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ENERGY MARKET REPORT FOR AUGUST 30, 2011

Tropical Storm Katia formed over the Atlantic on Tuesday about 535 miles southwest of the Cape Verde Islands. The storm had maximum sustained winds of 40 mph and is expected to intensify near hurricane conditions by either Wednesday or Thursday. There is also a storm system in the Caribbean with a 10% chance of developing into a tropical cyclone in the next 48 hours. Oil companies are monitoring the storm as it poses a threat to the western Gulf of Mexico. No offshore production has been shut and refineries are continuing normal operations. The region the storm may affect accounts for 30% of US oil output and 12% of US natural gas output.

Market Watch

US consumer confidence fell in August to its lowest level in more than two years. The Conference Board said its index of consumer attitudes fell to 44.5 in August from a downwardly revised 59.2 in July, which was originally reported as 59.5. Consumers' outlook also deteriorated as the expectations index fell to 51.9 from 74.9. The present situation index fell to 33.3 from 35.7.

US single family home prices fell in June from May. The S&P/Case-Shiller composite index of 20 metropolitan areas fell to 0.1% on a seasonally adjusted basis.

State Street said investor confidence fell in August to levels indicating strong risk aversion. Its global investor confidence index fell to 89.6 in August from 102.5 in July. State Street said the most significant decline was exhibited by North American investors, with confidence declining to 88.6 from July's 102.5.

Federal Reserve Bank of Chicago President Charles Evans said the Federal Reserve needs to do more to help an economy that is moving sideways. He said he favored strong central bank accommodation for a substantial period of time.

Euro zone economic sentiment deteriorated more than expected in August. A monthly survey from the European Commission showed economic sentiment in the euro zone fell to 98.3 in August from a revised 103 in July with optimism declining in all sectors. Sentiment in industry fell into negative territory of -2.9 for the first time since September 2010 against expectations of a drop to -1.5 from a downwardly revised 0.9 in July. Sentiment in services fell to 3.7 against expectations of an easing to 6.3 from 7.9 and consumer sentiment declined to -16.5 from -11.2.

The CME Group declared force majeure on the few remaining August deliveries of its NYMEX August 2011 heating oil futures contract on Tuesday due to damage at a delivery facility in the New York Harbor caused by Hurricane Irene. It declared force majeure and ordered an extension of five business days from the date of the originally scheduled deliveries for affected parties to complete delivery. It said no other products or contract months are affected.

The Energy Department said about 95.1% of the 30.64 million barrels of crude oil sold from the US SPR has been delivered as of August 29th. It said 3.56 million barrels of crude was delivered since the previous report, bringing total shipments as of Tuesday to 29.14 million barrels. The Energy Department revised its delivery schedule, showing about 500,000 barrels of oil scheduled for delivery between August 22nd and 28th was delayed until August 29-31, increasing scheduled deliveries in the final week of the sale to 1.5 million barrels.

API Stocks

Crude – up 5.128 million barrels
Distillate – up 276,000 barrels
Gasoline – down 3.108 million barrels
Refinery runs – down 2.1%, at 86.9%

The EIA reported that total oil demand in June fell by 1.33% on the year to 19.277 million bpd, up from a previous estimate of 19.004 million bpd. It reported that gasoline demand fell by 2.85% on the year to 9.046 million bpd, down from a previous estimate of 9.046 million bpd and distillate demand increased by 4.27% on the year to 3.903 million bpd, up from a previous estimate of 3.594 million bpd.

According to a SpendingPulse report released by MasterCard Advisors LLC, US gasoline demand increased by 2.5% on the week to 9.289 million bpd in the week ending August 26th. The increase of 226,000 bpd was attributed to gains from East Coast residents evacuating ahead of Hurricane Irene. It was the first increase since July 15th. The four week gasoline demand fell by 2.7% on the year. It reported that gasoline prices fell by 1 cent to \$3.58/gallon on the week.

The North Atlantic Treaty Organization said its military mission in Libya was still necessary and would continue as long as Muammar Gaddafi's forces threatened civilians. It said that despite the fall of the Gaddafi regime and the gradual return of security, NATO's mission is not finished yet. A decision to end the mission would be based on an analysis of the threat posed to civilians, not whether Gaddafi is captured or not. NATO said Muammar Gaddafi is still able to command and control his remaining troops even through the leader is on the run.

Separately, the rebels' military chief Colonel Ahmed Omar Bani said the launch of the final battle in Libya is imminent. Earlier, National Transitional Council chief Mustafa Abdel Jalil said it was giving a Saturday ultimatum for Muammar Gaddafi's forces to surrender or face a military onslaught.

The chairman of Libya's National Oil Corp said oil production could restart within weeks and would reach pre-war output within fifteen months. Libya was producing 1.6 million bpd before an uprising began in February. Separately, Libya's Oil Minister Ali Tarhouni said he expects the country's wells to start pumping oil in the coming days.

