminal being shut on Saturday evening. Kinder Morgan announced it would shut down the docks at its terminals in Staten Island and New Jersey on Friday night, with truck racks closing on Saturday. Enterprise said it was shutting down its NGL terminal in Providence, RI at

**August
Calendar Averages**
CL – \$86.04
HO – \$2.9353
RB – \$2.8536

5 pm on Friday afternoon. This afternoon the NPRA said some U.S. East Coast refineries were cutting production rates on Friday in preparation for having to shut units or entire plants as Hurricane Irene heads for the region. While the trade group declined to provide specifics, Sunoco announced it cut rates at its 178,000 bpd refinery in Marcus Hook, Pennsylvania to about 140,000 bpd ahead of Hurricane Irene. The U.S. Coast Guard through

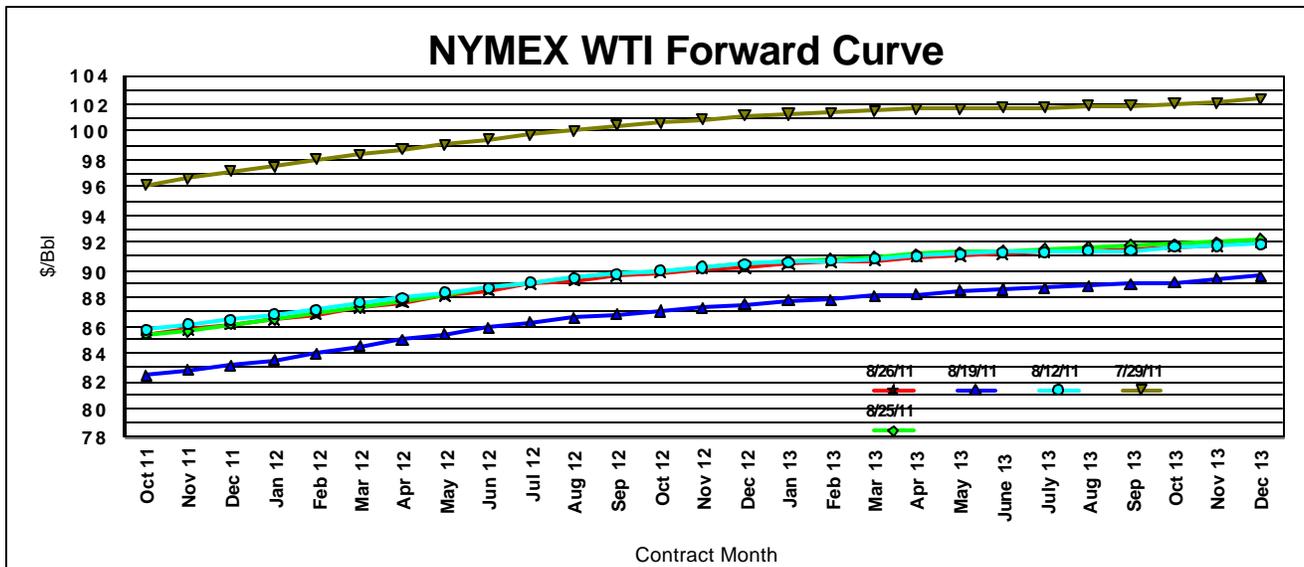
midday Friday said there still were no plans yet finalized to shut down the New York Harbor ahead of the storm.

CME Group said oil trading would continue on the NYMEX regardless of the impact of Hurricane Irene on the city this weekend. Electronic trading will continue even if the trading floor is forced to close.

Refinery News

Exxon Mobil reported unplanned flaring due to a breakdown at its 149,500 b/d Torrance, California refinery on Thursday and again Friday morning. The flaring was expected to continue through Friday. The disruption caused spot gasoline prices in the Los Angeles area to spike by 20 cents.

Exxon Mobil said there was no impact on production at its 560,640 b/d Baytown refinery in Texas due to a leaking valve on a delayed coker that was reported Thursday.



