



ENERGY RISK MANAGEMENT

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ENERGY MARKET REPORT FOR AUGUST 30, 2010

Venezuela's President Hugo Chavez said that oil prices were stabilizing. He said Venezuela's oil has averaged nearly \$70/barrel this year. He reiterated that Venezuela was producing about 3 million bpd but said there should be a leap in production thanks to new projects in the Orinoco belt towards the end of 2011.

Iran's Deputy Oil Minister Alireza Zeighami said Iran will become self sufficient in gasoline production by March 2012. He said about 25 million liters/day will be added to Iran's gasoline production capacity. Officials have stated that Iran will stop importing gasoline as it completes the construction of new refineries and also takes measures to curb consumption by phasing out subsidies.

BP Plc said its efforts to remove a sealing cap and replace the blow out preventer at the Macondo well in the Gulf of Mexico are on hold due to inclement weather. It said operations will resume as soon as high seas subside and sea states reach acceptable levels.

Market Watch

The US National Hurricane Center continued to monitor three tropical systems in the Atlantic basin. However computer models show all three staying away from oil and gas producing areas in the Gulf of Mexico. It is monitoring Hurricane Earl, which strengthened to a Category 3 storm as it moves towards the Virgin Islands. In its five day course projection, the NHC sees Hurricane Earl east of Florida by early Thursday, with a potential landfall along the North Carolina coast by late Thursday or early Friday. The NHC also said a low pressure system in the eastern Atlantic had a 90% chance of becoming Tropical Depression Eight in the next 48 hours as it moved westward. Meanwhile Hurricane Danielle, a Category One storm, continued to weaken as it moved towards the open waters of the north Atlantic.

The US Commerce Department said US consumers accelerated their spending in July however income growth remained low, a sign the economic recovery remains fragile. Consumer spending increased 0.4% in July after remaining flat in June. Income increased less than expected, up 0.2% after remaining unchanged in June. The core price index for personal consumption expenditures, excluding food and energy, increased 0.1% in July from June. The overall PCE Price Index increased 0.2% in July.

The US will propose new labels for passenger vehicles detailing for the first time their greenhouse gas emissions and will also change measurements for fuel economy. The labeling proposed by the EPA and the Department of Transportation would allow consumers to compare cars in terms of emissions and to see how far they could drive on new technologies and traditional gasoline engines. US passenger vehicles discharge about 20% of the country's greenhouse gas emissions and consume about 44% of its oil.

The EIA stated that US oil demand in June was 48,000 bpd less than previously estimated but up 463,000 bpd on the year. US oil demand in June was revised down by 0.25% to 19.291 million bpd from its previous estimate of 19.339 million bpd. Oil demand is at its highest level since October 2008. It revised gasoline demand down by 0.73% to 9.284 million bpd while distillate demand was

**August
Calendar Averages**
CL – \$76.89
HO – \$2.0568
RB – \$1.9994

revised down by 0.79% to 3.759 million bpd. The EIA also reported that US crude oil imports in June reached 10.146 million bpd, the highest level since August 2008. Total crude imports increased 11% or 1.01 million bpd in June. Canada, the biggest source of crude imports, shipped 2.2 million bpd to the US in June, up 10% on the month. Crude oil imported from Saudi Arabia increased to 1.48 million bpd in June from 1.093 million bpd in May while crude imports from Mexico fell to 1.066 million bpd in June from 1.29 million bpd in May.

The EIA reported that the US average retail price of diesel fell by 1.9 cents to \$2.938/gallon in the week ending August 30th. The EIA also reported that the US average retail price of gasoline fell by 2.2 cents/gallon to \$2.682/gallon on the week.

According to the Lundberg survey, the average gasoline price in the two weeks ending August 29th fell to its lowest level since February to \$2.6979/gallon, down 7.43 cents from the previous two weeks.