The Baltic and International Maritime Council said a restart of Libyan oil exports would lead to a renewed fixing of tankers, which should increase Mediterranean freight rates in 2012. It expects a monthly demand of 60 Aframax vessels and 30 Medium Range product tankers, assuming Libya exports 1.33 million bpd of oil in 2012. It however warned that Libya's return to normality could be a difficult one, if damage has occurred to oil export infrastructure, pipelines or production facilities.

Maersk Line will resume its cargo service to Libya on September 8th in its first shipment since February. It said it would only call at the east Libyan port of Benghazi.

Oil workers said Libya's Es-Sider oil terminal has been damaged during fighting between rebels and forces loyal to Muammar Gaddafi. The extent of the damage was not immediately clear.

Italy's Eni said the plants in Libya are in fairly good condition but warned that mines placed around them posed a problem.

Iran's navy commander Admiral Habibollah Sayyari said Iran has dispatched a submarine and warship to the Red Sea on a patrol mission. He also said the flotilla, in its 15th mission of its kind to be dispatched to the Red Sea, would also focus on fighting piracy.

**August
Calendar Averages**
CL – \$86.23
HO – \$2.9448
RB – \$2.8625

Refinery News

US refiners continued to restore operations disrupted by Hurricane Irene over the weekend. ConocoPhillips Inc's 185,000 bpd refinery in Trainer, Pennsylvania was operating at normal rates on Tuesday. Its 238,000 bpd Bayway refinery in Linden, NJ has begun the restart process on Tuesday after it was shut due to Hurricane Irene. Sunoco Inc on Monday began to ramp up rates at its Marcus Hook, Pennsylvania refinery after rates were cut ahead of Hurricane Irene. Its 90,000 bpd crude unit at its Girard Point section of its 335,000 bpd refinery was shut down on Sunday due to flooding from Hurricane Irene. Operating rates of its 90,000 bpd fluid catalytic cracking unit at the Girard Point refinery were cut to about 40,000 bpd. It was not yet clear how long the pump system would take to repair. Meanwhile, Hess Corp and PBF Energy said their East Coast refineries returned to normal operations following Hurricane Irene.

The completion of maintenance at Statoil's Mongstad refinery in Norway will be delayed to September 24-27 from September 23-25 due to its power plant. Production at the refinery is not expected to be impacted.

Russia's Energy Ministry said the country's refinery runs in July fell by 1.7% on the month but increased by 5% on the year to 22.513 million tons/day.

India's 180,000 bpd Bathinda refinery started crude oil processing in trial runs on August 29th. Indian Oil Corp is scheduled to shut its 160,000 bpd Mathura refinery starting September 21st for three weeks of maintenance work. It also plans to shut a hydrocracker and crude unit at its 274,000 bpd Koyali refinery.

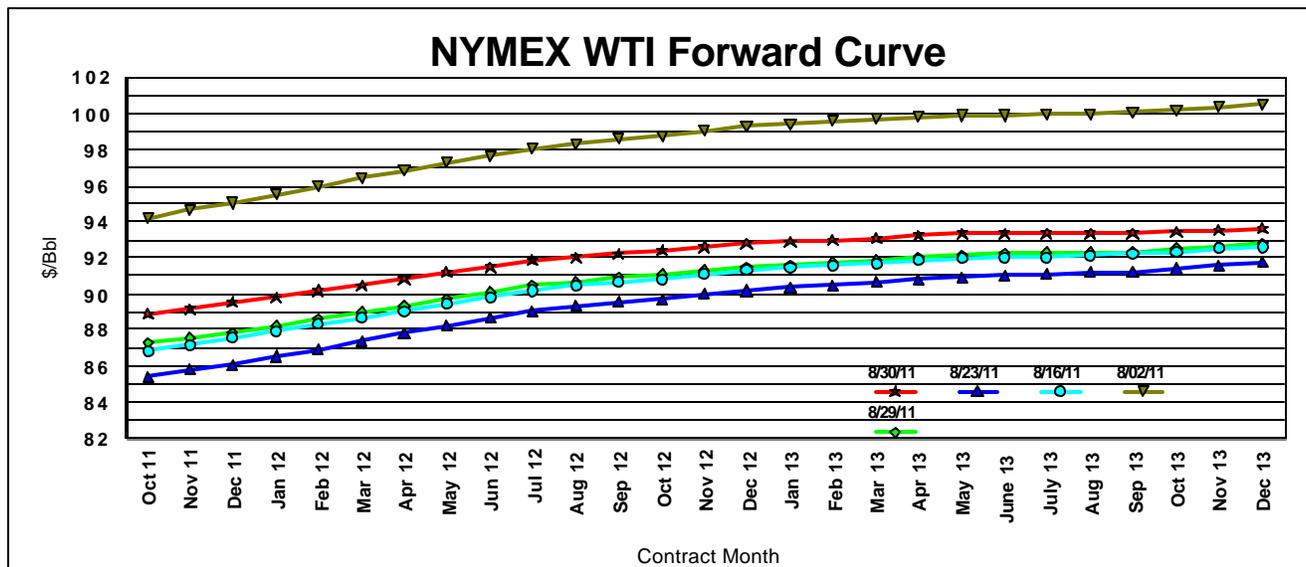
Japan's Ministry of Finance said its crude oil imports in July fell by 11.2% on the year to 16.031 million kl. It also reported that Japan imported 446,457 kl of heavy fuel oil in July, up 62% on the year, 570,586 kl of kerosene, up 65.2% on the year and 929,719 kl of gasoil, down 14.5% on the year.