Valero Energy said today its Memphis and Texas City refineries are returning to planned operating levels following power blips at the facilities yesterday. The company also noted that a flare snuffed out by bad weather was quickly re-lit with no impact on production at its 142,000 b/d Corpus Christi refinery.

Reuters reported that Japanese exports of petroleum products in August should total 620,000 tonnes, down 100,000 tones from July as refiners continue to divert more supplies to the Japanese economy.

Exports are expected to continue to decline next month as restocking of kerosene in front of this winter picks up as well as diesel demand domestically.

Indian refineries, excluding Reliance Industries export focused 580,000 b/d facility, processed some 3.42 million barrels per day in July, up 3.9% from a year ago and up 2.4% from the previous month.

Vietnam reportedly has begun to restart its Dung Quat refinery Friday after it was shut on July 15th for scheduled maintenance. The restart is expected to take between 7-10 days for the 130,000 b/d refinery.

The Thai government has decided to suspend Oil Fund's levies on diesel and gasoline from Saturday onward, in an effort to reduce retail prices. The temporary measure would result in the loss of some \$200 million in monthly revenues. The Fund normally seeks to subsidize the retail price of some gasohol products, LPG and natural gas for vehicles. The fund has adequate financial resources through the end of the year and the new government is finalizing plans to borrow up \$660 million early next year to maintain subsidies through the first half of next year. The new coalition government has promised to reduce the cost of living, including retail fuel prices ahead of the election.

Production News

Italy's Foreign Minister Frattini said Friday that Italian oil and gas facilities in Libya were not damaged during the recent Libyan conflict and are capable of being restarted as soon as security conditions permit.

Nigerian officials said today that oil thieves caused a fire this week on a pipeline owned by Agip. Oil thieves were trying to open a crude loading point and it caught fire. The fire raged from Wednesday into Thursday. The pipeline feeds crude into the Obama flowstation on the Tebidaba Brass pipeline. The company said the impact on production is not "significant." This report comes days after Royal Dutch Shell declared force majeure on its exports of Nigerian Bonny Light following several acts of sabotage. Dow Jones was reporting today that Nigerian exports are slated to average 2.1 mbd in October

The government of Vietnam reported that crude oil production in that country reached 1.23 million tonnes in August down 5.2% from the same month a year ago. July oil production was revised downward to 1.19 million tones

Total SA reported its Pazflor oilfield, offshore of Angola has come on stream earlier than planned. The field has a slated eventual production capacity of 200,000 b/d.

Husky Energy reported that a power outage resulted in a reduction of oil production at its White Rose oil field offshore of Newfoundland for about 11 hours on Thursday. All wells at the field were automatically shutdown when the power failed aboard the SeaRose floating production vessel. Output resumed early Friday morning. The field produces on average 67,000 b/d of oil.

Reuters reported that according to market sources some 32 Columbian crude oil exports cargoes are slated to load in September, one more than previously reported.

Statoil reported that it has found no visible damage to its 6.75 million barrels of crude oil storage at South Riding Point storage facility in the Bahamas following the passage of Hurricane Irene. The company though noted it still has not been able to access the state of the Sea Island jetty where ships docked due to high water. Buckeye Partners said it plans to resume operations at its 21.6 million barrel BORCO marine terminal in the Bahamas on Friday, after suspending operations on Wednesday for safety reasons.