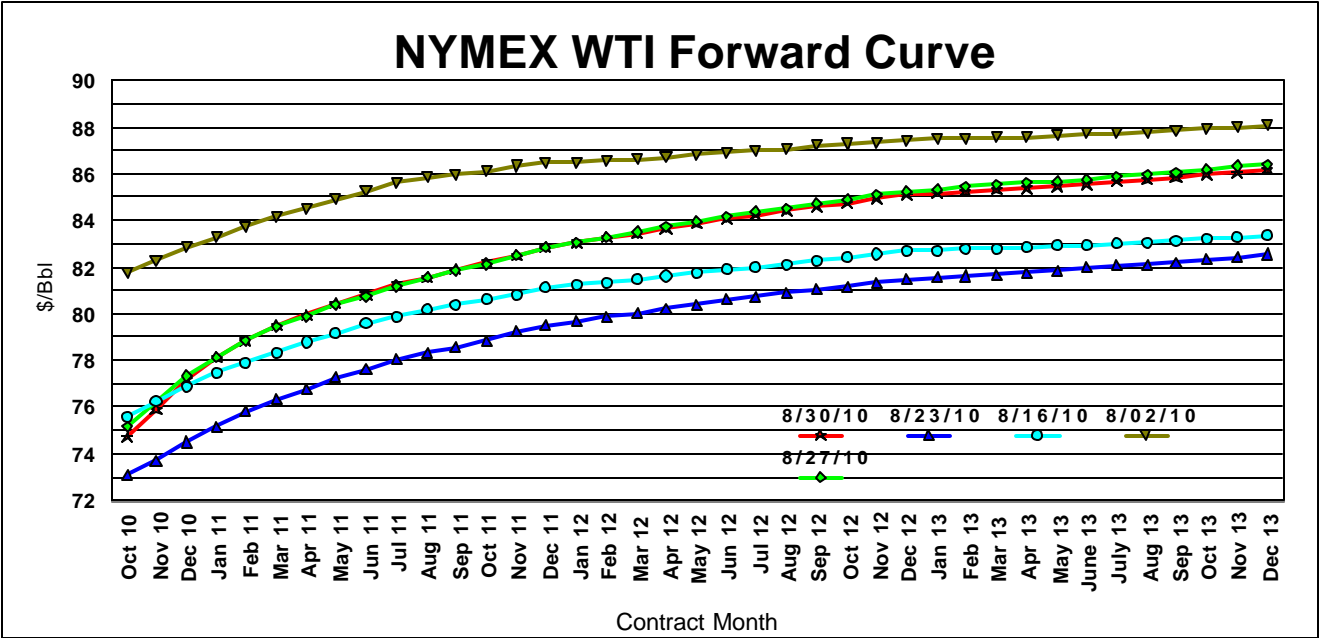
The California State Board of Equalization said gasoline demand in California fell by 0.1% in May compared with the same month last year. Diesel demand in May fell by 2.1% on the year.

Refinery News

Credit Suisse reported that US refined product margins increased last week as economic concerns weighed on crude prices. Margins in the Gulf Coast increased by 27.3% or \$2.02 to \$9.41/barrel while margins in the Rockies region increased by 10% or \$2.37/barrel to \$26.06/barrel. Margins in the Midwest increased by \$1.23/barrel to \$9.53/barrel while margins in the Northeast increased by 45 cents to \$5.85/barrel and margins in the West Coast increased by \$1.38/barrel to \$14.85/barrel.

Enbridge Inc started testing the integrity of a pipeline it repaired after a rupture spilled heavy crude in Michigan. The company is waiting for the US Department of Transportation’s Pipeline and Hazardous Materials Safety Administration to rule on its plan to restart the 190,000 bpd pipeline.

Valero Energy Corp said a hydrocracker unit at its 170,000 bpd Benicia, California refinery was restarted over the weekend following about five days of unplanned maintenance to repair a valve leak. Maintenance work at the plant’s coker unit will end soon. The unit was taken out service more than a month ago for the unplanned work that was initially expected to last 40 days.



ConocoPhillips said power was restored at its 306,000 bpd Wood River refinery in Roxana, Illinois following an outage on Saturday. A crude distillation unit was shut down as a result of the power outage.

Sunoco Inc shut a reformer unit at the Point Breeze section of its 335,000 bpd refinery in Philadelphia over the weekend.

Marathon Oil Corp restarted its platformer unit at its 76,000 bpd refinery in Texas City, Texas on Saturday. It restarted the unit following an annual catalyst change out.

ExxonMobil Corp reported an emissions event at its 238,500 bpd refinery in Joliet, Illinois on Friday due to equipment malfunction. It is conducting repairs on a compressor.

Hovensa LLC will continue to monitor forecasts as Hurricane Earl moves towards the northern Caribbean on Monday. Hovensa has contingency plans in place in case the storm changes its current expected path. It said operations at the 500,000 bpd refinery were normal however its harbor and all other ports in St. Croix were closed.

Several minor units at PDVSA's 335,000 bpd La Isla refinery in Curacao have restarted after they were shut for a few months. Its catalytic cracking unit is not expected to restart for several weeks. The refinery has been shut for five months because of recurrent problems at the nearby utility plant that supplies it with water. A union leader said the refinery will operate normally by October if several boilers at the utility plant are repaired on time.