The World Food Program is tendering for 250,000 tons of gasoline on behalf of Libya's ruling interim council. The fuel supply would cover humanitarian needs for one month.

Production News

According to a Reuters survey, OPEC's oil production in August is expected to average 30.15 million bpd, up from 30.07 million bpd in July.

A cargo of North Sea Forties crude for September loading has been delayed. Shell's cargo F0907,



which was due to load on September 8-10, has been delayed until September 10-12. Last week three cargoes of Forties crude for September loading and a cargo for August loading was also delayed. Also, a September cargo has been cancelled.

Mexico's Pemex said its crude oil production in the August 1-28 period averaged 2.557 million bpd compared with average output of 2.533 million bpd in the full month of July. Mexico's Ku-Maloob-Zaap produced an average of 857,000 bpd in the August period compared with 829,000 bpd in July. Its Cantarell field produced an average of 449,000 bpd in the August period, down from 458,000 bpd in July. Pemex exported 1.363 million bpd of crude oil in August, up from 1.223 million bpd in July.

India's Oil and Natural Gas Corp plans to start oil production from its GS-15 block in the Krishna Godavari basin by mid-September.

ExxonMobil Corp and Russia's OAO Rosneft signed a strategic partnership agreement. The deal would allow ExxonMobil to work in Russia's Arctic Shelf and Rosneft to participate in projects in Texas and the Gulf of Mexico. ExxonMobil will cover most of the initial investments in its Russian joint venture with Rosneft. It is expected to invest over \$1.5 billion in the first stage of the project.

Colombia's President Juan Manuel Santos announced plans to improve security for oil companies in the southern state of Caqueta after an oil worker was killed there earlier this month by a roadside bomb detonated by Marxist guerillas. The first phase of the plan would include increasing security on roads and highways in the remote regions where companies explore and drill for oil. Oil production in Colombia stood at 929,000 bpd in July.

Brazil's government crop supply agency Conab said sugar production from Brazil's 2011/12 cane crop was estimated at 37.1 million tons, down 9% from 40.9 million tons forecast in May. The country's main center-south and northeast cane crushes are estimated at a combined 589 million tons, down from 642 million tons in May. It is the first annual decline in cane output in a decade from Brazil after bad weather and lack of investment in replanting aging cane fields dragged down yields.

Brazil's Energy Ministry said the country would cut the amount of ethanol biofuel it puts in its gasoline starting October 1st. Anhydrous ethanol content in gasoline is expected to fall to 20%, down from 25%. Meanwhile, Brazil's cane industry association Unica cut its forecast for this season's cane crush in the main center south region to 510 million tons compared with 560 million tons in the previous season. It would yield about 21 billion liters of ethanol and 31.6 million tons of sugar compared with more than 25 billion liters of ethanol and about 33.5 million tons of sugar in the previous season.

Market Commentary

Crude oil neared a two-week high ahead of the API report, gaining on a strong equity market. Promising news in regard to the U.S. economy came by way of a consumer spending report showing consumers spent 0.8 percent more in July. Prices were also stronger as refineries in the Northeast returned to operation. Heating oil was up over 2 percent, supported by news that The CME Group Inc. declared force majeure on heating oil shipments headed for New York. Volume for crude oil has been moderate as prices work higher. Open interest has slightly increased, indicating a willingness by traders to go long this market. Prices should continue to work higher towards \$90.65, the 38 percent retracement between the range of \$114.83 and \$75.71.

Crude oil: Oct 11 294,270 -7,359 Nov 11 162,939 +9,296 Dec 11 203,041 +46 Totals 1,483,913 +1,492
Heating oil: Oct 11 87,800 +3,382 Nov 11 39,975 +517 Dec 11 51,961 +121 Totals 306,394 -200
Rbob: Oct 11 76,682 +109 Nov 11 36,290 +786 Dec 11 45,281 -1,297 Totals 250,677 -2,460

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	91.72				
200-day MA	95.23				

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