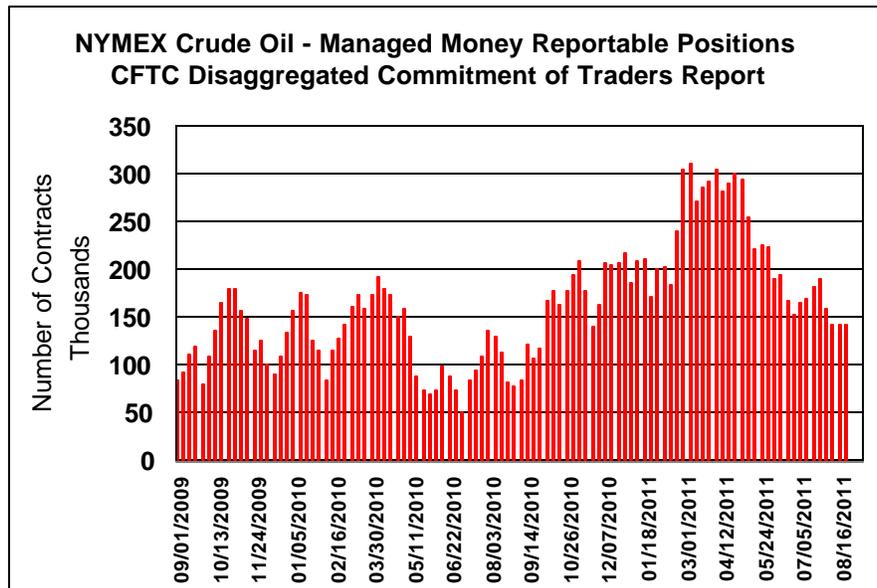
The U.S. Energy Department said that some 83.5% of the 30.64 million barrels of crude oil sold from the SPR have been delivered as of August 24th. As of Wednesday some 500,000 barrels of crude was delivered to Vitol since its previous report. The agency recorded 1.72 million barrels of oil scheduled for delivery between August 22nd and 28th was in fact shipped during the week of August 15-21. Total deliveries for August 22-28 are scheduled to be 5.06 million barrels, with 1 million barrels set to be shipped August 29-31.

ICAP reported that Iranian floating crude oil storage has doubled to six VLCC and has reached 12 million barrels

KazMunaiGas said production at the stat owned oilfield in Western Kazakhstan has almost returned to normal despite an ongoing wildcat strike at the field. The field has a normal output of 6 million metric tons per year.

Indian crude oil production grew 1.4% from a year earlier in July reaching 774,900 b/d.

Oil Movements reported yesterday that OPEC crude exports excluding those from Angola and Ecuador are expected to average 22.69 million b/d for the four weeks through September 10th, up 30,000 b/d from the previous four-week period.



The UK Department of Energy and Climate reported that UK crude oil production fell below 1 million b/d both in the May and June, for the first time since August 2009.

Alberta's ERCB said today that no start up date has yet been set for the Rainbow Pipeline.

Market Commentary

The oil market ended relatively unchanged following broad swings seen during Friday's trading session. The market seesawed along with the dollar and equities market after Federal Reserve Chairman Ben Bernanke did not signal immediate plans to shock the economy with another round of stimulus programs. The crude market fell to a low of \$82.95 early in the session following the comments made by the Federal Reserve Chairman. It however bounced off its low and rallied to a high of \$85.64 as the equities market retraced its earlier losses. The market settled in a sideways trading pattern during the remainder of the session. The market remained supported on concerns over Hurricane Irene's potential damage to oil facilities in the Northeast US this weekend. The oil market settled up 7 cents at \$85.37. The market is seen remaining supported early next week. Any damage to energy infrastructure in the Northeast or disruption to gasoline or diesel supplies due to the hurricane will keep the market well supported. The market is seen finding support at \$84.40, followed by \$82.95, \$81.18 and \$79.38. Resistance is seen at its high of \$85.64, \$86.39, \$87.71 and \$89.19.

The latest Commitment of Traders report showed that non-commercials in the crude market increased their net long position by 5,106 contracts to 136,340 contracts in the week ending August 23rd. The

combined futures and options report also showed that the funds increased their net long position by 4,013 contracts to 180,497 contracts. Meanwhile, the disaggregated futures and options report showed that managed money funds increased their net long position by 426 lots to 143,195 contracts on the week.

Crude oil: Oct 11 304,999 -2,266 Nov 11 151,897 +2,469 Dec 11 199,491 -260 Totals 1,473,138 +8,675 Heating oil: Sept 11 30,177 -4,420 Oct 11 78,918 +4,170 Nov 11 39,785 -979 Dec 11 52,545 +1,229 Totals 311,061 +2,970 Rbob: Sept 11 19,600 -4,546 Oct 11 72,376 +1,524 Nov 11 33,368 +355 Dec 11 47,565 -1,320 Totals 252,332 +558.

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	92.12				
200-day MA	95.21				

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