Production News

Crude oil pumping from northern Iraq's Kirkuk oil fields has been on hold since Sunday due to a technical fault. It was the third time the flow was suspended this month. Repair work was underway and flows were expected to resume late on Monday.

Qatar has notified at least one Asian buyer that it will supply its Land crude at full contracted volumes for October, unchanged from September levels.

The chief executive of Pemex, Juan Jose Suarez Coppel said the company has increased its crude production target for the year to 2.6 million bpd from its previous target of 2.5 million bpd. Pemex is currently producing an average of 2.585 million bpd. He said new wells coming online for the rest of the year make the new production goal feasible.

Brazil's government and Petrobras have not yet reached a deal on the price for oil rights that will be transferred to the company. Under the government's capitalization plan, Petrobras will swap new shares issued in the offer for the rights to produce 5 billion barrels of crude oil in government controlled areas.

China National Petroleum Corp said crude oil started flowing in the Russian section of a new oil pipeline linking Russia and China. Russia's Prime Minister Vladimir Putin opened the valve to start pumping crude into the pipeline, which is designed to carry up to 300,000 bpd of crude. The pipeline extends from the eastern town of Skovorodino close to the Chinese border to the Chinese oil production and refining hub of Daqing. It will connect with the new East Siberian-Pacific Ocean or Espo, pipeline running from the town of Taishet to Skovorodino. The construction of the Chinese portion of the pipeline is scheduled for completion at the end of next month and will start pumping crude in December.

Chevron Corp has signed a deal with Liberia to explore for oil and gas in three deepwater blocks off the coast of the country. The exploratory work is expected to begin in the fourth quarter of this year and will last three years.

Shell Petroleum Development Co said that sabotage and oil theft accounted for 98% of oil spilled from its Nigerian facilities in 2009. Separately, Shell Petroleum Development Co is close to completing the construction of a major pipeline in the Niger Delta. The new Nembe Creek Trunkline will have the capacity to transport 600,000 bpd from 14 flow stations in the Niger Delta to the Bonny export terminal in southern Rivers state.

India's Ministry of Petroleum and Natural Gas said the country's crude oil imports in July increased 3.8% on the year as refinery runs increased amid strong oil product demand. Crude oil imports in July increased to 13.19 million metric tons or 3.12 million bpd from 12.7 million tons or 3 million bpd a year ago. Refineries in India processed 13.94 million tons of crude oil or 3.29 million bpd compared with 12.25 million tons a year earlier. Oil product sales in India increased 2% in July to 11.42 million tons from 11.2 million tons a year earlier. Gasoline sales increased 14.8% to 1.156 million tons from 1.007 million tons a year earlier while diesel sales increased 5.6% to 4.819 million tons.

OPEC's news agency reported that OPEC's basket of crudes increased by 95 cents to \$72.36/barrel on Friday from \$71.41/barrel on Thursday.

Market Commentary

Crude oil tumbled today as the market reacted to overflowing inventories, a less than expected increase in personal income in the U.S. and weather reports stating that Hurricane Earl is not expected to enter into the Gulf of Mexico. The dollar also strengthened, adding pressure to this market. Speculators are increasingly growing less confident in this market as can be seen in the Commitment of Traders report. Shorts have increased their net positions by more than 37,000, a sign that hedge funds are rethinking this market. With the lack of any new fundamentals to significantly impact this market, our view that it is still range bound between \$70.00 and \$80.00 remains. The October crude oil contract traded within Friday's range and was unable to take out last weeks high of \$75.59. We would still rather be sellers than buyers but on a day-to-day basis, we would buy and sell against the listed support and resistance numbers.

Crude oil: Oct 10 303,054 -6,449 Nov 10 144,432 -3,049 Dec 10 194,478 -4,963 Totals 1,242,039 -10,515 Heating oil: Sept 10 12,447 -4,330 Oct 10 87,533 +3,223 Nov 10 42,519 +362 Totals 316,537 +2,802 Rbob: Sept 10 17,517 -4,542 Oct 10 91,450 +544 Nov 10 47,448 +419 Totals 243,399 -749.

Crude Oil		Heating Oil		Rbob	
Support	Resistance	Support	Resistance	Support	Resistance
	7559	18965	22530	18240	
7109	7781	19236	22700	16010	22345
7000	7831	18920	22945		24880
6715			23775		27085

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